Fiscal Affairs of State and Local Governments in Nevada

III. Local Finance

November 1988

THE URBAN INSTITUTE

Price Waterhouse

STUDY OF FISCAL AFFAIRS
STATE AND LOCAL GOVERNMENT

PART III - Finances and the Intergovernmental System

Chapters

CHAPTER 8
ORGANIZATION OF NEVADA'S FISCAL RELATIONS

INTRODUCTION

The state and local fiscal system in Nevada is composed of one state government and 240 local governments. Of those 240 local governments, there are 17 counties which are coterminus with the 17 independent school districts. Also, there are 17 incorporated cities, 44 towns, 124 special ad valorem districts, 4 multicounty districts, 13 special non-ad valorem districts and 4 inactive districts.

Compared with other states, Nevada has a small number of local governments. In 1982, the number of local governments ranged from 6,467 in Illinois to just 18 in Hawaii.[1] Nevada is one of the 10 states with the fewest number of local governments. However, the configuration of local governments in Nevada is somewhat different than for the United States as a whole. Specifically, 33 percent of Nevada's local governments are general purpose governments, compared with 47 percent nationally. Of the 158 active special districts in Nevada, 145, or 94 percent, have authority to levy a property tax. This compares with only 40 percent of special districts nationally that have their own property taxing authority. Nationally, user fees are the largest source of own-source revenues for special districts.

The next section of this chapter looks at the fiscal structure of the state and local system in Nevada.[2] That section is followed by a description of the diversity that characterizes local governments in Nevada. The final section discusses institutional mechanisms designed to efficiently and effectively address the diversity of issues that arise because of variations across local governments in Nevada.

OVERVIEW OF THE STATE AND LOCAL FISCAL SYSTEM IN NEVADA[3]

The relationship between the state and local governments in Nevada is dynamic, changing over time to reflect changes in preferences and needs. In 1981, the fiscal system in Nevada underwent a dramatic reorganization. In response to rapidly increasing local property tax burdens, the state passed the tax-shift program designed to keep local property taxes low and limit the growth in local spending by substituting a state sales tax for the local property tax and by setting strict property tax levy limits.[4] As a result of this realignment in revenue raising responsibilities, significant changes have taken place in Nevada's state and local fiscal system, which in 1986 raised $2.2 billion in own-source revenues (see Tables 1-4). Specifically,

- state own-source revenues increased 233 percent from 1977 to 1986, and 101 percent from 1981 to 1986, while nationally state governments increased own-source revenues over these periods by 142 and 57 percent respectively.

- school districts in Nevada, which are subject to a property tax rate limitation, increased own-source revenues 104 percent from 1977 to 1986, and 77 percent from 1981 to 1986, compared to increases of 84 and 46 percent for school districts nationally.

- for both time periods, own-source revenues for the state government and all school districts in Nevada increased more rapidly then own-source revenues for states and school districts nationally.

- in contrast, the growth in county own-source revenues in Nevada was below the rate of growth for counties nationally over the 1981 to 1986 period, while the growth in city own-source revenues in Nevada was below the growth in city own-source revenues nationally over both time periods (Table 1).

The trends are more dramatic when looking at individual sources of revenue, e.g., the property. For example,

- from 1977 to 1986 state property tax revenues increased in Nevada by about 53 percent compared with 93 percent for states nationally.

TABLE 1

STATE AND LOCAL GENERAL OWN-SOURCE REVENUES,
1977, 1981, AND 1986
(MILLIONS OF DOLLARS)

	Total Own-Source Revenues				
	1986	1981	1977	Pct Chng 1977-86	Pct Chng 1981-86
NEVADA					
State	$1,260.6	$627.3	$378.6	233.0%	101.0%
Local, Total	940.7	691.5	392.9	139.4	36.0
Counties	535.1	426.0	218.5	144.9	25.6
Cities	184.2	136.5	72.6	153.7	34.9
School Dist	175.9	99.6	86.2	104.1	76.6
Special Dist	45.5	29.4	15.7	189.8	54.8
U.S.					
State	294,901.7	187,373.5	121,690.6	142.3	57.4
Local Total	233,406.2	145,735.8	102,030.7	128.8	60.2
County	58,046.4	33,794.9	22,653.7	156.2	71.8
City	84,931.2	53,406.5	36,745.6	131.1	59.0
School Dist	57,997.2	39,699.3	31,425.8	84.6	46.1
Special Dist	23,268.8	12,493.9	6,599.6	252.6	86.2

Source: U.S. Department of Commerce, Bureau of the Census, Governme Finances in (selected years) (Washington D.C.: Government Printing Offic selected years).

TABLE 2

DISTRIBUTION OF OWN-SOURCE REVENUES,
BY LEVEL OF GOVERNMENT

	1986	1981	1977
Nevada			
State	57.3%	47.6%	49.1%
Local, Total	42.7	52.4	50.9
Counties	24.3	32.3	28.3
Cities	8.4	10.4	9.4
School Dist	8.0	7.6	11.2
Special Dist	2.1	2.2	2.0
U.S.			
State	55.8	56.2	54.4
Local, Total	44.2	43.8	45.6
County	11.0	10.1	10.1
City	16.1	16.0	16.4
School Dist	11.0	11.9	14.0
Special Dist	4.4	3.8	2.9

Source: U.S. Department of Commerce, Bureau of the Census, Governme Finances in (selected years) (Washington D.C.: Government Printing Offic selected years).

TABLE 3

TOTAL PROPERTY TAX REVENUES (MILLIONS)

	1986	1981	1977	Pct Chng 1977-86	Pct Chng 1981-8
NEVADA					
State	$ 33.7	$ 23.2	$ 22.1	52.5%	45.3%
Local, Total	293.6	234.0	158.7	85.0	25.5
Counties	113.0	117.2	61.6	83.4	(3.6)
Cities	26.9	42.5	21.6	24.5	(36.7)
School Dist	145.3	68.7	73.0	99.0	111.5
Special Dist	8.4	5.6	2.5	236.0	50.0
U.S.					
State	4,354.6	2,949.3	2,259.8	92.7	47.6
Local Total	107,356.4	72,020.2	60,275.1	78.1	49.1
County	25,365.7	15,797.7	12,888.4	96.8	60.6
City	25,060.7	18,278.4	15,656.7	60.1	37.1
School Dist	46,777.3	31,021.1	26,561.7	76.0	50.8
Special Dist	3,411.6	2,079.0	11,435.8	137.6	64.1

Source: U.S. Department of Commerce, Bureau of the Census, Governme Finances in (selected years) (Washington D.C.: Government Printing Offic selected years).

TABLE 4

TOTAL REVENUES FROM CHARGES AND MISCELLANEOUS SOURCES

	1986	1981	1977	Pct Chng 1977-86	Pct Chng 1981-8(
NEVADA					
State	$ 212.3	$112.0	$ 49.5	328.9%	89.6%
Local, Total	487.9	324.5	157.2	210.4	50.4
Counties	312.9	209.2	100.3	212.0	49.6
Cities	108.4	61.3	31.0	249.7	76.8
School Dist	29.5	30.1	12.7	132.3	(2.0)
Special Dist	37.0	23.8	13.1	182.4	55.5
U.S.					
State	66,847.9	37,635.6	20,105.9	232.5	77.6
Local Total	88,408.8	50,959.6	27,236.6	224.6	73.5
County	23,997.4	13,128.3	6,788.9	253.5	82.8
City	34,058.7	19,302.0	10,678.5	218.9	76.5
School Dist	9,957.2	7,428.2	4,177.5	138.4	34.0
Special Dist	18,503.3	9,099.3	5,046.5	266.7	103.3

Source: U.S. Department of Commerce, Bureau of the Census, Governme Finances in (selected years) (Washington D.C.: Government Printing Offic (selected years).

- local governments in Nevada increased property tax revenues by 85 percent from 1977 to 1986, compared to 78 percent for local governments nationally, but since the tax-shift in 1981, have increased their property tax revenues at half the rate of local governments nationally, 26 percent compared to 49 percent.

Within Nevada, there was wide variation across types of local governments in the growth of both property taxes and charges:

- school districts raised $145 million in property taxes in 1986, an increase of 99 percent over the 10 year period, compared to an increase of 76 percent for school districts nationally.

- in contrast, counties in Nevada increased property tax revenues by 83 percent over the 1977 to 1986 period, compared to 97 percent nationally, but since the tax-shift, have actually decreased their property tax revenues by 4 percent compared to an increase of 61 percent for counties nationally.

- cities in Nevada increased property tax revenues by 25 percent from 1977 to 1986, compared to an increase of 60 percent for cities nationally, but decreased such revenues by 37 percent after the tax-shift, compared to an increase of 37 percent for cities nationally.

- school districts collected 44 percent of property tax revenues in 1986, up from their 40 percent share in 1977, while the counties' share held about constant at 34 percent and the share raised by cities fell from 12 percent in 1977 to 8 percent in 1986 (Table 5).

- by 1986, property taxes accounted for only 21 percent of county own-source revenues in Nevada, compared with 44 percent for counties nationally and only 15 percent of city own-source revenues compared with 30 percent for cities nationally.

- in contrast, school districts in Nevada rely somewhat more on property taxes as a share of own-source revenues than school districts nationally, receiving 83 percent of own-source revenues from this source compared to 81 percent nationally.[5]

Trends in the reliance of local governments on property taxes are somewhat offset by trends in their reliance on charges and miscellaneous revenues. For example, from 1977 to 1986, counties

increased their revenues from charges and miscellaneous revenues by 212 percent, compared to 254 percent nationally, while cities increased their revenues from this source by 250 percent, compared to 219 percent nationally.

Counties in Nevada relied on charges and miscellaneous revenues for 58 percent of their own-source revenues compared to 41 percent for counties nationally in 1986. Similarly, cities received 59 percent of their own-source revenues from this source compared to 40 percent for all municipalities nationally.[6]

By 1986, the state raised $1.3 billion, or just over 57 percent, of total state and local own-source revenues -- a figure just above the national average state share of 56 percent. This represents an increase in the state's share of own-source revenues from 49 percent in 1977, which was well below the national average state share of 54 percent for that year. Thus, over this 10 year period, revenue raising responsibility in the Nevada state and local system has evolved from a moderately decentralized one to one that is somewhat more centralized then the average for the fifty states. As Table 2 indicates, most of that increased centralization in Nevada has taken place since 1981.

By focusing on 1977, 1981 and 1986, these trends highlight the impact of the tax-shift program passed in 1981. Specifically,

- own-source revenues for the state and school districts in Nevada have been growing more rapidly than for states and school districts nationally;
- the revenue raising responsibility in the Nevada state and local fiscal system has become more centralized at the state level during a period that other state and local systems have become less centralized;
- general purpose local governments are less dependent on the local property tax than similar governments nationally;
- schools have become the primary beneficiaries of the local property tax;
- local governments are more dependent on charges and fees than similar governments nationally.

TABLE 5

DISTRIBUTION OF PROPERTY TAX REVENUE
BY LEVEL OF GOVERNMENT

	1986	1981	1977
Nevada			
State	10.3%	9.0%	12.2%
Local, Total	89.7	91.0	87.8
Counties	34.5	45.6	34.1
Cities	8.2	16.5	11.9
School Dist	44.4	26.7	40.4
Special Dist	2.6	2.2	1.4
U.S.			
State	3.9%	3.9%	3.6%
Local, Total	96.1	96.1	96.4
County	22.7	21.1	20.6
City	22.4	24.4	25.0
School Dist	41.9	41.4	42.5
Special Dist	3.1	2.8	2.3

Source: U.S. Department of Commerce, Bureau of the Census, Governme Finances in (selected years) (Washington D.C.: Government Printing Offic selected years).

The next section looks at the diversity of circumstances across local governments in Nevada. The final section then reviews institutional arrangments which allow local governments to respond efficiently and effectively to their unique circumstances.

DEMOGRAPHIC AND ECONOMIC DIVERSITY[7]

Population[8]

Population figures are prepared annually for the 17 counties and 17 incorporated cities in Nevada. In 1987, the population of individual counties in the state varied from 1,380 in Esmeralda County to 631,920 in Clark County. Clark County accounted for 60 percent of the state's population. The three largest counties (Carson City, Clark and Washoe) accounted for 86 percent of the state's population. The three smallest counties (Esmeralda, Eureka and Storey) accounted for 0.5 percent of the state's population.

The largest city in the state is Las Vegas with a population of 217,360; the smallest is Gabbs with a population of just 950. Of the 17 cities in the state, 8 have populations of less than 5,000 while 5 have populations greater than 25,000 -- two in Washoe and three in Clark counties.

Counties in Nevada differ not only by their size, but also by the rate of increase in their population. Esmeralda (77.6 percent) and Nye (71.5 percent) were the fastest growing counties from 1980 to 1987. At the other extreme, Mineral County only increased its population by 4.1 percent between 1980 and 1987 while White Pine County experienced an actual decline of 2.7 percent in its population. Eight counties had increases in their populations of between 25 and 45 percent over this period.

Income

In 1986, average per capita personal income in Nevada was $15,445. The range in per capita income was from $19,397 in Douglas County to $11,514 in Pershing County. Thus, the richest

county had per capita personal income that was 26 percent above the statewide average while the poorest was only 75 percent of the statewide average. Eleven of the state's 17 counties had per capita personal income that was less than the statewide average.

During the 180s, Nevada had one of the fastest growing personal incomes of any state in the West.[9] That growth in per capita personal income, however, was not distributed evenly across the state. For example,

- o although on average, per capita personal income in Nevada increased 35 percent from 1980 to 1986, Esmeralda County experienced an increase of only 4 percent compared an increase of 46 percent in Lincoln County.

- o seven counties experienced growth in per capita personal income that was at least one-third less than the statewide average -- e.g. Elko (23 percent), Esmeralda (4 percent), Humboldt (11 percent), Lander (21 percent), Lyon (23 percent), Nye (13 percent), and Pershing (18 percent).

- o four counties experienced growth in per capita personal income that was at least 25 percent greater than the statewide average -- e.g. Carson City (45 percent), Churchill (49 percent), Douglas (48 percent) and Lincoln (64 percent).

Wealth

In 1982, the average assessed value per capita in Nevada was $10,430. By 1987, that average had increased to $11,848, expressed in 1982 dollars. Thus, the statewide growth in real property wealth per capita was 14 percent from 1982 to 1987.

Again, there was significant diversity across the 17 counties in the state in both wealth per capita and the rate at which that wealth has been increasing. For example,

- o assessed value per capita, expressed in 1982 dollars, ranged from $7,694 in Churchill County to $48,817 in Eureka County.

- o ten counties had per capita assessed values that were more than 10 percent greater than the state average (Douglas, Elko, Esmeralda, Eureka, Humboldt, Lander, Nye, Pershing, Storey, and Washoe).

- the other seven counties had per capita assessed values that were more than 10 percent less than the state average (Carson City, Churchill, Clark, Lincoln, Lyon, Mineral, and White Pine).

Between 1982 and 1987 real per capita assessed value increased 14 percent statewide; the range in growth rates for the 17 counties was from -16 percent in Eureka County to 50 percent in Humboldt County. Also,

- four counties (Douglas, Eureka, Lyon, and Storey) experienced declines in real assessed value per capita of between 5 and 16 percent.

- seven counties (Churchill, Clark, Elko, Esmeralda, Humboldt, Lander and Mineral) experienced growth in assessed value per capita that was more than 10 percent faster than the state as a whole.

Fiscal Conditions

In order to evaluate the fiscal condition of local governments in Nevada, we would need to look at revenue raising ability relative to expenditure needs. Since an evaluation of expenditure needs is beyond the scope of this study, this section presents data on revenue mix and growth for the major local jurisdictions in the state. The data was supplied by the Legislative Council Bureau and comes from financial reports each jurisdiction submits annually to the Department of Taxation.

When making such within state comparisons there is a tendency to focus solely on general fund revenues. However, the definition of general fund revenues varies across cities and counties in Nevada so reporting such data would amount to comparing apples and oranges. Also, because of the narrow definition of general fund revenues in some jurisdictions, focusing only on general funds will obscure trends in other revenues. For example, in 1986, general fund revenues accounted for 19.6 percent of total revenues in Carson City compared to 58.8 percent in Lyon County.[10] Similarly, for cities general fund revenues ranged from 19.9 percent of total revenues in Caliente to 69.2 percent in Gabbs and 96.2 percent in

Mesquite.[11] Accordingly, for purposes here, the focus is on current revenues raised for operating purposes. Thus, opening balances from the previous year and proceeds from bonds are not included in the revenue totals used below.

It is often tempting to look at a jurisdiction's total opening balance as a measure of fiscal health. In Nevada, cities and counties generally experienced significant opening balances over the period examined here. However, one must look at the trend in opening balances over time and look behind those opening balances to see what they do and do not represent.

Over the 1977 to 1986 period, cities and counties in Nevada have seen an overall reduction in the relative importance of total fund opening balances. For example, in 1977 four counties had opening balances carried over from the previous year between 11 and 20 percent of currently raised revenues with 12 counties having opening balances greater than 20 percent.[12] By 1986, seven counties had opening balances between 11 and 20 percent of currently raised revenues and 16 of the 17 counties had opening balances of less than 30 percent, compared to only 13 counties in 1977. Cities have experienced a similar, albeit less dramatic, trend in total opening balances.

While there has been a downward trend on total fund opening balances for cities and counties over this period, the level of those balances is, nevertheless, relatively high. This may be desirable for several reasons. For example, given the relatively small size of many local government budgets in Nevada, any unanticipated expense could be a large portion of the budget. Thus, a responsible official might tend to keep larger fund balances. Or, because of fluctuations in the tax bases of many jurisdictions (see Chapter 10 for a further discussion) a larger fund balance cushion would be justifiable. Also, to the extent that local finances in Nevada have been made more uncertain, from the local official's perspective, because of the tax-shift program, large and increasing opening balances might be expected.

Regardless of the size and trend in reported total fund opening balances, they are of limited use as measures of revenue adequacy for several reasons:

- first, they do not represent resources that are available for general government expenditures. For example, if a local government is making a capital investment on a pay-as-you-go basis, it may be building up balances that are earmarked for a specific capital improvement once a threshold amount is reached. In the interim, however, the funds being accumulated are not available for other purposes.

- second, the fund balances include all funds, some of which may be restricted for specific purposes. For example, many local jurisdictions show hospital funds in their budgets even though they are seperate entities and any fund balances that accrue in those accounts are not available to finance general government expenditures.

- third, other funds may be reserved for specific purposes and may not be spent for general operating expenses.[13] For example, Boulder City has a Capital Improvement Fund which can only be spent for capital projects with the approval of the voters.

It is also important to remember that the opening fund balances reported by the state do not reflect the adequacy of local revenues because no consideration is given to expenditures. As mentioned above, revenue adequacy relates revenues raised to expenditure needs. For example, local jurisdictions may forego opportunities to provide services desired by their citizens, or reduce the level of services being provided because of restricted revenues. This would not be reflected in opening balances, but would certainly be important in evaluating the adequacy of current revenues.

The three most important revenue sources for cities and counties in Nevada are the property tax, the Supplemental City/County Relief Tax (SCCRT) payment created by the tax-shift program and licenses and charges. In 1986, these sources provided 50 percent of current county revenues and 45 percent of city revenues. This compares to 56 and 41 percent of county and city

revenues in 1977.

In 1986, property taxes provided 11.3 percent of county revenues.[14] The range was from 3.2 percent in Carson City to 31.9 percent in Eureka. In 1977, the property tax share of county revenues ranged from 9.7 percent in Douglas County to 56.9 percent in Esmeralda County. Over that 10 year period 16 counties reduced their reliance on local property taxes, with only Douglas County increasing its reliance. However, since 1982, all counties have increased their relative reliance on the local property tax.

Similar trends are evident for cities as well. In 1986, one jurisdiction, Yerington, had no local property taxes, while another, Mesquite, derived 11.2 percent of city revenues from that source. In 1977, the range was from 5.0 (Caliente) to 39.3 (Gabbs) percent. Every city reduced its reliance on the property tax between 1977 and 1986, but only Boulder City reduced that reliance from 1982 to 1986.

Local governments in Nevada did not start receiving SCCRT payments until 1982. In that initial year, SCCRT payments accounted for between 7.4 (Clark) and 40.3 (Eureka) percent of total revenues for counties. By 1986, the relative reliance on SCCRT payments as a source of revenue ranged from 5.3 (Carson City) to 28.2 (Lyon) percent. Over that period, nine counties reduced their relative reliance on SCCRT payments;[15] while the other eight counties increased their reliance.[16] Overall, the relative importance of SCCRT payments fell from 9.9 to 9.0 percent for counties over this period.

A similar trend is evident for cities as well. In 1982, the range in relative reliance on SCCRT payments was from 3.3 (Caliente) to 13.3 (Reno) percent. By 1986, the relative reliance on SCCRT payments ranged from 2.7 (Caliente) to 18.5 (Mesquite) percent. The average for cities fell from 9.5 to 7.6 percent over this period.

The relative importance and trends in reliance on licenses and charges varied more widely for counties and cities than the

reliance on the property tax or SCCRT payments. In 1986, the range in relative importance of licenses and charges as a source of county revenues was between 7.7 (Eureka) and 51.5 (Churchill) percent. Eight of the 17 counties in Nevada maintained a generally stable reliance on licenses and charges over this ten year period -- if they relied on this source of revenue extensively in 1977, they tended to in 1982 and 1986.[17]

Nine counties reduced there relative reliance on licenses and charges dramatically over this period, with most of the reduction coming between 1982 and 1986.[18] It is interesting to note that eight of these nine counties are the ones that experienced increases in their relative reliance on SCCRT payments from 1982 to 1986. Remembering that all counties increased the relative importance of property tax revenues over this same period, this trend suggests that in these eight counties SCCRT payments may be substituting for revenues from licenses and charges rather than for property taxes.

Similar trends do not show up for cities. In 1986, licenses and charges accounted for between 13.8 (Mesquite) and 68.5 (Fallon) percent of city revenues. There was much less variation in the relative importance of licenses and charges for cities than there was for counties. Similarly, if a city relied heavily on licenses and charges as a source of revenue in 1977, it was likely to do so in 1986. No cities reduced signficantly their reliance on licenses and charges over this period, while one city (Gabbs) increased its reliance from 17.1 percent in 1977 to 30.9 percent in 1986.

Summary

This section presented evidence on the diversity that exists among local governments in Nevada. Cities and counties vary in their population, the growth in population, per capita income, the growth in per capita income, the absolute level and growth in real property values per capita, and their overall revenue structure and growth. This section did not report such data, but cities and

counties in Nevada also vary in physical size, topography, climate and many other variables which influence economic growth and the demand for public services. The next section discusses institutional issues that should be considered when designing a system of local governments that allows each jurisdiction to be sensitive to the types of differences just outlined.

LOCAL GOVERNMENT DISCRETIONARY AUTHORITY IN NEVADA

Home rule refers to the right of cities or counties to establish or change governmental structures, exercise discretionary power within the scope of the home rule grant, and establish fiscal policies within the scope of constitutional and statutory authority to tax, spend, borrow, and create benefit districts for these purposes. As is discussed below, home rule, in and of itself, is a virtually meaningless concept; it only is meaningful with respect to a set of structural, functional or fiscal powers for which discretionary scope is accorded.

Home rule is also about local political economies. Diversity in local government "packages" of taxes and services is generally seen by economists to promote economic efficiency. A system of local political entities with the flexibility to react to changing service demands of their citizens is required by the criterion of economic efficiency. Home rule powers that extend to at least some local fiscal autonomy are warranted by this view. Local governments, however, must have the capacity to efficiently deliver services when free to choose the level and mode of service delivery.[19]

Local Government Discretion in Nevada

Nevada is a classic Dillon's Rule state[20], and as such, no city or county government in the state has any authority directly conferred by the state Constitution.[21] Though the Constitution

declares Nevada a "home-rule state," the required implementing legislation was never passed by the Nevada State Legislature. The degree of statutorily-mandated specificity of local government functions is extraordinary. Local governments have limited autonomy in determining operational policies and procedures, service expansion into new functional areas, or raising revenue to meet new service demands.

Forms of Government. County governments are directly created by the state legislature. City governments can be established either by general law or by special charter, but there are no Constitutional forms of city incorporation. Of the 17 incorporated cities in Nevada, 12 are governed under special charters established by the legislature, five are incorporated under Chapter 266 of the Nevada Revised Statutes (NRS) requiring a Mayor-Council government, and one under Chapter 267, which authorizes a Commission form of government but which also prescribes a method for general incoporation, not restricted to any particular legal form. The latter Chapter accords quite a bit of flexibility to local citizens wishing to devise a local Charter with special provisions to meet local needs. However, the Chapter is little-used, primarily because of the prevalence of Special Act charters in the state, and the additional procedural steps required to incorporate under it; while Chapter 267 requires two elections -- one to select electors to draft a charter and the other to approve the draft -- Special Act charters require no amendment.

There are two procedural forms of incorporation: special act of the legislature, as indicated above, and citizen petition. (The 1987 Legislative Session, in response to a finding of unconstitutionality, rescinded the property owner petition to the District Court as a method of incorporation.)[22] To incorporate by Special Act, local residents draft a charter and present it to their legislators, for passage through the normal legislative process. Though the Charter bill is subject to amendment, the legislature normally abides by local desires.[23] Under general law

of Chapters 266 and 267, incorporation by petition requires the signature of one-third of the qualified electors within the boundaries of the proposed city. The Board of County Commissioners must conduct hearings on the proposal, issue a written opinion, and call an election. A majority vote is required for passage.

Town governments are closely tied to county governments. Those towns governed by a Town Board elect three residents to serve as Board members, who are joined by two County Commissioners. The alternative requires the County Commissioners to act as the governing body, with the assistance of a Citizen's Advisory Council, the five members of which are appointed by the Commission.

Special Districts are the most prevalent form of local government in Nevada. Fifteen chapters of Nevada law cover different types of special districts, with the most flexibility afforded to General Improvement Districts, which can provide up to 17 specific services ranging from Electric Power to Mosquito Control. The only signficant powers not available to general improvement districts is the provision of police protection services, and planning and zoning.

City and County structure and functions. Powers of local government are established by law, subject to change by the legislature. This means that the procedures for creating, dissolving, operating, and paying for any formal local government in Nevada is within the power of the state expressed in the legislature.

Whether established by Special Act or under the authority of Chapter 266 or 267, the powers of local governments in the state are defined almost entirely by statute; the State Constitution does not reserve any governmental authority to either county or city governments. Both counties and cities have about the same range of government authority: general police powers, control of land use, and a fairly complete range of health, welfare, and recreation responsibilities. Counties, however, have additional powers

exercised county-wide, including incorporated areas: property assessment courts, tax collections, various special licenses, and so on. Unincorporated towns, subject to county approval, can take on most powers of city governments, except that land use and tax rates remain county functions.

State and Local Fiscal Relations. Fiscal relationships between state and local government in Nevada are highly centralized. Since the inception of the tax-shift initiative in 1981, the state annually calculates the maximum allowable revenue by which each local government in the state is constrained, with further controls on the portion of that revenue that can be raised from property taxes. The state-wide distribution of the sales tax going to local government is administered by the Nevada Department of Taxation, which calculates allowable property tax levels and each county's share of the sales tax allocation. A second-tier allocation then is made to individual government entities within counties.

This mechanism of state fiscal sharing is treated in some detail in Chapter 11. Suffice it to note here that the level of all local revenue sources are stipulated by act of the state legislature. In addition, to the extent that local revenues are earmarked, this is usually due to state requirements. Morevoever, the base on which taxes are levied may differ. Consider, for example, the interjurisdictional differences in the gaming fee levy between those permitted to tax proceeds, versus the levy applicable to the number of games operated. Similarly, jurisdictions that franchised public utilities prior to 1909 are permitted to levy franchise taxes and retain the proceeds; other jurisdictions must turn over the revenue to school districts.

Evaluation and Recommendations

Despite the importance of this issue area for the system of intergovernmental relations, not just in Nevada, but throughout the

country, the lack of systematic analysis of local discretionary authority is startling. The most comprehensive comparative analysis of state grants of local discretion, indicates that the Nevada is among the most centralized in the nation.[24]

In terms of the basic state-local legal relationship, Nevada in 1980 was one of eight remaining Dillon's Rule states. (The others were Alabama, Arkansas, Indiana, Kentucky, Mississippi, South Dakota, and Vermont.) While in particular areas of governmental action, the amount of authority accorded a county or city government may be greater than in a non-Dillon's Rule state, any grant of discretion is revocable by the legislature by majority vote; no extended Constitutional Amendment process is required.

Nevada cities exercise as much or more discretion regarding government structure as do 16 other States. Functional discretion is more sharply limited: only three states afford as little, or less, discretion in government functions to their cities (Kentucky, New Mexico, and South Dakota). And only eleven states have as little, or less, latitude in making personnel decisions.[25]
Similarly, county governments in Nevada are among the least autonomous in the country, in a category of local government already typified by dependence on state control. Counties in 14 states have as little, or less, discretion to amend or adopt new government functions than counties in Nevada. Counties in only 8 states have as little authority to set government personnel policy as do counties in Nevada.

There's no easy way to indicate which states truly are "home rule" states; the powers granted by constitution often are eroded by subsequent state legislative enactments in particular functional areas. But despite this ambiguity, most states do offer a fairly broad range of powers to cities and counties; a system dictated as much by practicality as by policy. The provisions of Michigan's Home Rule Charter, for example, accord wide latitude in infrastructure and public service provision, and extend through the full range of municipal self-governance: zoning, regulation

of trades, initiative and referendum, recall, civil service, and transporation systems. Localities are bound only by statewide tax limits, and restrictions on the number of special elections, salary changes to sitting officials, the amount and type of bonds sold without a citizen vote, and other matters.[26]

In contrast, the recitation of prescribed powers and procedures for local governments which characterizes the Nevada Revised Statutues attests to the restrictive range of options available to the state's local governments. For example, subdivision issues receive a good deal of legislative attention in Nevada, in contrast to many other states with broader allowances for the exercise of local discretion in planning and zoning. This is perennially a subject of debate during sessions, and either the development industry or local governments propose technical amendments that slightly alter the balance of these laws one way or the other.[27] The state statutory control over planning and zoning issues extends to such details as: requiring the owners of apartment complexes to place the street address or some other identifying number on the exterior of the building (NRS 278.0231); specifying the time limits for submission of final subdivision maps to a planning commission (NRS 278.360); limiting the ability of local governments to deny certain kinds of land divisions (NRS 278.4725) based on local determination of compelling public interest.[28]

The lack of autonomy of local governments in Nevada is due, in part, to the existence of relatively few local governmental entities. In 1987, there were only 240 local governmental units of all types--counties, cities, school districts, and special districts. Only Alaska, Hawaii, and Rhode Island have fewer.

Among the relatively few counties in the state are a number marked by small populations and undifferentiated economies. Indeed, until the rather recent urbanization of the state (since the 1950s), this was typical of almost all counties. The concentration of fiscal and institutional resources at the state

level, then, was an appropriate response to the need for minimally efficient provision and management of public services.

But while the system of state oversight that now characterizes the state was appropriate for an earlier period of social and economic relationships, the increasing complexity of the state's metropolitan areas and diversity across the state outlined above require more adaptive local political structures. It is not the purpose of this discussion to present a detailed political analysis of the relationship between key interest groups in the state, and their relative stake in the system of local dependence. Nevertheless, the centralized character of formal governmental power in the state forces a centralized system of interest intermediation. To illustrate, in most states, a local government decision to alter hiring and firing procedures for police and firemen would be an entirely local decision. Though often contentious, such political conflicts are fought out by local government and union officials without the need for either citizen or state legislative approval of charter changes. In contrast, Nevada cities must seek approval of the legislature; a situation in which an individual city faces the organized state-wide power of a municipal union. The inhibiting effect on local policy innovation produced by this circumstance is clear -- dependence is compounded by delay. In addition, local governments must maintain an active, and relatively expensive, lobbying presence at the state capital during the legislative sessions.

A centralized character of decision-making enfeebles local representative institutions. Since the principal decisions are made by state statutory change, or state legislative charter amendment, the scope of local decision-making is extraordinarily narrow. The prescriptive detail of local charters reinforces this weakness: major local policy changes become matters of charter amendment -- a time consuming process with a built-in bias against change -- rather than an ordinance change by vote of council. It then becomes simpler, after all, to take minor issues to the state

legislature for pro-forma discussion and resolution -- legislators usually defer to local wishes -- than to go through a painful and politically uncertain process of local Charter amendment.

The economic effects of the current regime of state and local fiscal relationships are discussed elsewhere. Suffice it to note that the limitation on new revenue sources, or changing the disposition of the proceeds of those already in place, very likely produces inefficient local public sector resource allocations. This system however, also enormously complicates the system of inter-local governmental relations. The system of local dependence on state-determined revenue limits means in addition an unusual degree of local sensitivity to the revenue structures of other localities. Since the allocation of sales tax revenue is made first to counties, and then to government entitities within counties, the two-tier distribution mechanism means that a single government's (or special district's) revenue decisions affect the amounts of sales tax revenues received by all other jurisdictions.

Incorporation and Intergovernmental Relations. The extreme case, the decision by an area within a county to incorporate can produce drastic reallocation of revenues. Moreover, the effects of an incorporation are fraught with uncertainty, since choices as to the service functions to adopt and property tax rates aren't clear far in advance, and the complicated nature of the SCCRT allocation formula makes accurate revenue forecasts difficult.

For example, the incorporation of a city within a county with only one, existing, incorporated city, produces sharp declines in county revenues based on the way liquor, cigarette, and other taxes are shared. If Fernley, in Lyon County, incorporated to form the second such city in Lyon County, the County government would lose over one-half million dollars in such tax revenues. At the same time, Yerington, the existing city, would experience a revenue increase from $91,000 to $237,000. Thus an existing city may receive a windfall from the incorporation of another part of the county. Other cities in the same county may be losers under

different incorporation scenarios. The incopration of East Las Vegas, for example, in a county already including several existing incorporated cities, would have detrimental fiscal effects not only on Clark County, but also on other cities within the county. Thus, the City of Las Vegas suffers a net fiscal loss if another part of the county chooses incorporation; one estimate put it at $711,000 a year.[29]

In contrast to the relatively restrictive legal constraints on functional and fiscal discretion, statutes governing the process of incorporation are relatively unrestrictive. Sound public policy would dictate that the process of incorporation not be made overly restrictive, which would discourage diversity in local government taxing and spending packages. This has both a proactive and reactive component: while typically incorporation is a symptom of urbanization and reflects the desires of the residents of a newly-urbanized area to provide a level of services higher than those available county-wide, the procedure can also represent a rural defense against encroaching urbanization.

The relationship between incorporation and higher levels of county services was starkly presented during the 1988 attempt to incorporate the City of Lake Tahoe. Incorporation supporters cited the need for more control over tax revenues generated in the area, since spending and service decisions were made by Douglas County. Supporters felt that revenues from the well-to-do, but growth-restricted, Lake Tahoe communities would increasingly be devoted to finance the development of other, rapidly-growing, areas of the County. At the same time, however, opponents to incorporation argued that local control would also require higher taxes in order to finance the new city. At the general election in November 1988, the view of the opponents prevailed and incorporation was defeated by a substantial majority.

The process worked as it should in the Lake Tahoe incorporation case, but disturbing aspects of the dispute partly are attributable to the state's revenue-sharing arrangement.

Supporters of incorporation claimed that property owners would have paid an additional 7 cents per $100 value in property taxes; opponents placed the figure at more than 40 cents.[30] While a degree of uncertainty is attached to any incorporation proposal -- the precise level and cost of acquired services can't be accurately gauged -- the problem is compounded by an elaborate mechanism of intergovernmental transfers.

In sum, the current institutional relationships between state and local government in Nevada do not foster local flexibility to respond to diverse and changing economic and social circumstances. An improvement in the ability of local governments to craft functional and fiscal policies without tutelege of the legislature could produce more efficient city and county tax and service mixes.

Summary

The prospect of a home rule amendment to the Nevada State Constitution, whether applicable to counties or cities in the state, is unlikely. Nor is it a panacea for current concerns over the scope of local authority. It should nevertheless represent a long-range goal for the legislators and citizens of the state. It also should form part of a general reassessment of the system of governance in the state; an effort initiated by the current Legislative Counsel review of the legislature's procedures.

The scope of the Constitutional grant as reflected in the amendment language can be broad or narrow, restrictive or permissive. The scope of local authority accorded local governments in the state by a home-rule amendment is a matter for legislative decision in the bill-drafting process. At a minimum, decisions on local government structure and personnel would be the most likely candidates for a grant of local discretion. Moreover, grants of charter authority can be mandatory, permissive, or prohibitive: often, certain structural forms are mandated (e.g., a required legislative body); functional authority is permissive (e.g., a grant of general zoning authority); and fiscal authority

is restrictively, or prohibitively, stated (e.g., no non-voted general obligation debt).

The adoption of either legislative or Constitutional home rule authority would not in itself do much to resolve local frustrations over the scope of decision-making accorded local elected officials. The pervasiveness of state and federal mandates, coupled with state preemption of much functional and fiscal authority means that home rule charter authority, alone, would mean very minor flexibility in government organization and staffing.[31] Thus, home rule must be understood as entailing a broader sorting out of functions between states, counties, and cities. This sorting-out could take place only after a extensive analysis of current governmental functions, and a rather lengthy legislative process of statutory review and amendment.

Following are steps that could be taken in the near term to address some of the issues and concerns raised in this section:

- The current centralization of the governmental system is complicated by the lack of specialization between cities and counties. With grants of local discretion, the complex process of sorting out functions could produce a good deal of local acrimony over who does what. To begin the process of institutional adjustment, careful analysis of the current statutory framework for local government in terms of which functions are best devolved and to what governmental level could be conducted. As a first step in this process the Legislative Counsel Bureau could be directed to recommend a strategy for devolution based on this type of review.

- Assuming that Constitutional home rule is not in the offing, the legislature could examine the feasibility of introducing "legislative" home rule -- that accorded by statute, rather than amendment. The particular character of the legislative package would depend on the outcome of the review process called for above. In lieu of a home-rule statute, a number of statutory grants to cities and counties can be made in specific functional areas. The best candidates for devolution by statute include most areas of local government organization, administration, and personnel.

- As indicated above, incorporation of new entities within a county can have adverse fiscal impacts on other local governments. One way of addressing this issue is to

establish, from a portion of the revenues from state-wide sales taxes, a fund designed to "hold harmless" for a given period existing jurisdictions within a county.

- To ease the shock on other communities if newly-incorporated cities set property tax rates very low -- thus obtaining a "disproportionate" share of sales tax revenues -- local governments could be required to establish some minimum property tax rate as a condition for incorporation. This rate, however, should not be artificially high, so as to discourage incorporations.

- Shift where possible to a system of post-hoc review of service fee and allowable tax increases. Once the criteria for approval by the Tax Commission or the legislature for local increases in tax revenue are made clear, do not require local government officials to "apply" for increases. Rely instead on local observance of the law, and monitor compliance through post-hoc review of audited service costs.

