EFFECTS OF TAX RELIEF MEASURES

Bulletin No. 81-18

LEGISLATIVE COMMISSION

OF THE

LEGISLATIVE COUNSEL BUREAU

STATE OF NEVADA

December 1980

REPORT ON THE EFFECTS OF
TAX RELIEF MEASURES

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Senate Concurrent Resolution No. 42—Committee on Legislative Functions

FILE NUMBER....142

SENATE CONCURRENT RESOLUTION—Directing the legislative commission to study the effects of measures to provide tax relief passed by the 60th session of the legislature.

WHEREAS, The 60th session of the Nevada legislature has responded to the concerns of Nevadans by enacting several measures which reduce the burden of taxes; and

WHEREAS, The legislature must continue to be responsive to the needs and desires of the people, and in order to do so must provide itself with accurate and timely information about the effect of the measures which it has enacted; now, therefore, be it

Resolved by the Senate of the State of Nevada, the Assembly concurring, That the legislative commission is directed to study the effects of measures to provide tax relief passed by the 60th session of the legislature; and be it further

Resolved, That the legislative commission include as members of the subcommittee appointed to conduct the study persons outside of government who agree to serve without compensation, subsistence allowances or reimbursement for travel expenses; and be it further

Resolved, That the subcommittee appointed by the legislative commission report its findings to the commission not later than September 1, 1980, and that the commission submit a final report and any recommended legislation to the 61st session of the legislature.

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REPORT OF THE LEGISLATIVE COMMISSION

TO THE MEMBERS OF THE 61st SESSION OF THE NEVADA LEGISLATURE:

This report is submitted in compliance with Senate Concurrent Resolution No. 42 of the 60th session which directed the Legislative Commission to study the effects of measures to provide tax relief passed by the 60th session of the legislature.

The report sets forth procedures, summarizes testimony and analyses drawn from a large volume of printed material, and presents the findings and recommendations of the subcommittee. To conduct the study, the Legislative Commission appointed a subcommittee with the following members: Senator Norman D. Glaser, Chairman, Assemblyman Robert E. Robinson, Vice Chairman, Senator Keith Ashworth, Assemblymen Harley L. Harmon, Paul W. May, Robert E. Price, and Darrell D. Tanner, and nonlegislative members, Messrs. Leroy Bergstrom, Ernest Newton, and Ms. Carol Vilardo.

The subcommittee wishes to acknowledge the technical assistance provided by state and local officials who are too numerous to name. Little could have been accomplished without them. Also, the subcommittee wishes to acknowledge the valuable assistance of the three nonlegislators who served without compensation as members at large.

Respectfully submitted,

Legislative Commission
Legislative Counsel Bureau
State of Nevada

Carson City, Nevada
December 1980

* *

LEGISLATIVE COMMISSION

Senator Keith Ashworth, Chairman
Senator Melvin D. Close, Vice Chairman

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Senator Lawrence E. Jacobsen
Senator Thomas R. C. Wilson

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Assemblyman Virgil M. Getto
Assemblyman Paul W. May
Assemblyman Robert F. Rusk
Assemblyman Darrell D. Tanner

SUMMARY OF RECOMMENDATIONS

1. The property tax relief structure established by the 1979 Legislature should be retained, and future legislatures make variations in the maximum statutory rate and corresponding state assumption by a "trigger" if adjustments are warranted.

2. Future legislatures should examine broadening the scope of factors that the State Board of Examiners is permitted to consider in setting rates under "trigger" provisions.

3. The exemption of household personal property should be continued as a very positive and successful part of tax relief.

4. Appropriations to the Distributive School Fund, which are made to provide tax relief, should be exempted from the state budget cap.

5. The 1981 Legislature should explore a revenue cap in lieu of an expenditure cap.

6. Actual expenditures for fiscal year 1978-79 should be used as a base for the local government spending cap in place of the fiscal 1978-79 budgeted expenditures.

7. The appropriate committees of the 1981 Legislature should explore alternative ways of applying the cap to town governments.

8. The appropriate committees of the 1981 Legislature should be advised of the necessity of realigning estimates of population used in the base period of the caps with actual population figures from the 1980 census.

9. For the local government spending cap, the 5-year moving average of the inflation factor should be decreased to a 3-year moving average.

10. For the local government spending cap, the Implicit Price Deflator for Goods and Services Purchased by Government should be adopted in place of the CPI as a measurement of change in cost of providing government services.

11. The expression "general fund" as a generic term should be changed to "aggregate of general and special funds" to conform with language for such activities as expressed by Statement 1 of the National Council on Governmental Accounting.

12. The 2-year expiration of authority granted a local entity to exceed its spending limitation should be removed.

13. NRS 354.5983, subsection 4, should be amended to clearly provide authority to the Director of the Department of Taxation to require local governments to change their expenditure base when exempt funds such as enterprise funds are created by withdrawing an activity from the base.

14. The Director of the Department of Taxation should be given authority to permit an entity to exceed its expenditure limitation to the extent necessary to pay for a newly mandated project or program.

15. For the school district revenue cap, the 5-year moving average of the inflation factor should be decreased to a 3-year moving average.

16. For the school district revenue cap, the Implicit Price Deflator for Goods and Services Purchased by Government should be adopted in place of the Consumer Price Index (CPI) as a measurement of change in cost of providing government services.

17. The base period for the school district cap should be changed from the average of the previous three assessment years to the average of the previous two assessment years.

18. The appropriate committees of the 1981 Legislature should be apprised of the problem of erosion of local school districts' local tax base and that when they deliberate on matters affecting the schools, look for ways to correct this erosion.

19. Amendments recommended by the subcommittee to eliminate loopholes in local government caps should be adopted as a means of restricting local government's ability to pick up the portion of the optional levy from which schools must recede.