ENDNOTES

1. U.S. Department of Commerce, Bureau of the Census, 1982 Census of Governments, Volume 1, Governmental Organization, (Washington D.C.: Government Printing Office, 1983).

2. The focus of this discussion is on state and local revenue raising and the use of the property tax specifically. A more general comparison of the state and local system in Nevada and other states is made in Chapter 4.

3. This section compares Nevada with other states. For reasons discussed in Chapter 4, Census data are used for these cross state comparisons.

4. A description and evaluation of the tax-shift program is presented in Chapter 11 and Chapter 10 describes property assessment reforms mandated by the tax-shift program.

5. U.S. Department of Commerce, Census Bureau, Governmental Finances in Fiscal Year 1986, (Washington D.C.: Government Printing Office, 1987), Table 29.

6. Ibid.

7. Data for this section comes from the Nevada Statistical Abstract, 1988, prepared by the Nevada Office of Community Services.

8. Population estimates come from "Population Of Nevada's Counties and Incorporated Cities, 1980 Actuals and 1981 Through 1987 Official State Estimates," prepared by the Bureau of Business Research, College of Business Administration, University of Nevada at Reno for the Nevada Department of Taxation and the Nevada Office of Community Services.

9. See Nevada Statistical Abstract, 1988, State of Nevada, Office on Community Services, September 1988, p. 139. The states in the far west region include Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

10. For this discussion total revenues are defined as revenues raised this year for general operating purposes so opening fund balances and proceeds from bonds are omitted.

11. The purpose of this comparison is not to suggest that one jurisdiction's accounting procedures are better than another's, but rather simply to demonstrate that such accounting differences exist and make comparisons of general funds of limited value.

12. These percentages are higher than reported by the state because opening balances have been subtracted from the base figure which is only currently raised revenues for general purposes.

13. The terminology used to discuss opening balances contributes to the misunderstanding of what these balances do and do not represent. Nevada statutes define fund balances (NRS 354.533) and reserve funds (NRS 354.560) which are not available for appropriations in the current year. The opening balance numbers reported by the state include some reserved funds that were previously obligated. There is no formal definition of restricted or designated funds. However, all of these terms are applied to these opening balances and it is difficult to determine to what extent those balances are actually unencumbered and available to finance current general government operating expenses.

14. This figure does not compare with the Census data discussed above. This figure is based on locally generated data and is expressed as a share of total current revenues as defined in footnote 10.

15. Carson City, Churchill, Clark, Douglas, Elko, Esmeralda, Eureka, Nye, and Storey counties.

16. Humboldt, Lander, Lincoln, Lyon, Mineral, Pershing, Washoe, and White Pine counties.

17. Carson City, Churchill, Clark, Douglas, Elko, Esmeralda, Eureka, and Storey counties.

18. Humboldt, Lander, Lincoln, Lyon, Mineral, Nye, Pershing, Washoe, and White Pine county.

19. For a good discussion of interjurisdictional competition, see Daphne Kenyon, "Interjurisdictional Competition: Good or Bad for the Federal System?" for the U.S. Advisory Commission on Intergovernmental Relations, February, 1988.

20. Judge Dillon's famous dictum was that local governments were "the mere tenants at will of the Legislature." City of Clinton v. Cedar Rapids and Missouri River Railroad, 24 Iowa 455 (1868): pp. 462-3.

21. Echoing Dillon's language, the Nevada Supreme Court opined in State ex rel. Rosenstock v. Swift, 11 Nev. 128 (1876) that: "... a municipal corporation, in this state, is but the creature of the legislature, and derives all its powers, rights and franchises from legislative enactment or statutory implication." Quoted in Letter from Linda S. Jessen, Legislative Counsel, to Assemblyman Paul W. May, Jr. May 18, 1987.

22. By ruling of District Court Judge David R. Gamble in the issue of the proposed incorporation of the City of Lake Tahoe. Assembly Bill 508 (Chapter 712, Statutues of Nevada, 1987) revised the Chapter 266 petition procedures, now as described above, and removed the Chapter 267 method for incorporated towns becoming incorporated cities.

23. Letter to Mr. Gerald Smith, Redfield Land Co. from Brian Davie, Principal Research Analyst, State of Nevada Legislative Council Bureau, April 22, 1988.

24. Joseph F. Zimmerman, State-Local Relations: A Partnership Approach, (New York, Praeger, 1983), pp. 39-42. The discussion in the next two paragraphs of comparative state rankings is based on this source.

25. Zimmerman's measure of Financial Discretion was compiled before the tax shift, and is thus now misleading. Other areas of government authority are likely to have changed little, from state to state, over the decade, and in any case in the direction of more, not less, discretion.

26. David Morris, "The Nature and Purpose of a Home Rule City Charter," Citizens Research Council of Michigan", Memorandum No. 215, March, 1971, p. 6.

27. Memorandum from Fred W. Welden, Chief Deputy Research Director, State of Nevada Legislative Counsel Bureau, January 4, 1985.

28. Memorandum, Fred W. Welden, ibid.

29. "Cityhood Made Costly," Nevada Appeal, May 20, 1988, p. A-1.

30. "Legislative Panel Delays Decision on State Tax Sharing," Las Vegas Review Journal, April 29, 1988.

31. This at least is the conclusion drawn by Salant as reported in Tanis J. Salant, County Home Rule: Perspectives for Decision-Making in Arizona (Tucson, University of Arizona, August 1988) when examining the pattern of Charter adoptions by counties in five states.

CHAPTER 9
THE ECONOMICS OF THE PROPERTY TAX: AN OVERVIEW

INTRODUCTION

The property tax is the largest single source of state and local revenue nationally, generating $111.7 billion in 1986 -- 21.1 percent of total state and local own-source general revenues. In Nevada, however, the property tax is much less important accounting for only 14.9 percent of total state and local own-source revenue ($327 million). Despite this relatively small role in the state, property tax issues are an integral part of the local finance debate in Nevada.

This overview chapter discusses several key aspects of property taxation, including its role in financing state and local governments and on whom the tax burden falls. Because the purpose of this overview is to set the stage for the next chapter which takes up specifics of the Nevada local property tax system, the treatment here tends to be somewhat general and comparative in nature rather than Nevada specific. The following chapter discusses the specifics of the property tax law and its administration in Nevada.

FINANCING ROLE OF THE PROPERTY TAX

State Plus Local Finance

Property taxation has long been an important element of the state and local fiscal landscape in the United States. The tax is not only the single largest state and local tax source, but also is the only one of the three basic forms of taxation -- income, sales, and property -- that is in use in all fifty states and the District of Columbia.

The dominance of the property tax, however, is declining. Between 1962 and 1986, for example, the tax fell from 32.7 percent of all state and local general revenue to 17.4 percent (Table 1).[1] In part, this decline in relative importance reflects the sharp increase in other general revenues over the period, especially federal aid which rose dramatically from the mid-1970s. However, a similar drop in the relative significance of the property tax is revealed even when federal aid is excluded. For example, property taxes fell from 37.8 percent to 21.1 percent of state and local own-source revenue between 1962 and 1986 (Table 2). Other state and local taxes, user charges, and other non-tax revenue sources simply have grown more rapidly than the property tax.

The decline in the relative importance of the property tax has been sharp, not only for state and local governments as a group, but for Nevada and each of its neighboring states (Tables 1 and 2). Property taxes as a percentage of total state and local general revenues in Nevada declined from 20.3 percent in 1962 to 12.5 percent in 1986, but other states generally experienced an even greater decline. Thus, the relative importance of property taxes in Nevada increased from 62.1 percent of the national average in 1962 to 71.8 percent of the national average by 1986 (Table 1). Similarly, the share of total state and local own-source revenues generated by the property tax in Nevada fell from 24.9 percent in 1962 to 14.9 percent in 1986. Again, Nevada's relative reliance on the property tax increased slightly from 65.9 percent of the national average in 1962 to 70.6 percent in 1986.

In Nevada, the property tax share of both general and own-source state and local revenues remained relatively constant between 1962 and 1977 and was below the national average share for the entire period. Nevada had the lowest reliance on the property tax of any state in the region except New Mexico and Hawaii. With the passage of the tax-shift legislation which substituted a state sales tax for local property taxes, the relative importance of the property tax in Nevada state and local finance was cut nearly in half from 19.5 percent of state and local general revenues in 1977

TABLE 1

PROPERTY TAX AS A PERCENTAGE OF STATE/LOCAL GENERAL REVENUE, SELECTED STATES, 1962-1986

	1962	1967	1972	1977	1982	1986
NV	20.3	22.6	20.91	19.52	10.28	12.46
AZ	31.87	28.13	26.07	25.78	18.07	16.89
LA	36.19	34.12	31.80	27.69	14.98	15.16
CO	32.14	29.06	24.61	22.49	19.55	19.42
ID	30.49	23.17	20.92	17.76	14.53	15.09
MT	36.34	32.98	29.89	25.55	25.66	23.32
NM	13.68	10.84	10.14	8.66	5.87	4.76
OR	29.98	28.94	28.93	24.33	21.68	23.75
UT	29.25	24.13	19.19	16.00	13.54	14.21
WA	20.46	19.63	22.00	17.86	16.27	16.44
WY	26.95	26.34	22.68	21.82	19.39	21.74
HA	10.25	12.82	11.75	9.48	10.92	10.90
FL	28.66	26.10	21.28	19.74	19.11	18.63
TX	30.73	28.09	24.00	21.73	20.11	22.56
U . S . Average	32.71	28.56	25.59	21.93	17.93	17.42

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finance in Selected Years, (Washington, D.C.: Government Printing Office, Selected Years).

TABLE 2

PROPERTY TAX AS A PERCENTAGE OF STATE/LOCAL OWN-SOURCE REVENUE, 1962-1986

	1962	1967	1972	1977	1982	1986
NV	24.86	29.75	25.44	24.02	12.22	14.87
AZ	38.23	35.90	31.54	31.43	21.31	19.30
CA	42.10	42.13	39.55	34.77	18.65	18.38
CO	38.35	35.73	31.13	28.51	23.69	23.13
ID	38.77	28.52	27.46	24.61	18.42	19.48
MT	45.95	43.80	40.71	36.03	31.97	30.67
NM	17.62	15.51	14.41	11.96	7.03	5.76
OR	36.93	35.86	37.68	32.65	27.34	29.43
UT	36.52	32.56	26.15	22.09	17.28	18.13
WA	23.83	23.62	27.00	23.02	19.99	19.83
WY	38.90	38.40	31.52	29.47	23.42	26.49
HA	12.71	16.70	15.21	13.39	13.65	13.20
FL	32.17	30.67	25.10	24.54	23.21	21.55
TX	35.66	34.27	29.82	27.13	23.44	26.36
U . S . Average	37.82	34.35	31.48	28.07	22.16	21.14

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finance in Selected Years, (Washington, D.C.: Government Printing Office, Selected Years).

to 10.3 percent in 1982, and from 24.0 percent of state and local own-source revenues to 12.2 percent -- a rate of decline faster than in any other state in the region including California.

It is important to stress, however, that the property tax has declined only in relative terms. The per capita figures in Table 3 document the growth in absolute amounts over the same period for which Tables 1 and 2 show relative declines. In Nevada, per capita property taxes increased from $89 in 1962 to $340 in 1986 -- an increase of 282 percent. Nationally, per capita property taxes increased 352 percent in the same period from $103 in 1962 to $463 in 1986. Because of their relatively slower growth over this period, per capita property taxes in Nevada declined from 87.7 percent of the national average in 1962 to 73.4 percent in 1986. During this period, per capita property taxes grew more slowly in Nevada than in all neighboring states except California. While Table 3 shows that per capita property tax collections increased nearly threefold in nominal terms over the past 25 years, such growth is less startling when adjustments are made for the rapid inflation experienced during that period. Indeed, when the per capita property tax burdens are deflated to eliminate the effect of the inflation over the 1962-1986 period, the data show that, in real terms, per capita tax burdens in Nevada stayed virtually constant over this 25 year period, increasing only 4 percent (Table 4). Over this same period, the U.S. average increased nearly 25 percent, and some states in the region experienced increases in real per capita property taxes of over 100 percent. Three states (California, New Mexico, and Idaho) experienced declines in real per capita property taxes over this period.

Role in Local Finance

The property tax is much more significant in local than in state finances. On average, state governments raise less than 4 percent of property tax revenues, which amount to less than 2 percent of total state tax revenues.

TABLE 3 Per Capita State and Local Property Taxes for Selected States, 1962-1986

	1962	1967	1972	1977	1982	1986	Percent Change
nv	$88.99	$149.66	$205.20	$285.42	$234.18	$339.90	281.95%
az	105.36	145.89	202.46	327.31	333.40	421.68	300.23%
ca	151.48	209.12	328.78	459.53	350.42	450.89	197.66%
co	119.88	157.28	206.49	311.85	418.91	520.97	334.58%
id	94.61	107.87	145.96	203.37	239.14	299.32	216.37%
mt	132.06	170.10	263.31	358.73	584.65	650.47	392.56%
nm	47.28	61.02	85.39	112.53	152.79	142.64	201.69%
or	109.66	149.92	238.97	358.59	474.10	650.56	493.25%
ut	94.50	120.99	143.89	191.32	278.42	366.45	287.78%
wa	77.87	110.56	193.55	254.64	341.82	441.56	467.05%
wy	131.81	191.70	226.64	409.84	908.11	1172.83	789.79%
fl	80.38	109.11	145.35	211.90	321.99	410.65	410.89%
hi	40.11	82.48	121.46	167.46	263.62	314.19	683.32%
tx	82.87	103.22	152.57	233.32	367.56	516.66	523.46%
u.s.	102.54	131.64	205.91	288.97	362.25	463.38	351.90%

Source: Historical Statistics on Governmental Finance, 1982 Census of Governments, Bureau of the Census, 1985, Table 24.
1986 data source: Government Finance in 1985-86, Bureau of the Census, 1987.

TABLE 4 Real Per Capita State and Local Property Taxes for Selected States, 1962-1986. (In 1967 Dollars.)

	1962	1967	1972	1977	1982	1986	Percent Change
nv	98.22	149.66	163.77	157.26	81.00	103.50	5.37
az	116.29	145.89	161.58	180.34	115.32	128.40	10.42
ca	167.20	209.12	262.39	253.18	121.21	137.30	-17.88
co	132.32	157.28	164.80	171.82	144.90	158.64	19.89
id	104.43	107.87	116.49	112.05	82.72	91.14	-12.72
mt	145.76	170.10	210.14	197.65	202.23	198.07	35.89
nm	52.19	61.02	68.15	62.00	52.85	43.43	-16.77
or	121.06	149.92	190.72	197.57	163.99	198.10	63.64
ut	104.30	120.99	114.84	105.41	96.31	111.59	6.98
wa	85.95	110.56	154.47	140.30	118.24	134.46	56.44
wy	145.49	191.70	180.88	225.81	314.12	357.13	145.48
fl	88.72	109.11	116.00	116.75	111.38	125.05	40.94
hi	44.27	82.48	96.94	92.26	91.19	95.67	116.10
tx	91.47	103.22	121.76	128.55	127.14	157.33	72.00
u.s.	113.18	131.64	164.33	159.21	125.30	141.10	24.67

Source: Historical Statistics on Governmental Finance, 1982 Census of Governments, Bureau of the Census, 1985.
1986 data source: Government Finance in 1985-86, Bureau of the Census, 1987.

Local governments, by contrast, derive about three-fourths of their taxes from property taxation. This accounts for nearly 50 percent of local own-source general revenue, but in Nevada the figure was only 31.2 percent in fiscal 1986 (Table 5). In Hawaii, Idaho, Montana, Oregon, Texas and Wyoming local governments rely on property taxes for a larger share of local own-source general revenues than the average for local governments nationally. Local reliance on the property tax in Nevada, however, is the lowest in the region except for New Mexico and Washington.

The property tax, however, is not equally important to all types of local governments (Table 5); nor are all types of local governments equally significant in the division of the property taxes collected (Table 6).

Nationally, independent school districts derive a larger portion of their own-source general revenue from property taxation than does any other type of local government. This is true for Nevada as well, where school districts obtain 82.6 percent of their own-source revenues from the property tax, compared to 80.7 percent nationally. Similarly, the school district share of property taxes is greater in Nevada (49.5 percent of property tax revenues in 1986) than nationally (43.6 percent).

School districts in some neighboring states raise a larger share of property taxes than school districts nationally or in Nevada (Arizona, Colorado, Oregon, Utah, Wyoming, and Texas -- Table 6). Only four of the states examined, however, have school districts that are more dependent on property taxes as a source of revenue than school districts nationally or in Nevada (Montana, Oregon, Wyoming and Texas).

Counties in Nevada account for an above average share of property tax revenues (38.5 percent in 1986, compared with 23.6 percent nationally -- Table 6) while placing a well-below average reliance upon the tax for own-source revenue (21.1 percent compared with 43.7 percent nationally -- Table 5). Municipalities in Nevada are well below the national average in both respects. Counties,

TABLE 5 Share of Local Own-Source Revenue from the Property Tax, 1986

	Local	County	Cities	school	special
nv	31.22%	21.13%	14.60%	82.60%	18.46%
az	37.22%	35.86%	11.92%	79.11%	7.17%
ca	37.46%	51.95%	19.22%	77.12%	15.66%
co	42.30%	48.98%	11.74%	81.80%	20.10%
id	50.80%	37.64%	41.10%	81.91%	33.91%
mt	59.67%	70.98%	26.67%	82.87%	20.62%
nm	22.78%	38.85%	8.56%	58.89%	45.11%
or	60.85%	51.29%	38.34%	85.91%	28.51%
ut	41.37%	44.62%	19.66%	80.55%	10.63%
wa	31.14%	42.57%	18.09%	67.74%	17.15%
wy	50.86%	38.07%	8.80%	85.26%	24.21%
fl	39.43%	37.23%	21.63%	75.55%	16.81%
hi	64.66%	68.53%	63.32%	0.00%	0.00%
tx	49.68%	52.92%	28.73%	82.94%	11.78%
U.S.	46.00%	43.70%	29.51%	80.65%	14.66%

Source: Government Finances in 1985-86, U.S. Dept. of Commerce, Bureau of the Census, 1987.

TABLE 6 Distribution of Local Property Tax Collections by Type of Jurisdiction, 1986

	Local	County	Cities	School	Special
nv	100.00%	38.50%	9.16%	49.48%	2.86%
az	100.00%	27.24%	10.84%	60.07%	1.85%
ca	100.00%	37.32%	20.14%	35.63%	6.91%
co	100.00%	21.93%	10.66%	62.49%	4.92%
id	100.00%	24.66%	19.43%	46.76%	9.15%
mt	100.00%	51.31%	12.17%	34.98%	1.54%
nm	100.00%	41.91%	23.15%	32.29%	2.65%
or	100.00%	10.47%	15.39%	66.68%	7.45%
ut	100.00%	26.19%	13.04%	55.72%	5.05%
wa	100.00%	29.92%	19.37%	34.88%	15.82%
wy	100.00%	32.22%	1.98%	61.65%	4.14%
fl	100.00%	34.53%	15.33%	45.03%	5.11%
hi	100.00%	27.22%	72.78%	0.00%	0.00%
tx	100.00%	21.63%	19.49%	55.92%	2.96%
U.S.	100.00%	23.63%	23.34%	43.57%	3.18%

Source: Government Finances in 1985-86, U.S. Dept. of Commerce, Bureau of the Census, 1987.

cities, and school districts account for 97.2 percent of property tax revenues in Nevada compared with 90.5 percent nationally.

In summary, the data indicate that, except for school districts, the property tax

- is a less important source of local revenue in Nevada than it is nationally;
- is a less important source of local revenue in Nevada than in most of the neighboring states;
- has been falling in relative importance nationally and in Nevada for the last 25 years;
- imposes a lower per capita burden in Nevada than nationally or in most of the neighboring states; and
- is decreasing in real per capita terms relative to the national average since it has increased more slowly in Nevada than in the U.S. as a whole.

THE TAX BASE

The property tax can be either general or selective in its application. A general tax applies very broadly to all types of property, and treats the various types uniformly. A selective tax, by contrast, is characterized by nonuniformity of tax treatment across property types. Nonuniformity can be introduced by total exclusion of property types from the base, by differential tax treatments for various property types, or by a combination of these two.

A general property tax, therefore, would be imposed on all classes of property -- e.g., land, improvements, machinery, household goods, automobiles, business inventories, etc. -- in a uniform manner irrespective of the nature of the asset, its use, or ownership. Traditionally, the base of a general ad valorem property tax is the estimated market value of each asset.[2] Therefore, the property tax levy would be determined by applying a single tax rate uniformly to the estimated base.

Alternatively, a selective property tax would be imposed on a well defined subset of all classes of property. Depending on the type of asset, its use, or its ownership, its value may be totally or partially excluded from the property tax base -- e.g. business machinery and inventories, homestead properties, etc. Nevada's property tax is a selective tax, because different types of property are partially or totally exempt from taxation.

The property tax in the United States was initially a selective property tax imposed on certain classes of wealth easily identifiable in an agrarian economy -- e.g., land, improvements, cattle, etc.[3] Rates generally were in rem, or specific -- i.e., levied at so many cents per unit, rather than as a percentage of value. During the early nineteenth century the variety of forms of tangible wealth multiplied and intangible property became significant. In an effort to broaden the property tax base to include these new forms of wealth, the property tax evolved during the early to mid-19th century into a general ad valorem property tax uniformly applied to the value of most types of property, regardless of form.

Personal property -- tangible and intangible -- for a time was an expanding component of the base. Tangible personal property -- business inventories, machinery, jewelry, livestock, household furnishings, etc. -- generally was divided into business and household categories. Intangible personal property included corporate stocks and bonds, bank deposits, and mortgages. However, the main component of the property tax base continued to be real property consisting of two separate elements -- land (residential, commercial, agricultural) and improvements (buildings, structures, and other capital improvements).

For the last several decades, property taxation in the United States has become increasingly a tax on real property. The importance of both intangible and tangible personal property in the property tax base has dwindled substantially, the result of changes in state constitutions and statutes. Both practical and

philosophical considerations help explain the changes. Intangibles are very difficult for the assessor to locate and, assuming success in discovering such properties, often difficult to value. Moreover, noting that intangibles -- particularly stocks, bonds, mortgages, and the like -- are merely claims on real and tangible properties that also are generally part of the tax base, many have argued that the taxation of intangible property constitutes an undesirable form of double taxation. Others argue that repeal of intangibles taxes seriously impairs the equity and the neutrality of property taxation, and that administration is technically feasible, but they appear to have lost the battle. The Census Bureau's periodic surveys reveal that most states either wholly or largely exempt intangibles, at least for local tax purposes.[4]

Taxation of tangible personal property also has declined, again for both administrative and philosophical reasons. Given the movable character of many forms of tangible personal property -- e.g., inventories, railroad cars -- tax avoidance often is relatively simple. Philosophically, some have argued that the tax, particularly as applied to inventories, is perverse in its effect: it rises when inventories rise (generally during an economic downturn). Popular and political unwillingness to take the administrative steps necessary to discover and list household personal property in general, together with the difficulties inherent in valuing such items, resulted in many states exempting such property; where it remains legally taxable, enforcement and compliance often are quite lax. All states exempt at least some types of agricultural personal property, and many states exempt motor vehicles, often for political reasons rather than administrative considerations.

By 1981, complete exemption from the local property tax was accorded these major categories of tangible personal property by the number of states shown for each: motor vehicles, 31; household personal property, 34 (up from 28 just 2 years before); agricultural personal property, 17 (up from 12 in 1979); business inventories,

22; and other commercial and industrial property, 7. These numbers include 8 states[5] that exempted all tangible personal property -- up from 5 states in 1979. As a result of these trends, the net value of locally assessed personal property declined nationwide from 12.2 percent of total assessed property value in 1976 to just 9.6 percent in 1981[6].

In Nevada and its neighboring states, the trend toward eliminating personal property from the tax base has been mixed. In 1976, 12.2 percent of net assessed property values nationwide was locally assessed personal property. The data in Table 7 indicate that in 1976, Nevada and five of the comparison states (Idaho, Montana, Utah, Washington and Florida) had personal property shares of net assessed value that exceeded the national average. As shown in Table 8, by 1981 six comparison states, but not Nevada, had personal property shares of net assessed values that exceeded the national average. Over this period, Nevada reduced the importance of personal property in net assessed value more than any other state in Table 7 and 8 that had exceeded the national average share in 1976. Only one state, Hawaii, among those compared here, exempted all personal property in both years. Three states (Texas, New Mexico, and Idaho) actually increased the relative importance of personal property in net assessed value over this period, with an increase of 113 percent in Texas being the largest increase over the five years.

In reality, the property tax base (net assessed value) is often only a fraction of the estimated full market value of these different assets. However, the ratio between market value and the portion of that value subject to the tax (i.e., the assessment ratio) varies among jurisdictions, property types, and, in some instances, among individual properties of the same type within the same jurisdiction. <u>De facto</u> assessment level differences often are superimposed upon <u>de jure</u> differences. In any case, the effective property tax rate[7] (the nominal millage rate times the assessment ratio) will vary among jurisdictions, types of property, or

Table 7 Percent distribution of net assessed property values-1977

	Dollar Total	-State-- Assessed	----Locally Assessed------ Total	Real	Personal	TOTAL
nv	$3,543.00	15.04%	84.96%	71.78%	13.18%	100.00%
az	$6,659.00	35.83%	64.17%	55.59%	8.57%	100.00%
ca	$83,687.00	6.64%	93.36%	83.37%	9.99%	100.00%
co	$10,111.00	9.50%	90.50%	80.54%	9.96%	100.00%
id	$1,682.00	16.77%	83.17%	70.87%	12.31%	100.00%
mt	$1,392.00	25.22%	74.71%	43.46%	31.25%	100.00%
nm	$3,245.00	31.03%	68.94%	62.90%	6.04%	100.00%
or	$35,536.00	9.19%	90.83%	82.90%	7.92%	100.00%
ut	$3,213.00	28.07%	71.90%	57.39%	14.50%	100.00%
wa	$51,228.00	5.86%	94.14%	78.88%	15.25%	100.00%
wy	$2,478.00	64.73%	35.27%	23.65%	11.62%	100.00%
fl	$100,009.00	0.41%	99.59%	83.99%	15.60%	100.00%
hi	$9,806.00	0.00%	100.00%	100.00%	0.00%	100.00%
tx	$140,557.00	0.11%	99.89%	94.19%	5.70%	100.00%
u.s.	$1,189,442.00	7.12%	92.88%	80.63%	12.24%	100.00%

Source: Taxable Property Values and Assessment/Sales Price Ratios, 1977 Census of Governments, U.S. Dept. of Commerce, Bureau of the Census, 1978

TABLE 8 Percent Distribution of Net Assessed Property Values, 1981

	Dollar Total	-State-- Assessed	----Locally Assessed------ Total	Real	Personal	TOTAL
nv	$8,570.00	10.60%	89.40%	79.99%	9.43%	100.00%
az	$9,954.00	30.22%	69.78%	62.48%	7.29%	100.00%
ca	$628,789.00	5.68%	94.32%	88.21%	6.11%	100.00%
co	$14,777.00	11.12%	88.88%	79.64%	9.23%	100.00%
id	$23,357.00	7.70%	92.30%	78.24%	14.06%	100.00%
mt	$2,021.00	38.00%	61.95%	36.86%	25.14%	100.00%
nm	$5,526.00	32.74%	67.25%	61.07%	6.19%	100.00%
or	$68,450.00	6.05%	93.95%	88.92%	5.04%	100.00%
ut	$5,980.00	21.67%	78.33%	65.99%	12.34%	100.00%
wa	$123,167.00	3.93%	96.07%	82.80%	13.26%	100.00%
wy	$6,140.00	77.82%	22.18%	13.39%	8.79%	100.00%
fl	$201,343.00	0.26%	99.74%	87.04%	12.69%	100.00%
hi	$18,007.00	0.00%	100.00%	100.00%	0.00%	100.00%
tx	$306,765.00	0.35%	99.65%	87.49%	12.16%	100.00%
u.s.	$2,837,469.00	5.57%	94.39%	84.82%	9.57%	100.00%

Source: Taxable Property Values and Assessment-Sales Price Ratios, 1982 Census of Governments, U.S. Dept. of Commerce, Bureau of the Census, 1984, Table 2.

individual properties. The further from uniformity a jurisdiction moves, the greater the potential for horizontal inequities -- different effective rates result for similar properties receiving similar services. A fractional assessment rate of only 35 percent and the move away from market value have important implications for the equity of the property tax in Nevada. These issues are discussed in the next chapter.

REVENUE STABILITY

The absolute dollar amount produced by the property tax in any single year is calculated as the product of the property tax rate times the property tax base.[8] Generally, the nominal property tax rate is determined by the local legislative process. The property tax base -- the assessed value -- changes as a result of a change in the level of assessment. This, in turn, is largely a function of the frequency of assessment and the degree to which assessed values capture changes in market values resulting from real and/or nominal economic growth. Thus, given a constant assessment ratio (which is likely to require at least annual assessment) the base could increase in direct proportion to the growth in market values. In such a circumstance, assuming a constant property tax rate, the property tax will generate a predictable and stable revenue stream.

The responsiveness of property tax revenue to economic growth, when such growth is measured by income growth (i.e., the percentage change in property tax revenues for each one percent change in personal income, or the income elasticity of property tax revenues), depends upon (1) the responsiveness of market values to economic growth and (2) the ability of the local assessing jurisdiction to capture changing market values through the assessment process. A stable tax typically will generate revenues that change <u>relatively</u> more slowly than income -- i.e., the revenue is income inelastic.[9]

In general, depending on assessment procedures (discussed in the next chapter) and the extent to which increased market values are reflected in the property tax base, the property tax is

characterized as being a unitary-elastic revenue source. Thus, if a jurisdiction relied totally on the property tax as a source of revenue, it would continually face a fiscal gap as income grew, since public expenditures generally are considered to be income elastic, but property tax revenues are not.[10] The resulting fiscal gap would create constant pressure on local officials to increase the property tax rate.[11] Alternatively, to the extent a jurisdiction diversifies its revenue structure by de-emphasizing the property tax in favor of more income responsive revenue sources -- e.g., an income tax -- this problem becomes less critical. However, local revenues could become less stable over the course of the business cycle with such diversification.

Criteria For Distributing The Tax Burden (Equity)

The property tax, in part, is consistent with both the ability-to-pay and the benefits-received principles of taxation. From the standpoint of ability-to-pay, the case for a property tax rests largely on imperfections in the taxation of income.[12] The preferred measure of income is a very comprehensive one. Comprehensiveness is desirable to promote neutrality in individual decisions so they reflect economic, not tax, considerations; if there is no escape from the tax, the tax is not a factor in economic choices. This requires that <u>all</u> additions to wealth -- whether in the form of money income, imputed income (i.e., non-monetary benefits, such as the value of housing services from owner-occupied housing), or increases in asset values -- be taxed alike. But this is not standard income tax practice, in part for practical reasons. Whenever the flow of benefits from property totally or partially escapes income taxation, equity and efficiency considerations require that the asset which creates the benefits be taxed. The value of the asset is taxed because it represents the capitalized value of the stream of benefits received;[13] the tax rate applied appropriately to the asset value would be lower than the rate applied to an annual income flow.

An example may help to illustrate this notion. Suppose that Steen and Morris each have wages of $30,000 and assets of $100,000; the only difference is the form in which they hold their assets. Steen owns the $100,000 home in which she lives, while Morris rents an apartment and has a $100,000 bank account. Both assets generate benefits, and an ideal income tax of the sort discussed above would tax both benefit streams equally. In practice, however, Morris' bank account yields interest payments that are subject to income taxation, while Steen's house provides her with a non-monetary stream of housing services that are not subject to income taxation. This difference in income tax treatment produces a horizontal inequity that can be redressed by property taxation. It also creates incentives that tend to influence economic choices.

In general, the foregoing reasoning suggests that the case for property taxation (or for relatively high property taxes) is strongest in the case of owner occupied residences, the benefits from which completely escape income taxation, and perhaps next strongest in the case of farmland, given the apparent under-reporting of farm income. The inequity from the failure to tax the imputed rental value of owner occupied homes is exacerbated by the allowance of deductions from <u>other</u> income of the costs of generating these tax-exempt benefits -- i.e., property taxes and mortgage interest.

The property tax also is consistent, to some degree, with the benefits-received principle of taxation. It is argued that property taxes, in general, are used primarily to finance local government expenditures -- police, fire, streets, etc. -- that are site oriented services, benefitting local property owners and thereby increasing the value of their properties.

This argument, however, implicitly assumes that the benefits are distributed across properties in proportion to their property tax liabilities. Under the usual standard of tax uniformity, this implies benefits are distributed in proportion to market value. This in turn implies that expenditure benefits are, in fact,

capitalized in the value of the properties. Thus, the property tax on two homes of equal value and in receipt of equal service benefits must, for equity under the benefits principle, be taxed the same.[14] Any tax nonuniformities tend to depart from the theory underlying the benefits-received case for the property tax, as they cause tax shares to diverge from benefit shares. Nonuniformities can arise from either extralegal differences in tax treatment (e.g., assessment error) or intentional differences (e.g., property tax assessment standards mandated by the tax-shift program implemented in 1981).

The assumptions underlying the benefits-received principle may not be true for all goods and services provided by local government. For example, the direct benefits of education are not likely to be distributed across all properties in proportion to property taxes, but rather according to the number of children in public school. This does not suggest, however, that property owners without children in public school should be exempt from the school portion of their property tax. First, public education not only provides direct private benefits to those attending school, but also provides some indirect benefits to those living in the community (e.g., a more informed population, local sports activities, physical plant available for public use, quieter neighborhoods during school hours, etc.). At least to the extent of such community-wide benefits, then, everyone in the community should contribute to funding local public education.

Second, and perhaps more important, there is a redistributive intent. The property tax is not strictly based on the benefits-received principle of taxation, but rests as much on an ability-to-pay rationale; it is a tax on wealth, not a user charge based on direct benefits received. Property tax liabilities, therefore, are defined in relation to the value of real estate, not direct benefits received.

Who Pays The Property Tax?

The gross property tax liability for any property owner is determined by multiplying the property tax rate by the assessed value. Often, property owners may qualify for property tax credit programs that reduce the amount of taxes the property owner actually must pay. For example, many states have homestead, agriculture, and other specific property tax credits which are deducted from the gross tax liability to calculate the actual net amount that the taxpayer must pay to the local government.

Each year property owners pay local governments an amount equal to their net property tax liability. This transfer of funds -- from property owner to the local government -- represents the initial burden (impact) of the property tax. The property owner may be able to shift all or part of the net property tax to others through changes in the prices of things sold and/or purchased and through deductions on income taxes. This tax shifting may be either 'forward' to users or 'backward' to suppliers. The ability of the property owner to shift the property tax will depend upon both the type of asset taxed and market conditions. The type of asset is important because the mechanism by which shifting occurs is supply reduction, and the feasibility of this differs across asset classes. In any event, the ultimate burden (incidence) of the property tax is likely to differ frequently from the initial burden.

The entire tax, whether imposed initially on business or not, ultimately becomes a burden on (i.e., reduces the real incomes of) people. The question is whether the burden falls on people in their role as consumers of business products, in their role as suppliers of labor and other resources bought by business, or in their role as the owners of the taxed properties. The answer no doubt is that it falls on all these activities, with differences in market conditions determining which activity bears the heaviest burden.

The question of tax incidence is a very important consideration in shaping tax policy. It is important to be concerned with the question of whose real incomes are reduced, and by how much. Many states have adopted property tax relief policies, at least in part

on the basis of a belief that the tax is quite regressive. However, professional opinion on the distribution of the property tax burden has undergone significant change over the last decade. The basis for the change is outlined below, but the upshot is that most economists now believe that the property tax is less regressive than previously was believed. Also, given the character of the Nevada economy, a larger share of the property tax on businesses may be exported to visitors than would be the case in other states.

Land

The property tax base includes a variety of property types -- land, improvements, and personal property. The assumptions about the potential for shifting that portion of the property tax falling on each component differ. Economists generally agree that a tax on land results in a decrease in the land's value and a capital loss to the land owner at the time the tax is imposed or increased.

The supply of land is considered to be fixed; its supply cannot be reduced by a tax increase. As a result of the fixed supply of land, potential users need bid no more for the land than they did before the imposition of the property tax. Indeed, since the owners of the land must pay the tax, the increased tax will lead prospective land buyers to offer less after the increase than before because the higher annual tax payment reduces the net return to land ownership -- to the extent it does not increase services to the property. (It turns out that the reduction in the land's value would be exactly equal to the increased property tax liability capitalized at the appropriate rate.) In this case, therefore, the initial and final burden coincide and fall on the owners of land at the time of the tax increase. Given such capitalization, the level of property taxes on land at the time of purchase does not burden the buyers, who are the future land owners and taxpayers.

Improvements

The tax on improvements and tangible personal property owned by business is more complicated. Because the supply of improvements, unlike that of land, is not fixed over time, shifting of the tax is possible. Basically, this occurs because of differences in the relative sensitivity of demand and supplly to changes in price caused by the increase in the property tax, i.e., the relative price elasticity of supply and demand. But the nature of any shifting -- forward to consumers or backward to resource suppliers -- and the degree to which it occurs will depend upon the nature of the product and resource markets. Therefore, the outcome is less clear.

According to the "traditional view" the property tax on improvements is shifted forward in the form of higher rents. The property tax is viewed as an excise tax on capital improvements which reduces the rate of return and slows the rate of investment in (reduces the supply of) the taxed good -- e.g., new structures, rehabilitation, and maintenance. A tax increase tends, initially, to make the existing stock of structures become less valuable, which tends to make future investment less attractive; the resulting supply curtailment causes users to pay higher rents for a restricted capital stock. This restriction on supply will continue until the after tax rate of return is equal to the rate of return existing before the imposition (increase) of the tax or is available from other forms of investment -- assuming the local supply restriction is not offset by an increase elsewhere. Therefore, rents will increase by the amount of tax and the property tax on the improvements will be shifted forward to the renter.

The renters or users of the improvements, in turn, may be able to shift the tax either forward or backward. The ability of the business to shift that portion of the property tax falling on improvements and personal property depends on 1) the market structure of the industry, 2) the availability of substitutes for the product, and 3) the degree of influence the firm has in

determining factor input prices.

As opposed to this "traditional view" of property tax incidence, the "new view" starts from the premise that there is some level of property taxation that is common to all types of property and all jurisdictions. The analysis treats this portion of the tax as a uniform general property tax.[15] For this level of tax, the initial and ultimate burdens again coincide and fall on the owners of capital since all forms of capital are subject to a uniform rate and there is no non-taxed sector to which capital can be shifted.

The second dimension of the "new view" of property tax incidence is an analysis of the effects of that portion of the tax which is not universal -- i.e., a tax applied at different rates for different property types (e.g., commercial versus agricultural properties) and/or in different jurisdictions. It is argued that, in response to these tax differentials, resources shift from high to low taxed sectors in an effort to maximize the after tax rate of return, much as in the "traditional" analysis. The standard new view analysis, however, assumes a fixed supply of capital in the aggregate; as this capital moves around in response to tax differentials, therefore, the net return on <u>all</u> capital is reduced by the tax (whereas the traditional analysis suggests capital out-migration will take place until the after-tax return equals the pre-tax return).