20. Future legislatures should be made aware that if the cap is applied to only the part of the 80 cent optional tax actually levied, the effect is more severe when a lesser amount of tax relief is triggered. In a period of rapidly rising prices, this could be far more restrictive than intended.

21. NRS chapter 463 should be amended to provide that the 25 percent share of the county gaming license fee which was returned to local governments as part of the tax package be distributed only to the city or county of origin. The statutory reference to town should be deleted.

22. The 1981 Legislature should investigate methods of implementing an annual updating of appraisals.

23. The 1981 Legislature should investigate thoroughly current assessment procedures and practices with regard to compliance with state statutes.

24. The Tax Commission should require that each county assessor develop a procedures manual and submit it to the Tax Commission for approval.

25. The 1981 Legislature, by resolution, should continue to have a special legislative sub-committee on tax action meeting on a regular basis.

I. INTRODUCTION AND BACKGROUND

The 1979 session of the Nevada Legislature adopted Senate Concurrent Resolution No. 42 directing the Legislative Commission to study the effects of the measures to provide tax relief that it had enacted. This directive was adopted to fill the clear need for legislative oversight of the tax relief program during the period of implementation so that problem areas could be identified and suggestions for improvement could be developed for the 1981 legislature.

Tax relief was structured so that state government would bear nearly all the initial cost and then additional savings would develop as local government and school district growth was restrained by "caps". In dollar terms this was a major undertaking. The combination of state revenues given up and general fund appropriations required to replace local property tax revenues carried a price tag of $243 million for the 1979-81 biennium. This was more than one-third of the total general fund appropriations of $667 million for the same period. An estimate delineating costs which was prepared at the close of the 1979 Legislative Session is included in Exhibit A. Every local government entity fell within the new and complex "cap" structure beginning July 1, 1979, and problems were sure to arise in the dichotomous balance between restraint of government growth and the need for local government services.

The passage by a 3 to 1 majority of ballot Question 6, a California Proposition 13 type property tax limitation, quite obviously contributed impetus to tax relief activity of the 1979 legislature. Question 6, if approved a second time by a majority of the voters in the November 1980 general election, would amend article 10 of the constitution of the State of Nevada dealing with taxation of property. Specifically, the measure would:

1. Limit the amount of property taxes that can be collected from the owner of real property to 1 percent of the property's full cash value. This 1 percent limit would not apply to the amount necessary to pay off general obligation bonds issued prior to the effective date of the measure.

2. Limit the future growth of real property assessments and require a roll back to the value shown on the 1975-76 assessment rolls for property that has not changed hands since the 1975-76 assessment year.

Exhibit A

ESTIMATED TAX RELIEF

State Relief:	1979-80	1980-81
Sales Tax on Food:		
State 2% (eliminated)	$ 15,000,000	$ 17,600,000
Schools 1% (replaced)	6,900,000	8,000,000
Property Tax:		
County 11 Cent Medicaid (replaced)	6,207,000	7,137,000
State 25 Cent Levy (eliminated)	14,307,000	16,453,000
Schools 70 Cent Levy (replaced)	40,283,000	47,411,000
Schools 30 Cent Levy (replaced)	17,264,000	20,319,000
	$ 99,961,000	$116,920,000
Local Relief: *		
Sales Tax on Food:		
Cities/Counties 1/2% (eliminated)	$ 3,360,000	$ 3,935,000
Property Tax:		
Household Property (exempted)	3,500,000	4,000,000
	$ 6,860,000	$ 7,935,000
Total Basic Relief:	$106,821,000	$124,855,000
Additional Relief - Trigger		$ 12,240,000
Total Potential Relief	$243,916,000	

* Most revenue losses to local governments have been replaced by the state through A.B. 268 and S.B. 319.

Source: February 21, 1980, Fiscal Analysis Division, Legislative Counsel Bureau.

3. Require two-thirds vote of the legislature to increase state taxes and prohibit the legislature from enacting any new taxes based on the value of real property.

4. Permit the legislature to authorize political subdivisions of the state to impose new special taxes or to increase existing special taxes if approved by two-thirds of the voters within the subdivision. These taxes must not be based on the value of real property.

A program for implementation of property tax relief under Question 6 would have to be designed by the 1981 legislature. There is no way to say precisely what that program would be like because so many policy decisions, legal interpretations and financial constraints are involved.

The 1979 legislature felt that it could do a better job of providing comprehensive and equitable tax relief under existing constitutional language than could be accomplished under the provisions of Question 6, and it could be accomplished beginning July 1, 1979, rather than later on.[1] Enacted were several bills collectively termed the "Legislative Tax Package" which provided for removal of the sales tax for food, reduction of property tax rates, exemption from taxation of household personal property, a landlord to renter pass-through of property tax savings, and "caps" on state and local government growth tied to population growth and inflation.[2] The total relief under this tax package was felt to be equal to or greater than the amount of real property tax reduction under Question 6 if it were effective during the 1979-81 biennium. A detailed description of each major aspect of the tax package, together with corresponding subcommittee findings and recommendations, is contained in the body of this report.

1/ There is some question as to whether Question 6 would affect property tax collections beginning July 1, 1981, or July 1, 1982. See Attorney General's Opinion 80-16 of May 14, 1980.

2/ S.B. 204, A.B. 616 and A.B. 268, of the 1979 session.

II. SUBCOMMITTEE METHODOLOGY

To conduct the study, the Legislative Commission appointed Senator Norman D. Glaser (Elko) as subcommittee chairman, Assemblyman Robert E. Robinson (Clark) as vice chairman, Senator Keith Ashworth (Clark), Assemblyman Harley L. Harmon (Clark), Assemblyman Paul W. May (Clark), Assemblyman Robert E. Price (Clark) and Assemblyman Darrell D. Tanner (Clark). Also appointed as members at large, to serve without compensation, were Mr. Leroy Bergstrom, Mr. Ernest Newton and Ms. Carol Vilardo. The Legislative Commission allocated a budget of $5,071 to provide for the cost of the meetings and printing of the final report.

The subcommittee held its initial meeting on October 18, 1979, in Carson City. Subsequent hearings were held February 25, 1980, in Las Vegas; July 1, 1980, in Carson City; July 22, 1980, and August 26, 1980, in Las Vegas. These five meetings were devoted to subcommittee organization, point-by-point review of the 1979 Legislative Tax Relief Package and alternatives for tax relief, and public testimony. Dates selected for the final four meetings were late in the interim period so that information that the subcommittee examined would be based on as much experience with the new program as was possible. All meetings were posted in compliance with the Open Meeting Law and letters were sent to approximately 200 local government entities requesting input to the subcommittee.

Testimony was provided at the meetings by local elected officials and their representatives, state government officials, and representatives of other public organizations. The subcommittee reviewed an extensive amount of detailed financial material on state and local revenues, expenditures and the impact of "caps". Sources of this material were local governments and local school districts, the state department of taxation, the gaming control board, the state department of education and the subcommittee's staff.

III. SUBCOMMITTEE FINDINGS AND RECOMMENDATIONS

A. Method of Reducing Property Taxes:

The state's constitutional maximum property tax rate of $5 per $100 of assessed valuation was reduced statutorily to $3.64 for all classes of property--real, personal and possessory. Lowering of the maximum rate was done simultaneously with a $1.36 across-the-board cut in the rate applicable to all property taxpayers. This reduction in rate was accomplished without any impact on local governments because the state absorbed the cost by repealing the requirement that counties contribute the proceeds of 11 cents of their levy to the state's Title XIX Program, by replacing the proceeds of the 70 cent mandatory local school levy and by replacing the proceeds of 30 cents of the 80 cent optional local school levy.

For the second year of the biennium only (fiscal year 1980-81), a "trigger" feature was added which permitted the amount of the optional school levy to be replaced by the state to vary from zero to 48 cents depending on the performance of the state's two major revenues--gaming and the sales and use taxes. Under the provisions of this "trigger", the statutory rate could vary for one year only from $3.94 to $3.46 so that the maximum statutory rate would equal the constitutional $5 rate less the total amount absorbed by the state.

The two benchmark revenues did not live up to expectation, so for fiscal year 1980-81 the across-the-board reduction was reduced from $1.36 to $1.26. Correspondingly the statutory maximum rate of taxation was set according to formula at $3.74 for 1980-81. (See the "trigger" calculation in Exhibit B.)

Without further legislative action, the maximum property tax rate for fiscal year 1981-82 will once again be $3.64 with the state absorbing the impact of the $1.36 reduction as described above. Whether or not the state can continue to absorb this cost will of course depend on how well other revenues hold up and the need for state spending increases, however, evidence reviewed by the subcommittee suggests that in the long run it can. For the 10-year period shown in Table 1 state revenue in total and the major contributors to state revenue--the sales and use tax and gaming fees--have kept up with growth in statewide assessed values. This

Exhibit B

TRIGGER CALCULATION

Base Period - 1st Three Quarters FY 1978-79

Gaming Percentage Fee	$ 74,963,579	
Sales and Use Tax (Accrued)	86,508,539	
Total - Base Period	$161,472,118	

Measured Period - 1st Three Quarters FY 1979-80

Gaming Percentage Fee	$ 85,307,770	13.8%
Sales and Use Tax (Accrued)	90,053,664	4.1%
Total	$175,361,434	8.6%

Rates:

8 - 9%	$3.74
9 - 10%	$3.71
10 - 12%	$3.64

Projected Increases Used to Develop "Trigger"

Gaming Fees + 17%; Sales and Use Tax + 6%.

Table 1

COMPARISON OF INCREASES
IN ASSESSED VALUES AND TOTAL GENERAL FUND REVENUE
AND MAJOR COMPONENTS OF GENERAL FUND REVENUE

Fiscal Year	Gaming Revenue Increase Over Previous Year	Sales & Use Tax Increase Over Previous Year	Total General Fund Revenue* Increase Over Previous Year	Assessed Value Increase Over Previous Year
1971-72	15.1%	12.8%	12.6%	10.5%
1972-73	14.9%	15.2%	13.4%	11.3%
1973-74	21.6%	16.6%	20.3%	13.1%
1974-75	11.7%	7.4%	9.5%	11.8%
1975-76	12.8%	12.7%	9.9%	12.5%
1976-77	11.6%	17.0%	13.4%	7.2%
1977-78	21.3%	23.6%	21.4%	12.6%
1978-79	23.1%	22.3%	22.3%	19.9%
1979-80	14.3%**	5.0%**	2.1%**	18.7%
1980-81	15.5%**	17.0%**	14.2%**	21.8%

* About 25% of total General Fund revenue is from sources other than sales and use tax and state gaming fees.

** Estimated

indicates that future revenue growth will be sufficient to replace the product of the $1.36 levy times the statewide assessed value. Also, state government spending for ongoing programs has grown less rapidly than revenues as evidenced by large state surpluses.

Therefore, the subcommittee recommends that:

> <u>The property tax relief structure established by the 1979 Legislature should be retained, and future legislatures make variations in the maximum statutory rate and corresponding state assumption by a "trigger" if adjustments are warranted.</u>

Under provisions of the "trigger", the State Board of Examiners was required to set the property tax rate for the 1980-81 fiscal year based solely on the performance of the sales and use and gaming tax revenues during a specific period. No other factors could be considered. The subcommittee felt that the Board of Examiners should be permitted to exercise greater judgment under provisions of the "trigger" in setting amounts of tax relief to avoid an unnecessary reduction in tax relief.