The impact on profits in each sector is uncertain and depends on 1) the mix of capital and labor in each sector, and 2) the degree to which capital and labor are substitutable. In any event, this general equilibrium approach to tax incidence suggests that a larger portion (up to 100 percent) of the ultimate property tax burden falls on the owners of capital than previously thought. There is, however, a consensus that a major portion of the property tax derived from tangible personal property owned by individuals (not businesses) is borne by the individual.

The differential tax rate feature of the "new view" can also be presented in a spatial context, as suggested above. In this case

the relevant tax-rate differentials are those across geographic areas. That is, the situation is analogous to the case of a uniform property tax levied at different rates in different jurisdictions. The high interregional mobility of capital will equalize the after tax rates of return to capital in ventures of similar risk by reducing supply in high tax regions and increasing supply of capital in low tax jurisdictions. Thus, taxpayers in areas where the tax rate is relatively high will have to pay high before-tax prices to owners of capital, while the reverse is true in low tax regions.

Also, because of the high degree of mobility of workers, households, and shoppers, within any given metropolitan region, it follows that intraurban property tax differentials will be borne by land owners. That is, the movement of capital (workers, households, and shoppers) out of the high tax area depresses land values and rents because of the reduced demand. If labor and capital are perfectly mobile, one would expect land rents in the high tax area to be reduced by the full amount of the tax (assuming that there are no offsetting advantages of the area to justify the tax difference). Thus, according to the "new view", intraurban property tax differentials are borne by land owners in the form of capital losses which arise when the property tax is imposed or increased.[16]

In summary, the "new view" leads to a number of implications which extend those associated with the "traditional view". First, that portion of the property tax common to all property across jurisdictions falls on the owners of capital in the form of lower rates of return than would be expected in the non-tax situation. Second, in addition to their share of the average nationwide property tax burden, property owners bear a major portion of the above-average tax rate differentials, particularly in urban areas. Conversely, in those areas with below-average tax levels, property owners tend to benefit from the low taxes and, therefore, to be able to absorb some increase in taxes without depressing their returns to investment below national norms. Third, that portion of the property tax which is shifted to consumers is much less important

than believed according to the "traditional view".

Table 9 estimates the ultimate property tax burden, under different assumptions of tax shifting, as a percent of annual income by income deciles. Whether the "new" or the "traditional" view of incidence is thought to be more appropriate will influence judgments as to the necessity of property tax relief for low income levels, and as to the desirable degree of targeting, if regressivity is the criterion. Under the traditional view (middle column), the tax is regressive for most of the bottom four deciles of the income distribution and for the top one decile, but most significantly for the bottom three deciles.

The pure new view conclusion that the tax burdens capital income (last column), however, shows the tax to be less regressive for the lowest four deciles; beyond that, it is mildly progressive (with rather broad, essentially proportional segments), until it becomes more steeply progressive in the last decile of the income distribution.

It should be emphasized that the "new" and "traditional" views are complementary and not competing views. If the concern is a change in the national average property tax the "new view" is most appropriate and leads to the conclusion that the tax change is primarily borne by the owners of capital. If, however, the concern is the relative change in a local property tax or differentials between sectors and/or regions, the "traditional view" provides the appropriate framework for analysis focusing on the "excise" effects of local differentials.

TABLE 9

ALTERNATIVE ESTIMATES OF THE INCIDENCE OF THE PROPERTY TAX, BY INCOME DECILES

Household income decile*	Effective rates of tax, assuming property tax on improvements is borne in proportion to: Housing expenditures and consumptions**	Income from captital***
First	3.9%	2.2%
Second	3.0	1.9
Third	2.4	1.5
Fourth	2.3	1.4
Fifth	2.1	1.2
Sixth	2.1	1.2
Seventh	2.1	1.2
Eighth	2.1	1.3
Ninth	2.1	1.3
Tenth	2.2	3.1
All Deciles****	2.3	2.0

* Ranked from low to high incomes. Income is defined as money factor income plus transfer payments, accrued capital gains, and indirect business taxes.

** It is assumed that the property tax on land is borne by landlords.

*** Includes negative incomes.

**** The average burden of the property tax is lower because, under these assumptions, part of the tax is borne by the tax-exempt sector and is not included in the household sector.

Source: Joseph A. Pechman, Federal Tax Policy. 5th ed. (Washington, D.C.: Brookings Institution, 1987), p. 274.

Given the distribution of property tax liabilities across income classes, the state government could decide that some property tax burdens are either growing too rapidly or may be large relative to ability-to-pay. The following section discusses some general

property tax relief mechanisms that may be used to achieve equity objectives.

Approaches To Property Tax Relief

Property tax relief can be defined quite broadly to include not only homestead exemptions, circuit breakers, deferrals, and classification, but also various local nonproperty taxes, local nontax revenue sources, and intergovernmental aid programs.[17] Those in the first group are referred to as direct property tax relief; they directly reduce the tax bills for individual property parcels, even though they may not affect total property tax levies of governments. Approaches in the second group provide indirect property tax relief by providing local governments with alternative revenue sources and, thereby, permitting property tax levies to be lower than they otherwise would be.

Direct Relief Mechanisms

Many programs offer direct property tax relief, working within the property tax framework to reduce either the tax or the tax base amount. Most modify the calculation of individual property tax bills. Circuit breakers are exceptions, since they typically provide refunds after property tax bills have been calculated and paid. While uniform relief to all property types is possible, direct property tax relief programs generally discriminate among property use types (residential, commercial, etc.). Thus, they tend to redistribute the property tax load among classes of property. The following section summarizes the major characteristics of various direct property tax relief mechanisms.

Partial Exemption. The property tax is the product of the tax base (assessed value) and the rate. A partial exemption reduces the base by subtracting some amount from assessed or market value. While the exempt amount could be expressed as a percentage of gross value, standard practice is to exempt some absolute number of dollars. This approach results in a larger percentage of the value

of lower valued properties being exempt.

Because a partial exemption reduces the tax base before application of the tax rate, the tax amount is directly reduced, and the property owner pays only the tax net of relief. Perhaps because of this, the cost of an exemption typically is borne locally by the taxing jurisdiction.[18] There is a local cost even if local revenues are not reduced as the result of exemptions because the tax rate must be set higher to offset the lower base. This causes other local taxpayers to bear higher taxes than otherwise. Local absorption of the costs of such exemptions is simply the result of custom, however. It is feasible for the state to reimburse the localities for lost revenue. Ohio provides an example of this with its senior citizen homestead exemption (also known as a circuit breaker).

Homestead exemptions are the most prevalent sort of residential property tax relief. The 43 programs counted represent 36 states rather than 43 states, however, because seven states were counted in both the "elderly only" and the "all ages" categories of homestead exemptions, presumably because the provisions differ for the two groups.[19]

Credit. A property tax credit is subtracted from the tax bill after the liability has been calculated. In practice, the property tax credit often is different from the exemption approach because property tax credits are calculated as a specified percentage of the gross tax. This gives the same result as a partial exemption set equal to a given percentage of gross value -- an exemption approach which, as noted, generally is not used.

Another practical, although not inherent, difference is that credit costs, more often than exemption costs, tend to be borne by the state. The fact that with a credit program a gross tax amount is calculated before the tax relief is subtracted may make decision makers more aware of the costs of their decisions and, therefore, more likely to bear them. Alternatively, an exemption makes it easier to ignore the revenue consequences, particularly if only net

assessed values are brought forward for application of tax rates. Thus, a tradeoff seems to be posed for those seeking redistribution: exemptions, more than credits, tend to favor low-valued properties, but exemptions are more likely to be locally financed.

A recent survey found five homeowner property tax credit programs providing credits equal to some percentage of gross property tax (Indiana, Minnesota, Ohio, Oregon, and Wisconsin); all extended to all age groups, and all were state funded.[20]

Refund or Rebate. The refund or rebate mechanism (hereafter, simply refund) works much the same as a credit, except that with a refund, receipt of property tax relief is not simultaneous with payment of the gross property tax. With a credit, the taxpayer pays only the amount of property tax net of relief; with a refund, however, the full tax is paid and a separate refund is provided.

Because most property tax refund programs are circuit breakers, this relief form is targeted to lower income groups more than property tax credits. The refund can be made through a separate administrative arrangement, or this function can be piggybacked on the state income tax (or some other non-property tax). Each of these approaches is used in roughly a dozen states' circuit breaker property tax relief programs. Either could be used for a broader form of property tax relief.

Freeze. Another approach to direct property tax relief is the freeze. A freeze can apply at any point in the calculation of the property tax -- the base (assessed value), the rate, or the tax amount itself. Freezing the tax amount obviously is the most effective way to keep the tax from rising; if only the base or the rate were frozen, changes in the other still could serve to increase the tax. However, if a tax freeze means only that the aggregate levy is frozen, the property tax bills for individual parcels may change. In this case, any increases in individual tax bills would be matched by decreases for others, redistributing the tax burden among property owners.

As part of a local revenue diversification option a decade ago, Indiana froze property tax levies in counties adopting a local income tax while freezing rates in the non-adopting counties. California's Proposition 13 included a partial assessed value freeze (maximum annual increase of 2 percent) for properties whose ownership has not changed.[9] Illinois' homestead exemption has the same effect as an assessed value freeze since it exempts the valuation increase resulting from reappraisal. Nevada's assessment process and the SCCRT program are partial freezes as well.

Use-value Assessment. Since the advent of general ad valorem property taxation in the mid-nineteenth century, valuation according to highest and best use, rather than actual use, has been the standard. In many cases, current use and highest and best use will be the same. As property values escalate in transitional areas, properties used in pursuits whose value in the market is relatively low tend to experience rising property taxes compared to the income generated by those uses. One result can be pressure to provide relief by ignoring highest and best use (market) value and to look only at actual use value.

The divergence between use value and market value apparently is greatest for agricultural land in the rural-urban fringe. Starting with Maryland in 1956, 49 states now provide some sort of use-value taxation for at least some categories of agricultural land. Some states apply the use-value standard to housing, as well.[29]

Classification. The hallmark of classification is different effective tax rates for different property classes. The broadest definition would consider all the foregoing direct relief mechanisms to be classification if nonuniform effective rates result. This discussion follows convention and applies the classification label only to those programs that entail a split property roll.

If differential treatment of at least some types of personal property relative to real property are included, classification is common. However, the important focus is on the classification of

real property. Within the category of real property, uniformity continues to be the standard in the majority of states. However, more than a third of the states have adopted real property classification in the past 15 years, bringing the total to 21 states plus the District of Columbia.[30]

The most common approach to establishing effective rate differentials is the application of uniform nominal rates to differential assessment levels -- about two-thirds of the classification states use this approach. West Virginia and the District of Columbia classify by applying differential nominal rates to supposedly uniform assessed values. New York authorizes local adoption of such an approach. Either approach can be effective, but some argue that the practice of establishing assessment level differences is inferior because it (1) makes it harder for taxpayers to evaluate the appropriateness of their assessed values, (2) increases the potential for abuse of the assessment system and appears to make the assessor part of the tax-setting process, and (3) affects debt limits and other policies tied into assessed value figures.[31]

Other differences among classification systems include the number of classes defined, the degree of difference among classes, and the constitutional or statutory placement of these details. These are important policy questions to which states have provided very different answers. The number of classes, for example, ranges from two to over 20. There is no objective way to determine what is the "right" pattern; it is a subjective question of equity. Creation of additional classes seems to be a problem if the classes are legislatively determined, and additional classes mean a larger number of decisions to contend with and increased administrative effort. A former tax commissioner of Minnesota, where the classes are established by statute, has characterized the tax differences as depending on political power rather than on economic differences or on matters of equity, as usually conceived.[32] West Virginia's 50-year old, unchanged constitutional system shows, however, that

instability is not an inherent feature of classification.[33]

Circuit Breaker. Circuit breaker relief programs, like other property tax relief mechanisms discussed so far, also provide favorable effective rates for claimants' property taxes, but circuit breakers are more narrowly targeted. Because circuit breakers take many forms, generalization about their details is difficult. What they have in common is that relief is inversely related to income. When property taxes rise to levels that are thought to constitute an "overload" relative to income, the relief program "breaks" the load. Circuit breakers accept both property ownership and income as indicators of economic well-being (ability to pay taxes), but the decision to provide relief is based on income when income is relatively low. Thus, benefits can be targeted to those considered to be most in need of tax relief.

Because issues concerning residential circuit breaker design include income definition, the type of benefit formula, whether to include renters, whether to include the non-elderly, and whether to impose income and/or benefit ceilings, flexibility on these matters is a major advantage claimed for the circuit breaker. The choice is nearly unanimous among circuit breaker states on only one of the design features: virtually all use total money income.[34] Omitting income from one particular source violates the principle of horizontal equity (treating persons with the same amount of income the same). The reason for omitting some source of income must be defended on grounds other than equity.

The choice between the two fundamental formula types seems to turn upon the question of the major sources of property tax differences within an income group. A sliding scale formula relieves a constant percentage of property tax for all persons within a given income class. For example, a state may provide that those with incomes below $1,000 have 90 percent of their property taxes relieved (perhaps up to a maximum benefit), those with incomes between $1,000 and $2,000 get an 80 percent tax reduction, and so forth. The threshold approach, on the other hand, defines an

acceptable (or threshold) amount of property tax as some percentage of income; the dollar amount of this threshold, of course, rises as income rises. Relief is given only if the actual tax bill exceeds this threshold percentage of income.

Sliding scale advocates argue it is appropriate to leave the relative property tax amount unchanged because persons with more expensive houses or with higher levels of public services are left with higher property taxes after circuit breaker relief as well as before; the notion is that they are getting something extra for their money. Threshold advocates counter that there is evidence (although fragmentary and imperfect) that within a state -- the relevant geographic unit, since circuit breakers almost universally are state funded -- property tax differences due to differences in choices regarding housing and public service consumption levels generally are dwarfed by differences due to the amount of taxable property per capita. To provide a given level of services, some localities will have to have higher property tax rates than others because of tax base disparities.

Turning briefly to other design issues, renters are included in most states' circuit breakers. This generally is done by defining some percentage of rent as the property tax equivalent. The standard view of property tax incidence concludes that renters bear a share of the property taxes imposed on the structures in which they live. While this would not be the case under certain circumstances (the so-called "new view" of property tax incidence), these circumstances often are not present, in which case it is appropriate to accept the standard conclusion.[35] If this is done, logic requires that renters, as well as owners, be eligible for property tax relief.

With regard to age-eligibility, equity considerations are on the side of including the non-elderly. A program that introduces explicit income criteria for determining benefits need not resort to age as a proxy for need. Moreover, it must be recognized that the elderly by no means have a monopoly on low incomes. Younger

persons, too, can (and do) have property taxes that are high relative to income.

Finally, there is the question of whether to impose limits on circuit-breaker benefits. Because expenditures for housing do not rise in proportion to income, a threshold formula automatically results in benefits that are inversely related to income. Even with no stated income limit, this approach will tend not to provide significant relief to higher income groups. A sliding scale formula, by its nature, must set an upper income limit (unless its top bracket is open ended, which would provide relief to all income levels). The questions are what that limit will be, how many income classes will be defined within that ceiling, what the relief percentages for each income class will be, and whether limits on benefit amounts should be established.

Deferral. A deferral program simply delays the time by which the property tax, or a portion of it, has to be paid. Property taxes may impose hardships on those with property wealth that is large relative to current income, even though their property holdings raise them on the economic ladder beyond the point at which it might seem desirable to stop any subsidy. But the hardship posed by cash-flow fluctuations may be aggravated by an inability to borrow (at least on reasonable terms) against the asset value. A state (or local) tax deferral may be viewed as a means of overcoming adverse cash flow problems or imperfections in capital markets. The deferred portion of the tax would be a loan which creates a lien against the property. The loan would come due when the property changes hands, or when other possible conditions (e.g., income level) changes. If the full amount of deferred tax, plus interest at a market rate, ultimately must be paid, deferral -- unlike the other relief forms discussed -- does not provide a subsidy.

In addition to agricultural deferral programs, a recent survey found homeowner deferrals in 12 states.[36] The programs attract only a small fraction of the eligible group, apparently because a loan is less attractive than a subsidy.

Direct Relief: Broad v. Targeted

It is useful to divide direct relief into two general categories: broad and targeted. Broad relief may be given in a manner that preserves the legal requirement of uniform effective tax rates for all properties within the same taxing jurisdiction, or it may introduce intentional effective tax rate nonuniformities. The nonuniform approach is more common. It defines property types (classes) across with effective rates are to be nonuniform, although uniformity still is required within each class in a given taxing jurisdiction. The classes used for broad direct relief are defined by reference to some aspect of the property -- its use, its location, and/or its value. In short, while global uniformity may be abandoned, the impersonal nature of the tax is preserved. Targeted relief, by contrast, modifies the traditional nature of property taxation through personalization, taking into account one or more attributes of the owners (and/or occupants), such as age, income, disability, and military service. These attributes serve as the targeting variables.

To illustrate, a homestead exemption that is available to all owner-occupants of residential property is, by this terminology, a broad relief mechanism; owner-occupancy defines the property use category rather than any personal attribute of the owner-occupants. A homestead exemption restricted to owner-occupants aged 65 years and over, however, is available to only a portion of the whole class of owner-occupants; such relief is targeted. In general, all the direct relief approaches discussed in the preceding section can be either broad or targeted; the exception is the circuit breaker. By its nature, a circuit breaker always is targeted because it determines relief in part by reference to the income of the owners or occupants, thereby personalizing the tax.

In practice, much direct relief is targeted, even though broad, class-wide relief is generally feasible. A 1981 count by Steven Gold of the National Conference of State Legislatures[37] found 30

circuit breakers, all of which, by definition, were targeted by income, and 21 of which were further restricted to the elderly. The same study also found 43 homestead exemption programs, of which 23 were only for the elderly and 14 were limited to those below certain income levels.

There appears to be some movement toward broader, less targeted direct relief mechanisms. Two programs that have become quite popular in the last two decades, classification and circuit breakers, exert opposing influences with regard to targeting. Classification, by its nature, is broadly provided; while different property use classes are treated differently, all within a class are to be treated uniformly. Circuit breakers, on the other hand, are inherently targeted by income, and two-thirds of these programs are further targeted to the elderly.

Indirect Relief

In addition to direct property tax relief, there are many indirect relief programs. Direct relief, as discussed, (1) is keyed to the property tax, (2) reduces individual property tax bills in ways that generally redistribute the property tax load across classes, or even within classes, but (3) may or may not affect the total property tax levy. Indirect property tax relief, on the other hand, (1) works outside the property tax system, but (2) also may or may not affect the total property tax levy.

Indirect relief includes local nonproperty taxes (income and sales, whether general or selective), local nontax revenues (user charges, interest income, etc.), and intergovernmental aids. The SCCRT program in Nevada is one example of an indirect relief mechanism. Such relief programs may simply displace property tax revenue, thereby providing property tax relief, or they may to some degree augment property tax revenue, permitting an increase in the overall level of services. Leaving aside this question of the effect of nonproperty tax sources on the overall level of local public services, these sources can be viewed as property tax relief

mechanisms in the sense that, for a given level of services financed with some contribution from these sources, the amount of revenue to be raised from the property tax is less than it otherwise would be.

The diminished reliance on property taxation made possible by these indirect relief mechanisms, taken alone, will result in proportionate property tax relief for all property taxpayers. Thus, indirect relief is inherently broad, rather than targeted.

ENDNOTES

1. It should be noted that Census Bureau data are used for comparability across states, and that the Census definition of general revenue is broader than Nevada's definition of general fund revenues; the former excludes only insurance trust operations, government liquor monopolies, and government-operated utilities.

2. Musgrave and Musgrave argue that when possible property should be assessed in terms of sales or market value instead of rental income. Too many subjective judgments are required to estimate income and translate that into property value. See Richard A. Musgrave and Peggy B. Musgrave, Public Finance in Theory and Practice (New York: McGraw-Hill Book Company, 1984), pp. 468-9.

3. See Arthur D. Lynn, Jr., Property Taxation, Land Value and Public Policy, (Madison, Wisconsin: University of Wisconsin Press, 1976) for discussion of trends in property taxes.

4. U.S. Department of Commerce, Bureau of the Census, 1977 Census of Governments, Volume 2, (Washington D.C., Government Printing Office, November 1978), Table 2; and the same source for the 1982 Census of Governments.

5. South Dakota, Pennsylvania, North Dakota, New York, New Hampshire, Illinois, Hawaii and Delaware.

6. U. S. Department of Commerce, Bureau of the Census, 1982 Census of Governments, Volume 2, (Washington D. C., February 1984), U. S. Government Printing Office, Table B.

7. The legislated property tax rate, or nominal rate, expressed in dollars per hundred dollars assessed value, when multiplied by the assessment ratio for each property, equals the effective tax rate. For example, in Nevada the maximum legislated property tax rate (the nominal rate) is $3.64 per $100 assessed value, and the assessment standard is legislated to be 35 percent of taxable value, and if that level is actually attained, the effective tax rate will be equal to $1.27 per $100 of market value ($3.64 * .35).

8. For Nevada the dollar amount to be collected from the property tax is computed by the State Department of Taxation. For a detailed discussion of this process see the chapter on state intergovernmental assistance.

9. This is the standard definition used in economic literature on revenue stability. Recently, Fox and Campbell have refined this definition by distinguishing between the short- and

long-run stability of tax revenue. They argue that the income elasticity of a tax is an endogenous variable that varies over the business cycle, i.e., no consistent relationship need hold between short- and long-run elasticities over the business cycle. Given this view, a tax is regarded as being relatively stable if the short-run elasticity rises during recessions and falls during expansions so that tax revenues fluctuate less than income. See Fox and Campbell, "Stability of the State Sales Tax Income Elasticity", National Tax Journal, June 1984, pp. 201-12.

10. For some empirical evidence of the impact of growth in income on local revenues and expenditures see Roy Bahl, ed., The Fiscal Outlook for Cities (Syracuse: Syracuse University Press, 1978), p. 15.

11. Actual property tax collections usually do not grow as rapidly as implied by the growth in market values; in part, because assessments do not keep pace with the growth in market values, and new exemptions and/or exclusions have the direct result of reducing the base. On the other hand, property taxes can be responsive to inflationary pressures, especially when assessments are made on a timely basis using modern computer-assisted techniques. See David Greytak and Bernard Jump, "The Effect of Inflation on State and Local Government Finances, 1967-74", Occasional Paper #25, Syracuse University, 1975. This situation is exacerbated in Nevada because it does not capture the growth in the property tax base because the state mandated assessment practices are not linked to growth and because of the SCCRT formula for determining the maximum allowable amount of property tax revenue. For a detailed discussion of this issue see the chapter on state intergovernmental assistance.

20. For a discussion, see Richard A. Musgrave and Peggy B. Musgrave, Public Finance in Theory and Practice, 4th ed. (New York: McGraw Hill, 1984) pp. 232-40.

21. The tax is currently applied to gross wealth and might be more appropriately applied to net wealth, e.g. the equity one has in a home, not the total market value of the home.

22. In determining the impact on housing values, the important consideration is the overall budgetary impact. Both taxes and expenditure benefits will be capitalized so that if taxes are low, but expenditure levels are even lower the net impact may be for land values to fall, or be lower than otherwise might be expected.

23. For a discussion see Henry J. Aaron, Who Pays the Property Tax? A New View, (Washington D.C., Brookings Institution, 1975) and Charles E. McClure, "The New View of the Property Tax: A Caveat", National Tax Journal, March 1977, pp. 69-75.

24. What really matters is the distribution of the net budgetary affect of the local government. If a property owner pays higher taxes for higher services property values will not fall just because of the higher taxes. Similarly, if property taxes are low because services provided are limited property values may still be lower than would otherwise be expected. The next budgetary impact is what influences property values.

25. Steven D. Gold, Property Tax Relief, (Lexington, Massachusetts: D.C. Heath, Lexington Books, 1979).

26. Steven D. Gold, "An Overview of Property Tax Relief For Homeowners", Table 1 which shows thirteen state-funded and two partially state-funded programs out of a total of 43 enumerated.

27. Ibid.

28. Ibid.

29. John H. Bowman and John L. Mikesell, "The Importance of Property Tax Structural Variations for Effective Property Tax Reforms: Barriers Created by Misconceptions", State and Local Government Review, 12 (September 1980): 92.

30. Minnesota Tax Study Commission, Final Report, Volume 1, (Minneapolis: Butterworths, 1986), p. 291.

31. Advisory Commission On Intergovernmental Relations, The Property Tax: Reform or Relief? A Legislator's Guide, Report AP-2 (Washington D.C.: ACIR, 1973).

32. Roland F. Hatfield, "Minnesota's Experience with Classification", The Property Tax: Problems and Potentials, Tax Institute of America, 1967, pp 239-44.

33. John H. Bowman, Issue #4: Property Tax Equity and Efficiency, West Virginia Tax Study Commission, 1984.

34. Money income is wages and salaries plus all other sources of money income including interest, dividends, social security, pension, etc.

35. John H. Bowman, "Property Tax Circuit Breakers Reconsidered: Continuing Issues Surrounding A Popular Program", American Journal of Economics and Sociology, 39, October 1980, pp 355-72.

36. Stephen D. Gold, "An Overview of Property Tax Relief For Homeowners", pp 3-4.

37. Ibid., Table 1.

CHAPTER 10
NEVADA PROPERTY TAX LAW AND ADMINISTRATION

Property taxation differs from other major forms of taxation in various ways. One of the most important of these is that the property tax is on accumulated capital value (a stock), while income and consumption taxes are imposed on current transactions (flows of economic activity). Thus, income and consumption (or sales) tax bases are rather readily observable from current transactions, but the property tax is not because property typically is exchanged only infrequently. Estimation of the tax base (property values), therefore, is a principal part of property tax administration, but not of income and sales tax administration.

The previous chapter deals with basic aspects of property taxation in general, as well as the tax's financing role in Nevada. This chapter is concerned with some of the specifics of Nevada property tax law and administration. The first section considers the types of properties that make up the property tax base in the state, and the next turns to assessment, the task of estimating values of taxable properties. Once the property tax base is determined by assessment, the amount of tax is given by multiplying the base times the rate. The third section treats the setting of property tax rates in Nevada. In each section, current provisions are stressed, but changes in recent years -- of which there have been several -- also are treated. Finally, some policy issues are presented and discussed in the concluding section.

THE TAX BASE

Property taxation in Nevada extends to ". . . all property of every kind and nature whatever within this state . . ." unless it is specifically exempted [NRS 361.045]. Property commonly is divided into real and personal categories, and personal is subdivided into tangible and intangible. Real property consists of

land and permanent improvements to land, such as buildings, fences, and driveways. Other types of property are considered to be personal property. Tangible personal property, as the name implies, is tangible; examples include machinery and equipment, goods held in inventory, motor vehicles, household furnishings, and animals. Intangible personal property includes money and paper claims to real and tangible personal property, such as mortgages, stocks, and bonds. As discussed in the previous chapter, the trend across the country has been to remove most intangibles and many types of tangible personal property from the local property tax base.

What Is Taxed: Statewide Tax Base

In Nevada, as in most other states, the property tax has come to be principally a tax on real property. Data for 1986-87 show the following breakdown of gross assessed property value statewide: real property (land and improvements combined), 82.6 percent; personal property, 7.5 percent; and "miscellaneous" property, 9.9 percent (Figure 1). Property tax exemptions, not broken down by property type, amount to about 12.5 percent of gross assessed property value.[1]

Real Property. Real property is broken down into land and improvements, with improvements accounting for the larger part of the total (about 60 percent of all real property and nearly half of all assessed value). Breaking real property down by use, residential is the largest use category and accounts for 47.0 percent of all real property assessed value (Figure 2 and Table 1). Multi-family residential property accounts for 18.0 percent of residential value, while detached single-family residences make up over two-thirds of the residential total (67.5 percent).[2] Commercial and industrial properties jointly comprise 34.1 percent of real property value (commercial property makes up nearly nine-tenths of this subset), while agricultural and open space properties together account for just 1.0 percent of all real property gross

Fig. 1. Composition of Nevada Gross Assessed Value, 1986–1987

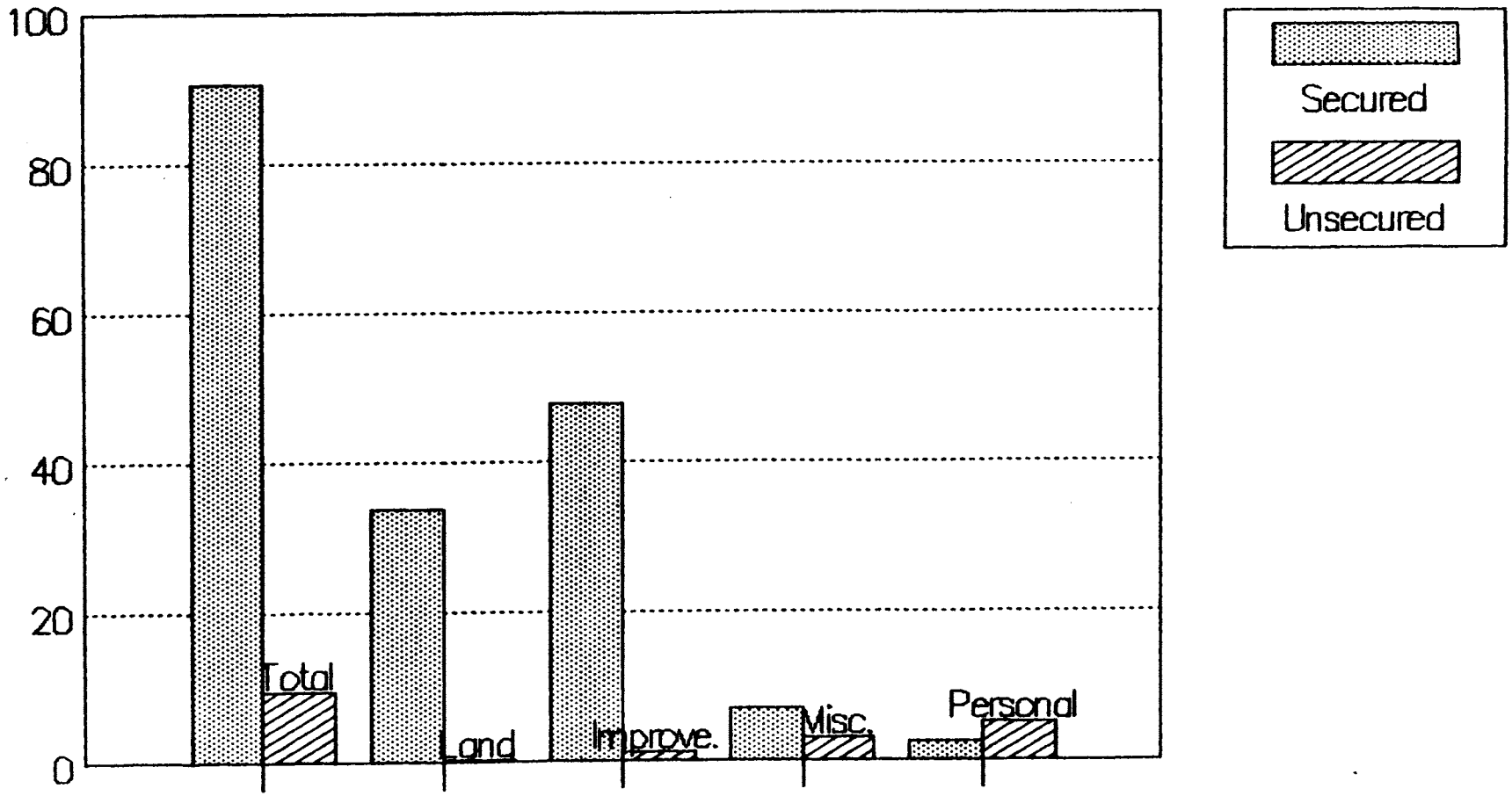
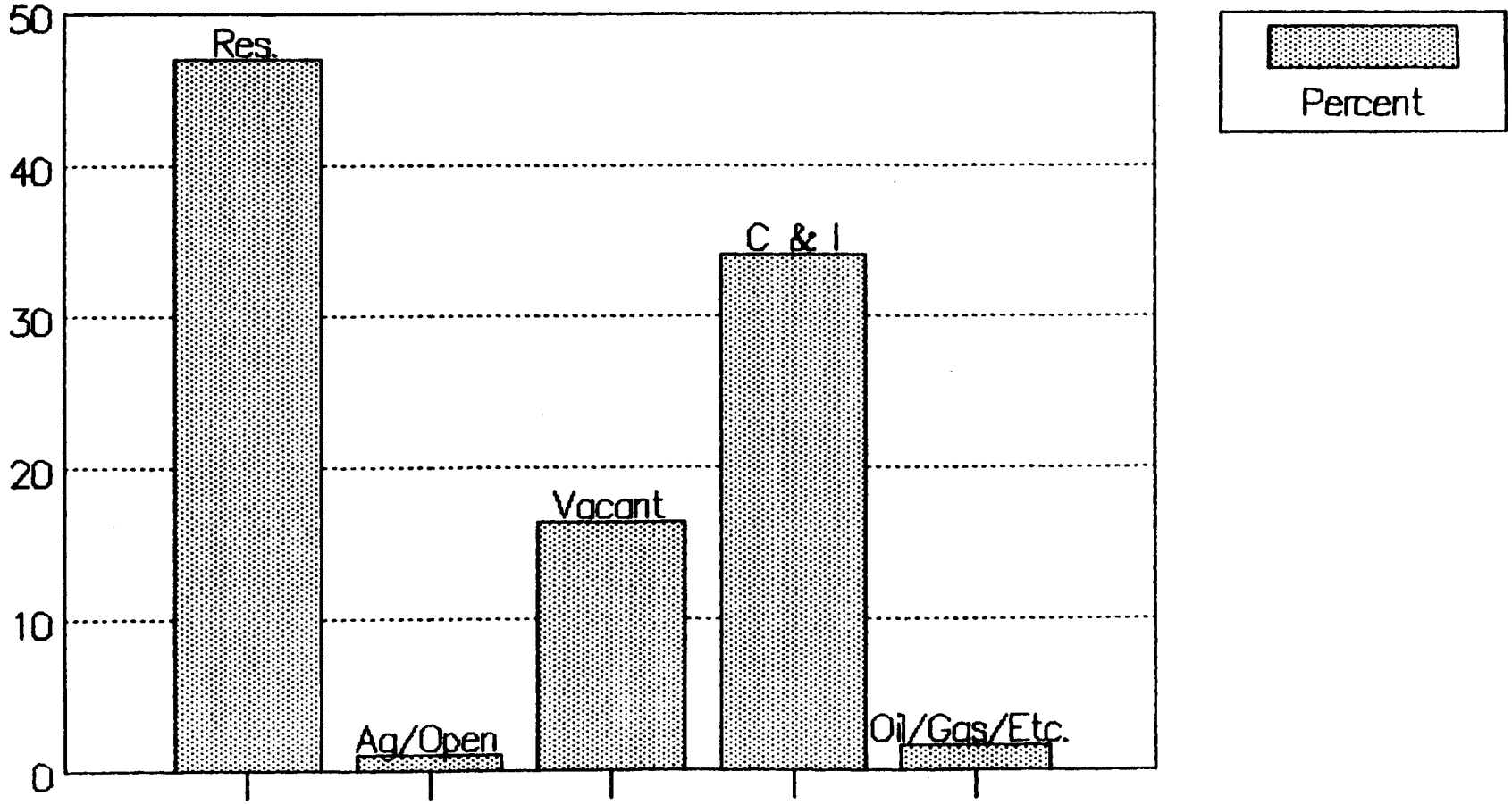


Fig. 2. Composition of Nevada Real Property Gross Assessed Value, 1986-87



assessed value. Vacant land accounts for another 16.4 percent of real property, and the remainder (1.6 percent) is made up of oil and gas leases, possessory interests,

Table 1. Composition of Nevada Gross Assessed Property Value, by Land and Improvments Within Each Major Use Category, 1986-1987
(Percentages of Total)

Property Type	Land	Improvements	Total
Total	40.0%	60.0%	100.0%
Vacant	16.26	0.12	16.38
Improved	23.74	59.88	83.62
Residential	13.67	33.31	46.98
Single-family	8.99	22.74	31.73
Townshouse/condo	1.62	4.21	5.83
Mobile homes	0.75	0.22	0.97
Multifamily	2.31	6.14	8.45
Commercial	8.55	21.63	30.18
Industrial	0.85	3.03	3.88
Agriculture/open	0.55	0.43	0.98
Oil, gas, etc.	0.15	0.16	0.31
Supplemental	*	1.28	1.28

* Less than 0.005 percent.

Source: 1986-1987 Statistical Analysis of the Roll. Carson City: Nevada Department of Taxation, Division of Assessment Standards, July 1987.

supplemental real property listings, and an "other" category.

Tangible Personal Property. Tangible personal property is of many sorts. In Nevada, those taxable in 1986-87 include airplanes; boats; campers; mobile homes; machinery, equipment, and fixtures; mines and mills; farm machinery; and other.[3] Half of these eight categories account for 10 percent or more of total personal property value each: machinery, equipment, and fixtures (59.7 percent); mobile homes[4] (12.8 percent); mines and mills (9.9 percent); and other (10.4 percent). While boats accounted for 2.8 percent of 1986-87 personal property value, they were exempted under 1987 legislation.[5]

Miscellaneous Property. "Miscellaneous" property consists principally of utility and mining properties. Public utilities account for almost two-thirds of the miscellaneous total, or 6.6 percent of aggregegate gross assessed value. Intracounty utilities amount to less than one percent of miscellaneous property value; intercounty and interstate (centrally assessed) utilities account for virtually all of this category. Close to one-third of miscellaneous property represents mining properties, including patented mining claims (22.6 percent) and mine and mill improvements (8.9 percent). All of these forms of miscellaneous property include both real and tangible personal property. Bank shares, a form of intangible personal property, comprise the remaining 2.1 perent of the miscellaneous category (0.2 percent of total assessed value). Thus in Nevada, as in the United States generally, intangible property is a very small portion of the local property tax base.

What Is Not Taxed: Exemptions

As already noted, Nevada law provides for the taxation of all sorts of property unless specifically exempted. In many cases, the specific exemption removes entire categories of property from the tax base. Such categories are defined by the use to which a property is

put; they reflect the traditional impersonal nature of the property tax. Examples are religious and government properties. Some exemptions, however, remove only a portion of the property value from the tax base. These partial exemptions may be defined by impersonal, use-related attributes of the property, but they often are defined by characteristics of the property owner. An example is a partial exemption of the homestead property of a veteran. Here the exemption goes not to the entire homestead use category, but only to certain owners of homestead property. Such personalized partial exemptions are a more recent development.

Total Exemption. Property whose use falls in any of several categories is exempt; most of these exemptions extend to real property, but many in Nevada also include personal property. These include the standard ones of government at all levels;[6] churches and similar religious organizations;[7] graveyards and cemeteries;[8] lodges and charitable organizations;[9] and certain other use/ownership categories.