Therefore, the subcommittee recommends that:

> <u>Future legislatures should examine broadening the scope of factors that the State Board of Examiners is permitted to consider in setting rates under "trigger" provisions.</u>

B. <u>Landlord to Tenant Pass-Through of Tax Saving:</u>

The tax package required that tax relief accruing to any landlord not specifically exempted must be passed on to his respective tenants. To accomplish this, landlords were required to supply their tenants with a statement detailing that portion of the rent attributable to property taxes. Beginning July 1979, a statement was required to show comparable tax information for the previous year and any reductions in taxes had to be reflected as a reduction in rent. Landlords who failed to comply with this provision are liable to their tenants in the amount treble overpaid tax. The subcommittee discussed this provision at length but makes no recommendation for change.

Opinions both pro and con on the pass-through provision were expressed to the subcommittee. The subcommittee heard that the pass-through provision was a nuisance to landlords; provided little benefit to tenants; and, after the initial tax reduction was passed on, it no longer was necessary; and that some landlords simply reduced the portion of the rent for taxes and increased the rent for all other purposes by a like amount. On the other hand, the subcommittee learned that the vast majority of landlords did comply with the intent of the law and passed the savings on to tenants. If, in the future, taxes are further reduced by "caps" or by direct state replacement, the subcommittee believes that the pass-through provision provides a means to pass on the savings to tenants.

C. Exemption of Household and Personal Property From Taxation:

In November 1978, the voters approved an amendment to the Nevada Constitution to permit the exemption of personal property. As part of the tax package, the 1979 Legislature exempted household personal property. Since the assessment of household property was inconsistently applied from county to county, that exemption not only provided tax relief to households but also eliminated assessment inequities. The subcommittee heard only positive testimony about this step.

Therefore, the subcommittee recommends that:

> The exemption of household personal property should be continued as a very positive and successful part of tax relief.

D. Removal of the Sales Tax From Groceries:

The legislative tax package provided for the removal of the sales tax on food for human home consumption effective July 1, 1979. Since the original state sales tax was approved by referendum, the tax on food could only be removed by a similar vote. Therefore, a special election was ordered for June 5, 1979, at which time the question was approved by more than a 3 to 1 margin. Also included in the ballot question of the food tax were provisions which made all of the administrative matters of the sales tax laws statutory and subject to being updated from time to time by the legislature. Previously, provisions of the law such as bond requirements and procedures for handling delinquent accounts could only be changed by the voters.

The subcommittee received updates from the Department of Taxation at each of its public hearings apprising of progress and problems encountered in implementing the exemption of food items. Problems that did arise had to do with the definition of food items exempted, and these were resolved by the Nevada Tax Commission by regulation.

Therefore, the subcommittee makes no recommendation for change in provisions exempting groceries from sales tax.

E. Cap on the State Budget:

The Governor's Executive Budget submitted for approval to legislatures beginning in 1981, must be limited in growth by state population and inflation. The 1975-77 biennium is the expenditure base and increases are allowed from July 1974 for both population growth and inflation. Limited are the total proposed expenditures for purposes other than construction from the state General Fund.

The subcommittee received testimony that expenditures under this "cap" include moneys which are appropriated to the Distributive School Fund to provide tax relief replacement revenues. Therefore, the amount of tax relief that can be included in the Executive Budget in future biennium is limited. Certainly there was no intent for a state spending limitation to restrict the amount of property tax relief.

Therefore, the subcommittee recommends that:

> Appropriations to the Distributive School Fund, which are made to provide tax relief, should be exempted from the state budget cap.

F. Cap On Local Governments (Other Than Schools):

Expenditures of all levels of local government that receive taxes or license fees are subject to the "cap". Limitations are tied to local entities' fiscal 1978-79 budget as a base and allowances are made for population changes and an inflation factor which is 80 percent of the last 5 years' average increase or decrease in the Consumer Price Index (CPI). Population increases or decreases are those from before the base year to the year in which the new budget is being prepared.

On or before December 1 of each year the Governor is required to certify this percentage of increase or decrease in population for each city and county. Other local governments must use the percentage change in population for the county in which it or the largest fraction of its population is located. If a local government disputes its estimated population, an appeal may be made to the Nevada Tax Commission whose decision is final. In the case of a general improvement district or special district, if the Tax Commission finds that the applicable percentage change in population differs grossly from the actual percentage, it may determine an equitable percentage to use.

Expenditures that are subject to the "cap" are termed "general fund". This is not general fund in the usual meaning of the term but is defined to be the aggregate of all funds supported in whole or in part by taxes or license fees, except a tax on aviation fuel. Funds excluded from the "cap" are enterprise funds, trust funds, intergovernmental service funds, agency funds, debt service funds, regional street and highway funds, and funds set up to account for one or more projects of capital construction, or for revenue from special assessments. The "cap" does not apply to expenditures of a fair and recreation board or hospital, except expenditures of ad valorem taxes or gaming license fees; of a metropolitan police department; from money accumulated during several years for a specified purpose; or of federal funds. Authority to determine the status of any disputed fund is vested in the Tax Commission.

The "cap" may be exceeded to meet unforeseen situations that threaten life or property, or require expenditures which are not subject to control of the local government, if in either case the proposed expenditure is approved by the Legislative Commission. In addition, an override may be obtained for new programs or increased spending by a majority vote of the people. Such an approval by the voters expires after 2 years. It is unclear whether or not the provision for the 2-year expiration also applies to expenditures approved by the Legislative Commission.

The Director of the Department of Taxation is given authority to determine the manner of accounting for changes in designation or sources of revenue for funds to be included under the "cap". The Attorney General issued Opinion 80-5, on March 3, 1980, which stated that the provision giving the Director this authority does not permit the Director to require changes in the expenditure base when exempt funds such as enterprise funds are created by withdrawing the activity from the base.

Regarding methods for limiting the growth of local government spending, the subcommittee recognizes that a "cap" on revenues is a viable alternative to the current "cap" on expenditures. In states that have extended "caps" to local governments some have capped revenues and some have capped expenditures. Theoretically they ought to have the same result. Whether or not one or the other is better is at this time only a matter of opinion since no body of empirical evidence has been developed on either alternative. The opinion that a revenue "cap" would be less complex and hence more effective for Nevada local governments was expressed in testimony before the subcommittee and by some subcommittee members during deliberations.

Therefore, the subcommittee recommends that:

> The 1981 Legislature should explore a revenue cap in lieu of an expenditure cap.

Regarding the fiscal year 1978-79 budget as a base for measuring permissible expenditure, local government representatives suggested that for some local entities the budget was not truly representative of spending needs. The budgets were developed prior to the "cap" and under differing philosophies.

Some entities historically kept the budget to a bare minimum and augmented later as needed and others were more liberal in including spending programs. The City of Henderson advised the subcommittee that they feel their fiscal year 1978-79 budget is an inadequate base since it was adopted prior to labor negotiations.

Therefore, the subcommittee recommends that:

> Actual expenditures for fiscal year 1978-79 should be used as a base for the local government spending cap in place of the fiscal 1978-79 budgeted expenditures.

Regarding the population for towns, Clark County representatives testified that use of the county-wide population for determination of town government "caps" severely impacted the spending ability of town governments in "the strip" area because their actual population growth was far greater than the factor for Clark County. Additionally, county gaming revenue which formerly went to the state was returned under provisions of the tax package to the county, city or town of origin. This provided even more unspendable town fund revenue for towns along "the strip".

The subcommittee discussed a number of solutions to this problem including eliminating town funds, assigning a population to the towns of the county excluding the cities, and adding towns to the list of entities that could appeal to the Tax Commission for determination of a more equitable growth figure. The subcommittee did not have enough information to thoroughly evaluate these and other courses of action. Since any legislation to correct the Clark County problem would affect every town in the state, a hearing process more extensive than the subcommittee could undertake would be necessary.

Therefore, the subcommittee recommends that:

> The appropriate committees of the 1981 Legislature should explore alternative ways of applying the cap to town governments.

Regarding the use of population estimates in establishing spending limitations, some adjustment may be necessary in these estimates when actual 1980 census figures become available.

Therefore, the subcommittee recommends that:

> The appropriate committees of the 1981 Legislature should be advised of the necessity of realigning estimates of population used in the base period of the caps with actual population figures from the 1980 census.

Regarding the 5-year moving average in the inflation factor, testimony from local governments was that the average of a 5-year period was too long to be responsive to the rapid price increases recently experienced. Further, the subcommittee is concerned that if price increases flatten out, recent large inflationary increases will provide unwarranted spending authority for up to four more years.

Therefore, the subcommittee recommends that:

> For the local government spending cap, the 5-year moving average of the inflation factor should be decreased to a 3-year moving average.

Regarding the use of the Consumer Price Index (CPI) as the index to measure inflation, the subcommittee received repeated testimony that the CPI was not the appropriate index to measure increases or decreases in the cost of providing government services. Exhibits C and D were prepared by Clark County representatives to compare the GNP Deflator of the U.S. Department of Commerce with the CPI. The subcommittee is aware that the items in the CPI are geared to family spending patterns as shown in Exhibit C.

Therefore, the subcommittee recommends that:

> For the local government spending cap, the Implicit Price Deflator for Goods and Services Purchased by Government should be adopted in place of the CPI as a measurement of change in cost of providing government services.

"General Fund" is a term in very common usage in governmental accounting. Under the "cap" legislation it is ascribed a meaning far different from the common usage.

Therefore, to more clearly define the subject of the "cap", the subcommittee recommends that:

> The expression "general fund" as a generic term should be changed to "aggregate of general and special funds" to conform with language for such activities as expressed by Statement 1 of the National Council on Governmental Accounting.

Regarding the 2-year expiration period on approvals to exceed a local entity's spending limit (NRS 354.5981, subsection 6, attached as Exhibit E), two problems were uncovered by the subcommittee. First, application apparently was not intended for overrides granted by the Legislative Commission to allow an entity increased spending authority to comply with unforeseen legislative directives or for an emergency (NRS 354.5981, subsection 6 b). Expiration would require Douglas County to return to the Legislative Commission to extend its authority to pay salaries of persons selling

Exhibit C

CPI MEASURES CONSUMER COSTS FOR:

a. Food
b. Housing
c. Utilities
d. Household furnishings
e. Clothing
f. Personal transportation
g. Medical care
h. Entertainment
i. Miscellaneous personal items

GNP DEFLATOR FOR GOVERNMENT MEASURES:*

a. Construction costs by facility type (i.e. education, hospital, highway, sewer)
b. Compensation by major category (educational, non-educational)
c. Durables (i.e., heavy equipment)
d. Nondurables (i.e., office supplies)
e. Services**

*The GNP index uses elements of the CPI, the Wholesale Price Index, and a Census of Government Employee Compensation and total expenditures.

**Currently, the GNP Deflator does not include a utility component, which may be added later. If utility costs were included, the GNP index would show a higher rate of inflation in the opinion of the U.S. Department of Commerce.