Importance of use v. ownership: Often, the exemptions appear to be based on ownership, rather than use, but use generally is a primary consideration. For example, "All lands and other property owned by the United States, . . ." are said to be exempt, but attorney general opinions have held that possessory interests of lessees of U.S. lands are taxable.[10] An attorney general opinion regarding municipally-owned land ruled that two provisions of Nevada law, both pertaining to the tax exemption of such land, had to be read together and found further that, when this is done, it is clear that purposes (use) and ownership both must be considered in determining whether the exemption applies in a given case.[11] Underscoring the importance of use relative to ownership, a recent statute declares that "The acquisition, improvement or use of land by the public as an airport is a 'municipal purpose,' . . ." regardless of ownership, and thus exempts the airport operating property (as distinct from other property for which charges are made for use) of privately owned airports.[12] The real and personal property of trusts ". . . created for the benefit and furtherance of any public

function . . ." likewise are exempt.[13]

Consistent with the primacy of the use to which the property is put, several code sections explicitly state that if the property is used for any purpose other than the legitimate purposes of the exempt entity, the property is taxable.[14]

Tangible personal property: Most of the exemptions discussed above extend to both real and personal property, and are total exemptions. Another group of total exemptions, however, apply only to tangible personal property, and generally are more recent than those for governments, churches, and charitable organizations. The exemption of boats in 1987, noted above, is just an extension of the trend toward a narrower tangible personal property tax base. Other categories of such property exempted in recent years include inventories of merchants and manufacturers, livestock, and hives of bees;[15] farm machinery and equipment in dealers' inventories;[16] household goods and furniture;[17] and vehicles.[18] In addition, tangible property moving through Nevada in interstate commerce is exempt from Nevada property taxation, even while stored in Nevada, under the free port exemption.[19]

Partial Exemption. A number of partial exemptions also are defined in Nevada property tax law. Typically, these apply to both real and personal property. Definition of eligible claimants often is based on personal characteristics (disability, veteran status, etc.), but sometimes is based on use of the property (e.g., energy conservation, pollution control). Some of these partial exemptions are:

- Totally blind persons (defined in the statute) can have up to $3,000 of real or personal property assessed value exempt from taxation;[20]
- Widows and orphaned children can have up to $1,000 of real or personal property assessed value exempt from taxation;[21]
- Veterans meeting certain criteria as to length of service and time of service (during war) and receiving an honorable discharge can have up to $1,000 of real or personal property assessed value

exempt from taxation;[22]

- o Disabled veterans with permanent, service-related disability can have up to the following amounts of assessed value of real or personal property exempt from taxation: if disability is 100 percent, $10,000; if disability is 80-99 percent, $7,500; or if disability is 60-79 percent, $5,000;[23]
- o Handicapped persons making improvements to their residences to remove architectural barriers can have such improvements exempted from taxation;[24]
- o Fallout shelters meeting certain standards can reduce the assessed value of an owner-occupied residence by up to $1,000;[25]
- o Energy conservation "qualified system" costs for any building are not taxable if they use certain sources of energy (solar, wind, geothermal, water power, or conversion of wastes) for the heating or cooling of the building or water used in the building, or to provide electricity for the building;[26] and
- o Pollution control and irrigation facility ". . . property, both personal and real, is exempt from taxation to the extent that the property is used . . ." to control air or water pollution or if it is part of a permanent system, meeting certian standards, used for irrigation and agricultural purposes.[27]

Exemptions Summary. As noted above, exemptions in Nevada in 1986-87 amounted to roughly 12.5 percent of gross assessed value.[28] Foremost among these are exemptions of governments' property (86.3 percent of all exemptions). Other significant exemptions are those of church and religious property (4.2 percent of total), patented mining claims (2.1 percent of total), and "other" (6.1 percent of total). Exemptions enumerated in the state summary that accounted for one percent or less of total exempt value are those for the totally blind; widows and orphans; veterans; disabled veterans; and pollution control facilities (Figure 4).

Because government property exemptions account for so large a portion of total property tax exemptions in Nevada, they are presented separately in Figure 5. U.S. government property, including public domain lands, account for 40 percent of total exempt government property value. Properties of counties account for a little more than 20 percent of the total, and those of school districts a little less than 20 percent. State (including state forestry) and municipal property each account for roughly 10 percent of total exemption value, while Indian property amounts to only about one percent.

Intercounty Tax Base Differences

The counties differ considerably in the composition of their property tax bases (Figure 3). Real property accounts for more than 90 percent in one county (Douglas, 92.0) and under 10 percent in one (Eureka, 8.7). Personal property accounts for as much as 20 percent of gross assessed value in only three counties (Mineral, 26.6; Nye, 21.7; and Churchill, 20.1), and it amounts to less than 10 percent in fully 10 counties (the lowest is Douglas, 5.3). Finally, "miscellaneous" property ranges from under 5.0 percent in two counties (Douglas, 2.6; and Washoe, 4.2) to over half the gross tax base in four counties (Eureka, 79.8; Lander, 66.4; Humboldt, 61.8; and Esmeralda, 56.2).[29]

Tax Base Growth

The growth of the tax base, as well as its composition, also is of interest. When the tax rate limits described in a later section are binding, tax base growth determines potential tax revenue growth. Our focus is on the growth of the tax base, however, because the base is the more fundamental measure. Tax revenue levels and growth are influenced by tax base levels and growth, but also by additional factors as well.

The legal (nominal) tax base is the aggregate assessed value of all forms of taxable property, less exemptions. (Details of the definition and determination of assessed value, not needed for the

Fig. 3. Composition of Gross Assessed Value, Nevada Counties, 1986-87

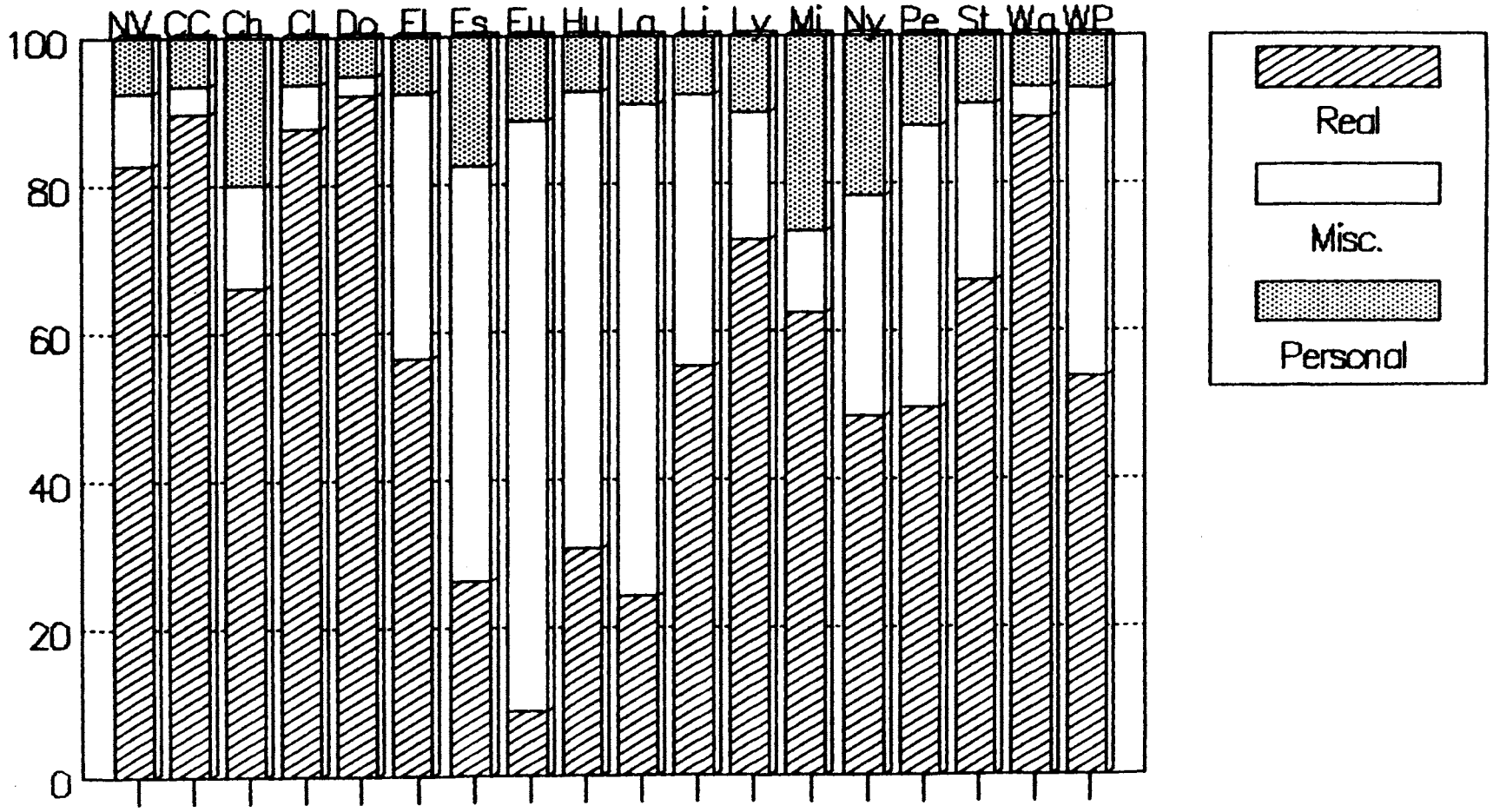


Fig. 4. Composition of Nevada Property Tax Exemptions, Statewide, 1986–87

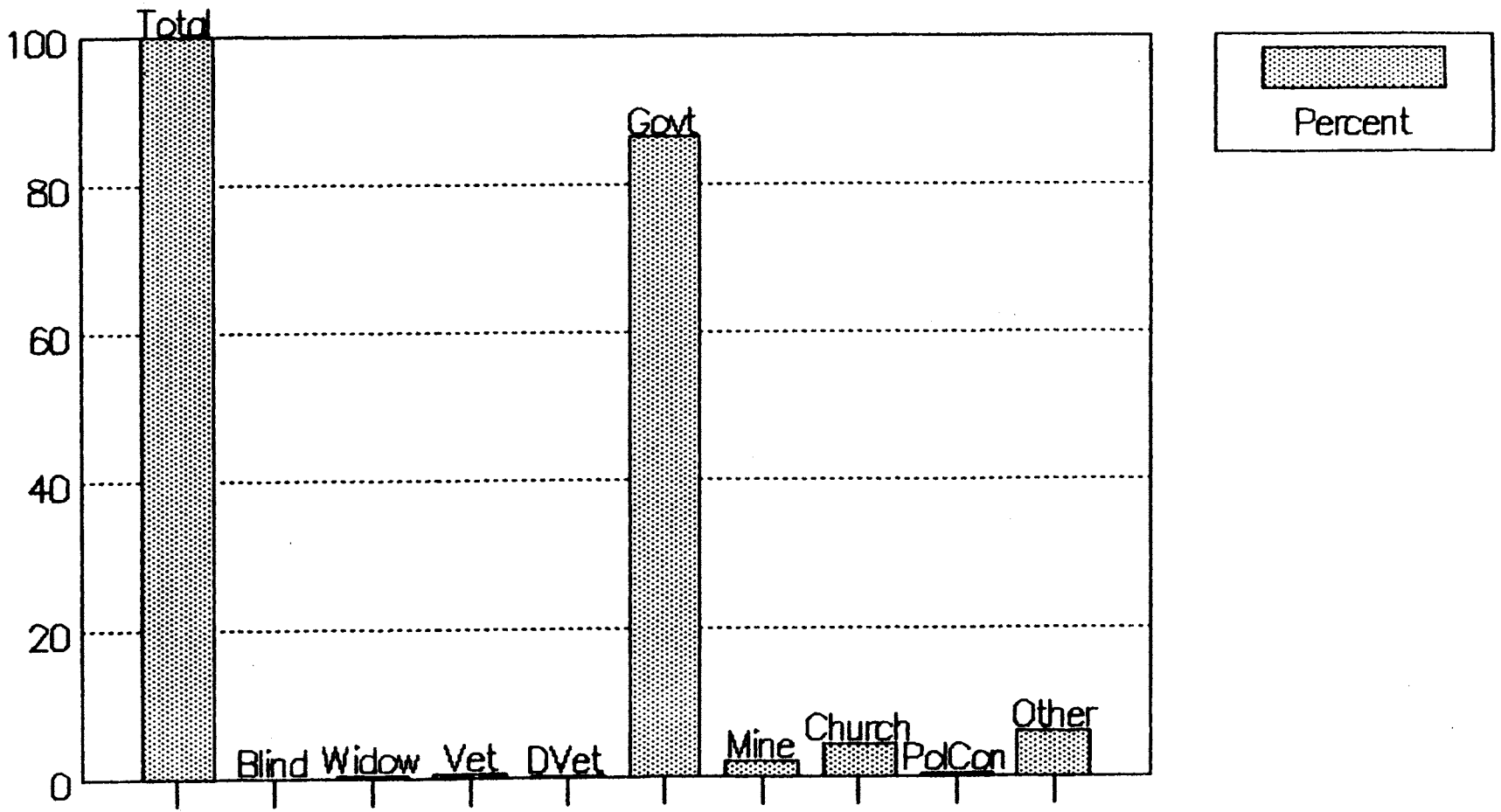
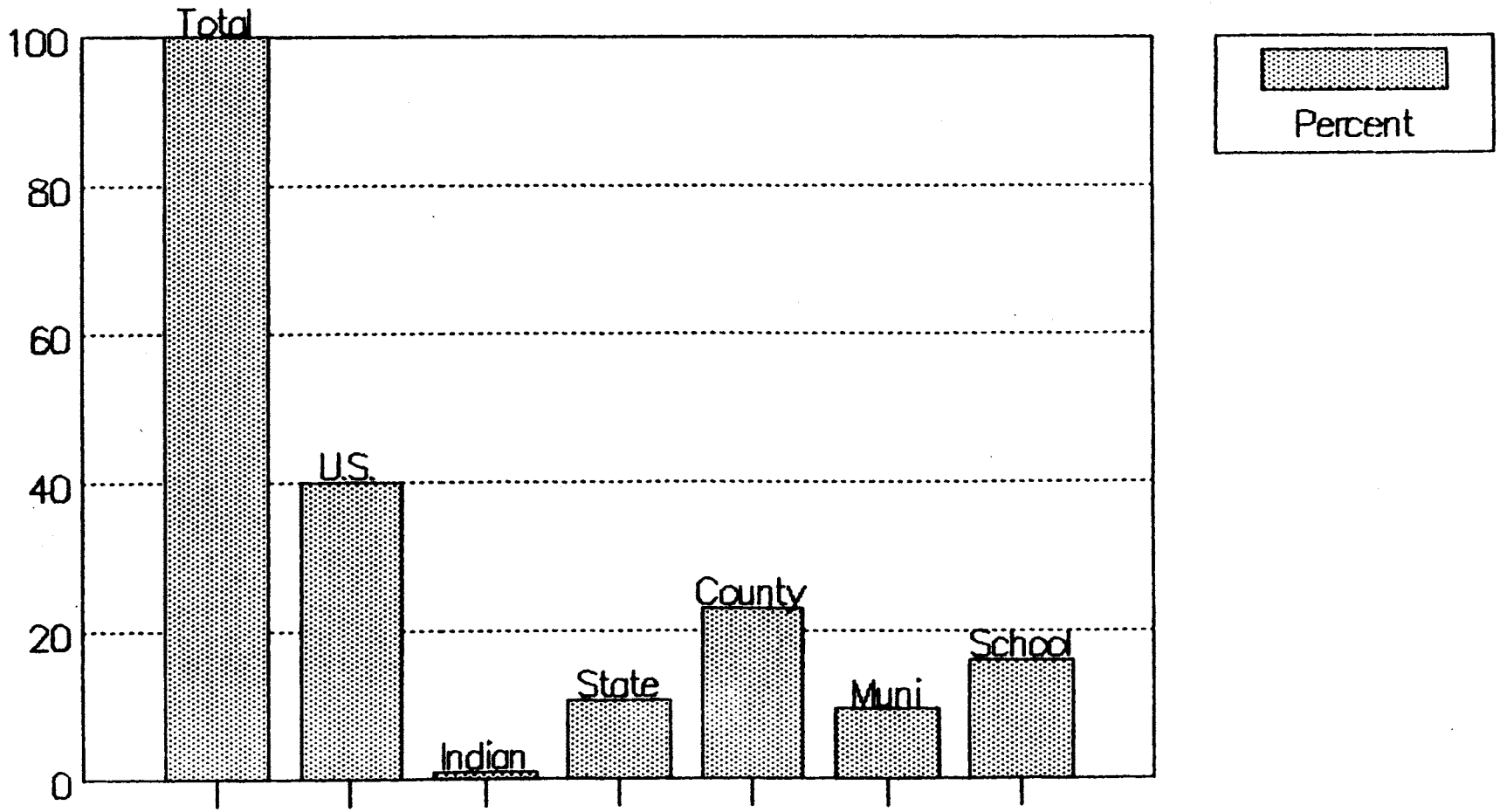


Fig. 5. Composition of Nevada Property Government Exemptions, 1986-87



discussion of this section, are considered in later sections.) The growth rate for statewide aggregate net assessed value has been declining in recent years, as the following values for percentage changes from the preceding year show:[30]

Year	1986-87	1985-86	1984-85	1983-84	1982-83
Growth	5.9%	9.2%	10.3%	12.1%	12.2%

The compound annual average growth rate over this same five-year period was 9.9 percent (Table 2).

Table 2. Percentage Changes in Net Assessed Value and Per Capita Personal Income, and Simple Elasticitunties of Assessed Value with Respect to Personal Income, Nevada Counties and Statewide, 1981-1986*

County	Annual Percentage Changes in Assessed Value 1-year	Assessed Value 5-year	Personal Income 1-year	Personal Income 5-year	Assessed Value -PI Elasticity 1-year	Assessed Value -PI Elasticity 5-year
Statewide	5.9	9.9	5.1	4.5	1.17	2.18
Carson City	5.7	6.4	7.5	5.9	0.76	1.08
Churchill	13.0	11.1	5.2	5.9	2.47	1.87
Clark	5.1	11.9	4.8	4.6	1.05	2.59
Douglas	7.6	5.1	7.2	6.7	1.07	0.77
Elko	7.9	12.1	3.2	2.9	2.47	4.23
Esmeralda	-4.8	9.6	13.7	0.3	-0.35	29.18
Eureka	53.9	9.1	1.0	5.4	54.40	1.68
Humboldt	9.8	13.4	0.3	2.2	28.03	6.07
Lander	2.3	4.7	1.1	2.8	2.04	1.69
Lincoln	2.9	5.4	5.8	7.2	0.50	0.75
Lyon	3.0	8.2	3.1	3.7	0.98	2.20
Mineral	0.7	12.5	3.3	4.7	0.23	2.64
Nye	5.7	9.6	4.9	-0.1	1.16	64.00
Pershing	-1.7	9.5	18.7	1.6	-0.09	5.85
Storey	3.6	7.0	3.6	5.3	0.99	1.32
Washoe	6.8	7.8	5.2	4.5	1.31	1.73
White Pine	-7.0	3.0	10.5	4.4	-0.67	0.68

* The one-year period is 1985-86 to 1986-87 (assessed value) or 1985 to 1986 (per capita personal income), and the 5-year period is 1981-82 to 1986-87 (value) or 1981 to 1986 (income).

Source: Computed from: Nevada Department of Taxation, Annual Report (various years); and Nevada Statistical Abstract, p. 147.

The five-year average growth rate for a given county often is different from that for the latest year, and the growth rates have varied dramatically across counties in a given time period (Table 2). The percentage change in net assessed value between 1985-86 and 1986-87 ranged from -7.0 percent (White Pine) to 53.9 percent (Eureka), while the median was 5.1 percent (Clark) and the statewide rate was 5.9 percent.

One-year figures can be misleading. The factors that bear on them may be uncommon circumstances (e.g., the opening or closing of a major business, periodic reappraisal). Extreme differences, therefore, tend not to persist over time. While Eureka's one-year growth was 53.9 percent, its five-year average was 9.1 percent (the median for the 17 counties), and the three counties with assessed value declines in the latest year all experienced positive growth over the five-year period, and in two of these the growth was near the state average. For this longer period, the state growth rate averaged 9.9 percent, and county growth rates ranged from 3.0 percent (White Pine) to 13.4 percent (Humboldt).

When the property tax base is adjusted for population growth and inflation, the variation across counties is even greater. Real assessed value per capita declined in 4 counties from 1982 to 1987 (Douglas, Eureka, Lyon, and Storey). The other 13 counties experienced growth rates in assessed value per capita from 49.6 percent (Humboldt) to 6.9 percent (Washoe). See Chapter 8 for a further discussion of the diversity across counties in Nevada.

Such variability makes predicting growth at the county level difficult. What causes such differences? It often is suggested that changes in property tax base tend to correlate well with changes in overall economic activity.[31] Comparisons of changes in assessed value and in personal income[32] reveal no stable linkage, either over time or across counties. Once more, annual percentage changes for both the latest year for which data were available and for the latest five-year period were computed (Table 2). In addition, tax-base elasticity estimates were calculated by dividing the percentage change in assessed

value by percentage change in income.

The statewide average property tax base (assessed value) elasticity with respect to personal income was 1.17 for the one-year period from 1985-86 to 1986-87 (a one percent increase in personal income was associated with, or accompanied by, a 1.17 percent increase in assessed value), but for the five-year period the elasticity for the state as a whole was 2.18. The elasticity figures often differ dramatically for individual counties, as well. For example, Eureka had a one-year elasticity of 54.40 and a five-year figure of 1.68; the one-year (and five-year) figures for Esmeralda and Pershing, respectively, were -0.35 (29.18) and -0.09 (5.85). The values of the elasticities change when using the rate of growth in real assessed value per capita, but not their substantial variation across counties. Such differences suggest that the elasticity concept is not particularly useful for understanding changes in assessed value growth in Nevada because of the erratic year-to-year changes in assessed values.

Tax Base Composition and Tax Exportability

Taxes imposed by local governments on local properties do not necessarily burden local residents. Part of the reason is the distinction between tax impact (also called legal incidence) and tax incidence (also called economic incidence).[33] Impact is gauged by where the tax first hits the economy, or by who writes the check to the government, while incidence is gauged by whose real income ultimately is reduced. Where the two differ, tax shifting has occurred, the result of normal, rational (and legal) economic response to incentives created by the tax. For example, a business whose property is taxed may treat a tax increase as an increase in costs and seek to cover the higher cost through higher prices, thereby attempting to shift the tax to customers.

When the ultimate bearer of the tax is not a resident of the jurisdiction that imposed it, the tax is said to have been exported. Exporting can occur even without shifting if the owners of the taxed property are nonresidents. Thus, if a tax on a corporation rests

with the owners of the corporation, reducing their real incomes as shareholders, the tax is exported to the extent that shareholders are nonresidents of the taxing unit. Property of businesses selling in interstate or international markets presents the greatest potential for property tax exporting, and owner-occupied housing (because the property owner also is the final consumer of the services of that property) is the least-likely case for tax exporting. Even so, taxes on owner-occupied housing may be exported if the property is owned and used by someone whose full-time residence is elsewhere, as may be the case with resort condomimiums, vacation cabins, and the like.

As this discussion suggests, the composition of the property tax base is the key to the ability to export taxes.[34] As with other taxes, however, property tax incidence, and hence ability to export property taxes, depends upon market circumstances. Differences in tax levels and competitive pressures may cause some businesses to be unable to pass their taxes forward while others are able to do so. For example, tourism in Nevada presents an opportunity to export the taxes that fall on the tourist industry, including property as well as consumption taxes.[35] But the potential for exporting taxes associated with casino gambling probably was greater when Las Vegas was unique, before Atlantic City became an alternative site (a competitor) for casino gambling and big-name entertainment.

Residential property accounts for 47.0 percent of assessed value in Nevada (Table 1).[36] Taxes on such property are among those least likely to be exported, particularly those on single-family, residential property, which accounts for two-thirds of the residential total. Townhouses, condominiums, and multi-family residences, however, offer somewhat greater potential for tax exporting, and these property types amount to 14 percent of total assessed value (30 percent of residential). Commercial property, on the other hand, presents the best opportunity for tax exporting, and accounts for 30 percent of total assessed value. Only about 5.5 percent of the base is comprised of industrial and mining properties, which also offer significant tax-export potential.

For all property use categories, recall from the preceding chapter that the distinction between land and improvements is critical for tax shifting; taxes on land are considered to rest with the owner at the time of the tax imposition or increase and not to be shiftable. Overall, land represents 40 percent of assessed value in Nevada, and it is very close to this level for both the most- and least-exportable major base components, commercial and single-family residential (Table 1).

ASSESSMENT STANDARDS

We turn now to such questions as: "Who has responsibility for the determination of these values?"; "What standards apply to their determination?"; and "What procedures are to be used in their determination?"

The Nevada Constitution requires the legislature to ". . . provide by law for a uniform and equal rate of assessment and taxation, . . ." but further provides that the legislature may treat ". . . agricultural and open-space real property . . . as a separate class for taxation purposes and may provide a separate uniform plan for appraisal and valuation of such property for assessment purposes."[37]

Aside from agricultural land, Nevada historically required that property be valued for tax purposes at a uniform percentage of "full cash value," which was defined as ". . . the most probable price which property would bring in a competitive and open market under all conditions requisite to a fair sale."[38] In 1981, however, Nevada abandoned the strong tie between market value and value for tax purposes, adopting the standard of "taxable value," which is determined differently for properties of an intercounty or interstate nature and for all other properties.[39] Generally speaking, intercounty or interstate property is utility property, and it is valued by the state as discussed below.

Appraisal

Interstate and intercounty utility properties, land, and mobile homes are valued by the Nevada Tax Commission (Department of Taxation).[40] For all the properties that it values, the Tax Department must adopt and record valuation formulas. Formulas for interstate and intercounty properties must take into account such indicators of value as a company's income, its assets, its stock, and its debt. Generally such centrally-valued property is valued according to unit rule, to determine the total value of a company's property in Nevada.

Mobile home values are determined differently for units sold before and after July 1, 1982. For the earlier period, original retail selling price is depreciated five percent per year, to a minimum of 20 percent of the original value. For the later period, mobile homes are classified according to factors thought to determine useful life. In each case, though, standard formulas apparently are to be applied without regard to the condition (i.e., the value) of the individual unit. Thus, appraised values of individual units may vary substantially in their relationship to market value.[41]

The same is true of agricultural land, which is valued according to the production of crop, timber, or forage, using units prescribed by law.[42] Such use-value appraisal ignores the "most probable selling price" criterion of the old "full cash value" standard noted above, principally because non-agricultural uses are ignored, however likely or imminent they may be. Thus, market value of the property is not the intended appraisal standard. However, the deferred tax payable when agricultural or open-space land is converted to a higher-value use is based on the difference between use value and higher-value use. Taxable value in the higher-value use is determined at the time of conversion; this "base year" value is then reduced by application of the land-value adjustment factors used in assessing land in the area in the preceding years for which deferred taxes are to be recovered.[43] With regard to the basic decision to value agricultural and open-space land by current-use value, however, Nevada has ample company. Virtually all states now provide some sort of use-value appraisal

program for agricultural and open-space land.[44]

But Nevada goes beyond most other states in the application of use-value assessmemt in preference to market value, extending it to non-agricultural properties, as well . This causes the Nevada property tax to differ in a fundamental respect from both the underlying theory of the tax and the generally accepted practice in other states. The extent to which Nevada has gone away from market value appraisal can be seen in several provisions, some of which are noted below:[45]

- Improved land is to be valued ". . . consistently with the uses to which the improvements are being put."; and
- Depreciation of improvements to real property must be at the rate of 1.5 percent of replacement cost per year, up to a maximum of 50 years.

If an addition or replacement to an improvement (building) costs an amount equal to 10 percent or more of the replacement cost of the improvement after completion of the modification, then the actual age of an improvement (building) must be reduced before computing depreciation, as provided by state law:

> 2. Except as otherwise provided in subsection 3, the amount of the reduction must be the product of the prior actual age multiplied by the ratio of the cost of the replacement or addition to the cost of replacement of the improvement after the work is done.
>
> 3. The amount of the reduction for additions which increase the floor area of the improvement may be calculated by multiplying the prior actual age of the improvement by the ratio of the number of square feet of additional floor area to the total number of square feet of the improvement including the addition.[46]

Thus, a building that is at least 50 years old often cannot be appraised at more than 25 percent (100 - (50*1.5)) of replacement cost. Even when it can be, via reduction in age for depreciation purposes following significant modification, the historic actual age of the original structure will continue to exert an important influence on the taxable value. The likely result is assessment inequities, with

properties of similar market value assigned very different taxable values by the procedure described.

Assessment

Once appraisal has determined the taxable value of property, there remains only the task of calculating the assessed value -- i.e., the legal basis against which the statutory tax rates apply. Assessed value is to be 35 percent of taxable value.[47] Assessment is required to be made annually, although physical reappraisal is not. State law provides the following:

> 5. In addition to the inquiry and examination required in subsection 1, for any property not physically reappraised in the current assessment year, the county assessor shall determine its assessed value for that year by applying a factor for improvements, if any, and a factor for land to the assessed value for the preceding year. The factor for improvements must reasonably represent the change, if any, in the taxable value of typical improvements in the area since the preceding year, and must take into account all applicable depreciation and obsolescence. The factor for improvements must be adopted by the Nevada tax commission. The factor for land must be developed by the county assessor and approved by the commission. The factor for land must be chosen so that the median ratio of the assessed value of the land to the taxable value of the land in each area subject to the factor is not less than 30 percent nor more than 35 percent.[48]

ASSESSMENT ORGANIZATION

The task of estimating the value of the tax base generally is known as assessment, although appraisal and valuation are two other terms often used interchangeably with assessment. In this chapter, if a distinction is drawn, "assessment" is used to refer to the determination of taxable values on the tax rolls, while "appraisal" is reserved for the task of determining the underlying full values of taxable properties.

Nevada places appraisal and assessment responsibility at the county level, so there are 17 local assessment administrations (county assessor offices) in the state. This county structure is found in 31 states and the District of Columbia and, thus, is the most common nationwide. Other organizational types are township-municipal-county and township-municipal, both of which involve more fragmentation than county-wide structures. Nationally, the long-term trend has been toward increased centralization, principally at the county level. A few states have shifted responsibility for assessing virtually all property to the state level, however, and some others give the state responsibility for certain types of property, such as industrial.[49]

In Nevada, property taxation is on a fiscal year basis, with the fiscal year running from July 1 through June 30. The tax lien date is July 1. Taxes on real property can be paid in four equal installments, at the option of the taxpayer, with the payments to be made to the county treasurer by the first Monday in August, October, January, and March.[50]

Local Responsibilities

Although the county assesor's office is the locus of most local property tax administration activity, several other local entities also are involved. These include the board of county commissioners, the county auditor, the county treasurer, the district attorney, and the county board of equalization, in addition to the county assessor. Some local responsibilities are summarized below, by local office or board.[51]

County Assessor. The county assessor, as the primary appraisal and assessment officer, is to locate, list, and value all taxable property in the county, with the exception of properties valued by the state (noted later). In the case of personal property, which often is more difficult to locate than real property, the assessor is aided by reports on all personal property within the county filed (by July 15) by the ". . . persons, firms, corporations, associations or companies . . ." by whom such property is ". . . owned, claimed, possessed,

controlled or managed. . . ."[52] As part of this listing and valuing duty, the assessor also receives and processes applications under the various property tax exemption programs. Some of the key events and dates in the county assessor's activities are summarized below.

- Receive property reports and assess property, January 1 - December 15;
- Receive property tax exemption applications, generally by November 1, although deadlines vary by exemption program;
- Determine the land classes into which lands in the county fall and apply the appropriate land values determined by the Nevada Department of Taxation;[53]
- Prepare the property tax valuation lists and close the tax roll as to ownership changes, by December 1;
- Receive utility property valuations from the Nevada Department of Taxation by the first Monday in December;
- Prepare the list of taxpayers, and the properties upon which they pay taxes, by January 1;
- Complete the assessment roll and post and publish notice of such completion, by January 1;
- Deliver the assessment roll to the county board of commissioners, during the month of January;
- Attend all meetings of the county board of equalization, which acts on appeals from actions of the assessor;
- File the assessment roll, as revised by the county board of equalization, with the Secretary of the State Board of Equalization, by the first Monday in March; and
- Meet, along with the county board of commissioners, in May every second year (when the county is included in the state's assessment ratio study), with the Nevada Tax Commission to review county assessment procedures and outcomes.[54]

County Board of Commissioners. The property tax responsibilities of the board of county commissioners arise basically from the board's role as the governing body of county government. Those

responsibilities include:[55]

- Receive the assessment roll from the county assessor, in January;
- Determine the assessor's responsibility for unassessed property for the preceding year, in January, and, if it finds the assessor to be liable, to cause the district attorney to file a court action against the assessor;
- Prepare the assessment roll books for the assessor's list and assessment roll, by September 1;
- Meet, along with the county assessor, in May every second year (when the county is included in the state's assessment ratio study), with the Nevada Tax Commission to review county assessment procedures and outcomes. (If certain uniform adjustments to value are proposed by the Nevada Tax Commission, the board of county commissioners must agree.);
- Employ qualified appraisers from a list of state-approved appraisers, if so ordered by the Tax Commission for failure to agree to proposed uniform adjustment, or when a degree of assessment error exists that requires a more fundamental change in valuations; and
- Select and appoint, and if necessary remove, members of the county board of equalization.

County Treasurer. The county treasurer receives the assessment roll from the county auditor and collects property tax payments, including those for any state property tax, which then must be remitted to the state treasurer. After receipt of the roll from the auditor, the treasurer mails to each property owner or mortgage holder the tax bills for their respective properties, and also notifies the public of the tax due dates and the penalties for delinquency through newspaper advertisement or posting of public notices.[56]

District Attorney. The district attorney receives reports at the end of each month of persons refusing or neglecting to file property tax statements. By January 15 the district attorney reports in writing to the county board of commissioners on unassessed property. If the county commissioners find the failure to assess unexcusable, the district attorney demands payment of taxes on the unassessed property within 10 days and commences court action against the assessor for collection of the total unassessed tax amount.[57] The district attorney (or deputy district attorney) attends all meetings of the county board of equalization. Also, after the date when taxes become delinquent, the district attorney seeks judgments against delinquent taxpayers and (1) reports weekly to the county auditor on such judgments and (2) records on his delinquent list payments received by him and pays such receipts to the county treasurer weekly.[58]

County Auditor. The county auditor certifies the assessment roll to the county board of commissioners and to the Nevada Department of Taxation by April 15, having recorded changes made by the State Board of Equalization and values of any construction in progress certified by the Nevada Department of Taxation. By the fourth Monday in April, more than a month after the early March due date for the fourth quarterly tax installment, the county auditor corrects the tax assessment roll, showing the taxes paid, those stricken, and those regarded as delinquent.[59] The auditor also has significant duties with regard to the calculation and analysis of tax rates, as they relate both to county combined tax rates and to the taxes on individual properties, as part of the rate-setting process.[60] These are described in detail in the section on local rate setting.

County Board of Equalization. Appeals of the values set by the county assessor are received by the county board of equalization through January 15 and completes work on local appeals by February 20, except that matters remanded by the State Board of Equalization may extend beyond this date. The county board of equalization sets and

publicizes a schedule of meetings (dates, times, and places) at least five days in advance of the first meeting.

County boards of equalization have either five members (in counties with populations of at least 10,000) or three members (in counties with fewer than 10,000 residents). The chairman of the county board of commissioners nominates, and the board selects by majority vote, the members of the county board of equalization; the chairman of the county commissioners designates the chairman of the equalization board. The county commissioners also can remove equalization board members for cause. The law lists two broad groups from which nominees to the board of equalization may come: (1) Those ". . . who are sufficiently experienced in business generally to be able to bring knowledge and sound judgment to the deliberations . . ." and (2) elected public officers. However, public officers involved in the property assessment process (county assessor, county treasurer, and district attorney), and employees of those officers, cannot serve on the board of equalization. In any event, only a minority of the board of equalization (either one or two members) can be elected officials. Both the county assessor (or deputy assessor) and the district attorney (or deputy district attorney), though, are required to attend each meeting of the county board of equalization.[61]

In carrying out its responsibilities, a county board of equalization may correct, either by increasing or decreasing, any valuation by the assessor found to be incorrect, whether that value was established by the assessor or by the taxpayer. An exception is made when a complainant has refused to give the assessor a legally required, sworn tax list. In such a case, the county board of equalization is not empowered to lower the value set by the assessor. When a valuation is to be increased, the county board of equalization must give interested parties proper notice and permit them an opportunity to appear before the board. As an added measure of taxpayer protection, upon completion of its work the board of equalization prepares and advertizes a list of all those whose property values have been increased by the county board. Persons named there may, upon giving

a sworn statement to the effect that they did not receive individual notice from the county board, appear before the State Board of Equalization. Complete minutes of the proceedings of the county board of equalization must be recorded and forwarded to the State Board of Equalization and, within five days after adjournment of the county board, the clerk of the board must deliver the corrected assessment roll to the county auditor.[62]

State Responsibilities

Even though the county is the primary assessing unit in Nevada, the state also plays an important role in setting the ground rules, providing certain information, overseeing the local assessment process, and equalizing local assessments. For some types of property, moreover, assessing responsibility is at the state level. State agencies with responsibilities in the assessment process are the Nevada Tax Commission, the Nevada Department of Taxation, and the State Board of Equalization.

The Nevada Department of Taxation, created in 1975, is headed by the Nevada Tax Commission. Thus, the line separating the authority and duties of the Tax Commission and the Department of Taxation is a rather fine, and somewhat indistinct, one: "While valuations are set by the Nevada Tax Commission for [certain properties], . . . the Department of Taxation (established . . . 1975) has the original power of appraisal and assessment of all such properties."[63] Accordingly, this section includes authority and duties assigned to the Tax Commission in statutory references among those of the Department of Taxation.