Exhibit D

INDEX COMPARISONS

YEAR	GNP IMPLICIT PRICE DEFLATOR STATE & LOCAL GOVERNMENT	CPI FOR ALL URBAN CONSUMERS
1967	100.0	100.0
1968	106.1	104.2
1969	113.0	109.8
1970	121.8	116.5
1971	130.3	121.3
1972	137.9	125.3
1973	148.0	133.1
1974	163.3	147.7
1975	178.9	161.2
1976	191.5	170.5
1977	206.9	181.5
1978	223.6	195.4*
1979	244.4	217.4

*FIRST YEAR FOR CPI-U, 1978. ALL PREVIOUS YEARS WERE COMPUTED AS CPI-W.

Exhibit E

354.5981 Limitation upon expenditures from general fund. [Expires by limitation June 30, 1981, if before that date Nevada constitution is amended to reduce limit on property taxes.]

* * *

6. The governing body of a local government, except a school district, may exceed the limitation imposed by subsections 1 and 2:

(a) To the extent necessary to meet situations not reasonably foreseeable in which there is a threat to life or property, or requirements for expenditure which are not subject to the control of the local government, if in either case the legislative commission approves the proposed expenditure.

(b) To the extent necessary to provide a new or expanded program of service if:

(1) The program of service is to be supported entirely by ad valorem taxes which do not exceed the statutory limit on ad valorem taxes; and

(2) The governing body proposes the program and it is approved by a majority of the voters voting on the question in a general election or a special election called for that purpose.

Such an approval may be made effective for not more than 2 years.

(Added to NRS by 1979, 1238)

marriage licenses. Secondly, rather than being tied to fiscal year periods, the authority for an override expires not more than 2 years after inception. Because of this, all overrides approved to date will expire part way into the entity's fiscal year leaving a question as to whether or not they can build their budgets and levy taxes for a program requiring renewal.

Therefore, the subcommittee recommends that:

> The 2-year expiration of authority granted a local entity to exceed its spending limitation should be removed.

Regarding the effectiveness of the "cap" on local governments, the subcommittee learned that the Attorney General's Opinion 80-25 largely negated the impact of the "caps". According to testimony from the Director of the Department of Taxation and local government representatives, cities and counties could easily circumvent the "cap" by creating enterprise funds and not withdrawing the activity represented by the new enterprise fund from the spending base. An example of how this would occur is presented in Table 2.

Therefore, the subcommittee recommends that:

> NRS 354.5983, subsection 4, should be amended to clearly provide authority to the Director of the Department of Taxation to require local governments to change their expenditure base when exempt funds such as enterprise funds are created by withdrawing an activity from the base.

Regarding newly mandated projects or programs, even with the most carefully considered "cap", problems of definition and interpretation are certain to arise that can only be handled on a case-by-case basis. A judgment decision about when an expenditure is or is not mandated and how to treat a mandated expenditure that replaces or expands a current service are examples.

Table 2

LOCAL GOVERNMENT EXPENDITURE LIMITATION

Attorney General's Opinion 80-5 (Illustration - page 5 and 6)

Assume:	Inflation Factor	7.38%
	Population Factor	5.10%
	Total	12.48%

		Attorney General's Interpretation	Subcommittee's Recommended Interpretation
Base Expenditures:	General	$ 70,000	$ 70,000
	Airport	30,000	30,000
Total Base		$100,000	$100,000
Exempt Airport:			$ 30,000
New Base Expenditures		$100,000	$ 70,000
Application of Factors		1.1248	1.1248
Allowable Expenditures G.F.		$112,480	$ 78,736
Percent Increase in General Fund Expenditures		60.1%	12.48%

Therefore, the subcommittee recommends that:

<u>The Director of the Department of Taxation should be given authority to permit an entity to exceed its expenditure limitation to the extent necessary to pay for a newly mandated project or program.</u>

G. <u>Cap On School Districts' Ad Valorem Levy:</u>

The amount of property tax that a school district may levy for operations was limited by the tax relief plan. Revenues to retire bond issues for capital improvements were not affected. Most of the revenues of the school districts are received either directly through the property tax levy or equalized through the State Distributive School Fund formula so the effect is a nearly total "cap" on school districts' operating revenues.

Before the tax relief package, a 70 cent per $100 levy was required of all school districts and they had priority on an additional levy of up to 80 cents. Proceeds of the 70 cent levy were equalized under the school fund formula. Proceeds of the 80 cent levy were outside of the formula. The state replaced all of the formerly mandatory 70 cent levy and 30 cents of the optional 80 cent levy as part of tax relief. A "cap" was placed on the total amount of taxes that can be derived from the remaining 50 cents of the optional levy.

The average from this 50 cent levy for the previous three assessment years becomes the base from which the allowable levy is calculated. The base is adjusted for changes in enrollment and an inflation factor which is 80 percent of the last five years' average increase or decrease in the Consumer Price Index. The enrollment adjustment measures the changes from the same three years that constitute the base to the current year. The base levy and the base enrollment and inflation factor all change yearly as the oldest year of each is dropped and the newer year added.

The limitation on the optional school levy applied only to the levy available to school districts. When revenues fell short of projections and only the proceeds of 20 cents of the 80 cent optional levy was replaced by the state for fiscal year 1980-81, the "cap" applied to the larger proceeds of a 60 cent levy as below. This further limited the revenue available to school districts.

	FY 1979-80	FY 1980-81
Optional Levy	80 cents	80 cents
Replaced by State	(30 cents)	(20 cents)
Subject to Cap	50 cents	60 cents

Regarding the 5-year moving average of the inflation factor, testimony from the school districts was the same as other local governments that the 5-year period was too insensitive to price increases. Also, the subcommittee is concerned that if price increases flatten out, recent large inflationary increases will provide unwarranted latitude to increase the optional levy for up to four more years.

Therefore, the subcommittee recommends that:

> For the school district revenue cap, the 5-year moving average of the inflation factor should be decreased to a 3-year moving average.

Regarding the CPI as a measure of inflation, here too, the subcommittee is convinced that the Implicit Price Deflator would be a more representative measure of the inflation factor. Also, the subcommittee feels that school districts should be treated the same as other local governments in this calculation.

Therefore, the subcommittee recommends that:

> For the school district revenue cap, the Implicit Price Deflator for Goods and Services Purchased by Government should be adopted in place of the Consumer Price Index (CPI) as a measurement of change in cost of providing government services.

Regarding the base period of the "cap", the subcommittee was told that the base extended too far back in time. The subcommittee agrees. The oldest assessment year that is averaged into the base reflects a period four years before the fiscal year for which a budget being limited is prepared.

Therefore, the subcommittee recommends that:

> The base period for the school district cap should be changed from the average of the previous three assessment years to the average of the previous two assessment years.

In hearings before the subcommittee school districts maintained that they should have a strong local tax base for their support. Under the tax package a greater portion of their revenue was brought under the Distributive School Fund and then most locally generated revenue (the optional property tax) was capped by formula. This, they said, eroded local control. The subcommittee recognizes that a shift from local to state financial responsibility has occurred. It is not unique to Nevada and is partly a result of the requirement for equalization of school districts' resources. However, the shift becomes more severe when states provide local tax relief by funneling additional state money to local school districts to replace local revenue.

Therefore, the subcommittee recommends that:

> The appropriate committees of the 1981 Legislature should be apprised of the problem of erosion of local school districts' local tax base and that when they deliberate on matters affecting the schools, look for ways to correct this erosion.

Reductions in a school's optional property tax levy did not necessarily result in savings to taxpayers because other local entities often picked up a portion of the levy that the school district had to drop.

The subcommittee, therefore, recommends that:

> Amendments recommended by the subcommittee to eliminate loopholes in local government caps should be adopted as a means of restricting local government's ability to pick up the portion of the optional levy from which schools must recede.

Regarding the "trigger", the subcommittee was told that most school districts were adversely affected when the "trigger" increased the amount of the optional school levy from 50 cents to 60 cents. The statewide impact was a $1,559,875 reduction in school district revenues as shown in column 8 of Exhibit F. The limitation on the additional 10 cents came at a time when budgets were strained by rapid inflation.

If, upon examination of the revenue outlook, future legislatures determine that a "trigger" for a greater or lesser tax relief is warranted, a similar problem could arise.

Therefore, the subcommittee recommends that:

> Future legislatures should be made aware that if the cap is applied to only the part of the 80 cent optional tax actually levied, the effect is more severe when a lesser amount of tax relief is triggered. In a period of rapidly rising prices, this could be far more restrictive than intended.

H. Local Revenue Replacement:

The exemption of food from sales tax and the exemption of household personal property from the ad valorem tax reduced revenues available to local governments. To help offset the loss, the state's share of the real estate transfer tax and the county gaming license fees was returned to local governments. The real estate transfer tax is 55 cents per $500 unencumbered value on each deed conveying real property. The state's 75 percent share of this tax was returned to the county of origin for distribution to the county and cities. The state's 25 percent share of the county gaming license fee which is authorized by NRS 463.390 was also returned to local governments. The proceeds go to either the city, county or town of origin.

Also, the requirement was removed that counties could share one-third of the cost of foster care for children not eligible for the Aid to Dependent Children Program. The state absorbed these additional costs.

Regarding the replacement of local revenues, the only problem the subcommittee found was with the county gaming license fees being returned to the town of origin. Because of "caps" the towns in "the strip" area in Clark County received replacement revenues that they could not spend. In examining this situation, the subcommittee felt that

EXHIBIT F

State of Nevada
Department of Education
Fiscal Services Division

IMPACT ON LOCAL SCHOOL DISTRICT REVENUE OF MAXIMUM LEVY INCREASE FROM 50¢ TO 60¢ AND ADDITIONAL LOSS INCURRED

	1	2	3	4	5	6	7	8
Counties	1979-80 Assessed Valuation	X .60 Maximum Levy	X (See Below) Capped Levy	Loss of Revenue (Col 2-3)	X .50 Maximum Levy	X (See Below) Capped Levy	Loss of Revenue (Col 5-6)	Add'l. Loss (Col. 4-7)
Carson City	$ 252,783,243	1,516,699	.4144 1,047,534	469,165	1,263,916	.3453 872,860	391,056	$ 78,109
Churchill	71,519,109	429,115	.5537 396,001	33,114	357,596	.4614 329,989	27,607	5,507
Clark	3,481,036,558	20,886,219	.4672 16,333,024	4,553,195	17,405,183	.3910 13,610,853	3,794,330	758,865
Douglas	275,614,636	1,653,688	.4997 1,377,246	276,442	1,378,073	.4164 1,147,659	230,414	46,028
Elko	179,377,171	1,076,263	.5690 1,020,656	55,607	896,886	.4741 850,427	46,459	9,148
Esmeralda	21,291,089	127,746	.4567 97,236	30,510	106,455	.3806 81,013	25,442	5,068
Eureka	46,442,020	278,652	.5143 238,851	39,801	232,210	.4286 199,050	33,160	6641
Humboldt	100,591,120	603,546	.4891 491,991	111,555	502,956	.4076 410,009	92,947	18,608
Lander	45,340,053	272,040	.5294 240,030	32,010	226,700	.4411 199,995	26,705	5,305
Lincoln	33,464,500	200,787	.5385 180,206	20,581	167,323	.4488 150,189	17,134	3,447
Lyon	113,888,914	683,333	.5200 592,222	91,111	569,445	.4333 493,481	75,964	15,147
Mineral	31,113,937	186,683	.5572 173,367	13,316	155,570	.4643 144,462	11,108	2,208
Nye	133,148,433	798,890	.5314 707,551	91,339	665,742	.4428 589,581	76,161	15,178
Pershing	40,944,875	245,667	.6000 245,667	-0-	204,723	.0800 204,723	-0-	-0-
Storey	23,905,796	143,434	.3804 90,938	52,496	119,529	.3170 75,781	43,748	8,748
Washoe	2,000,159,785	12,000,959	.4262 8,524,681	13,476,278	10,000,799	.3552 7,104,567	2,896,232	580,046
White Pine	49,227,651	295,366	.5778 284,437	10,929	246,138	.4815 237,031	9,107	1,822
Totals	$ 6,899,848,610	$ 41,399,087	$ 32,041,638	$ 9,357,449	$ 34,499,244	$ 26,701,670	$ 7,797,574	$ 1,559,875