Nevada Department of Taxation. The duties of the Department of Taxation include general supervision of the administration of the property tax by county officials and original valuation of certain properties.[64] Some specific duties include:

- Certify all persons -- whether employees of the state, of a local government, or of an independent contractor -- who appraise property for the purpose of property taxation;[65]

- Require local officials to submit budgets;
- Certify to the counties' boards of county commissioners the combined tax rates required by the approved local budgets and, in specified circumstances, reduce those rates to conform to state limits;[66]
- Prescribe property tax forms;
- Require county officials to submit tax information;
- Require that omitted property be added to the tax roll and be taxed and, if (but only if) necessitated by the addition of such property, to alter valuations established by the State Board of Equalization;[67]
- Establish standards for determining the replacement cost of various kinds of improvements (real property);
- Establish depreciation schedules for personal property based on estimated life;[68]
- Establish mobile home value for assessment purposes, by the first Monday in June;[69]
- Classify land and establish its value for tax purposes, by the first Monday in June, basing the value of agricultural land on ". . . crop, timber or forage production."[70]
- Determine and set the value of interstate and intercounty public utility property (by the first Monday in October), generally by finding the unit value of the company within Nevada, and apportioning that value to the individual counties on a mile-unit basis;[71]
- Determine the net proceeds from mining operations, setting the values to serve as the basis for taxing certain mining properties, and report the figures to the county treasurer of the county in which the property is located;[72]
- Determine the county to which taxes shall be paid when the same property is assessed by more than one county;[73]
- Provide, by May 1, an analysis of the relationship between assessed value and taxable value in each county and in the state, nine counties in one year and eight the next, using random

sampling of property and sales and providing certain measures provided by law;[74]

- Meet during May of each year with specified county officials to review local property assessment procedures and results, and order necessary corrective action (which may include requiring counties to hire qualified appraisers from a list of appraisers approved by the Department) when the assessment level does not meet prescribed standards; and
- Provide staff for the State Board of Equalization.

State Board of Equalization. The State Board of Equalization is charged with the task of equalizing the values of taxable property in Nevada, reviewing the tax rolls of the counties (commencing in late March) after they have been reviewed and corrected by their respective county boards of equalization. Properties valued by the state, such as those of multi-county public utilities, are included in the equalization.

The State Board of Equalization is a five-member, bipartisan panel serving four-year terms.[75] The governor makes appointments to the State Board of Equalization, names the Board's chairman, and may remove members for cause. One member is to be a certified or registered public accountant, one a professionally designated property appraiser, one a person knowledgeable in the valuation of centrally-assessed properties, and the remaining two are to be ". . . versed in business generally"; forbidden to serve on the State Board of Equalization are elected public officers, their deputies and employees, and any persons appointed by them to serve in another position. The Nevada Department of Taxation provides the staff for the State Board of Equalization.

The State Board of Equalization generally meets annually between the third Monday in March and April 10, although it may hold other meetings before October 1 to deal with "(c)ases having a less than substantial effect on tax revenues. . . ."[76] Notice or publication of meeting times, dates, and places is required. All sessions are public, and ". . . any person is entitled to appear in person or by his agent

or attorney."[77]

The State Board of Equalization receives from the county assessors copies of the county tax rolls, as adjusted by the county boards of equalization (by the first Monday in March), and complete minutes of the proceedings of the county boards of equalization.[78] The State Board must review the corrected tax rolls and equalize property valuations throughout the state. It also hears and rules on all appeals from the county boards of equalization and direct appeals of valuations set by the Nevada Department of Taxation (Tax Commission). In carrying out these duties, the State Board may adjust the value ". . . of any class or piece of property in whole or in part in any county, . . ."[79] In the case of increased values, "interested persons" are to be given 10 days' notice of an opportunity to "submit proof" concerning the appropriate value of their properties. The secretary of the State Board promptly certifies to the county auditors any changes in assessed value made by the State Board.[80]

TAX RATES

Appraisal and assessment determine the legal base of the property tax. The amount of revenue raised is the product of that base times the rate. This section considers the setting of tax rates in Nevada.

Tax Levy and Rate Limitations

Nevada localities are not free to set property tax rates at whatever level would be necessary to generate the amount of revenue they desire from the tax. The Nevada Constitution provides a five percent cumulative rate limit: "The total tax levy for all public purposes including levies for bonds, within the state or any subdivision thereof, shall not exceed five cents on one dollar of assessed valuation."[81] In recent years, more restrictive legislative limits have applied in some situations.

- The total levy, aside from the exceptions noted below, is limited to an amount equal to 3.64 percent of assessed value (i.e., $3.64 per $100 of assessed value);

- As directed by law, the State Board of Examiners may either raise or lower this amount; and
- The aggregate levy is limited to an amount equal to $5 per $100 of assessed value in any ". . . county in which one or more of the county commissioners is appointed pursuant to NRS 244.092. . . ."[82]

Ultimately, if the local taxing units cannot agree upon budgets that produce combined taxes conforming to the state limits, the state sets the local rates.

By May 5, hearings must be announced and publicized. The notices must occupy at least one-half page in the newspaper, be in a news-type format, use type of a specified minimum size, and include the following:[83]

> (a) A statement that the notice is not a bill for taxes owed but an informational notice. The notice must state:
> (1) That public hearing will be held on the dates listed in the notice to adopt budgets and tax rates for the fiscal year beginning on July 1;
> (2) That the purpose of the public hearing is to receive opinions from members of the public on the proposed budgets and tax rates before final action is taken thereon; and
> (3) The tax rate to be imposed by the county and each political subdivision if the tentative budgets which affect the property in those areas become final budgets.
> (b) A brief description of the limitation imposed by the legislature on the revenue of local governments.
> (c) The dates, times and locations of all of the public hearings on the tentative budgets which affect the taxes on property.
> (d) The names and addresses of the county assessor and ex officio tax receiver who may be consulted for further information.
> (e) A brief statement of how property is assessed and how the combined tax rate is determined.

After approval of final budgets, the Nevada Department of Taxation certifies to each county's board of county commissioners the combined tax rate that would be needed to produce the property tax revenues contemplated by the approved budgets. If the sum of the combined tax rate and the tax rate established for the state government exceeds the applicable limit described above, the chairman of the county commissioners must convene a meeting of the governing boards of local

governments in the county by June 5 to establish a combined tax rate within the limits. The meeting is to be public, with records kept in accordance with regulations of the Department of Taxation. The local governments are to agree upon adjusted rates by unanimous agreement. If they cannot so agree, the records of the meeting are sent to the Department of Taxtion, which shall examine them and set conforming combined rates by the last week in June.[84]

Local Rate Setting

Within the limits set by the state, property tax rates in Nevada are established by the residual method. That is, the amount of spending desired is determined (proposed budgets), and the amount of revenue from sources other than the property tax is subtracted. The residual amount -- to be funded from property taxation -- is then divided by the amount of assessed value to determine the rate that must be applied to raise that amount of revenue. For example, suppose that $5 million is to be raised, and that the assessed value of the taxing unit is $150 million. The necessary tax rate in this case is 3.33 percent ($5/$150), or $3.33 per $100 of assessed value.

Necessary tax rates implicit in the proposed budgets of the local units are calculated by the county auditor, pursuant to state requirements given below:

> 1. Upon receipt of the tentative budgets submitted pursuant to NRS 354.596, the county auditor shall ascertain, separately and for each property owner whose taxes are affected by one or more of the tentative budgets, the following information:
>
> (a) The assessed valuation of his property for the current and ensuing fiscal years;
>
> (b) The combined tax rate which applied to his property in the current fiscal year and the proposed combined tax rate for the ensuing fiscal year;
>
> (c) The percentage increase or decrease, if any, of the combined tax rate for his property proposed for the ensuing fiscal year as compared to the combined tax rate for the current fiscal year;
>
> (d) The amount of tax collected on his property in the current fiscal year and the amount to be collected on his property for the ensuring fiscal year, computed on the basis of the proposed combined tax rate;
>
> (e) The respective amounts of his taxes which will be disbursed to each local government, for debt service and to any other

recipient of the tax revenue, presented so as to show the distribution of the total amount of the taxes to be collected from him; and

(f) The percentage increase or decrease, if any, of each amount shown pursuant to paragraph (e) as compared to the corresponding amount for the current fiscal year.

2. For the purposes of subsection 1, the county auditor shall apply the information contained in each tentative budget to the assessment roll to determine the tax rate necessary to produce the revenue required for each budget and compute a proposed combined tax rate for each property owner. He shall use the tax rate for the current fiscal year for any tentative budget which was not submitted. For each property owner, he shall make available upon request the information ascertained for each of paragraphs (a) to (d), inclusive, and paragraph (f) of subsection 1, and for paragraph (e) an itemized list whose total equals the amount for the ensuing year under paragraph (d).

3. The county auditor shall deliver the information required pursuant to this section to the ex officio tax receiver:

(a) On or before April 25 of each year; and

(b) Within 10 days after the receipt of an amended tentative budget.[85]

After local budgets have been approved following appropriate and required local hearings on proposed budgets and tax rates, discussed above, the Department of Taxation certifies the combined tax rates required by the approved budgets to the counties' boards of county commissioners, as noted. The board of county commissioners formally levies the tax rates required by local taxing units within a county, pursuant to certification of such combined tax rates by the Nevada Tax Department (Commission) and designating number of cents per each $100 of assessed value levied for each fund.[86]

While Nevada limits the rates that local governments can impose on property, the state also provides aid through the Basic City-County Relief Tax (adopted in 1969) and the Supplemental City-County Relief Tax (adopted in 1981) which also places a property tax levy limit on each jurisdiction. These programs employ the sales tax to replace the property tax, and are the subject of a separate chapter in this report.[87]

CIRCUIT BREAKER TAX RELIEF

Under the Senior Citizens' Property Tax Assistance Act, adopted in 1973 and amended in 1975 and 1977, Nevada provides property tax relief to owner-occupants and renters of residential properties who are residents of the state, at least 62 years old, and have annual household (taxpayer and spouse) incomes no more that $15,100.[88] The relief is provided according to the following schedule:

Income Range		Property Tax
Over	But Not Over	Reduction Percentage
$0	$5,400	90
5,400	8,700	80
8,700	10,800	50
10,800	13,000	25
13,000	15,100	10
15,100		0

Because of the inverse relationship between the level of household income and the degree of property tax relief, this relief is known as a circuit breaker -- in particular, a sliding scale circuit breaker.[89] Circuit breaker property tax relief, first introduced in Wisconsin in 1964, is provided by about 30 states under state-funded programs. As in Nevada, most of these apply only to the elderly rather than to all age groups, and most include renters as well as owner-occupants.

In Nevada, the tax eligible for relief includes that on the dwelling and up to two acres of land surrounding the dwelling. However, the amount of relief cannot exceed $500 per year. For owners, the relief directly reduces the amount of property tax due, although the relief amount is first offset against any delinquent tax that may be owed by the claimant. The state reimburses the local governments for the reduction in property taxes under this state property tax relief policy.

For renters, the property tax equivalent used in the calculation is either (1) the actual documented relationship between rent and property tax for the building in which the claimant lives or (2) six percent of rent taken to be the property tax equivalent. The rent amount considered excludes amounts paid for fuel, utilities, and furnishings. Relief is provided to renters by a direct refund from

the state.

Income is broadly defined, including most forms of money income, whether or not taxable. This is consistent with the approach taken in most states providing income-conditioned (circuit breaker) property tax relief. This is appropriate for equity, in that it recognizes that a dollar is a dollar, whatever its source. Thus, a broad definition of income assures that different persons with comparable income amounts will be treated comparably, because the sources from which they receive their incomes will not matter as they do for income tax purposes.

The Nevada Department of Taxation is responsible for the general administration of the circuit breaker, including development of appropriate forms and regulations, as well as verification and audit of claims. The law provides, however, that claims be made, under oath, with the county assessor between January 15 and April 30. In the case of renters claiming a refund, the assessor forwards the claims to the Department of Taxation for processing. Owner-occupants claims may be processed by the assessor or forwarded to the Department of Taxation, at the election of the assessor; the assessed value of the property in question is to be forwarded to the Department by the assessor if processing is by the Department. Notification of claimants as to the disposition of their claims is required by June 30, with the county assessor and the Department of Taxation providing notice to those whose claims they have processed.

For fiscal 1986-87, $1.2 million of tax relief was granted to senior citizens under 10,761 claims.[90] For these claimants, the average income was $8,140. Among homeowners, the average tax was $291 and the average relief was $167. For renters, average rent was $2,164 (at six percent of rent, the average imputed tax was $130) and the average refund was $85. Homeowners (including owners of mobile homes) accounted for 39.8 percent of the claimants and 54.3 percent of the tax relief payments. Reflecting population distribution and other socio-economic features of Nevada, two counties dominate the statewide totals. Douglas contributed 59.8 percent of the claimants and received 63.5 percent of the relief, while Washoe's share of both claimants and

relief was 21.5 percent.

CONCLUSIONS

There are several areas of the Nevada property tax that warrant examination for possible change. Some of the major features for such examination are:

- o Failure to tie assessed value to market value;
- o State limits on local property tax levies and rates; and
- o Restriction of circuit-breaker relief to the elderly.

When the common tie between market value and assessed value is abandoned, the property tax essentially abandons its underlying theory. The tax ceases to be a tax on some objective measure of value (of accumulated wealth) and becomes, instead, a somewhat arbitrary collection of exactions based on property age and the like. Replacement cost omits from the value consideration the factors that cause homes and other types of improvement that are exactly the same to have higher values in some locations than in others. Depending upon how land values are determined for tax purposes, these differences may or may not be picked up in differential land values. The use of a single, straight-line depreciation schedule statewide for real property improvements also is unfortunate, for it emphasizes improvement age over other considerations that may have more to do with determining value in a meaningful sense.

Just as state laws governing determination of the taxable value of property cause the tax base estimates to ignore some important differences across properties and across areas of the state, the state limits on property tax rates and levies fail to allow for differences in local conditions.[91] As noted, if local governments -- after public hearings announced and publicized in advance, covering both the tax and expenditure aspects of those budgets -- adopt budgets that require tax rates that exceed state determined limits, and if they stay with those budgets after another public meeting trying to find cuts that bring them within the state limits, the state nevertheless will reduce the local rates for the localities. This presumption that a given

limitation on tax rates and revenues is everywhere appropriate, and that the state should require overriding local choices (even if those choices were unanimous among local parties) suggests considerable distrust of political processes and institutions at the local level and supreme confidence in the processes and institutions at the state level. The ability to make appropriate choices may not exist only at the state level, or even at the state level. The case for a uniform limitation for local budgetary choices is difficult to make, at best; it can greatly limit the ability of local governments to address the needs and concerns of their constituents.

Finally, the state provision of circuit breaker relief is generally commendable. Such relief can avoid cases of true hardship resulting from the gap between property tax liability and current income while doing minimal violence to the property tax per se. The underlying logic of the property tax as a levy on wealth value, rather than income, can be preserved[92] for all except those whose property tax is high relative to income -- a number that circuit breaker states generally find not to be so large as to make circuit breaker relief infeasible. And having the state pay for the relief, as in Nevada and other circuit breaker states, is logical for two reasons: (1) the state bears the cost of a state policy; and (2) the effectiveness of the relief does not vary from locality to locality depending upon the concentration of relief-eligible persons.

But Nevada should consider some circuit breaker program modifications. Most important would be to extend the relief to the non-elderly. In granting property tax relief conditioned on income, broadly defined as in Nevada, there is no need to rely upon age as a proxy for financial need, particularly since it is a poor proxy. Due in large part to Social Security benefit enhancements in roughly the last 15 years, the incomes of the elderly have risen relative to those of the general population. The elderly never had a monopoly on financial hardship, but in recent years the incidence of poverty has come to be less among the elderly than among the non-elderly. Several circuit breaker states extend relief to residents without regard to

age.

Another possible modification to consider would be conversion from the sliding scale formula now used to a threshold type formula.[93] The principal advantage is that a threshold formula grants relief only in cases where the tax rises above some percentage of income that is determined by the state to warrant relief. If the threshold were set at four percent, for example, anyone whose property tax amounted to less than four percent of money income would not get relief. Under the sliding scale approach, however, everyone eligible who falls within a certain income range recieves the same percentage reduction in their tax (up to the relief maximum), no matter how high or low their tax was in relation to their income. If the state chooses to stay with the sliding scale approach, however, it should at least consider defining a larger number of narrower income classes so that notch effects, such as those encounted in dropping the relief percentage from 80 percent to 50 percent and from 50 percent to 25 percent could be reduced.

ENDNOTES

1.1986-1987 Statistical Analysis of the Roll (Carson City: Nevada Department of Taxation, Division of Assessment Standards, July 1987). This report further reports some detail within each of the broad categories summarized here, both statewide and by county, and is the source of the statistics given in the following paragraphs. The definition of assessed value is considered later in this section. (Note that, due to recent format changes, the statewide summary sheet and the supporting schedules for 1986-1987 do not agree on the total value of real property for land, improvements, or total.)

2.Thus, single-family detached residences account for 31.7 percent of total real property gross assessed value, and 26.2 of total gross assessed value.

3.This information is generally consistent with the summary for Nevada provided by the Census Bureau, although Census' report that no motor vehicles are taxable in the state might be taken to exclude airplanes and boats, which state data reveal are taxable. U.S. Bureau of the Census, 1982 Census of Governments, Volume 2, Taxable Property Values and Assessment-Sales Price Ratios (Washington, D.C.: Government Printing Office, 1984), Table E.

4.Note that mobile homes show up both as real property (0.75 percent of all realty, and 0.6 percent of all gross assessed value, represents these structures) and as personal property (12.8 percent of personal property gross assessments, and 1.0 perent of all gross assessed value). Thus, over 60 percent of mobile home value shows up as personal property. The distinction between such homes listed as real property and those considered personalty is that when the Nevada Department of Commerce certifies that the mobile home structure is attached to the land, it can be classified as real property; otherwise it is considered personal property which may be secured or unsecured depending on whether the mobile home owner also owns the land. Since personal property is taxed at a lower rate than real property, most mobile home owners prefer classification as personal, rather than real, property.

5.A.B. 311 amended NRS 361.068 to exclude boats from taxable personal property; in place of the tax, boat owners will pay fees to the Wildlife Department. Overview of 1987 Legislative Session: Property Assessment (Carson City: Nevada Department of Taxation, Division of Assessment Standards, undated, processed), p. 5. Other recent exemptions are noted in the later section on exemptions.

6.NRS 361.050 (U.S.), 361.055 (state), 361.060 (county, municipal corporation, and certain special districts), and 361.065 (school districts).

7.NRS 361.125.

8.NRS 361.130.

9.NRS 361.135. Full exemption is accorded real property and fixtures (the latter is personalty if not attached to the real property), but the exemption for "paraphernalia" associated with the lodges and organizations (personal property) is limited to $5,000 of assessed value.

10.NRS 361.050; AGO 366 of 9/12/46 and AGO 334 of 5/13/54.

11.NRS 361.060 and AGO 353 of 8/29/46. A later AGO (number 86-14 of 7/21/86) ruled that a convention facility leased by a city was not exempt because it was not owned by the city -- and, reading between the lines, apparently because the purpose was not clearly a municipal purpose.

12.NRS 361.061, adopted 1985.

13.NRS361.062, adopted 1971.

14.Examples include NRS 361.065, dealing with school districts; 361.073, dealing with nonprofit water users' associations or corporations; 361.135, dealing with lodges and charitable organizations; and 361.150, dealing with volunteer fire departments.

15.NRS 361.068, adopted 1979, amended 1983 and 1987. The 1987 amendment added boats, as noted in the previous footnote.

16.NRS 361.153, adopted 1969.

17.NRS 361.069, adopted 1979 and amended 1983.

18.NRS 361.067, adopted 1963, amended 1979. Not exempted are mobile homes that are considered real property and, by an attorney general's opinion, campers installed temporarily on a truckbed.

19.NRS 361.160, adopted 1949, amended 1954, 1955, 1961, 1969, and 1973.

20.NRS 361.085. Applies to personal as well as real property (AGO 160, 8/12/64); limited to bona fide residents of the state; limited to one county in a given year; annual affidavit required.

21.NRS 361.080. Applies to any class of property (AGO 160, 8/12/64); limited to bona fide residents of Nevada; limited to one county in a given year; requires annual affidavit; forfeited by remarriage, but widow status resumes if marriage annulled, but not if marriage ends in divorce (AGO 274, 8/5/27).

22.Applies to personal as well as real property (AGO 160, 8/12/64); is personal, and does not extend to the veteran's family (AGO 293, 3/4/40); limited to bona fide residents of Nevada; can be claimed in only one county in a given year; requires annual affidavit.

23.NRS 361.091. Limited to bona fide residents of Nevada; extends to non-remarried surviving spouse; can be claimed in only one county in a given year; requires annual affidavit and certain other supporting information.

24.NRS 361.087. Applies only to owner-occupied residences; requires affidavit as to nature and cost of improvements.

25.NRS 361.078. Limited to Nevada residents; requires affidavit.

26.NRS 361.079. This is a total exemption of such costs, but amounts to only a partial exemption in the context of the whole building.

27.NRS 361.077. This is a total exemption of the property in question, but only a partial exemption in the context of the whole property of which such facilities are a part. Some improvement types excluded; requires annual affidavit.

28.Data presented here are derived from 1986-1987 Statistical Analysis of the Roll (Carson City: Nevada Department of Taxation, Division of Assessment Standards, July 1987).

29.1986-1987 Statistical Analysis of the Roll. The counties also differ in the rate at which their property tax bases (assessed values) grow. Between 1985-86 and 1986-87, assessed value increased by 9.14 percent statewide. The median growth among the 17 counties was close to this average (8.57 percent in Storey County). In two counties, however, assessed values declined over this time (Esmeralda and Lincoln, -5.64 and -0.40 percent, respectively). Four counties experienced assessed value increases in excess of 20 percent, and one approached 200 percent growth (Churchill, 276.31; Humboldt, 33.21; Lander, 74.68; and Eureka, 188.99). [Note: These figures from the Statistical Analysis differ from those in the Department of Taxation Annual Report, cited in the following paragraphs, for the same year.]

30. The assessed value data in this section are taken from the Nevada Department of Taxation Annual Report for various recent years, rather than from the more detailed Statistical Analysis cited above, so that multi-year comparisons could be made. As noted in an earlier footnote, however, there are some discrepancies between the two sources, at least for the 1986-87 year.

31. Ideally for such a comparison, though, the tax base measure would be the full market value of the property. This would avoid the influence of the assessment cycle and of assessment error. As discussed in a later section, such values are not available for Nevada because the state's assessment standard since 1981 has not been tied to market value, and assessment-sales ratios are not calculated.

32. The income data used are per capita personal income, as estimated by the U.S. Department of Commerce, Bureau of Economic Analysis, and reported in the Nevada Statistical Abstract, 1988. The assessed value data, however, are aggregate, rather than per capita, so the comparisons are not precise.

33. These concepts are discussed in more detail in the preceding chapter.

34. Two early studies of property tax exporting are: John H. Bowman, "Tax Exportability, Intergovernmental Aid, and School Finance Reform," National Tax Journal, 27 (June 1974): 163-73; and Helen F. Ladd, "Local Education Expenditures, Fiscal Capacity, and the Composition of the Property Tax Base," National Tax Journal, 28 (June 1975): 145-58. Both disaggregate the tax base to consider tax exporting, and both find evidence of such exporting; Ladd goes further, however, in treating commercial and industrial properties as two separate categories, and reports greater apparent exporting in the case of commercial property in her sample.

35. A recent study of the exportability of tourism taxes focused on consumption-type taxes and found that even the hotel-motel accommodations tax, which seems more likely than most others to fall only on nonresidents, is substantially, but not entirely, exportable. Edwin Fujii, Mohammed Khaled, and James Mak, "The Exportability of Hotel Occupancy and Other Tourist Taxes," National Tax Journal, 38 (June 1985): 169-77.

36. Note in Table 2 that gross assessed values are used, rather than the values net of exemptions used in earlier discussions. This is because a breakdown of exemptions by the use classes presented there is not available.

37. Nevada Constitution, Section 1, Article 10. The provision regarding agricultural and open-space real estate was added by a 1974 constitutional amendment, and the law was changed in 1975 to provide use-value assessment of such land (Commerce Clearing House, State Tax Reporter -- Nevada, paragraphs 20-026A and 20-305).

38. NRS 361.025.

39. NRS 361.043.

40. The valuation of interstate and intercounty properties is covered by NRS 361.320, 361.321, and 361.323; the valuation of land and mobile homes, also done by the state, is covered by NRS 361.325. The responsibilities of the various state and county agencies and boards are discussed in a later section of this paper.

41. NRS 361.325.3.

42.NRS 361.325.1(b). The attorney general has interpreted this law to give the "Nevada tax commission . . . exclusive authority to classify and evaluate agricultural land for ad valorem tax purposes, . . ." and has concluded that the ". . . only value factors to be considered are those common to all land of same class, and valuation must be just and uniform throughout the state." AGO 79 (May 1, 1972)

43. NRS 361A.280.

44. A brief summary is provided by: U. S. Bureau of the Census, 1982 Census of Governments, Volume 2, Taxable Property Values and Assessment-Sales Price Ratios (Washington, D.C.: Government Pinting Office, 1984), Appendix C.

45. NRS 361.227.1(a)(2) and NRS 361.227.6(b).

46. NRS 361.229.

47. NRS 361.225.

48. NRS361.260.

49. This discussion of assessment system structure is for 1982, when the latest-reported Census Bureau survey was made. U.S. Bureau of the Census, 1982 Census of Governments, Volume 2, Taxable Property Values and Assessment-Sales Price Ratios (Washington, D.C.: Government Pinting Office, 1984), pp. xxiii-xxv.

50. NRS 361.483.

51. This summary of local responsibilities draws on Commerce Clearing House, State Tax Reporter -- Nevada, paragraph 22-000, as well as on the property taxation chapter of the Nevada Revised Statutes, NRS 361.

52. NRS 361.265.

53. AGO 14 (February 27, 1959), interpreting NRS 361.325, which requires that the Nevada Tax Commission (Department of Taxation) "Classify land and fix and establish the valuation thereof for assessment purposes."

54. NRS 361.333.

55. Commerce Clearing House, State Tax Reporter -- Nevada, paragraph 22-001.

56. NRS 361.475 and 361.480.

57. NRS 361.280.

58. NRS 361.720.

59. This discussion draws upon NRS 361.410 and Commerce Clearing House, State Tax Reporter -- Nevada, paragraph 22-000.

60. NRS 361.454.

61. NRS 361.340.

62. NRS 361.345, 361.350, 361.365, and 361.370.

63. Commerce Clearing House, State Tax Reporter -- Nevada, paragraph 22-501.

64. This discussion draws upon Commerce Clearing House, State Tax Reporter -- Nevada, paragraph 22-500, in addition to the code sections and other sources cited below.

65. NRS 361.221. The Department may develop appropriate examination(s) itself or contract for such development. It is to be advised on assessor certification examination and continuing education by a six-member Appraiser Certification Board, of which three members are selected by majority vote of the several county assessors and three by the Nevada Tax Commission.

66. NRS 361.455. This is discussed in more detail in the section dealing with tax rates.

67. NRS 361.325.5.

68. For depreciable real property, there is no option. The law provides for straight-line depreciation of 1.5 percent per year, up to a maximum of 50 years (75 percent).

69. Mobile homes sold since July 1, 1982, are to be classified and valued according to their useful lives, while older ones are to be depreciated at five percent per year, to a minimum of 20 percent of the original price (NRS 361.325.3).

70. NRS 361.325.1 (b). Other details are spelled out by this section of the law.

71. NRS 361.320. The utilities include railroad, sleeping car, street railway, telephone, telegraph, water, air transport, electric light and power, and railway express companies. Value of vehicles, as defined in NRS 371.020 must be excluded. An exception to the unit-value and intercounty apportionment of value is made for electric power generation property that is not yet in service, which is taxable only in the county where it is located. Another exception, added in 1983, is for companies with at least 75 percent of their Nevada physical property used to generate or transmit electric power for sale outside Nevada; the value of such power-export properties is to be apportioned to the other operating units within the state (NRS 361.323).

72. The tax on the net proceeds of mines is at the same rate as the general property tax. In essences, this tax is in lieu of the general property tax: unpatented mines are exempt from the general property tax, and patented mines become exempt when more than $100 of development work is done on the mine during the year (Commerce Clearing House, State Tax Reporter -- Nevada, paragraph 20-006).

73. NRS 361.295.

74. NRS 361.333.

75. The composition, qualifiactions, terms, etc., of the State Board of Equalization are covered in NRS 361.375.

76.NRS 361.380.

77. NRS 361.385.

78. NRS 361.390 and 361.365.

79. This discussion is based on NRS 361.395, 361.400, and 361.403.

80. NRS 361.405.

81. Nevada Constitution, Section 2, Article 10.

82. NRS 361.453. This was first adopted in 1979.

83. NRS 361.4545.

84. NRS 361.455.

85. The following is the text of NRS 361.454, as adopted in 1985 and amended in 1987.

86. NRS 361.460.

87. See Chapter 11, for a full discussion of this program. In addition, brief descriptions and statistics are presented in the Nevada Department of Taxation Annual Report for various years.

88. This discussion is based on NRS 361.800-877.

89. For a discussion of the various forms of circuit breakers and some of the issues surrounding them, see John H. Bowman, "Property Tax Circuit Breakers Reconsidered: Continuing Issues Surrounding a Popular Program," American Journal of Economics and Sociology, 39 (October 1980): 355-72.

90. This information is from Annual Report Fiscal 1986-1987 (Carson City: Nevada Department of Taxation, 1988): 62-63.

91. See Chapter 8 for a systematic review of the diversity of that characterizes the 17 counties and 17 cities in Nevada.

92. This presumes that determination of the legal property tax base itself follows guidelines and procedures consistent with discovering underlying asset value.

93. This discussion draws upon John H. Bowman, "Property Tax Circuit Breakers Reconsidered: Continuing Issues Surrounding a Popular Program," American Journal of Economics and Sociology, 39 (October 1980): 355-72.

CHAPTER 11

STATE ASSISTANCE TO LOCAL GOVERNMENTS

PART I

A FRAMEWORK FOR CONSIDERING INTERGOVERNMENTAL RELATIONS

In 1986, the State of Nevada transferred 38 percent of total state spending to its local units of government. For the local governments (counties, cities, school districts, and special districts) state assistance represented 30 percent of total general revenues. The average state transferred 31 percent of its total expenditures, and state aid comprised 33 percent of total general revenues received by all local governments in the average state.

The federal government makes intergovernmental aid transfers to both states and localities. The share of the federal budget devoted to intergovernmental transfers has fallen from 15.5 percent in 1980 to an estimated 10.4 percent in 1988 (or from 3.4 percent of GNP in 1980 to an estimated 2.3 percent of GNP in 1988). Still, for some local governments federal aid is a significant source of revenue.

Clearly, intergovernmental aid is a tool widely used by some governments and is an important source of revenue for recipient levels of government. This chapter contains three separate sections which provide a discussion of the theory or rationale of intergovernmental grants; state assistance to education in Nevada; and state aid to other local jurisdictions through the Supplemental City/County Relief Tax program (SCCRT).

THE ECONOMIC THEORY OF INTERGOVERNMENTAL GRANTS

The economic theory of intergovernmental grants identifies two separate roles for aid from one government to another.[1] The first role for intergovernmental grants is to correct for positive interjurisdictional spillovers. A spillover (or externality)

occurs when the benefits of a locally provided public good or service accrue to non-residents. In this case, the jurisdiction will provide a level of public goods and services which is too low from a society-wide perspective because local decision makers do not take into account the benefits received by non-residents. In order to encourage the local government to provide more of the public good benefiting non-residents, an appropriate solution is for the other affected jurisdictions, which possibly comprise the whole nation, to subsidize local provision at a rate that reflects the level of benefit accruing to non-residents. The form of grant to best accomplish this objective is an open-ended matching categorical grant.

If we examine the nature of the goods and services provided by state and local governments, it is easy to identify a role for matching grants. Nonresidents of a given jurisdiction benefit from the transportation system provided and maintained by the jurisdiction, the education system (especially if people are highly mobile, but even when there is no interjurisdictional mobility, if education leads to higher participation in the political system and philanthropic work), recreation facilities, public welfare programs, and publicly provided safety. While, nonresidents benefit less than residents, the benefit or spillover from these programs is likely to be large enough that, without outside support, the resulting level of goods and services provided locally would be significantly less than the efficient level.

The second primary role for intergovernmental grants identified in the literature is to facilitate fiscal equalization or to mitigate the impact on local jurisdictions and their residents of unequal fiscal resources and needs (fiscal disparities). Jurisdictions vary in terms of their wealth (and needs) so different tax rates will be necessary to provide equal expenditures (or equal levels of public service). As a result, individuals of equal income living in different jurisdictions may pay substantially different shares of their income for the same

level of public services. In other words, horizontal inequities may be generated. While capitalization of these tax and expenditure differences into property values may mitigate some of the horizontal inequity problem, imperfect mobility will likely result in a system whereby relatively wealthy jurisdictions can provide a given level of services at a lower tax rate and lower tax-inclusive price of housing than less wealthy jurisdictions.

A further consideration, which may lead to additional inequities, or to inabilities on the part of less wealthy jurisdictions to provide public services, is the desire of higher levels of government to impose minimum standards or levels of expenditures for certain categories of goods and services (e.g., primary education). Here the justification for grants is not the positive spillover argument, but rather an equal opportunity argument that citizens, regardless of where they reside, should have equal access to certain goods and services.

Do such mandates for minimum standards from one government require financing by intergovernmental grants? Some observers argue that because the one government mandates such standards, it is only fair that it pay for them via grants. Unfortunately, given the different policy objectives of individual mandates and the various forms they might take, it is difficult to generalize whether or when compensation is appropriate. For example, such mandates might take any of the following forms:[2]

I. Provisions Applicable to Society in General

- A. Provisions Relating to Individual's Constitutional Rights -- e.g. laws relating to racial discrimination or due process.
- B. Provisions Relating to Individual's Statutory Rights -- e.g. age and handicap discrimination.
- C. General "Rules of the Game" for the Economy -- e.g. minimum wage, work hours, health and safety regulations.
- D. Rules Dealing with Externalities -- e.g. environmental and energy regulations.

II. Provisions Applicable Only to State and/or Local Governments

A. Conditions of Grant Programs Which Are Both Program Specific and Cross-Cutting -- e.g. regulations setting minimum standards for highway construction and regulations relating to audit provisions.

B. Provisions Unrelated to Grant Programs -- e.g. federal court orders governing conditions of state prisons.

The case for compensation through some form of intergovernmental assistance will vary across mandate types. For example, mandates that apply to everyone (e.g. provisions protecting constitutional and statutory rights and setting out "general rules of the game") would not qualify for compensation, even though they may generate costs for some governments. Similarly, governments which accept grants cannot expect to be compensated for the costs of complying with the conditions of those grants. However, this implies an important quid pro quo: if, as a general principle, conditions of grants do not warrant compensation, then the granting government has the commensurate responsibility not to attach frivolous or unnecessarily costly conditions. Examples include federal regulations which not only mandate performance standards, but also dictate how those standards are to be met, e.g. providing clean water by mandating treatment technology regardless of local circumstances and ability to meet the standards with low cost alternatives.

The most difficult area to formulate a policy on compensation is in the environmental area. To the extent intergovernmental assistance is appropriate, it should be limited to the share of benefits that accrue outside the jurisdiction. If those who pollute are viewed as the beneficiaries of environmental programs, because such programs reduce the social costs of their pollution of common property resources, they should pay for such programs rather than funding them from general revenues. Examples include the federal Super Fund program designed to clean up hazardous waste sites with revenues generated by taxes on chemical companies and manufacturing firms that produce such wastes. In this way, prices

paid for the good or service will more accurately reflect the true social costs of providing the good thereby reducing its use and generating revenues for environmental protection. In this instance, there is a limited role for general fund intergovernmental assistance.

In general, on economic efficiency grounds, the strongest case for intergovernmental grants to compensate for the cost of mandates is for those regulations that are unrelated to grants; apply uniquely to state and/or local governments; impose costs on state and local governments because they serve as administrative arms of other levels of government and have enforcement responsibilities; and impose costs on state and local governments which exceed their benefits.

On equity grounds, some form of intergovernmental assistance may be required if the tax price faced by individuals of equal income in different jurisdictions required to meet a mandate differ because one is less wealthy than another. Specifically, if a less wealthy jurisdiction finds it prohibitively expensive to achieve a given minimum standard, then grants to relatively poor jurisdictions can be justified. Because states define local revenue raising expenditure responsibilities, state assistance is generally most appropriate. In some extreme cases, state fiscal capacity may be so limited that general federal support may be appropriate. Unrestricted intergovernmental grants are best suited for equalizing fiscal disparities among jurisdictions.

Recent work has cast doubt on the equity justification for grants.[3] The main theme of this line of criticism is that we are ultimately concerned with the welfare of individuals, and income redistribution among individuals rather than governments or places is more effective at improving the welfare of the poor. One counterargument from urban economics is that the costs of production (both public and private) are lower in relatively dense areas and that this positive externality is undervalued by the private market. The externality is used as a justification for

grants to declining cities and declining inner city neighborhoods, where the poor are likely to live and be differentially affected by a limited public sector. The economic arguments against using grants for redistribution would seem to be more compelling, but the question is still open.

INTERGOVERNMENTAL GRANT MECHANISMS

A variety of grant mechanisms are employed to address the intergovernmental concerns just outlined. The various mechanisms differ in the incentives they create for recipient governments and in their ability to redistribute fiscal capacity among jurisdictions. Because of the redistributive element of many of the state assistance programs in Nevada, this section looks only at intergovernmental assistance mechanisms that can be redistributive, it does not consider shared revenues and the like.

The fundamental types of aid instruments are general purpose and specific purpose (categorical) grants. Each of these mechanisms may or may not require matching funds from the recipient jurisdiction. A matching provision has the effect of lowering the price, from the local perspective, of a unit of service. A fifty-fifty match, for example, means that a dollar of local money, when used to match state money, will buy two dollars of the assisted service. Grants may be viewed broadly as an alternative to structural change and to reassignment of expenditure functions, since grants can be designed to equalize for tax capacity differences and to adjust for externalities.

General Purpose Assistance. General purpose assistance is not conditional on its use for any particular category of service. For example, a jurisdiction's revenue from the Supplemental City/County Relief Tax is state assistance which can be used for any local government service, i. e., it is general revenue to the jurisdiction. It simply gives a recipient government more funds for whatever use it chooses. Thus, which activities will increase

more depends on the relative responsiveness of their demands to income changes. The general nature of this type of assistance makes it best suited to equalizing tax base disparities.

Categorical Nonmatching Assistance. If the state considers there to be a legitimate state purpose at stake in a service for which local governments have primary responsibility, it could take over the responsibility. Alternatively, a categorical aid program might be appropriate for guaranteeing that minimum service levels are met.

In this case, the state would provide financial assistance to the local government and the money would be earmarked for specific purposes. An example would be state assistance for highways, streets, roads and bridges. However, merely requiring that the grant go for a particular function will not assure that total local spending for that function will rise by the amount of the assistance.

If the program is a new program there is a greater likelihood that a grant program will leverage more new money from the recipient government than if the program is an ongoing program. If the recipient government is already spending more than the amount of the assistance for the function, and the categorical grant is nonmatching (i.e., requires no local contribution) the aid may simply displace local funds that otherwise would have gone for the aided function. A maintenance of effort requirement is one way to ensure that such substitution is kept to a minimum, but they are generally hard to enforce.

These considerations suggest that a categorical nonmatching grant is best suited to demonstration purposes to try to get local governments to provide a service that they were not already providing.

Categorical Matching Assistance. Categorical matching grants require that the recipient government pay a share of the cost of providing the service, rather than have the grant cover the full cost of the service as under a nonmatching grant. This still

reduces the price that the jurisdiction must pay to receive one dollar of benefits from the assisted service, thereby encouraging more spending on that function.

If a granting government wishes to stimulate spending for a particular function, a matching requirement generally will make the grant more efficient since a lesser amount of assistance will be necessary to bring about a given increase in spending. Also, while a categorical nonmatching grant provides no special stimulus to spending for the assisted function once the recipient government is spending at least as much as the amount of the grant, a categorical matching grant will continue to provide unambiguous stimulus to the assisted function through a reduction of its relative price.

Block Grants. Block grants support much broader program areas than categorical grants, leaving recipients more discretion about funding and performing activities. Generally, block grant funds are allocated among all eligible recipients by a formula based on relative measures of program need, and sometimes local fiscal capacity. Matching requirements may or may not be required.

The administrative burden associated with block grants is substantially less than it is for categorical programs. For example, because of the entitlement nature of many block grants and the broad area of activities covered application requirements may be minimal.

THE RESPONSE OF RECIPIENT GOVERNMENTS TO AID

In studies of the effect of intergovernmental aid on the behavior of recipient governments, most authors focus on the level of expenditures.[4] Matching grants are predicted and found to have a bigger effect on recipient government expenditures than do unrestricted grants, because matching grants both decrease the price per unit and increase the revenues available, unlike

unrestricted grants, which only have the latter impact.

Intergovernmental aid to local governments also results in reduced reliance on local own-source revenues, the primary source being local property taxes. In effect, the local government uses the additional revenues provided by the grant to make its residents better off in one of two ways; it provides more public goods and services (increase expenditures), and it enables its residents to buy more privately provided goods and services by decreasing property taxes and substituting grant monies for tax monies. Of course, the local government does some of each.

Only a few studies have explicitly examined the effect of grants on the "mix" of local revenues, but the numerous studies of local expenditures can be interpreted for their implications for property taxes.[5] For example, if a study of local expenditures finds that an extra dollar of unrestricted grant increases expenditures by 30 cents, then we can infer that 70 cents of property tax relief (or other local own-source revenue relief) occurs.

Early studies of the effects of general-purpose grants on state and local spending found significant large responses from state and local governments. For example, in 1973 Gramlich and Galper found that state and local expenditures increased between $.25 and $.43 for each dollar of unconditional assistance.[6] This implies that the remaining portion of the grant went for local revenue relief, although not as much relief as predicted by economic theory. By 1978, Gramlich found that the long-run impact of a dollar increase in unconditional grants led to a rise of only $.16 in state and local spending.[7] This finding is substantiated by more recent studies of local finance that conclude

> ". . . the consistent insignificance of federal revenue sharing implies that cities tend to use revenue sharing grants to lower their tax burdens, not to increase their service levels."[8]

In other words, the evidence suggests that unrestricted federal grant funds were increasingly used to offset local revenues

rather than increase expenditures. The same result has been found for unrestricted state aid to local governments.[9]

Similarly, early studies of the impact of federal categorical grants on state and local spending indicated that they stimulated additional spending which was substantially greater than predicted by economic theory. However, these determinant studies covered the 1950s and 1960s when the state and local sector was growing very rapidly and many new grant programs were being established. As noted earlier, the effects of grants on spending are likely to be larger when programs are new than after they have matured.

Over time, empirical studies of the expenditure effects of categorical grants have also shown a decline in the relative spending impact of federal categorical grants. For example, in their 1973 study Gramlich and Galper found that categorical grants increased state and local spending by about $.90 per dollar of grant.[10] In 1978, Gramlich found that the long-run impact was $0.24 for categorical grants with no matching requirement, $.26 for categoricals with a 20 percent matching requirement, and $.32 for categoricals with a 50 percent matching requirement.[11] Some of the decline in relative importance of the spending impact of categorical grants may be because of the more sophisticated statistical techniques used in the more recent studies. However, the evidence does suggest that as programs mature, a larger share of the grant is used to offset local revenues. As the theory section above indicates, categorical grants requiring matching have consistently been found to have larger effects than unrestricted grants or categorical grants without a matching requirement.[12]

But, is the property tax relief <u>too</u> little? What can we learn about local government behavior and the budget process from these results? One useful comparison is between increases in unrestricted grants to the jurisdiction and increases in total private income of the jurisdiction. Suppose the local government is simply an agent acting on behalf of the residents so that it provides the preferred level of public goods and services. It can

fund these expenditures via grant receipts or property tax receipts, which are paid out of the private income of the residents. Residents would prefer funding by grant receipts since nonresidents bear much of the burden, but the two sources of revenue are perfectly interchangeable. That is, if we give the jurisdiction an extra dollar of grant monies or an extra dollar of private income, we would expect to see the same response--part of the dollar spent on public goods and services and the remainder spent on private goods and services (via tax relief if the dollar is a grant dollar).

The fact that we do <u>not</u> see an identical response of local governments to increases in grants and private income is one of the better verified empirical regularities in public finance. An extra dollar of grant monies has a much stronger effect on expenditures than does an extra dollar of private income. One explanation for this result questions the basic assumption we made about the behavior of local governments, that they act as perfect agents on behalf of residents. An alternative view of government officials is that they act to improve their own lot, and are only loosely constrained by the votes and preferences of residents.[13] Under this view, grant monies and private income are no longer perfect substitutes. It is easier for a bureaucrat to spend grant monies than property taxes, which must be paid by local residents.

There are other explanations in the literature for this result, which has been dubbed the flypaper effect since grant monies stick where they hit.[14] These other explanations concern aspects of the production of local public goods such as workers in the public sector also being local voters, or private income but not grants, being a determinant of the quality of locally provided goods, and thus affecting expenditures differentially. No study has successfully tested one explanation against the others.

FEDERAL AND STATE AID IN PRACTICE

Most current federal grants are matching grants, many of them closed-ended and thus similar to block grants. The open-ended grants are primarily to states to fund low income programs such as Aid for Families with Dependent Children (AFDC) and Medicaid that are mandated by the federal government. The matching rates vary with some measure of need or resources of the recipient jurisdictions. During the 1980s the share of GNP devoted to federal intergovernmental aid has fallen, while the share of GNP spent on income transfers to individuals has remained essentially constant. This shift of spending priorities is consistent with an economic evaluation of redistribution policies.

Do federal grants have an equalizing impact on recipient jurisdictions? Per capita income is an imperfect, but readily available, measure of average need or resources of a jurisdiction. When per capita income is compared to per capita total federal grants to state and local governments by state, there appears to be little relationship between the two.[15] Federal grants would seem to be ineffective in alleviating wealth induced horizontal inequities or fiscal inabilities to provide minimum standards.

State intergovernmental aid to local governments takes two forms; grants, typically conditional block grants, and shared taxes, which consist of state collected revenues distributed back to the local jurisdiction of origin. By definition, wealthier jurisdictions, in terms of the taxed activity, receive relatively large distributions of shared taxes. State grants are generally allocated to jurisdictions according to some measure of local need and are designated for specific purposes such as education, highways, or public welfare. In the last half century state grants have risen slowly as a share of local general revenue from 23 percent in 1938 to 32 percent in 1986.

INTERGOVERNMENTAL AID ISSUES IN NEVADA

This section identifies and discusses four issues concerning intergovernmental aid in Nevada. These four are (i) the consequences of complexity and size of grant programs; (ii) the differential treatment of cities and counties and school districts; (iii) the economic and demographic disparities across jurisdictions; and, (iv) the extent of shared taxes in Nevada. The final two sections of this chapter describe the intergovernmental assistance the state of Nevada provides its school districts and local governments through the SCCRT program.

Nevada has a relatively complex and intrusive intergovernmental grant system. It is complex because the purpose of much of the aid is to replace and limit property taxes, which, requires imposing constraints on recipient government behavior in conjunction with the grant monies. It is intrusive in that state grant monies comprise large shares of the budgets of many of the local governments (30 percent on average for cities and 16 percent for counties in 1986), and the grant monies are inextricably linked to other components of local budgets. These aspects of the intergovernmental system are likely to contribute to a lack of acceptability of the system by taxpayers because a complex system is often a misunderstood system. Similarly, the state aid system in Nevada could contribute to a lack of accountability on the part of local governments because they are not responsible for extracting revenues from the residents they serve. The constraints on overall expenditures and property taxes on cities and counties may, in fact, be binding, but, accountability is still an issue because the local officials are not responsible for the level of taxes and expenditures.

The aid programs in Nevada are difficult to analyze in standard economic terms. At first glance, it would appear that investigation of the flypaper effect discussed above would be possible for local governments in Nevada since they are not subject

to expenditure limitations. However, all the major revenue sources including the property tax are set by the state, so no substitution of grant monies for property taxes is possible (by initiation of local officials).

The aid program for school districts has an equalizing component whereby districts that are property poor receive relatively more aid. An argument can be made that income is a better measure of need, and thus, an investigation of the relationship between these two factors and of the effectiveness of the aid program at alleviating inequalities would be informative. There do appear to be great disparities across the school districts (or counties since the 34 entities are coterminous, 17 of each) along several dimensions including population, population density, per capita income, and per capita property wealth, all characteristics that are likely to have effects on local government budgets. The issue of how best to address interjurisdictional disparities is of great importance in a state with relatively few jurisdictions, but jurisdictions displaying great variance in economic and demographic characteristics.

A final issue not unique to Nevada, but perhaps of greater importance in Nevada than most states, is the fact that many of the state raised taxes are earmarked for intergovernmental grant programs or simply returned to the local jurisdiction of origin. In particular, nearly two-thirds of the sales tax revenue, the second largest single source of state revenue, is dedicated to financing cities and counties and school districts. Much, but not all, of this revenue is returned to local governments via a complex aid formula to cities and counties. In most states, including Nevada, the general sales tax is imposed uniformly throughout the state. What makes the operation of the sales tax unique in Nevada is that the revenue raised is returned to local governments via grant programs or to jurisdictions based on origin of sales. This arrangement is significant because it means that control of this major source of revenue for local governments is out of local

hands. The differences in revenue generated across jurisdictions are caused by differences in sales activity only, not differences in local government behavior or decisions.

Endnotes

1. The economic theory of intergovernmental grants is attributable to Wallace E. Oates, Fiscal Federalism, Harcourt Brace Jovanovich, New York, 1972.

2. U.S. Department of Treasury, Office of State and Local Finance, Federal-State-Local Fiscal Relations, Report to the President and the Congress (Washington D.C.: Government Printing Office, September 1985), p. 81.

3. For a discussion of the reasons behind and literature supporting the shift in academic disfavor regarding intergovernmental grants see J. M. Quigley and D. L. Rubinfeld, "Budget Reform and the Theory of Fiscal Federalism," American Economic Review, May 1986.

4. As examples see K. L. Bradbury et al., "State Aid to Offset Fiscal Disparities Across Communities," National Tax Journal, June 1984; S. Craig and R. Inman, "Education, Welfare and the "New" Federalism: State Budgeting in a Federalist Public Economy," in Studies in State and Local Public Finance, edited by H. S. Rosen, 1986; and R. Inman, "The Fiscal Performance of Local Governments: An Interpretative Review," in Current Issues in Urban Economics, edited by P. Mieszkowski and M. Straszheim, 1979.

Two recent papers that investigate the effect of aid on local property taxes as well as expenditures are M. Bell and J. Bowman, "The Effect of Various Intergovernmental Aid Types on Local Own-Source Revenues: The Case of Property Taxes in Minnesota Cities," Public Finance Quarterly, July 1987, and D. Holtz-Eakin and T. McGuire, "Will They Know Me When I'm Gone? An Epitaph for Federal General Revenue Sharing," Columbia University Economics Department Discussion Paper No. 385, March 1988.

5. A recent example is Holtz-Eakin and McGuire (1988).

6. Edward M. Gramlich and Harvey Galper, "State and Local Fiscal Behavior and Federal Grant Policy," Brookings Papers on Economic Activity (Washington D.C.: The Brookings Institution, 1973), pp. 15-65.

7. Edward Gramlich, "State and Local Budgets the Day After It Rained: Why is the Surplus So High?" Brookings Papers on Economic Activity (Washington D.C.: The Brookings Institution, 1978), p. 202.

8. Helen Ladd, John Yinger, et. al., The Changing Economic and Fiscal Conditions of Cities, a report prepared for the U.S. Department of Housing and Urban Development, July 1985, p. 13.11.

9. See Michael E. Bell and John H. Bowman "The Effect of Various Intergovernmental Aid Types on Local Own-Source Revenues: The Case of Property Taxes in Minnesota Cities," Public Finance Quarterly, July 1987, pp. 282-97.

10. Gramlich and Galper, "State and Local Fiscal Behavior", op. cit.

11. Gramlich, "State and Local Budgets the Day After It Rained," op. cit.

12. For a more detailed review of the grant determinant literature see U.S. Department of the Treasury, Office of State and Local Finance, Federal-State-Local Fiscal Relations, Report to the President and the Congress, (Washington D.C.: Government Printing Office, September 1985), pp. 153-67; and Larry E. Huckins and John T. Carnevale, "Federal Grants-In-Aid: Theoretical Concerns, Design Issues and Implementation Strategy," in Michael E. Bell (ed.), State and Local Finance in an Era of New Federalism, (Greenwich, Connecticut: JAI Press, 1988).

13. A model of budget-maximizing behavior is developed in W. A. Niskanen, "Bureaucrats and Politicians," Journal of Law and Economics, December 1975.

14. See P. Courant, E. Gramlich and D. Rubinfeld, "The Stimulative Effects of Intergovernmental Grants: or Why Money Sticks Where It Hits," in Fiscal Federalism and Grants-in-Aid, edited by P. Mieszkowski and W. Oakland, 1979, and B. Hamilton, "The Flypaper Effect and Other Anomalies," Journal of Public Economics, 1983.

15. As an example, see Tables 9 and 74, pages 16 and 110, of Significant Features of Fiscal Federalism, 1987, U.S. Advisory Commission on Intergovernmental Relations, Washington, D.C.

CHAPTER 11

STATE ASSISTANCE TO LOCAL GOVERNMENTS

PART II

SCHOOL DISTRICT FINANCES IN NEVADA

Between school years 1977-78 and 1987-88 total enrollment in public schools (K-12) in Nevada increased from 140,077 to 162,503, an increase of 16 percent. During this same ten-year period, average total expenditures per pupil increased from $1447 to $3386, an increase of 134 percent. This increase was more than the rate of inflation, the Consumer Price Index increased 88 percent over the same period. The state government was responsible for financing on average 42 percent of the total in 1977-78 and 47 percent in 1987-88. This level of reliance on state aid in 1987-88 approached the national average of 50 percent.

These averages for the state of Nevada mask large differences across the seventeen school districts. In 1987-88, budgeted expenditures per pupil ranged from $9071 in Eureka to $3225 in Clark. The share of total expenditures financed by the state ranged from 86 percent in Lincoln to 15 percent in Eureka.

This section describes the finances of local school districts in Nevada, with an emphasis on the Nevada Plan, the state aid component of school district resources. The Nevada Plan is an effort to equalize revenues across districts while accounting for cost differences across districts. The goal of the plan is to ensure adequate educational opportunity for all students regardless of the wealth of their district. Similar equalizing aid programs have been implemented by many states. Several of the programs were direct responses to state court cases and are often adapted or challenged in subsequent court action. Programs aimed at equalizing expenditures per pupil have attracted much academic analysis and scrutiny in recent years.

The next section briefly reviews the literature on the

economics of education. The results and ideas presented there are relevant for developing criteria for evaluating the financing of school districts. However, this body of research is hardly conclusive in that the factors that are most important to the achievement of satisfactory educational outcomes have yet to be identified. The section is background for the primary focus of the report, which is a description and analysis of the finances of school districts in Nevada over the last decade. However, there is no attempt to evaluate the goal of equalizing revenues per pupil. Instead, the section describes and documents the implementation and effects of the state aid program as it exists today, and documents how state aid has interacted with local sources of revenue in the disparate districts of Nevada over the past ten years. The following section then describes the operation of the state aid program for the 1987-88 school year. Budget data for all seventeen school districts for three school years, 1977-78, 1982-83 and 1987-88, are described and analyzed in the final section.

The Economics of Education

In the U. S. over the past twenty-five to thirty years overall real expenditures for K-12 education have increased, expenditures per pupil have increased, and the financial responsibility by level of government has shifted toward the federal and state governments resulting in a correspondingly lower reliance on local property taxes. A major cause of all three trends has been the numerous court decisions concerned with equity and equal opportunity in K-12 education that took place in the 1960s and 1970s. The court cases responded to the documented inequality in levels of school spending that would result from equal property tax rates being imposed in jurisdictions with widely disparate amounts of property wealth.

One of the best known and influential cases is Serrano v. Priest, a case decided by the California Supreme Court in 1976.[1]

The decision invalidated the existing system of educational finance, which relied heavily on local property taxes. Access to public education was deemed to be a "fundamental interest" and wealth of parents or community, a "suspect classification."

Serrano and other cases like it were decided based on state constitutions. The U. S. Supreme Court interpretation of the 14th Amendment in similar cases failed to recognize education as a fundamental interest or wealth as a suspect classification.

Serrano required California to restructure its school finance program so that communities with equal property tax rates could raise equal school revenues, thus diminishing the impact of property wealth. Equal expenditure per pupil was not required, nor was total elimination of reliance on the property tax. More explicitly, the decision can be interpreted as requiring that per pupil fiscal bases be equalized across all jurisdictions in the state.

Several fiscal base equalizing schemes have been proposed to address decisions like Serrano. One of the more widely discussed is district power equalizing. Under district power equalizing, a state allocates aid such that each jurisdiction is guaranteed a key per pupil fiscal base from which to raise revenues for school expenditures. This fiscal base of a relatively poor jurisdiction would be composed of a mixture of its own property wealth and subsidies from the state. A relatively wealthy jurisdiction would be required to contribute part of its wealth to the state for redistribution. The end result is that a tax levy of say one mill in each district would raise the same amount of revenue per pupil. Just as Serrano did not imply equality of expenditures across jurisdictions, neither does a district power equalizing scheme. Fiscal bases may be equalized (up to a key level only) but the choice of tax rate and thus spending level is under the local jurisdiction's control.

Another popular mechanism for state aid to school districts is a system of foundation grants. Under a foundation program the

state guarantees a given minimum per pupil expenditure via grant monies. The state normally requires a minimum local property tax effort, which becomes the local share of the guaranteed foundation expenditure level.

As mentioned above, in many states, including Nevada, state financial involvement in K-12 has increased dramatically in recent years. Most of the state grant programs were implemented specifically to address the equity issue and thus have strong equalizing components. Many are modeled on a district power equalizing program or on a foundation plan. However, recent literature on the economics of education indicates that the emphasis on equalization of per pupil expenditures may be misplaced.[2]

The extensive literature on the relationship between education inputs (teachers, expenditures, type of school, etc.) and education outputs (e.g., student test scores) was initiated by a report mandated by the Civil Rights Act of 1964 entitled Equality of Educational Opportunity, also known as the Coleman Report for its primary author, sociologist James S. Coleman. In the report the authors claim to demonstrate that differences in schools have little to do with differences in the performance of students. Family background and the characteristics of other students in the school seem to be much more important.

Since the report was published, basic flaws in the analysis have been identified and acknowledged. The contribution of the report is that it stimulated hundreds of attempts to relate some measure of educational output to measures of educational inputs (to estimate education production functions). The studies that use school expenditures and other determinants of school expenditures such as student-teacher ratios and teacher salaries find little systematic relationship between school expenditures and student performance. Also, the inputs that do tend to have an effect (specific teachers and school and classroom organization) are not correlated with expenditures. Recent studies[3] comparing

outputs (test scores) of private and public schools find no evidence of a private school effect on achievement, but do find an effect of curriculum design, an input that is easily changed without increasing expenditures.

In summary, the inputs that are most easily affected by increases in expenditures per pupil (number of teachers, salaries or level of academic degree of teachers, etc.) appear to have little systematic relationship to achievement or output. Thus, the emphasis on equalizing expenditures in order to achieve equal educational opportunity may be misplaced. Yet, even if it is difficult to make an economic argument for equal expenditures per pupil, equal opportunity and equity arguments are compelling. Educational inputs (eg., revenues) are much easier to measure and control than educational outputs (achievement) so that policymakers concerned with equal opportunity will understandably design state aid programs aimed at equalizing revenues or expenditures per pupil.

State Aid to School Districts, 1987-88

State aid to school districts in Nevada is based on total guaranteed support levels, which are tailored to each district and from which state mandated, but locally generated, resources are subtracted. The difference between total guaranteed support and local resources (a 1.5-cent sales tax known as LSST and a 25-cent ad valorem tax on real property) is state aid and is funded by the State Distributive School Account. The aid formula allows for differences across districts in the costs of providing education and in local property wealth. The Nevada Plan also allows for some discretion on the part of Department of Education officials in the attempt to achieve equity among the districts.

School districts receive additional revenue that is not part of the guaranteed support program. The guaranteed support level is intended to cover about 85 percent of the districts' general

fund needs. The balance is to be generated through an additional 50 cents of ad valorem tax on real property, motor vehicle privilege taxes, franchise taxes and other local and federal revenues.

Since the inception of the Nevada Plan in 1967 numerous changes to the state aid program have occurred. This section describes how the school aid program was implemented for the most recent school year, 1987-88. This description, which highlights the basic components of the Nevada Plan, may only be a close approximation to the operation of the Distributive School Account for 1988-89 and beyond.

The key to the Nevada Plan is the total guaranteed support level. This represents a guaranteed minimum amount of resources for a school district. It is guaranteed by the state in the sense that if local resources are insufficient to achieve this level, then the state intervenes via aid monies. The guaranteed support level is only a minimum level since school districts can generate additional revenues beyond the guarantee level.

Before the determination of the total guaranteed support level is described, it is useful to present the nature and constraints on local sources of revenue. First, as mentioned above, the state requires school districts to assess a 1.5-cent sales tax, the Local School Support Tax, and a 25-cent ad valorem tax on real property. The revenues generated under these two taxes are subtracted from the total guaranteed support level to determine state aid. The school districts do not have a choice in the imposition of these taxes or in the tax rate levels. School districts also have very little discretion in tax revenues outside the guaranteed support. They cannot assess additional local sales taxes and an additional ad valorem tax of 50 cents is mandated by the state. The franchise and motor vehicle privilege taxes are shared among the overlapping jurisdictions and the rate of taxation is determined by the state. School districts can generate certain nontax revenues (miscellaneous sales, rent, etc.), but these comprise an

insignificant portion of their total budgets. In effect, an individual school district has little control over tax revenues and is heavily dependent upon the state government, which has virtually complete control over the size of its total budget and the components of the revenue side of the budget.

Total guaranteed support has two components, basic support and special education support. Basic support, which is fiscally the more important component, is determined by multiplying the number of pupils by basic support per pupil amounts. Basic support per pupil is derived under a complex formula described in detail below. Special education support, which is added to basic support to arrive at total guaranteed support, is determined by multiplying the number of special education units[4] by a legislatively determined amount ($24,000 in 1987-88). Special education support is a small fraction of total guaranteed support (6 percent on average in 1987-88).

The remainder of this section describes the determination of basic support guarantee levels by district for 1987-88.[5] The figures for the 1987-88 school year are displayed in Table 1. Basic support guarantee (column 3) is weighted enrollment (column 1) times basic support per pupil (column 2). Weighted enrollment is simply a head count of students in grades 1-12, plus 0.6 times the number of students in kindergarten.[6] School districts in Nevada vary greatly in size. Clark, the largest, had close to 97,000 students, while Esmeralda had approximately 160 students.[7] These great differences in size are relevant for interpretation of the results in this chapter that compare the districts to one another.

The statewide average basic support per pupil in 1987-88 was $2517. This average amount results from implementation of the formula and politically (legislatively) determined overall levels of spending. Only three districts had basic support per pupil amounts less than the average of $2517, Clark, Douglas and Washoe. The three districts guaranteed the highest levels of basic support

TABLE 1

1987-88 BASIC SUPPORT

School District	Weighted Enrollment	Basic Support Per Pupil	Basic Support Guarantee
Carson	5,416.6	$2769	$ 14,998,565
Churchill	3,058.8	2849	8,714,521
Clark	96,715.4	2446	236,565,868
Douglas	4,427.4	2493	11,037,508
Elko	5,073.6	2855	14,485,128
Esmeralda	160.4	4250	681,700
Eureka	225.8	3606	814,235
Humboldt	2,325.8	2799	6,509,914
Lander	1,054.6	2967	3,128,998
Lincoln	888.2	4442	3,945,384
Lyon	3,423.2	3106	10,632,459
Mineral	1,128.8	3026	3,415,749
Nye	2,753.0	2978	8,198,434
Pershing	732.4	2966	2,172,298
Storey	294.4	4047	1,191,437
Washoe	33,429.6	2331	77,924,398
White Pine	1,395.0	3379	4,713,705
TOTAL	162,503.0	$2517	$409,130,301

Note 1: Weighted enrollment is the sum of the total number of students in grades 1-12 plus 0.6 times the number of students in kindergarten.

Note 2: Basic Support Guarantee is Weighted Enrollment multiplied by Basic Support Per Pupil.

Note 3: All 1987-88 figures are budgetary, not actual audited, and for the General Fund only.

per pupil were Esmeralda at $4250, Lincoln at $4442 and Storey at $4047. These cross district differences in basic support per pupil levels arise from implementation of the Nevada Plan formula.

There are three components of the formula that determine basic support levels per pupil. A key ingredient of the first component, cost-based basic support per pupil, is the basic support ratio. Basic support ratios differ across districts due to differences in the costs of providing education that arise out of school size. As an example, each school requires an administrative staff of minimum size that includes a principal, regardless of the size of the school. Thus, on a per pupil basis, administrative costs may be higher in smaller districts. As another example, wages and the cost of living can vary widely across the state. Applying these differences to the number of students may cause per pupil differences in costs across districts. In Table 2 the basic support ratios for 1987-88 are displayed by district. Clark and Washoe had the lowest ratios at 0.9590 and 0.9667, respectively. The highest ratios were derived for Eureka and Lincoln at 2.0129 and 1.7100, respectively. These ratios imply that costs per pupil in Eureka are more than twice as high as costs per pupil in Clark.[8]

How do these ratios translate into support levels for the school districts? First, a statewide average level of support per pupil is determined by the legislature. This average level is based on estimates of total enrollment and total revenues available from the Distributive School Account. In 1987-88 the statewide average level of support per pupil was $2,340. In the second step this average support per pupil is multiplied by the basic support ratio for each district to arrive at cost-based basic support per pupil, the first component of the district basic support per pupil. As an example, the figure of $2,544 for Carson is 1.0870 multiplied by $2,340. The resulting figures for all school districts are displayed in Table 2 under the column labeled cost-based basic support per pupil.

TABLE 2

1987-88 SUPPORT RATIOS AND COST-BASED BASIC SUPPORT PER PUPIL

School District	Basic Support Ratios	Cost-Based Basic Support Per Pupil
Carson	1.0870	$2,544
Churchill	1.0904	2,551
Clark	0.9590	2,244
Douglas	1.0977	2,569
Elko	1.1385	2,664
Esmeralda	1.7046	3,989
Eureka	2.0129	4,710
Humboldt	1.1857	2,775
Lander	1.1752	2,750
Lincoln	1.7100	4,001
Lyon	1.1227	2,627
Mineral	1.1679	2,733
Nye	1.1766	2,753
Pershing	1.1748	2,749
Storey	1.6428	3,844
Washoe	0.9667	2,262
White Pine	1.1736	2,746
AVERAGE		$2,340

Note: Cost-Based Basic Support Per Pupil is $2,340 multiplied by th
Support Ratio.

The second and third components of district basic support per pupil attempt to adjust for differences in transportation costs and wealth across the districts. The transportation adjustment component is based on actual operating and capital expenditures for the previous two years. The state funds 85 percent of the per pupil total transportation costs. Differences in geography and size of the districts result in differences in this component across districts.

The wealth adjustment component is derived by calculating "outside" revenue per pupil for each district. Outside revenue is revenue available to the district that is not subtracted from total guaranteed support to arrive at state aid. The primary sources of outside revenue are a 50-cent ad valorem tax, motor vehicle privilege tax, federal monies and the franchise tax. Outside revenue per pupil for each district is compared to the average outside revenue per pupil for the entire state. The difference between the district value and the average state-wide value becomes the wealth component. If a district value exceeds (is less than) the state average value, the wealth component will be negative (positive). The purpose of this adjustment to basic support is to equalize across districts for differences in wealth.

The three components, cost-based basic support, transportation adjustment, and wealth adjustment are added together to arrive at basic support per pupil. The values for the three components and for basic support per pupil for 1987-88 are displayed in Table 3.

As an example of how the transportation and wealth adjustments can affect basic support per pupil consider Eureka. Eureka has the highest figure for cost-based support per pupil, but once its large wealth adjustment factor[9] is subtracted its resulting basic support per pupil is only fourth highest. Eureka's wealth adjustment is so large that it negates the effect of a relatively large transportation adjustment. The two districts with the highest basic support per pupil amounts are Esmeralda and Lincoln, at $4370 and $4591, respectively. Clark at $2410 and Washoe at $2252

TABLE 3

COMPONENTS OF 1987-88 BASIC SUPPORT PER PUPIL, DOLLARS

	Cost-Based Basic Support Per Pupil	Transportation Adjustment	Wealth Adjustment	Basic Support Per Pupil
Carson	2,544	118	71	2,733
Churchill	2,551	215	184	2,950
Clark	2,244	119	47	2,410
Douglas	2,569	231	-292	2,508
Elko	2,664	170	29	2,863
Esmeralda	3,989	987	-605	4,370
Eureka	4,710	823	-1804	3,729
Humboldt	2,775	156	84	3,015
Lander	2,750	154	56	2,960
Lincoln	4,001	247	343	4,591
Lyon	2,627	290	208	3,125
Mineral	2,733	193	-210	2,716
Nye	2,753	235	-86	2,902
Pershing	2,749	241	-66	2,924
Storey	3,844	135	24	4,003
Washoe	2,262	132	-142	2,252
White Pine	2,746	324	283	3,353

Note 1: Basic Support Per Pupil is the sum of Cost-Based Basic Support Per Pupil, Transportation Adjustment, and Wealth Adjustment.

Note 2: The Basic Support Per Pupil figures in this table differ from the figures reported in Table 1. The figures in Table 3 are preliminary and were adjusted slightly, as explained in the text, to arrive at the final figures in Table 1.

receive the lowest basic support per pupil amounts.

The values for basic support per pupil displayed in Table 3 differ from the values actually used in determining state aid in 1987-88 and displayed in Table 1. This occurs because of two further adjustments in 1987-88 for special programs and for an unanticipated deficiency in the Distributive School Fund. This is the first place where discretion on the part of the Department of Education and all seventeen superintendents results in small changes from the outcomes that would be generated by a straightforward application of the formula.

In Table 4 the 1987-88 values for basic support guarantee, special education guarantee, total guarantee (the summation of the first two columns) and state aid are displayed. The difference between the total guarantee amount and state aid is the revenue raised under LSST and the 25-cent ad valorem tax. In the next section state aid and other components of the district budgets are compared over time and across districts. Two issues investigated are the level of dependency of a district on the state, and the contribution of property taxes to school district finance.

State Aid Compared, Overtime and Across Districts

As noted, the Nevada Plan guarantees a support level for each school district. These guaranteed support levels reflect differences across the districts in enrollments, administrative and student costs, transportation costs, and wealth. They result from an explicit policy on the part of the state to guarantee equal educational opportunity for elementary and secondary students in Nevada. The total guaranteed support levels fall short of total revenues available to the districts. Thus school districts are required by the state to assess an additional ad valorem tax of 50 cents, and the districts receive a share of the revenues raised under the franchise and motor vehicle privilege taxes. Other programs administered by the state such as the high school diploma

TABLE 4
Guaranteed Support and State Aid, Dollars

Guarantee	Basic Support Guarantee	Special Education Guarantee	Total Aid	State
Carson	14,998,565	948,000	15,946,565	9,694,810
Churchill	8,714,521	504,000	9,218,521	7,444,414
Clark	236,565,868	15,096,000	251,661,868	144,130,334
Douglas	11,037,508	708,000	11,745,508	6,543,635
Elko	14,485,128	744,000	15,229,128	10,808,899
Esmeralda	681,700	72,000	753,700	606,204
Eureka	814,235	48,000	862,235	301,056
Humboldt	6,509,914	336,000	6,845,914	4,987,155
Lander	3,128,998	180,000	3,308,998	2,647,295
Lincoln	3,945,384	204,000	4,149,384	3,907,371
Lyon	10,632,459	576,000	11,208,459	9,668,082
Mineral	3,415,749	240,000	3,655,749	3,084,529
Nye	8,198,434	408,000	8,606,434	5,887,451
Pershing	2,172,298	120,000	2,292,298	1,730,995
Storey	1,191,437	48,000	1,239,437	971,599
Washoe	77,924,398	5,304,000	83,228,398	34,564,991
White Pine	4,713,705	264,000	4,977,705	4,124,461
TOTAL	409,130,301	25,800,000	434,930,301	251,103,281

Note: State Aid is Total Guarantee minus revenues generated locally by the 1.5-cent LSST and 25-cent ad valorem tax.

program are funded by the Distributive School Account, and additional revenues are generated from user charges and miscellaneous receipts imposed by the district, federal aid such as PL 874, and interfund transfers.

In 1987-88 the aggregate of the seventeen total guaranteed support levels was $434,930,301. The corresponding aggregate for total current receipts or total revenues was $536,877,652, a difference of $101,947,351 or 23 percent.[10] The revenue source that contributed the largest amount to this difference was the 50-cent ad valorem tax. Consequently districts that were relatively property rich (poor) raised total revenues that far exceeded (closely approximated) their total guaranteed support levels. For example, Lincoln, which is relatively property poor, had a total guaranteed support level of $4,149,384 and total revenues of $4,388,516, a difference of only 6 percent. Whereas Eureka, which is relatively property wealthy, had a total guaranteed support level of $862,235 and total revenues of $1,432,774, a difference of 66 percent. The role played by differences in property wealth in determining differences in revenues or expenditures is explored further below.

In the past ten years the reliance of school districts on state aid[11] has increased. The upward trend in the dependency on the state has not been completely smooth because there have been dramatic changes in the treatment of the property tax under the Nevada Plan over the years. For example, in the 1982-83 school year ad valorem taxes were not subtracted from the total guaranteed support level to arrive at state aid. State aid was thus an extraordinarily large share of total guaranteed support levels in 1982-83. The share attributable to state aid fell off after this year.

In 1977-78, on average, 42 percent of total revenues were attributable to state aid. The district with the highest reliance on state aid was Lincoln at 59 percent, while Eureka had the lowest dependency on the state at 14 percent. In 1982-83 the

corresponding figures were an average of 52 percent with Lincoln receiving 83 percent of its revenues from the state and Douglas having the lowest reliance on the state at 40 percent. These high figures illustrate the uniqueness of the 1982-83 program. In 1987-88 the average reliance on the state was 47 percent with Lincoln again having the highest reliance at 85 percent and Eureka being least dependent at 22 percent. To summarize, school districts were on average more dependent on state aid in the most recent school year than they were ten years ago, and there was much variability across the districts in the degree of reliance on the State in both years.

Corresponding to these changes over time in the reliance on state aid are changes in the reliance on local ad valorem property taxes. In 1977-78, on average, school districts raised 30 percent of total revenues from property taxes. Eureka had the highest share of total revenues attributable to the property tax at 70 percent, whereas Mineral relied on property taxes for only 15 percent of total revenues. In 1982-83, the average reliance on the property tax was only 14 percent with Eureka at 33 percent having the highest reliance and Lincoln at 7 percent having the lowest reliance. In the most recent school year, 1987-88, the average reliance on the property tax was 22 percent. Property taxes contributed an astounding share, 99 percent, of Eureka's total revenues.[12] At the other extreme, Lincoln raised only 8 percent of total revenues from the property tax.

One goal of state aid is to redistribute revenue to relatively poor districts. If we use assessed property value per pupil as a measure of wealth,[13] the three wealthiest districts in 1987-88 were Eureka with assessed value per pupil at $836,059, Esmeralda with $220,116 in assessed value per pupil, and Storey at $157,883. The three least wealthy districts were Lincoln at $52,090, White Pine at $58,189, and Churchill at $62,644. The average assessed value per pupil in the State in 1987-88 was $95,704.

The three districts that received the greatest amount of state aid per pupil in 1987-88 were Lincoln at $4242, Esmeralda at $3409, and Storey at $3230. Washoe at $1078, Eureka at $1339, and Douglas at $1496 were at the other end of the scale in state aid per pupil. The fact that Lincoln, one of the poorest districts, received the most aid per pupil and Eureka, the wealthiest district, was second to last in terms of aid per pupil suggests that the aid program may be redistributive in nature. On the other hand, Esmeralda and Storey are second and third in terms of the amount of aid per pupil and yet they were two of the wealthiest districts. This occurs because the state aid program is designed to accomplish more than simple redistribution. In particular, the formula attempts to control for differences in the costs of providing education, and both Esmeralda and Storey are considered to be high cost districts.

A more systematic method of evaluating the relationship between state aid per pupil and assessed value per pupil is to calculate the correlation coefficient between the two series. A correlation coefficient of 1.0 means that the two are perfectly correlated, when one increases the other increases. A correlation coefficient of -1.0 also indicates perfect correlation but in an inverse fashion, when one increases the other decreases. A correlation coefficient of 0.0 indicates no correlation, the two series would be unrelated. The correlation coefficient between state aid per pupil and assessed value per pupil in 1987-88 is -0.321 indicating that the two are negatively correlated but the relationship is not particularly strong. For a comparison, the correlation coefficient for the two series in 1982-83 was -0.513 indicating that the 1982-83 aid program was more redistributive than the 1987-88 program. This is reasonable given that aid was a greater share of total revenues in 1982-83 and ad valorem taxes were not part of total guaranteed support. By contrast, in 1977-78 the correlation coefficient between the two series was 0.011 indicating no correlation. The 1977-78 aid program did nothing to redistribute between districts based on property wealth.

The purpose of giving different amounts of aid to different districts is to attempt to achieve more equal expenditures per pupil across the districts. The desire is to eliminate inequities in educational opportunity, and expenditures per pupil is a popular measure of educational opportunity. Have expenditures per pupil become more equal overtime? The coefficient of variation, a relative measure of variability, of expenditures per pupil in 1977-78 is 0.387. The corresponding statistic for 1987-88 is 0.314 indicating that there has been a slight decrease in disparities across districts in this measure of educational opportunity. It is important to remember that, if cost differences exist, then complete equality of expenditures per pupil would not represent complete equality of opportunity. High cost districts would be expected to spend more per pupil to achieve the same level of education as that achieved by low cost districts.

In Table 1, the basic support per pupil figures, displayed as the second column of figures, reflect differences across the districts in wealth, transportation, and costs of education. These basic support per pupil figures represent the embodiment of the state policy to control for wealth and cost differences across the districts while attempting to provide for given levels of education. On the other hand, total revenues per pupil represent the actual ability of a district to provide for its students.

Do total revenues per pupil reflect the state goals as embodied by basic support per pupil? The three districts with the highest basic support per pupil levels in 1987-88 were Lincoln at $4442, Esmeralda at $4250, and Storey at $4047. The three districts at the other end of the scale were Washoe at $2331, Clark at $2446, and Douglas at $2493. The three districts with the highest total revenues per pupil were Eureka at $6345, Esmeralda at $6187, and Lincoln at $4941. Clark at $3167, Washoe at $3260, and Churchill at $3429 were the three districts with the lowest levels of total revenues per pupil. There appears to be a close correspondence between these two lists, that is, districts with

high (low) basic support per pupil levels had high (low) total revenues per pupil. This conclusion is borne out by a correlation coefficient of 0.820 between the two series. Thus, if the formula that determines basic support per pupil amounts is an accurate reflection of the goals of policymakers, then actual total revenues per pupil are a close approximation to those desired goals. Differences in wealth across the districts are still reflected in the revenue outcomes (Eureka being the most obvious example), but basic support per pupil differences are clearly the dominant force determining total revenues per pupil.

An examination of several of the components of the revenue side of the 1987-88 district budgets provides a useful summary of many of the themes of this chapter. In Table 5, total revenue, state aid, ad valorem revenue, LSST revenue, these three components as a fraction of total revenue, and total revenue per pupil are displayed.[14] State aid, ad valorem, and LSST are the three most important sources of revenue for school districts, contributing 95 percent of total revenues on average, and each is controlled or set by the state. State aid contributes almost half of total revenues on average, but there is great variability across the districts in their reliance on state aid. The districts that are heavily dependent on state aid raise little revenue under the two local taxes, LSST and ad valorem. The range in total revenues per pupil across the districts is approximately two to one with Eureka at $6345 and Clark at $3167. Several important issues are left unexplored by this chapter. The impact of finances, both level and mix, on the quality of education is the most important and the most difficult to address. Hundreds of studies in the last twenty-five years have yielded little of use to policymakers. A second issue is whether the methods used to determine differential costs across districts are valid. To evaluate the methodology used in Nevada an understanding of education production functions is critical. The academic research in this area is lacking as well. This issue is very important in Nevada because, as we have seen, the

Table 5

Budgeted General Fund Revenues for School Districts, 1987-88

	Total Current Revenues	Total State Aid	Ad Valorem Revenues	Total LSST Revenues
Carson	$18,990,999	$9,631,777	$3,486,980	$4,944,661
Churchill	10,490,102	7,570,480	1,437,122	1,200,000
Clark	306,292,202	146,061,067	63,422,371	84,285,164
Douglas	16,138,098	6,624,592	5,237,406	3,387,600
Elko	18,950,165	10,427,572	3,187,364	3,795,581
Esmeralda	992,333	546,854	266,297	56,000
Eureka	1,432,774	302,446	1,416,034	206,481
Humboldt	8,304,231	5,136,078	1,883,721	1,079,130
Lander	3,782,148	2,385,230	706,296	495,462
Lincoln	4,388,516	3,767,981	346,995	119,840
Lyon	13,022,070	9,829,701	1,786,353	930,201
Mineral	4,629,896	3,066,467	648,964	398,065
Nye	10,725,355	6,053,133	2,606,640	1,805,507
Pershing	2,823,002	1,759,503	654,644	255,854
Storey	1,443,269	951,122	348,607	172,113
Washoe	108,996,966	36,031,234	29,506,499	37,811,664
White Pine	5,475,526	4,101,897	608,801	711,453
TOTAL	$536,877,652	$254,247,134	$117,551,094	$141,654,776

TABLE 5 (continued)

	Total Revenues Per Pupil	State Aid Share of Revenues	Ad Valorem Share of Revenues	LSST Share of Revenues
Carson	$3506	0.51	0.18	0.26
Churchill	3429	0.72	0.14	0.11
Clark	3167	0.48	0.21	0.28
Douglas	3645	0.41	0.32	0.21
Elko	3735	0.55	0.17	0.20
Esmeralda	6187	0.55	0.27	0.06
Eureka	6345	0.21	0.99	0.14
Humboldt	3570	0.62	0.23	0.13
Lander	3586	0.63	0.19	0.13
Lincoln	4941	0.86	0.08	0.03
Lyon	3804	0.75	0.14	0.07
Mineral	4102	0.66	0.14	0.09
Nye	3896	0.56	0.24	0.17
Pershing	3854	0.62	0.23	0.09
Storey	4902	0.66	0.24	0.12
Washoe	3260	0.33	0.27	0.35
White Pine	3925	0.75	0.11	0.13
AVERAGE	$3304	0.47	0.22	0.26

Note: Eureka's total of state aid, ad valorem revenues and LSST revenues is $1,924,961, 134 per 12 for an explanation of this discrepancy.

implementation of the cost differences via basic support per pupil amounts is strongly reflected in differences in actual revenues per pupil across the districts. If the cost calculations are faulty, the resulting revenue differences reflect errors rather than stated policy.

A third issue that is not investigated here is the incentive effects imbedded in the state aid program. It is difficult to devise tests of the standard questions concerning local government behavior in response to intergovernmental aid in the Nevada context because the local governments (in this case, school districts) have so little control over their budgets. In another chapter of the Nevada Study, school districts are compared to other local governments (counties and cities) and some inferences are made about the differential response of the different types of local governments to the different state aid programs they face.

The Nevada Plan is a complex program with many goals. Between 1977-78 and 1987-88 it has resulted in school districts relying less on local property taxes and more on state aid to finance school expenditures. Differences in district wealth are still reflected in total revenues (or expenditures) per pupil, but the policy goals embedded in basic support per pupil amounts (i.e., concern for cost and wealth differences across districts) are successfully reflected in ultimate budget figures. There is evidence that there has been a very slight decrease in disparity across districts in expenditures per pupil during the decade. Two reasons for the lack of equalization over time is that the state aid program generates desirable differences across districts based on cost differences, and state aid has not been strongly targeted toward relatively less wealthy districts.

ENDNOTES

1. This discussion of court cases and financing schemes relies heavily on "Judicial Approaches to Local Public-Sector Equity: An Economic Analysis," by Daniel L. Rubinfeld in Current Issues in Urban Economics edited by P. Mieszkowski and M. Straszheim, The Johns Hopkins University Press, 1979.

2. The following discussion is based on "The Economics of Schooling: Production and Efficiency in Public Schools," by Eric A. Hanushek, Journal of Economic Literature, Vol. 24, No. 3, September, 1986.

3. See "Do Private Schools Make a Difference?" by Maria San Segundo, S.E.E.D.S. discussion paper 50, June 1987.

4. A special education unit consists of one full-time special education teacher and his or her student(s).

5. The 1987-88 figures employed in this chapter are budgetary. Actual audited figures will not be available until November 30, 1988. The figures are for the General Fund only. Other funds such as the Debt Service Fund and the Capital Projects Fund are not included in this study.

6. Weighted enrollment rather than actual number of students is used throughout this chapter as a measure of total enrollment.

7. Esmeralda had an additional 84 high school students that were transferred to Nye for schooling. These inter-district transfers of students are not accounted for in the comparisons in this chapter.

8. There are many steps involved in arriving at the basic support ratios. The steps entail application of cost tables generated by the Department of Education. Certain districts are grouped together for various stages of the formula indicating that costs are assumed to be the same among districts in a group. In the 1987-88 implementation of basic support ratios the following districts were grouped together.

Group I: Carson City, Churchill, Douglas, Mineral

Group II: Clark, Washoe

Group III: Elko, Humboldt, Lander, Lyon, Nye, Pershing, White Pine

Group IV: Esmeralda, Eureka, Lincoln, Storey

These groupings may or may not be appropriate, and the differentials across groups imposed for administrative costs, costs per elementary student and costs per secondary student may or may

not be warranted. But they are the factors that determine the differences in basic support ratios and thus determine cost-based basic support per pupil, the first component of district basic support per pupil. An evaluation of the cost tables used to generate these ratios is beyond the scope of this chapter.

9. Eureka is a district heavily dependent on mining, and mining proceeds are included in assessed valuation. Therefore, Eureka's assessed valuation is as variable as the fortunes of the mining industry. In 1987-88 Eureka experienced a mining boom, which explains the measured high assessed value per pupil.

10. Throughout this chapter, actual (for 1977-78 and 1982-83) or budgeted (for 1987-88) figures for the General Fund are utilized.

11. In this section state aid refers to total monies from the state government to school districts. The Distributive School Account is the largest component of state aid but there are a few other special programs.

12. The reason that property taxes can represent 99 percent of total revenues while state aid represents 22 percent of total revenues for Eureka in 1987-88 is that there is a large transfer out of the General Fund into other funds to arrive at total revenues. This is an accounting anomaly that has noticeable effects for Eureka only.

13. Assessed property value per pupil is an inadequate measure of local wealth or income. A preferred measure would be per capita or per pupil income, but these data are not available on a yearly basis by district. One defense for using property value is that it is the measure used in the wealth adjustment factor of the Nevada Plan.

14. By far the largest component of state aid is the distributive school fund component. The amounts displayed for the distributive school fund in the budget tables provided by the Department of Education differ from those displayed in Table 4 under the column labeled State Aid. This is the second place where discretion on the part of school officials results in slight differences from what would occur if the formula was simply implemented without refinements required by unanticipated changes in the overall school budget or sales tax revenues collected.

STATE ASSISTANCE TO LOCAL GOVERNMENTS
PART III
STATE CONTROL OF LOCAL REVENUE RAISING IN NEVADA

The purpose of this section is to describe the Supplemental City/County Relief Tax (SCCRT), which was the centerpiece of the 1981 tax-shift program. The first section puts the tax-shift program in historical context by reviewing recent (1979-87) tax reform initiatives in Nevada. The next section describes the process for determining the Maximum Combined Allowed Revenue, the SCCRT payment to each jurisdiction and the Allowed Ad Valorem Tax Revenue Limit. The final section of the paper evaluates the impact and the redistributive component of the SCCRT program. Appendix I defines each step in the 57 step process of calculating the 1988 SCCRT payment and related limits.

HISTORY OF RECENT EFFORTS TO REDUCE LOCAL PROPERTY TAXES

1979 Tax Reform

The mid to late 1970s were characterized by relatively high rates of inflation that increased property values and property tax burdens significantly. The rapid increases in property taxes contributed to a growing taxpayer revolt nationally and in Nevada. This situation was exacerbated in Nevada because property was reappraised only every 5 years. As a result, there were even more dramatic increases in property values and tax burdens for the citizens of Nevada. In response, taxpayers proposed Question 6 in 1978, which was a constitutional initiative to limit local property taxes much like the property tax limitation initiative approved in neighboring California in 1978 (Proposition 13). The ballot question was approved by the voters in 1978 and was headed for passage and enactment in 1980 if the legislature failed to act. To respond to taxpayer concerns, the legislature approved a tax-relief package of its own in 1979. As a result, Question 6 was defeated by the voters in 1980.

The tax relief package approved by the legislature in 1979 provided across-the-board property tax relief by statutorily lowering the $5.00 constitutional maximum rate to $3.64 per $100 of assessed value. Since assessed value is 35 percent of estimated taxable value, the maximum effective rate was limited to 1.27 percent of taxable value. To reach the $3.64 limit, the following levies were eliminated:

State Levy	.25
County Medicaid Levy	.11
Mandatory School Levy	.70
Optional School Levy	.30
Total Rate Relief	1.36

The legislature further reduced property taxes by exempting household personal property from taxation. The legislature, aided by the state's large surplus, then replaced the lost local and school revenues with state funds.

In addition to the tax reductions, the legislature tried to provide ongoing tax relief by limiting the growth of local government general fund expenditures and the amount of property taxes that a school district may levy. The local general fund expenditure limitation proved to be ineffective, in part because a majority of cities and counties in Nevada expanded activities in other funds, thereby reducing the relative importance of general fund expenditures in their budgets.

1981 Tax Reform

As the 1981 legislature convened, property tax issues were still a major concern because of dissatisfaction with tax liabilities that continued to increase rapidly as a result of increases in assessments, the five-year reappraisal cycle and market oriented assessment practices. At the same time, the state was finding itself unable to continue property tax relief at the current level. In addition, the cap on school districts proved more restrictive than intended. Faced with these conflicting

problems, the legislature passed a new tax reform package with the following major features affecting local finances:

- the Local School Support Tax (sales tax) was increased from 1.0 to 1.5 cents to provide new revenues and reduce the amount of state appropriations to the Distributive School Fund.
- a major new addition to the sale tax, the Supplemental City/County Relief Tax (SCCRT) of 1.75 cents, was mandated in addition to the existing half cent Basic City/County Relief Tax (BCCRT). The BCCRT distributes in-state sales tax collections to the county of origin and to cities within the county on a per capita basis to offset declines in cigarette and liquor taxes. The proceeds from the new SCCRT were to replace local property taxes on a dollar-for-dollar basis.
- a formula, based on the jurisdiction's property tax rate in 1981, changes in the Consumer Price Index (CPI) and the growth in assessed valuation, was created for determining the "basic ad valorem revenue" a jurisdiction would receive if there were no replacement program. Any amount of the "basic ad valorem revenue" remaining after replacement with the SCCRT could be raised through a local ad valorem tax. Growth in ad valorem taxes, however, was limited to 4.5 percent annually.
- a cap on fees and licenses and permits and service charges of local governments was established and based on changes in the Consumer Price Index.
- assessment procedures were significantly modified by providing for annual factoring of property values between periods of site appraisal, and mandating that improvements to real property used for residential purposes be valued at replacement cost less depreciation, as is the practice for commercial and industrial properties, rather than on sales value.

- an Interim Legislative Committee on Local Government Finance was created with the charge to meet in the off years of the biennium to oversee implementation of the tax reform package and to approve overrides to the caps in certain circumstances. The caps could also be overridden with the approval of voters.

The legislation approved in 1981 provided for the sunsetting of the increases in the Local School Support Tax and the Supplemental City/County Relief Tax in 1983.

1983 Tax Reform

The 1983 legislature faced two serious fiscal problems. First, the national recession that began in early 1981 affected the state's economy more quickly and more severely than anticipated, resulting in shortfalls in expected revenues for the state and most local governments. The most severely affected sources of revenue were the sales tax and gaming revenues which were major revenue sources for the state and local governments. In view of the tax changes made in 1981, which substituted the sales tax for the local property tax, local governments were especially hard hit because they had cut their property taxes according to the state mandated formula, but sales tax collections did not met expectations causing a significant shortfall in SCCRT payments. Local governments could not make up the shortfall by raising their property taxes.

Second, problems surfaced in the application of previous legislation that limited state and local governments' ability to generate and allocate revenue. The 1983 legislature addressed the revenue shortfall and the various other problems by enacting several revenue raising measures (20). The following actions were most relevant to local finances:

- the property tax rate for local school districts was increased from 50 cents to 75 cents per $100 assessed value with the additional 25 cents placed in the school formula as an offset to state general funds.

- a statewide ad valorem tax of 5 cents per $100 of assessed value was imposed for state purposes.
- the 1981 increases in the Local School Support Tax and the Supplemental City/County Relief Tax were made permanent.
- a statewide ad valorem tax of .75 cents per $100 assessed value was created to pay for hospital care of indigent persons injured in automobile accidents.
- the procedure for computing the taxable value of real property improvements was amended by mandating a depreciation schedule of 1.5 percent per year (instead of 2 percent) for 50 years (instead of 40 years) and by requiring that major remodeling or renovation amounting to 10 percent of the replacement cost be considered in determining the depreciated age.
- the 4.5 percent limitation on local government property tax collections was suspended for fiscal year 1984 allowing local governments to make up the difference between estimated and actual SCCRT payments caused by the underestimating of sales tax revenues in the first year of the program.
- the Interim Legislative Committee on Local Government Finance was eliminated returning authority for oversight of local governments to the Nevada Tax Commission.
- limits on licenses and permits were redrawn with an aggregate, rather than an individual, limit on business licenses and regulatory fees and limits on services charges continued.

1985 Tax Reform

The 1985 legislature convened with a recovering economy and an anticipated general fund surplus for the 1983-85 biennium of $154 million. The realization of such a surplus was dependent on the continuation of several revenue sources scheduled to sunset in

1985. Faced with proposals for additional spending and complaints from local governments about a number of financial problems beyond their control the legislature enacted several revenue related measures (30). Many of the bills eliminated or extended the sunset provisions of many of the tax increases adopted by the 1983 legislature. Of most relevance to the SCCRT program and local property taxes, the following actions were adopted by the legislature:

- a statewide ad valorem tax of 2 cents per $100 assessed value was authorized and appropriated to the consolidated bond interest and redemption fund.
- an ad valorem tax of 3 cents per $100 assessed value was authorized with 90 percent of the proceeds to go to a fund in the county of origin to pay for indigent medical bills up to $25,00 and 10 percent to go to the state to pay all or part of indigent medical charges in excess of $25,000.
- creation of emergency 911 telephone systems was authorized and tax districts covering the area of service were authorized to levy .5 cents per $100 assessed value in the district to support the system.
- the authority to make special distributions from the SCCRT reserve fund was removed from the Nevada Tax Commission and given to the Interim Finance Committee.
- the reserve fund balance that must be accumulated before special distributions in the SCCRT program can be made was increased.
- a county which has two or more unincorporated towns that are adjacent to each other and are receiving a common service was authorized to allow the local governments to levy a common rate of property taxes to provide that service and a separate rate of property taxes may be levied in any town for a capital improvement or a service being provided only to that town.

- the Tax Commission was directed to deduct the maximum allowed revenue for a new district within a county from the maximum allowable revenue of the governments which were formerly providing the service.

1987 Tax Reform

The economy of Nevada did not live up to the expectations of the 1985 legislature. In addition, there was a continuing increase in the state's population and a subsequent demand for government services. Therefore, the legislature adopted 44 significant revenue-related bills including 16 bills affecting local finances. Of most relevance for local governments were bills that:

- increased the current 2 cent state property tax to 4.7 cents on July 1, 1987 and then to 5.7 cents on July 1, 1989 with the additional funds to go into the consolidated bond interest and redemption fund.
- raised the revenue caps on local governments with the ad valorem cap increasing from 4.5 to 6.0 percent and increasing the amount of CPI adjustment in the SCCRT and ad valorem tax from 80 to 100 percent.
- provided for an increase of 5 percent in the amount of allowable ad valorem revenue and the amount of maximum combined allowable revenue (MCAR) for local governments for fiscal year 1988 only.
- removed net proceeds of mines from all computations used in determining the revenue caps upon local governments and intracounty distributions of SCCRT revenues.
- made specific allowances for increased ad valorem taxes for individual counties for jails, tourism, indigent care, police and fire protection and other discrete services.
- provided that any county which had an enterprise fund exclusively for fees for building permits may have such fees excluded from the combined limit of fees otherwise

provided by law, but these fees can only be used for purposes related to the issuance of the building permits.

- changed the base for computing the annual increase in ad valorem taxes from the revenue received to the maximum revenue allowable.

The purpose of this section has been to put the current SCCRT program in historical context and give some flavor of the degree to which the state is involved in determining local finances. The next section describes the SCCRT program in effect in fiscal year 1988.

DETERMINING SUPPLEMENTAL CITY/COUNTY RELIEF TAX PAYMENTS

The centerpiece of the tax-shift initiative of 1981 was the Supplemental City/County Relief Tax (SCCRT). The 1981 legislature, responding to pressures from taxpayers, passed the tax-shift program to

- reduce the general reliance of school districts and local governments on the property tax; and
- limit the growth in local government spending.

The purpose of the tax-shift was to substitute sales tax revenues directly for property tax revenues, i.e. shift the main source of local finance from the local property to the state sales tax.

The revenues to fund the SCCRT program are generated by a 1.75 percent tax on taxable sales or the taxable use of tangible personal property. The tax is administered by the state Department of Taxation, which retains a half percent of the proceeds of the in-state collections to cover the cost of collecting and distributing the tax. The remainder of the revenues are distributed to county governments and then shared on a formula basis between the county and various local governments within the county, including cities, towns, and special districts.[1] In total, 154 jurisdictions received some portion of the estimated $185.1 million distributed through the SCCRT in 1988.[2]

Although 154 jurisdictions received SCCRT allocations in 1988, the 17 counties received $105.1 million, or 56.8 percent of the total. The 17 incorporated cities received an additional $39.9 million, or 21.5 percent of the total. Thus, these 34 jurisdictions received 78.3 percent of the amount distributed, leaving just 21.7 percent, or $40.1 million, for the remaining 120 jurisdictions. (See Tables 1 and 2.)[3]

Since the revenues collected from the 1.75 percent sales tax are distributed by formula rather than returned to the jurisdictions where they were collected, there is a redistributive element to the program as well. Because sales tax collections are only reported on a county-by-county basis, the flow of SCCRT collections and distributions can only be compared on such a basis.[4]

In 1988, six of the 17 counties in Nevada received less in total SCCRT distributions than they contributed to in-state SCCRT sales tax collections. Specifically, Carson City (75.0 percent), Churchill (67.1 percent), Clark (99.9 percent), Elko (56.8 percent), Eureka (84.6 percent) and Humbodlt (87.6 percent) counties received less than 100 percent of their in-state sales tax collections back in the form of total SCCRT distributions (including special discretionary SCCRT payments). (See Table 3.)

Table 3 lists SCCRT and special distributions relative to in-state tax collections for all 17 counties. For the 11 counties in 1988 that received more in total SCCRT distributions than they contributed to in-state collections, the range in share returned was from 104 percent in Nye County to 549 percent in Lincoln County. In other words, Nye County received total SCCRT payments that were 4 percent greater then the amount of in-state SCCRT sales tax revenues raised in the county, while Lincoln County received a payment that was 449 percent greater.

This difference between in-state SCCRT collections and distributions is one dimension of the redistribution among jurisdictions that takes place through the SCCRT program. Looking

TABLE 1: MAXIMUM COMBINED ALLOWABLE REVENUE, SUPPLEMENTAL CITY/COUNTY RELIEF TAX, AND ALLOWED AD VALOREM REVENUES, BY COUNTY, 1988

ENTITY	1987-88 ADJUSTED MAXIMUM COMBINED ALLOWABLE REVENUE	1987-88 ESTIMATED SCCRT PAYMENT	1987-88 TOTAL ALLOWED AD VALOREM REVENUE	SHARE OF MCAR RECEIVED THRU SCCRT AND MAX ALLOWABLE AD VALOREM REVS
CARSON CITY	7,408,630	4,301,004	2,503,461	91.8
CHURCHILL CO	1,898,724	1,130,374	575,788	89.9
CLARK COUNTY	88,418,375	48,578,823	38,346,504	98.3
DOUGLAS CO	4,432,029	2,203,355	2,045,075	95.9
ELKO COUNTY	2,465,860	1,400,793	1,424,435	114.6
ESMERALDA CO	839,079	483,106	390,285	104.1
EUREKA CO	1,420,928	822,437	702,778	107.3
HUMBOLDT CO	2,652,251	1,534,849	1,230,041	104.2
LANDER CO	1,667,118	922,097	649,459	94.3
LINCOLN CO	813,276	463,243	223,986	84.5
LYON COUNTY	4,726,820	2,771,133	1,435,817	89.0
MINERAL CO	1,789,522	1,077,418	736,971	101.4
NYE COUNTY	4,194,846	2,415,840	2,025,215	105.9
PERSHING CO	1,168,721	693,056	565,385	107.7
STOREY CO	1,062,380	617,580	440,970	99.6
WASHOE CO	60,205,191	34,813,629	23,252,291	96.4
WHT PINE CO	1,373,872	822,998	451,870	92.8
GRAND TOTAL	186,537,624	105,051,735	77,000,330	97.6

Source: Urban Institute staff compilations based on data provided by the Nevada Department of Taxation.

TABLE 2: MAXIMUM COMBINED ALLOWABLE REVENUE, SUPPLEMENTAL CITY/COUNTY RELIEF TAX, AND ALLOWABLE AD VALOREM REVENUE, CITIES, 1988

ENTITY	1987-88 ADJUSTED MAXIMUM COMBINED ALLOWABLE REVENUE	1987-88 ESTIMATED SCCRT PAYMENTS	1987-88 TOTAL ALLOWED AD VALOREM REVENUE	SHARE OF MCAR RECEIVED THRU SCCRT AND MAX ALLOWABLE AD VALOREM REVS
FALLON	483,900	274,007	154,428	88.5
BOULDER CITY	1,214,838	930,419	188,267	92.1
HENDERSON	3,736,115	3,170,746	327,635	93.6
LAS VEGAS	34,108,275	18,870,035	12,725,570	92.6
MESQUITE	354,025	208,784	155,115	102.8
N LAS VEGAS	2,525,987	1,705,034	1,112,060	111.5
CARLIN	130,535	76,315	60,747	105.0
ELKO	1,286,643	666,646	361,936	79.9
WELLS	156,429	94,643	44,523	89.0
WINNEMUCCA	865,869	546,086	317,459	99.7
CALIENTE	57,133	35,049	24,941	105.0
YERINGTON	50,653	35,327	31,750	132.4
GABBS	112,694	26,424	34,705	54.2
LOVELOCK	73,631	46,608	30,705	105.0
RENO	16,390,493	8,810,622	3,821,596	77.1
SPARKS	6,195,744	4,142,018	2,364,840	105.0
ELY	425,637	228,046	94,638	75.8
GRAND TOTAL	68,168,603	39,866,810	21,850,914	90.5

Source: Urban Institute staff compilations based on data provided by the Nevada Department of Taxation

at this and other data, some have raised a question whether individual jurisdictions receive their "fair share" of state aid. This issue is explored in more depth in the next section of this chapter.

TABLE 3: SCCRT IN-STATE TAX COLLECTIONS AND DISTRIBUTIONS, 1987 AND 1988

COUNTY	PERCENT DISTRIBUTION VS. COLLECTIONS 1987	1988
CARSON	73.5	75.0
CHURCHILL	86.6	67.1
CLARK	98.8	99.9
DOUGLAS	127.4	135.3
ELKO	64.8	56.8
ESMERALDA	348.4	395.9
EUREKA	219.4	84.6
HUMBOLDT	108.4	87.6
LANDER	177.2	163.0
LINCOLN	557.5	548.9
LYON	246.3	248.8
MINERAL	217.7	176.6
NYE	120.6	104.1
PERSHING	138.7	148.9
STOREY	237.5	219.8
WASHOE	120.3	128.4
WHITE PINE	162.8	164.3

Source: Data provided by the Nevada Department of Taxation.

The process for determining the distribution of SCCRT revenues and setting limits on the amount of revenue each jurisdiction can raise from the property tax is administered by the Department of Taxation and involved 57 discrete steps in 1988. Appendix I describes each of those steps for determining the 1988 SCCRT distribution and property tax revenue limits. Basically, there are three separate stages in that process

- first, the Maximum Combined Allowable Revenue is calculated for each of the 154 jurisdictions (counties, cities and special districts).

- second, an estimated SCCRT payment is calculated for each of the 154 jurisdictions.
- finally, two alternative property tax limits are calculated for each of the 154 jurisdictions and the more restrictive limit is adopted.

Each of these stages is discussed briefly below.

The Maximum Combined Allowable Revenue

The first step in the process of calculating SCCRT payments and property tax limits is to determine the maximum amount of revenue that a county, city or special district can receive from the combination of the local property tax and the SCCRT. The current Maximum Combined Allowable Revenue (MCAR) for each local jurisdiction is based on last years MCAR adjusted for new construction, inflation and other add-ons.[5] This adjustment includes a growth factor that reflects an increase of the jurisdiction's property tax base due to inflation (100 percent of the CPI) and new real property, possessory interest property and mobile homes on both the secured and unsecured rolls. The add-ons include adjustments to the MCAR approved by the Nevada Tax Commission and the legislature.

The process of determining the MCAR for each jurisdiction is an iterative process since the current MCAR depends directly on last years. The MCAR for 1982, the year the tax-shift program was implemented, was arbitrarily set equal to 112 percent of the actual property tax revenue collected by each jurisdiction in 1981.[6] Thus, the base for future MCARs reflects the amount of property taxes actually collected by each jurisdiction in 1981. Algebraically the MCAR for each subsequent year is determined by

$$MCAR_t = MCAR_{t-1} \times GF + AO$$

where AO represents the add-ons approved by the Nevada Tax Commission and the legislature.[7] GF is the growth factor in the jurisdiction's property tax base and is determined by multiplying last years assessed value, excluding net proceeds of mines and

including the value of property in redevelopment districts, by one plus the percentage change in the Consumer Price Index (CPI), then adding the value of new real property added to the roll and dividing the total by last years assessed value. The growth factor, GF, is computed as follows

$$GF = [AV_{t-1} \times (1 + PCTCPI) + NP] / AV_{t-1}$$

where AV_{t-1} is last years assessed value excluding net proceeds of mines and including the value of property in redevelopment districts, PCTCPI is the percentage change in the CPI, and NP is the value of new real property, possessory interest, and mobile homes on both the secured and unsecured rolls.

An example helps illustrate the calculations. For Esmeralda County, total assessed value in 1987 was $27,958,720. The value of new property on the county's property tax rolls in 1988 was $130,325. Given an increase in the Consumer Price Index of 1.92 percent, the growth factor for Esmeralda County in 1988 was 1.02386, e.g.,

27,958,720 * 1.0192 = 28,495,527
28,495,527 + 130,325 = 28,625,852
28,625,852 / 27,958,720 = 1.02386 = Growth Factor.

Esmeralda County had a MCAR in 1987 of $780,499. The county received no add-ons from the Nevada Tax Commission, but did receive approval from the legislature for $39,956 of add-ons eligible to go into the MCAR base. Thus, given the growth factor computed above, the county's 1988 MCAR was $839,079, e.g.

780,499 * 1.02386 = 799,123
799,123 + 39,956 = 839,079 = 1988 MCAR.

Thus, the increase in a jurisdiction's MCAR is directly affected by the discretionary add-ons authorized by the Nevada Tax Commission and the legislature, the addition of new real property to the tax rolls and the rate of inflation as measured by changes in the Consumer Price Index (CPI). Since all jurisdictions receive the same adjustment for inflation, differences in the rate of growth of MCARs between jurisdictions are directly related to the

add-ons authorized by the legislature or the Nevada Tax Commission, and the rate at which new property is added to the property tax rolls. Those jurisdictions that successfully get add-ons from the legislature or those with rapidly expanding property tax rolls are the ones that will experience the most rapid increases in their MCARs, presumably because their need for additional revenue is greater.

The Supplemental City/County Relief Tax

After the current MCAR is calculated, the next step in the process is to determine the estimated SCCRT payment to each jurisdiction for the current year. This is calculated in a two step process. The first step in the process distributes the estimated SCCRT revenue among the 17 counties. The second step then distributes each county area's share among the county and all eligible subordinate units.

Step 1. In order to determine each county area's share of the estimated SCCRT revenue, the MCARs for each of the 154 entities receiving SCCRT payments are summed and divided into the estimated total SCCRT revenue to determine an "equal distribution" factor. This equal distribution factor is then multiplied by the sum of the MCARs for each county and all subordinate entities in the county receiving SCCRT payments to determine the county area's SCCRT allocation. In 1988 the equal distribution factor was calculated to be 58 percent, i.e. the total estimated SCCRT revenue ($185.1 million) was divided by the total MCAR for all jurisdictions ($318.9 million) to determine the equal distribution factor (185.1/318.9 = .581, or 58 percent). Thus, each county area's SCCRT distribution was equal to 58 percent of the total MCAR for the county and its subordinate units receiving SCCRT payments.

An example helps illustrate this calculation. In Esmeralda County there are three jurisdictions that receive SCCRT payments, Esmeralda County, and the uncorporated towns of Goldfield and Silver Peak. Each entity had its own MCAR computed as described

above. For 1988 the MCARs for the individual jurisdictions were $839,079, $12,414, and $6,209 respectively. Thus, the sum of the MCARs for the county and its subordinate jurisdictions receiving SCCRT payments was $857,702. Given the equal distribution factor of 58 percent, the county area's share of the estimated SCCRT revenue in 1988 was $498,558 ($857,702 x .58).

Step 2. Once the SCCRT allocation for a county area has been determined according to the process outlined in step 1, that allocation must be distributed to the county government and the subordinate jurisdictions qualifying to receive SCCRT payments. Each jurisdiction's payment is determined by a formula based on current total assessed valuation (excluding net proceeds from mining and including redevelopment districts) and the statutory property tax rates in existence at the time of the tax-shift in 1981. Specifically, this year's total assessed valuation for each jurisdiction is multiplied by its property tax rate in existence in 1981 to see how much property tax revenue would be generated with the current base and the 1981 tax rate. This basic ad valorem revenue is added for the county government and all subordinate jurisdictions to obtain a total for each county area. This area total is then divided into each jurisdiction's total to determine the share of the aggregate amount attributable to that jurisdiction. This percentage figure is then applied to the county area's SCCRT allocation to determine each jurisdiction's SCCRT payment. No jurisdiction may have an SCCRT payment greater than its MCAR.

Continuing the example for Esmeralda County, in 1988 the assessed valuations for Esmeralda County, and the towns of Goldfield and Silver Peak were $28.8 million, $2.8 million and $1.1 million respectively. In FY81 Esmeralda County had a property tax rate of 2.54 percent while Goldfield and Silver Peak each had a rate of 0.6 percent. Multiplying those rates by this years base indicates that these three entities would raise $755,092 in basic property tax revenues, e.g.

Esmeralda County	$ 28,806,655	x	.0254	=	$731,689
Goldfield	2,821,809	x	.0060	=	16,931
Silver Peak	1,078,613	x	.0060	=	6,472

Dividing that total basic property tax revenue into each entity's revenue indicates that Esmeralda County would account for 96.9 percent of the basic property tax revenue, Goldfield would account for 2.2 percent and Silver Peak would account for 0.9 percent.

The distribution of the county area's SCCRT allocation among the eligible jurisdictions is then the same as the distribution of the basic property tax revenue. Specifically, Esmeralda County will receive 96.9 percent of the county area SCCRT allocation ($483,106), Goldfield 2.2 percent ($11,179) and Silver Peak 0.9 percent ($4,273).

The purpose of this second step determining the within county distribution of SCCRT payments is unclear. Rather than paying 58 percent of each jurisdiction's MCAR, this step allocates funds within the county based on the growth in assessed value, and property tax rates in 1981. By focusing on one year, like 1981, the formula penalizes jurisdictions that had low property tax rates that year because they might have been more efficient managers, because they did not significantly increase spending in anticipation of the limits, because they might have postponed capital projects, they might have just be reappraised and lowered their rate to compensate for an increasing base. On the other hand, jurisdictions where local assessed values might have been artificially low so rates might have been higher than necessary. Also, because of the uncertainty cities and counties faced at that time as a result of the tax reform proposals being debated, many jurisdictions might have kept rates in 1981 artificially low in an effort to respond to voters concerns. This step, therefore, rewards those jurisdictions that were either big spenders generally, increased their rates substantially that one year or had low property assessments.

If each of the 154 jurisdictions in 1988 were to receive an SCCRT payment equal to 58 percent of their MCAR, 64 jurisdictions would receive larger payments, while 90 would experience reductions in their SCCRT payments. Because data for subordinate jurisdictions within counties are not readily available, it is difficult to make any judgments about the distributional consequences of this process for allocating SCCRT funds within counties. However, 11 of the 17 counties would receive larger SCCRT payments if this step was eliminated and each jurisdiction was given 58 percent of its MCAR[8]; but 11 of the state's 17 cities would experience a reduction in their SCCRT payments with Fallon, Las Vegas, Elko, Gabbs, Reno and Ely receiving more under the straight 58 percent distribution. This is another element of redistribution implicit in the SCCRT distribution formula that needs to be considered explicitly.

The formula distributing the SCCRT county area allocation depends on the current assessed value and the distribution of property tax rates in 1981. Thus, any change from year to year in an entity's relative share of the county area's SCCRT allocation will be determined by the relative growth rates in assessed values. As was the case in determining the MCAR, the faster the relative growth in an entity's assessed value, the greater will be its share of the county area's SCCRT allocation.[9] This would seem reasonable if the sole purpose of the SCCRT was to replace property taxes because as an entity's assessed value increased, so to would its property tax. However, given the redistributive dimension of the SCCRT program, the notion of fiscal need should be considered. That topic is discussed in the final section of the paper.[10]

Allowed Property Tax Revenue Limit

Once the MCAR and the estimated SCCRT payment have been calculated for each entity, the final step is to determine the maximum allowable property tax revenue that the entity may collect. In determining the Maximum Allowable Ad Valorem Revenue (MAAVR),

two separate limits are computed and the MAAVR is based on the more restrictive of those limits.

Limit 1. The first limit is relatively straightforward. Following the logic of the tax-shift of substituting sales tax revenues for property tax revenues, the first MAARV limit is simply the current MCAR, as computed above, minus the estimated SCCRT payment minus any excess property tax collections from last year over the allowed limit. This difference, is the maximum amount of property tax revenue that any entity would be able to collect. In some cases, where MCAR is equal to the estimated SCCRT, the jurisdiction may not collect any property taxes. For Esmeralda County, this approach to determining the property tax limit would allow the county to raise $355,973 from the ad valorem tax (839,079 - 483,106).[11]

Limit 2. The second property tax revenue limit is more complicated. The first step in computing this limit is to estimate the current value of property on last years property tax rolls ($AV_{t,t-1}$). This total represents the current value of secured property on last years roll plus the current value of unsecured property on last years roll, excluding net proceeds of mines (NPM) and minus the current value of redevelopment districts on last years roll.

The second step in the process is to inflate last years Allowed Ad Valorem Revenue, $AAVR_{t-1}$ (actual collections), by a legislatively determined 6 percent growth rate.[12] The tax rate (TR) necessary to generate this amount of revenue from the current value of property on last years roll is then computed. Algebraically, the tax rate is given by

$$TR = (AAVR_{t-1} * 1.06) / AV_{t,t-1}$$

which is the Allowed Ad Valorem Revenue from the previous year, inflated by the legislated 6 percent growth factor and divided by the current value of the property on last years roll. This tax rate, when applied to the current value of property on last years roll, will raise 6 percent more property tax revenues. The new

allowable ad valorem revenue limit is calculated by multiplying this tax rate (TR) times the current total assessed value which is composed of this years total secured property, this years total unsecured property minus this years value of all redevelopment districts. The total increase in property tax revenues, then, is influenced by the legislated 6 percent increase in revenues, the increase in the value of property on last years roll, and the growth in assessed value due to new construction and improvements.

To this new allowable ad valorem revenue limit is added amounts approved by the Nevada Tax Commission and the legislature which are eligible for the 6 percent increase next year. To this total is added this years legislatively approved add-ons not eligible for the 6 percent increase next year.

In 1987 Esmeralda County had an allowable ad valorem revenue of $875,048. Allowing that ceiling to increase 6 percent would produce a limit of $927,551. Given the 1988 value of property on the county's 1987 tax rolls was $28.2 million, the calculation described above yields a tax rate necessary to raise the allowed property tax revenue limit of 0.0329. Multiplying that rate times the value of all property on the 1988 rolls ($28.8 million) would yield property tax revenues equal to $948,301, which becomes the second property tax limit for Esmeralda county because it received no add-ons from the Nevada Tax Commission or the legislature.

At this point in the process there are two values for the new maximum allowable ad valorem revenue limit. The smaller of these two values is chosen as the starting point for calculating this years Maximum Allowable Ad Valorem Revenue limit. In each year, voter and legislative overrides are added to this total. In 1988 there was an additional amount added to this total to compensate for the overly strict limits in 1981 resulting from smaller SCCRT collections than estimated. This one time add-on is equal to five percent of the MCAR calculated by adding the estimated SCCRT to the ad valorem revenue limit and subtracting non-qualifying legislative add-ons.

Finally, to this total are added several additional overrides approved by the legislature and voters including two indigent care additions, and legislative overrides. This total amount is the binding Maximum Allowed Ad Valorem Revenue for each jurisdiction in the current year.

Computing the maximum allowable ad valorem revenue limit is complex. The first alternative is simply the difference between the MCAR and the SCCRT. The factors identified above which influence these two calculations are thus magnified by affecting the calculation of the property tax revenue limit as well.

In the second alternative, the impact of the growth in assessed value on the amount of property tax revenue generated is muted by the two step process. In the first step, the growth in the value of property on last years roll due to generally increasing property values (including improvements in existing property) is used to reduce the tax rate applied to this years base. Thus, the growth in the property tax base due to these factors cancels out when the rate is multiplied by this years total assessed value. The only component of the increasing base actually reflected in higher allowable property tax revenues is that portion due to new construction. This result is similar to the result many other states obtain through a full disclosure type law with the exception that the later allows for increases in the base from all sources. Again, this increase is complimented by the jurisdiction's ability to obtain overrides or add-ons from the voters, the legislature or the Nevada Tax Commission.

Overriding the Limits

The SCCRT program makes allowances for overriding the limits imposed on local governments in three basic ways. First, the Nevada Tax Commission can provide for add-ons to the basic limits if it is determined that additional resources are needed "to provide the basic services for which it (the local government) was created."[13] Second, the legislature (or the Interim Finance

Committee when the legislature is not in session) can approve add-ons for the cost to local governments of programs enacted or devolved by the state. Finally, the local governing body may propose additional levies which must be approved by a majority of the voters in the jurisdiction.[14]

The first two override procedures require either the legislature (or Interim Finance Committee) or the Tax Commission to evaluate the impact of events that affect local governments. For example, the Interim Finance Committee recently determined that Carson City could not receive funds from the SCCRT Reserve Fund to cover the costs of a protracted trial which far exceeded the amount budgeted for this purpose. Since courts are a "basic service" to be provided by county governments, and the trial was "unforeseen or uncontrollable"[15] it appears such a request would be within the confines of the law. However, since the Interim Finance Committee only disperses funds for emergency situations the request was denied.

At the same time, Carson City went to the Nevada Tax Commission for permission to raise its property tax to buy new fire engines and make other capital improvements. They were turned down because it was felt those expenses should have been budgeted for. One can only wonder what would have happened if they had gone to the Tax Commission for money for the trial (which could <u>not</u> have been budgeted for) and the Interim Finance Committee for new fire engines, a situation approaching emergency status.

The important point is that the legislature (Interim Finance Committee) and the Tax Commission were put in the difficult position of having to make subjective judgments about what is important to the citizens in each of the 240 local governments in the state.

The final alternative requires that the governing board of the jurisdiction go to the voters with a package that spells out the amount of money to be derived from an additional levy, the purpose for which the money will be expended, and the duration of

the levy. Given the time and cost associated with such a vote, it is often too costly to go to the voters every time additional funds are needed to meet unanticipated costs. That is why we have a representative form of government rather than direct democracy. In essence, none of the override provisions allow local governments the flexibility needed to respond to unforeseen circumstances that vary across local governments and time.

THE IMPACT OF THE SCCRT TAX-SHIFT PROGRAM

The original tax-shift program (1981) was intended to substitute sales tax revenues for property tax revenues. As discussed above, the distribution of the SCCRT has a redistributive dimension, which may or may not be sensitive to differences in "need" among local governments. This has given rise to the issue of "fair share" which currently is debated across the state. One narrow interpretation of "fair share" is whether or not a jurisdiction received a SCCRT payment equal to or greater than its in-state SCCRT collections. That concern is addressed in Table 3. However, the data in Table 3 only pertains to counties, in-state sales tax collections are not reported for cities so that dimension of redistribution cannot be estimated.

An alternative, somewhat more sophisticated, interpretation of the "fair share" issue is whether or not the redistributive component of the SCCRT program addresses explicit policy objectives of compensating local governments for fiscal disparities. In other words, is the redistribution that takes place because of the SCCRT among and within county allocation formula guided by any policy principles?

The policy issues associated with analyzing this redistributive component of the SCCRT program are the same issues encountered by the federal government and other state governments in designing unrestricted grant allocation formulas. Specifically, how does one evaluate the impact and desirability of the redistributive consequences of a particular program in the context

of differences in service needs, fiscal capacity and tax effort in a manner that will reflect accurately disparities between jurisdictions?

The SCCRT program must be considered a success if the purpose was to hold down increases in local property taxes. From 1977 to 1986, cities and counties in Nevada increased their property tax collections 25 and 83 percent respectively; nationally, cities and counties increased their property taxes by 60 and 97 percent over this ten year period. In addition, from 1981 to 1986 cities and counties in Nevada actually reduced their property tax collections by 37 and 4 percent respectively, compared with increases for cities and counties nationally of 37 and 61 percent respectively.

Alternatively, if the purpose of the SCCRT was to hold down local spending, the success of the program is less clear. From 1977 to 1986, direct general spending by cities and counties in Nevada increased 199 and 204 percent respectively; compared with increases for cities and counties nationally of 104 and 120 percent respectively. In other words, over this 10 year period, cities and counties in Nevada increased their direct general expenditures nearly twice as fast as cities and counties nationally. However, from 1981 to 1986, cities and counties in Nevada increased their direct general expenditures by 60 percent each; compared with increases for cities and counties nationally of 44 and 50 percent respectively. Over the 1981 to 1986 time period, cities and counties in Nevada increased their spending 27 and 17 percent faster than cities and counties nationally.

Looking at aggregate spending figures, however, does not give a complete picture of spending trends in Nevada because it ignores factors that affect the demand for government services. For example, from 1980 to 1986 the population of Nevada increased 20.5 percent -- the fastest rate of growth for any state in the western region except Alaska and Arizona. Total U.S. population increased 6.4 percent over this period, about one-third as fast as Nevada. As a result, per capita spending in Nevada decreased from 116

percent of the national average in 1981 to 106 percent in 1986.[16] Thus, in this broader sense, the growth in spending by local governments in Nevada since the tax-shift has lagged the rate for local governments in the U.S. generally.

While the SCCRT program seems to be achieving its narrowly defined goals of limiting local property taxes and holding down the growth in local government, what has been the price of this success? One dimension of that cost is the extent to which cities and counties in Nevada have had to forego providing the level and/or quality of services demanded by their citizens. An evaluation of the adequacy of public services in Nevada is beyond the scope of this tax study. However, as local governments face increasing demands for local services as population and incomes increase, they must annually balance their budgets. If revenues are growing at a slower pace than the demand for services, balance can only be achieved by deferring maintenance on capital facilities, postponing capital investments, compromising the quality of services provided, or reducing the scope of services provided. None of these solutions will have a positive long term effect on the ability of local governments in Nevada to attract and support future sustained economic growth.

Another impact of the SCCRT program is the fundamental change it has made in the state and local system in Nevada. From 1977 to 1986 revenue raising responsibility in the Nevada state and local system has become increasingly concentrated at the state level. In 1977 the state raised 49 percent of total state and local own-source revenues, compared to 54 percent for states nationally. By 1986 the state's share had increased to 57 percent, compared to 56 percent nationally. As a result of this centralization of the revenue raising function in the Nevada state and local system, local governments frequently come to the state legislature for revenue increases. As a consequence of this centralization, the number and complexity of local revenue bills considered by the legislature has been increasing over the last several years.

In addition to relying on the state for local revenue decisions, local government finances have become somewhat less stable since the tax-shift. By substituting the sales tax for local property taxes the tax base for financing local government in Nevada has become more sensitive to national economic fluctuations. For example, data indicate that the sales tax base has an elasticity with respect to Nevada's Gross State Product and personal income that ranges from 0.95 to 1.24 over the period 1985 to 1987; the local property tax base has an elasticity that ranges from .89 to 1.09 over this period.

Thus, although the SCCRT seems to have achieved its narrowly articulated policy objectives, there have been some important trade-offs associated with that success. In addition, since the SCCRT program has a redistributive component, the implications of that redistribution need to be evaluated as well. Specifically, some SCCRT revenue exporting jurisdictions have raised questions about whether they receive their "fair share" of SCCRT revenues. The next section evaluates the extent and desirability of the redistribution accomplished through the SCCRT program.

Fiscal Need. The concept of fiscal need is a relative concept because cities or counties may differ in the definitions of what are public vs. private goods and services; in their preferences for publicly provided goods and services; in the characteristics of the residential population; in price and cost factors; and in their economic and physical conditions. Determining the appropriate level of public services to be provided by each city or county, therefore, is a subjective question which cannot be resolved analytically, but must be resolved through the political process within each jurisdiction. In evaluating the redistributive impact of an allocation formula like the SCCRT program, the first step is to consider the service needs of each jurisdiction -- a difficult task since service needs reflect political and economic decisions. One does not want necessarily to concentrate aid on cities or

counties that choose to have a well developed public sector. Disparities between cities or between counties often represent local choices about how to distribute public services, how they should be produced, and so forth. While some may find the results of these choices to be distressing, they should not be taken into account in measuring a jurisdiction's fiscal distress.[17]

Population is often used as a proxy for service needs. Critics argue, however, that it is too imprecise to accurately reflect differences in "need" that arise because of differences in the characteristics of each city's or county's population, e.g. the percentage of families below the poverty line, the percentage of population over 65, etc. A problem with this argument, however, is that if a community's service needs are primarily related to large concentrations of low income people, unrestricted grants would be a less effective intergovernmental aid tool than direct redistribution programs and/or categorical grants supporting services used by low income populations. Nevertheless, since the purpose of SCCRT is to support local governments in general, the needs it responds to should be correspondingly general so that population may not be a bad starting point.[18]

To test the relationship between SCCRT payments and population, simple correlation coefficients[19] were computed for variables for each of the 17 counties measuring the level of SCCRT payments in 1985, 1986, 1987 and 1988; the population in 1985, 1986 and 1987; the percent change in SCCRT payments from 1985 to 1986, from 1986 to 1987 and from 1987 to 1988; and the percent change in population from 1985 to 1986 and from 1986 to 1987. Of these variables, the strongest relationship is between the change in population from 1986 to 1987 and the change in SCCRT payments for that same period with a correlation coefficient of 0.885. The strong positive correlation indicates that counties experiencing greater population increases from 1986 to 1987 also experienced greater increases in their SCCRT payments. There was no relation evident between increases in population and increases in SCCRT

payments between 1985 and 1986 (correlation coefficient of 0.142).

While population may be a reasonable proxy for the factors which influence expenditure needs across cities or counties, it does not reflect differences in cost, and preferences which influence expenditure levels. Since these factors are manifested in actual expenditures, some measure of spending per capita may be a useful proxy for differences in preferences among individuals across jurisdictions. The problem with such measures, of course, is that they do not differentiate between jurisdictions with high needs and those that are simply profligate spenders and/or poor managers. Also, such measures may not accurately reflect true needs if low capacity jurisdictions have significant unmet needs or a poor quality of local services.

Fiscal Capacity. A next step in evaluating the redistributive impact of the SCCRT allocation formula is looking at the link between SCCRT payments and the fiscal capacity of local jurisdictions. A high expenditure level need not create fiscal distress if that jurisdiction also has a high ability to generate tax revenues to finance those expenditures. Conceptually, tax capacity is simply an indication of a jurisdiction's ability to pay for public goods and services. It can be measured in a number of ways including per capita income, assessed valuation per capita, or a representative tax system approach.

Typically, per capita personal income has been used to measure fiscal capacity because, in the last analysis, taxes are paid out of income. The problem with per capita income, however, is that reliable estimates are not available, on a timely basis, for local governments. Also, it does not reflect the actual tax base of a local government which cannot access directly income as a source of tax revenue.

For counties in Nevada there was no apparent relationship between per capita income in 1985 or 1986, the change in per capita income from 1985 to 1986, or the level or growth in the

jurisdiction's SCCRT payments for any year.

The representative tax system developed by ACIR is an alternative that measures the total capacity of a jurisdiction to raise revenue from all sources. Again, accurate data for local jurisdictions is difficult to obtain on a timely basis and the measure includes revenue bases that local governments in Nevada cannot tax. Data are not available for counties in Nevada.

Given such data limitations, some measure of property values is often used as an indication of differences in local tax capacity. Since the ratio of the assessed value established by the assessor to actual sales prices may vary across jurisdictions, such a capacity measure generally must be adjusted to reflect these differences. A potential measure of such capacity is the amount of property tax revenue per capita each jurisdiction would raise by levying one equalized mill.[20] Unfortunately, such data are not available in Nevada because no one has the responsibility of equalizing assessments across jurisdictions. However, since the state mandates assessment procedures for local governments and annually verifies that local governments are generally following those procedures, assessed value can be used as a measure of tax capacity for Nevada counties.

Variables for each county were generated measuring the net property tax base in 1987 and 1988; the percent change in the net property tax base from 1985 to 1986, from 1986 to 1987 and from 1987 to 1988; and measures of SCCRT payment levels and changes. Again, there is a strong correlation between the percent change in the net property tax base between 1986 and 1987 and the percent change in SCCRT payments for that same period with a correlation coefficient of 0.878. A similar, but somewhat weaker, positive relation was found for changes in the net property tax base and changes in SCCRT payments from 1985 to 1986 (correlation coefficient of 0.484). However, the relationship does not hold for changes in the net property tax base between 1987 and 1988 and changes in SCCRT payments for that year with a correlation

coefficient of -0.029, which is essentially zero indicating no relationship at all.

Tax Effort. A final step in evaluating the redistributive impact of the SCCRT allocation formula is measuring the extent to which a jurisdiction tries to meet is own needs, i.e. a measure of its own effort. Tax effort variables are often analyzed because they link expenditure needs (often measured by property tax levies) and tax capacity. Generally, a tax effort variable is calculated by dividing the levy by some measure of the tax base (or ability-to-pay like per capita income).

Like the variables discussed above, measures of tax effort have their limitations. For example, tax effort measures do not reflect the extent to which taxes levied are exported to residents outside the taxing jurisdiction. Two cities may have the same tax effort, but because one city has a large share of commercial/industrial properties, or, in Nevada, a large gaming industry, the actual burden on local residents may be substantially less than residents in the other city.

A second criticism of tax effort measures is that they do not distinguish between a low capacity/high effort and high capacity/high effort city or county. The concern is that a wealthy jurisdiction may have a high effort because it has greater preferences for public goods and/or a wasteful public sector, but would get the same aid as the poor jurisdiction. If the purpose of such a measure is simply to measure tax pressure, this concern may not be critical since both jurisdictions are fully utilizing the available tax bases. If, however, the concern is to equalize for disparities in fiscal "need", this criticism may be important if the low capacity city or county has significant unmet needs and/or poor quality public goods and services.

The narrowness of the tax effort measures used has been viewed as a problem also. Since the effort measure usually does not consider user charges, a city that has shifted the financing of

services from taxes to user charges may be penalized by such a measure. Such a measure provides an incentive to move away from benefits-received financing so certain inefficiencies may be created. Use of total own-source general revenues as a percent of total income is a more comprehensive measure of effort but has been criticized as being too broad.[21]

To link tax and spending effort with SCCRT payments three variables were computed for each of the 17 counties. First, the total combined property tax rate for the county was calculated including the local property tax rate allowed by the Department of Taxation; any tax rates approved by the voters, the Tax Commission or the legislature; and the tax rate for debt service. Second, a variable was calculated to indicate whether a county was actually at its rate ceiling as determined by the Department of Taxation. Third, changes in per capita spending between 1985 and 1986 were calculated. Not one of these variables is correlated with any of the variables measuring the level or change in the county's SCCRT payment. In part, the lack of a relationship may reflect the different time periods for which the data are presented.

Summary

In summary, fiscal "need" has several dimensions; service needs, revenue capacity and tax effort all interact to determine a jurisdiction's fiscal "need". Evaluating the redistributive impact of the SCCRT allocation formula to distribute general unrestricted grant funds in an equalizing manner is very difficult, in part, because there is no unambiguous consensus measure for any of the components of fiscal need and because of data limitations for local governments generally.

Based on the correlation coefficients examined, it appears there is little relationship between the level or the percent change in SCCRT payments to counties and available measures of the county's fiscal capacity, tax or spending effort, or service needs. The conflicting evidence relating changes in a county's SCCRT

payment and changes in its population and net property tax base (which have a correlation coefficient of 0.743 for 1986-87) suggests this may be an area for further research.

CONCLUSION

This section provides a systematic explanation and evaluation of the major component of Nevada's tax-shift program put into effect in 1981 -- the Supplemental City/County Relief Tax. The data indicate that the program has been successful in meeting the general policy objectives of holding down local property taxes and local spending.

This success has involved some important policy trade-offs that need to be considered. For example, the state and local revenue raising system in Nevada has moved from being more decentralized to more centralized than the average state and local revenue system in the United States in the last 10 years. As a consequence, control of local revenues has been shifted from local elected officials to the state legislature, the Interim Finance Committee, and the Nevada Tax Commission. This makes it difficult for local citizens to hold anyone accountable if they are dissatisfied with their local services.

The provisions in the legislation to override the limits imposed on local governments by the SCCRT program and the limits on charges and fees have not provided the flexibility that some had envisioned. It is unreasonable to expect that the legislature or Interim Finance Committee will always know what local priorities are. In addition, the interpretation of the circumstances which qualify for overriding the limits change as the individuals responsible for enforcing these provisions change. Finally, the costs associated with going directly to the voters each time additional funding is required limits local flexibility.

While the limits have certainly been binding on local governments, it is unclear how different jurisdictions have adjusted to those limits. The two basic options faced by

governments with limited budgets are to reduce either the scope or quality of the goods and services they provide. It is beyond the scope of this study to evaluate the adequacy of public spending in Nevada, but it is likely that both types of adjustments have been made. Generally, jurisdictions with the most limited fiscal capacity have the most difficulty adjusting to such limits because their options are very limited.

Finally, a debate about the redistribution implications of the SCCRT program is emerging as local representatives argue about their "fair share." While there are a number of interpretations of the "fair share" argument, the statistical evidence presented above suggests that there are no clear policy principles or guidelines underlying the current redistribution pattern.

The major policy issue is how to achieve the legitimate state objectives of limiting local property taxes and the growth in local government spending, while allowing the local flexibility and discretion to respond to the diverse needs and circumstances of the 240 local governments in the state. The first issue to resolve is whether the state legislature or the local citizens are better positioned to set local priorities as the state continues to grow. Centrally determined rules are generally insensitive to local differences. Thus, local citizens are best able to respond effectively and efficiently to their unique needs. The question then becomes how to set up an institutional framework that allows those preferences to be explicitly considered in the decision-making process.

While there is an infinite variety of institutional arrangements that might achieve the state's objectives, one possible outline of such an approach might include the following components.

Establish Overall Revenue Limits

The state could establish an overall limit on the amount of revenue that a jurisdiction might raise from all own-source

revenues (e.g. property taxes, fees, charges, licenses, etc.). The limit might automatically increase in response to factors that influence expenditure needs like inflation, population growth, etc. If the local jurisdiction needs to raise more revenue than allowed by the limit because of unforeseen circumstances, it would have to go to the voters to increase the overall revenue limit, either permanently or for a specified period of time.

Within the overall revenue limit, the local jurisdiction would have the flexibility in raising revenues to take advantage of its unique circumstances, e.g. if it were property rich, it might rely more on the property tax; or if it was a tourist destination, it might rely more on specific user fees and charges or a local sales or excise tax. Similarly, by limiting local revenues it leaves the local government the flexibility to provide whatever services the citizens think are most important. Four states (Maryland, Mississippi, Missouri and Nebraska) have enacted such general revenue limits for cities and counties since 1978. One state (Minnesota) has such a limit for cities only, and one other state (Washington) has a general revenue limit for its school districts.

Establish a Property Tax Levy Limit

The state could establish limits on the use of local property taxes as a source of revenue. Here the options are more diverse. For example, 11 states have overall property tax rate limits that apply to cities and counties, but only 3 of those states (Alabama, California, and Florida) have enacted such limits since 1978. Nevada is included in the 11 states because of its constitutional limit of $5.00 per $100 assessed value. Alternatively, 25 states have specific property tax rate limits that apply to cities and counties. Only two of those states (Kentucky and Wyoming) have enacted such limits since 1978. Nevada has such limits on school districts only. Also, 19 states have property tax levy limits that apply to cities and counties, with 11 of those states enacting such limits since 1978. Seven states have some sort of limits on

increases in assessments that apply to cities and counties and 6 of those limits have been enacted since 1978.

The choice among these options depends on the policy objectives of the state. However, since the property tax is a tax on the value of property, and properties increase in value at different rates, equity considerations dictate that property should be assessed at full market value. This will ensure that the distribution of property tax liabilities corresponds to the distribution of property wealth. With the professional assessors in place, and with available technology, counties in Nevada should be able to provide an annual appraisal of full market value for all properties. Thus, for equity reasons, any limits on assessment increases should be avoided and assessors should be allowed to do their jobs.

Increasing property values need not necessarily translate automatically into increasing property taxes. While some redistribution of property tax liabilities reflecting the differential growth in property values is desirable, the overall amount of property taxes collected can be limited. In fact, a property tax levy limit, which is more restrictive than a rate limit, has been the most frequently imposed limit by states on their local governments since 1978.

The property tax levy limit, like the overall spending limit, can be designed to allow for increases in the levy to reflect changes in the cost of providing services due to inflation, population growth, etc. Similarly, local officials could be allowed to override the limit by going to the voters. In fact, 11 states have explicit full disclosure laws designed to limit increases in property tax levy without input from the voters. Six states have enacted such laws since 1978.

A full disclosure law requires the local government to compute the property tax rate that, when applied to the current assessed value of property, would raise the same amount of revenue collected from the property tax last year. This is called the "equal yield"

rate because when applied to the current property tax base would produce the same revenue as collected last year. If local officials want to increase the property tax rate beyond this equal yield rate, they often are required to publicize and hold public hearings before voting for a higher rate.

Establish Targeted Property Tax Relief Program

The state legislature may feel that, even within such overall revenue and property tax levy limits, the property tax burden may be too high. If this is the case the state can do one of two things. First, the state can provide other revenue sources for local governments to use so that the share provided by the property tax is kept low. Those other revenues may include nonproperty tax local revenue sources like a local option sales tax or increased user charges, or it could include state general assistance to local governments like the federal General Revenue Sharing program which was recently discontinued.

Some mix of these approaches would be useful. For example, given the wide variation of taxable sales across counties, allowing a local option sales tax would help some jurisdictions, but would exacerbate fiscal disparities that exist when looking only at the property tax base. Thus, other jurisdictions, with little or no taxable sales, may require general state support through some form of lump-sum grant. Such a grant could be designed to explicitly compensate for fiscal disparities, thereby improving the overall redistributive benefits of state aid programs. To equalize for fiscal disparities, such a program would distribute assistance based on measures of fiscal need, capacity and effort. The discussion above evaluates the strengths and weaknesses of traditional measures of these variables.

Finally, if the state is still concerned that any citizen may face an excessive property tax burden, a wider use of the circuit breaker may be appropriate. Since the circuit breaker looks at the relation between property tax burden and ability to pay, property

tax relief is better targeted on those most in need, or most overburdened, than when a general lump-sum grant is given to all local governments to keep property tax levels lower for all property owners.

The purpose of this example is simply to demonstrate that there are alternative institutional arrangements that allow the state to achieve its objectives of limiting property tax burdens and the growth in local government spending without unnecessarily limiting local flexibility and discretion.

APPENDIX I

DESCRIPTION OF THE FORMULA
FOR COMPUTING SCCRT PAYMENTS AND ALLOWED
AD VALOREM REVENUE LIMIT

The calculation of a local government's SCCRT payment, allowed ad valorem revenue limit and maximum combined allowable revenue (MCAR) is a 57 step process. Based on the print out of that calculation for each entity eligible for SCCRT payments in FY88, as provided by the Nevada Department of Taxation, the following discussion describes what information is included in each step of that process.

Column Number	Column Entry
1	The name of the local jurisdiction
2	86-87 assessed value excluding net proceeds of mines and including redevelopment districts
3	Increase in previous years assessed value equal to 100 percent of the increase in the CPI
4	87-88 new real property (RP), possessory interest (PI), and mobile homes (MH) on the real property tax rolls (secured roll)
5	87-88 new RP, PI, and MH supplemental property on the personal property roll (unsecured roll) because it came online after the 87-88 secured roll was established
6	87-88 total new RP, PI, and MH property on the secured and unsecured rolls (col. 4 + col. 5)
7	Growth factor in property tax base from previous year based on CPI and new RP, PI and MH property (col 2 + col 3 + col 6)/ col 2
8	86-87 Maximum Combined Allowable Revenue (MCAR) with all components eligible for increase by the CPI (rolled up) which comes from col. 14 of last years work sheet

9	87-88 Unadjusted MCAR which is last years MARC multiplied by the growth factor in the property tax base (col 7 x col 8)
10	87-88 approved Nevada Tax Commission Amounts to be added to the unadjusted MCAR for this year and eligible for cost of living adjustment next year (rolled up)
11	87-88 approved legislative amounts pursuant to AB 645 to be added to the unadjusted MCAR for this year and eligible for cost of living adjustment next year (rolled up)
12	87-88 MCAR which will be the base for the adjustment for 88-89 MCAR (rolled up) (col 9 + col 10 + col 11)
13	87-88 legislative amounts to be added to 87-88 MCAR but which are not eligible for cost of living adjustment next year
14*	87-88 Adjusted MCAR (col 12 + col 13)
15	87-88 Adjusted MCAR (same as col 14)
16	Equal Distribution Factor which is calculated by taking this years estimated SCCRT sales tax collections and dividing that total by the sum of the adjusted MCAR for all local jurisdictions and reporting the EDF for each county (the county figure is a constant equal to 58 percent in FY88)
17	Estimated SCCRT available for distribution within each county calculated by taking the total 87-88 MCAR for each county and all eligible subdivisions and multiplying it by the equal distribution factor (total MCAR within and including each county from col 15 x col 16)
18	87-88 total assessed valuation
19	property tax rates for each jurisdiction in existence in FY81 when the tax shift was implemented
20	Basic Ad Valorem Revenue that would be collected from this years assessed valuation if the FY81 tax rate was in effect for each

jurisdiction (col 18 x col 19)

21 Percent that each entity is of the county total calculated by adding all jurisdictions basic ad valorem revenue from col 20 to get a total for the county area and then dividing that county area total into each subdivision's basic ad valorem revenue to determine its share of the total for the county area (each county area will added to 100 percent)

22* Estimated SCCRT for each entity within each county area calculated by multiplying col 21 and col 17 but the amount can be no greater than this years MCAR

23 86-87 allowed ad valorem revenue eligible for cost of living adjustment in 87-88 (rolled up)

24 87-88 secured value of property on the 86-87 property tax roll

25 87-88 unsecured projected property excluding net proceeds of mines

26 87-88 value of redevelopment districts on the 86-87 roll

27 87-88 assessed value of property on the 86-87 roll (col 24 + col 25 - col 26)

28 87-88 property tax rate for formula calculations determined by taking the 86-87 allowed ad valorem revenue eligible for cost of living increase in 87-88 times 1.06 divided by the 87-88 assessed value of property on the 86-87 roll, i.e. the tax rate that would be applied to this years value of property on last years roll to generate 106 percent of last years allowed property tax revenues (col 23 x 1.06)/ col 27

29 87-88 total secured property tax roll including new property (col 29 - col 24 should equal the value of new secured property added to this years roll)

30 87-88 total projected unsecured property tax roll including new property (col 30 - col 25 - net proceeds of mines should equal the value of new unsecured property added to this years roll)

31	87-88 total assess value (same as col 18)
32	87-88 value of redevelopment districts
33	87-88 total assessed value for tax rate calculations (col 31 - col 32)
34	87-88 allowed ad valorem tax revenue determined by taking this years property tax base (total assessed value minus redevelopment districts) multiplied by the property tax rate applied to the 87-88 value of property on the 86-87 roll to generate 106 percent of last years allowed ad valorem revenue (col 28 x col 33)
35	87-88 Nevada Tax Commission approved ad valorem taxes to be added to this years allowed ad valorem tax revenues and eligible for cost of living increases next year
36	87-88 legislative approved ad valorem tax revenues to be added to this years allowed ad valorem tax revenues and eligible for cost of living increases next year
37	87-88 allowed ad valorem revenue including all add-ons eligible for cost of living increases next year (col 34 + col 35 + col 3 6)
38	87-88 approved legislative amounts to be added which are not eligible for cost of living adjustments next year
39*	87-88 allowed ad valorem tax revenue including rolled up and fixed add-ons
40	87-88 department of taxation estimated SCCRT payments to each entity (same as col 22)
41*	87-88 final ad valorem revenue limit (col 14 - col 40 - col 57)
42	87-88 basic ad valorem revenue limit which is the lesser of col 39 or col 41
43	determine 5 percent combined revenue increase pursuant to AB 645 (col 22 + col 42 - col 38)x.05
44	credit for voter or legislative overrides from 1/87 to 7/87 but not greater than col 43

45*	87-88 adjusted ad valorem revenue limit eligible for cost of living adjustment (col 42 + col 43 - col 44)
46	87-88 tax rate subject to revenue limitations (col 45/ col 33)
47	87-88 assessed value including net proceeds of mines (col 18 - col 32)
48	87-88 authorized additions by voter approval
49	87-88 allowed indigent care levy of $.0075 and which is subject to year-end balance
50	87-88 allowed general indigent care levy of $.03 subject to year-end balance
51	87-88 authorized additions by the legislature outside revenue limitation
52	87-88 total revenue allowed from outside overrides (col 48 + col 49 + col 50 + col 51)
53	87-88 tax rates for overrides (col 52 / col 47)
54**	87-88 total allowed ad valorem revenue from all sources (col 45 + col 52)
55	85-86 allowed ad valorem revenue limit
56	85-86 actual ad valorem revenue collections
57	85-86 excess revenue to be subtracted from allowable limit computed in line 41, but not to be less than zero, i.e. nonrefundable if actuals are less than allowed

From the perspective of the local entity, allowable revenues from SCCRT and local property taxes for fiscal year 1987-88 are the sum of estimated SCCRT payments (col 22) and the maximum allowable ad valorem revenues (col 54).

APPENDIX II: JURSIDICTIONS RECEIVING SCCRT PAYMENTS, 1988

ENTITY

CARSON CITY
- CARSON WATER
- CARSON TRUCK
- SIERRA FF CC

CHURCHILL CO
- FALLON
- CRS TRUCK CH
- CHRUCHILL MOSQ

CLARK COUNTY
- BOULDER CITY
- HENDERSON
- LAS VEGAS
- MESQUITE
- N LAS VEGAS
- BUNKERVILLE
- E LAS VEGAS
- LAUGHLIN
- MOAPA VALLEY
- PARADISE
- SEARCHLIGHT
- SPRING VALLEY
- SUNRISE MNR
- WINCHESTER
- BOULDER LBR
- HNDRSN LIBRY
- LV/CLK LIBRY
- CLK CO FIRE
- MPA VLY FIRE
- MT CHAS FIRE

DOUGLAS CO
- GARDNERVILLE
- GENOA
- MINDEN
- CRS TRUCK DO
- CRS WATER DO
- CAVE ROCK
- DO CO PARAMED
- DO CO MSQT
- EST FRK FIRE
- EST FRK SWIM PL
- ELK PNT SANI
- GRDN RANCHOS
- INDIAN HILLS
- KINGSBURY
- LAKERIDGE
- LOGAN CREEK
- MARLA BAY
- MND/GDNV SAN
- OLIVER PARK
- ROUND HILL
- SIERRA FF DO
- SKYLAND
- TH DO FIRE
- TH DO SEWER
- TOPAZ RANCH
- ZEPHYR COVE
- ZEPHYR HGHT
- ZEPHYR KNOLLS

ELKO COUNTY
- CARLIN
- ELKO
- WELLS
- JACKPOT
- MONTELLO
- MNTN CITY
- WEST WNDVR
- ELKO CO/CTY
- ELKO TV

ESMERALDA CO
- GOLDFIELD
- SILVER PEAK

EUREKA CO
- CRESCENT VLY
- EUREKA
- DMD VLLY ROD
- DMD VLLY WDD
- EUREKA TV

HUMBOLDT CO
- WINNEMUCCA
- GLCNDA FIRE
- HMBLDT FIRE
- MCDRMTT FIRE
- OROVADA CMTR
- OROVADA FIRE
- PRDS FIRE
- PUEBLO FIRE
- WNN RRL FIRE
- HUMBOLDT HOSP

LANDER CO
- AUSTIN
- BATTLE MNT
- KINGSTON
- LNDR CO SWR
- LANDER HOSP
- LANDER CO AIR

LINCOLN CO
- CALIENTE
- ALAMO
- PANACA
- PIOCHE
- PHRNT VLY FI
- PIOCHE FIRE
- LN HOSPITAL

LYON COUNTY
- YERINGTON
- FERNLEY
- CRS TRUCK LY
- CRS WTR LY
- CNTR LY FIRE
- MSN VLY FIRE
- WILLOWCREEK G
- SMT VLY FIRE
- N LYON FIRE
- LY HOSPITAL
- SLVR SP/STCH
- STAGECOACH GI
- MASON VLY MOS

MINERAL CO
- MN HOSPITAL

NYE COUNTY
- GABBS
- AMARGOSA
- BEATTY
- MANHATTAN
- PAHRUMP
- ROUND MNTN
- TONOPAH
- NYE HOSPITAL
- PAHRUMP SWIM
- PAHRUMP LIBR

PERSHING CO
- LOVELOCK
- PE HOSPITAL

STOREY CO
- CRS TRUCK ST

WASHOE C
- RENO
- SPARKS
- CRS TRU
- CRYSTAL
- HORIZON
- INCLINE
- N LK TH
- PALOMIN
- SIERRA I
- SUN VLY
- TRK MDW
- VERDI TV

WHT PINE C
- ELY
- LUND
- MCGILL
- RUTH
- WP HOSPI

ENDNOTES

1. The SCCRT payment for each jurisdiction is based on estimates of how much SCCRT revenue will be generated by the 1.75 cent sales tax. If actual collections exceed estimates, the balance goes into a special reserve fund which, at the end of fiscal year 1988 had a balance of $14.3 million; if estimates exceed collections the deficit is made-up with money from the reserve fund.

2. A list of the 154 jurisdictions receiving SCCRT payments in 1988 is provided in Appendix II. In 1988 there were 223 local governments in Nevada authorized to raise ad valorem revenues--17 cities, 17 counties, 17 school districts, 44 towns, 124 special ad valorem districts and 4 multicounty districts. Thus, 69 local governments get no SCCRT payments to offset their property taxes. Currently, it is the discretion of the local government to apply for SCCRT payments. A legitimate question would be should all jurisdictions receive SCCRT payments?

3. These figures are for SCCRT distributions only. Another $1.7 million was allocated through the Special SCCRT, the SCCRT Tax Reserve, and the SCCRT Tax Excess Distributions.

4. Of the $185.1 million distributed through the SCCRT program in 1988, $173.2 million was collected in-state and is compiled by county of origin; $13.6 million, or 7.3 percent, was collected out of state and is not allocated by county of origin.

5. Add-ons are discrete additions to the MCAR and the maximum allowed ad valorem revenue that are approved by the Nevada Tax Commission, the legislature or the voters. These override procedures are discussed below.

6. Fiscal Analysis Division, Legislative Counsel Bureau, Legislative Appropriations Report, Sixty-First Nevada Legislature, FY 82 and FY 83, September 1, 1981, page 45.

7. Add-ons in the previous year not eligible for roll-ups are subtracted from last years MCAR before the growth factor is applied.

8. The counties include Carson City, Clark, Douglas, Elko, Esmeralda, Eureka, Humboldt, Lander, Lincoln, Nye, and Washoe.

9. This was especially important in the first year of the program when the legislature mandated assessment increases to move everyone up to a common base. The application of that process had differential impacts on the growth in assessed values

across counties depending on how well property was being assessed initially.

10. The redistribution component is only evaluated at the county level, however, because data are not available on intracounty sales tax collections by subordinate jurisdictions.

11. This amount is reduced by the excess in property tax collections from previous years over the allowable limit in those years. In 1988 this amounted to $9,800 for Esmeralda County so the county's adjusted maximum allowable property tax revenues was $346,173, e.g. 355,973 - 9,800.

12. The 6 percent rate was set by the legislature in 1987, being increased from 4.5 percent in the original program. It is not explicitly linked to a jurisdiction's growth in population, inflation, increases in assessed value or any other measure which would reflect differences across jurisdictions and over time. Thus, the allowed adjustment may be too little for some jurisdictions, and too much for others.

13. NRS 354.59812.

14. NRS 354.5982(1).

15. NRS 354.5988(3).

16. U.S. Department of Commerce, Bureau of the Census, Government Finances in selected years (Washington D.C.: Government Printing Office, selected years).

17. Roy Bahl, The Fiscal Outlook for States and Local Governments, Syracuse University, 1982.

18. George Break, Financing Government in a Federal System, The Brookings Institute, Washington D.C., 1980, pp. 148-9.

19. A simple correlation coefficient measures the relationship between two series of numbers. A correlation coefficient of 1.0 means that the two series are perfectly correlated, when one increases the other increases. A coefficient of -1.0 also indicates perfect correlation but in an inverse fashion, when one increases the other decreases. A correlation of 0.0 means the two series of numbers are unrelated.

20. Break argues that for local governments the capacity measure should not only reflect the aggregate size of the property tax base, but also its composition. The composition is important, he argues, because it reflects differences among cities in their ability to export their taxes. For example, a city that has a high percentage of its property tax base in the commercial/industrial class, e.g. gaming, may have its tax

shifted forward through the purchase of the goods produced by those sectors. Empirical support for this argument is found in Ladd, H.F., "Local Education Expenditures, Fiscal Capacity, and the Composition of the Property Tax Base," National Tax Journal, 26, (June): 145-58; and Bell and Bowman, "The Effect of Various Intergovernmental Aid Types on Local Own-Source Revenues: The Case of Property Taxes in Minnesota Cities," Public Finance Quarterly, July 1987, pp. . This is particularly true for the gaming industry in Nevada and applies to the property tax as well as the sales tax.

21. Break argues that this measure does not address the exporting questions and would be difficult to calculate regularly because the base, local per capita income, is not available in a timely manner. Ibid., p. 152.