10/80

towns were inadvertently included in this distribution by the 1979 Legislature and that the intent was to distribute the 25 percent share to the city or county of origin.

Therefore, the subcommittee recommends that:

> NRS chapter 463 should be amended to provide that the 25 percent share of the county gaming license fee which was returned to local governments as part of the tax package be distributed only to the city or county of origin. The statutory reference to town should be deleted.

I. Making the Tax Package More Permanent:

The opinion was expressed to the subcommittee that the legislative tax package would be more palatable to the voters if it were made a part of the Constitution and thus more difficult to change. Tax relief under Question 6, the subcommittee was told, had the advantage of this greater permanence. However, the subcommittee felt that casting the 1979 Legislative Tax Package in the constitution would be premature. There are many problem areas that need to be ironed out before portions of the tax package should be placed in the constitution where the process to change requires four years or more. Subcommittee members felt that this feature of Question 6 was, in fact, a disadvantage because many problems are sure to arise and they would have to be corrected through a lengthy amendment process.

J. Providing Greater Property Tax Equity:

By law, the county assessor is required to reappraise all property at least once every 5 years (NRS 361.260). The prevalent practice in the case of residential and most commercial real property is to reappraise every 5 years, and then to adjust the assessment as warranted by the appraisal. Generally, assessments then remain unchanged for 5 years. In a period of rapidly rising real estate prices, properties that are reappraised take a tremendous jump up in assessed value while the assessment of properties that have not yet been reappraised remain unchanged. The result is that a homeowner may experience a 200 to 300 percent increase in his tax bill while the tax bill for a similar house in another part of town is not increased.

The theory has been expressed that, in the long run, the 5-year cycle does provide equity because all taxpayers receive a respite for four years and on the fifth year their property is brought up to full value. Facts do not support this view. Mathematically equity is highly improbable since properties increase 15 or 20 percent some years and do not increase at all other years. Also, tax levies change, properties are remodeled or rezoned and people move.

Updating assessments more frequently than once in 5 years appears to be the most important step to make the system more equitable and the greatest degree of equity would be achieved if updating were done on an annual basis. It may be possible to incorporate a limit on year-to-year increases in value with the shorter reassessment cycle. The subcommittee learned that the extent to which new physical appraisals are required for assessment updating is a subject of debate. If a complete reappraisal is required to support each reassessment, the cost may make annual reassessment untenable. Clearly any program to shorten the 5-year cycle would have to be thoroughly considered and phased in slowly and the subcommittee had neither adequate time nor resources to develop such a program.

Dislocations in value have been magnified in some counties by lax assessment practices. The rudimentary requirement of a 5-year reappraisal has not been followed in all cases. Checkerboard reassessments and questionable backdating are other examples. During the time that the subcommittee was conducting this study, these and other problems were investigated by the Nevada Tax Commission and the Washoe County Grand Jury and suggestions have been developed for corrections.

To provide for greater property tax equity, the subcommittee recommends that:

<u>The following recommendations be forwarded to the appropriate committees of the next regular session of the legislature:</u>

1. <u>The 1981 Legislature should investigate methods of implementing an annual updating of appraisals.</u>

2. The 1981 Legislature should investigate thoroughly current assessment procedures and practices with regard to compliance with state statutes.

3. The Tax Commission should require that each county assessor develop a procedures manual and submit it to the Tax Commission for approval.

K. Further Study of Nevada's Property Tax System:

The 1981 Legislature, by resolution, should continue to have a special legislative subcommittee on tax action meeting on a regular basis. The subcommittee should continue the review of the tax package or, if Question 6 is passed, examine the problems that are sure to arise with implementing legislation. This subcommittee should also be charged with ongoing oversight and examination of assessment problems as noted in the Washoe County Grand Jury's report.

PROPOSED LEGISLATION

SUMMARY--Makes refinements to statutory limits on state budget and on expenditures by local governments. (BDR 31-358)
Fiscal Note: Effect on Local Government: Yes.
Effect on the State or on Industrial Insurance: No.

AN ACT relating to governmental finance; removing statutory limits on certain expenditures proposed in the state budget for the state distributive school fund; redefining the base from which permissible expenditures by local governments are calculated and permitting certain adjustments of that base; making certain revisions to the method of calculating the permissible level of expenditures by local government and of revenues from certain tax levies; altering the procedure for obtaining approval of certain expenditures which exceed the statutory limits; reallocating a portion of the county gaming license fees; and providing other matters properly relating thereto.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. NRS 353.213 is hereby amended to read as follows:

353.213 1. In preparing the state budget for each biennium, the chief shall not exceed the limit upon total proposed expenditures for purposes other than [construction] those specified in this subsection from the state general fund calculated pursuant to this section. The limitation imposed by this section does not apply to proposed expenditures:

(a) For construction; or

(b) To provide money to the state distributive school fund in amounts not exceeding in the aggregate for each fiscal year of the biennium $1 for each $100 of the assessed value estimated for that fiscal year of all taxable property within the state.

The base for each biennium is the total expenditure [, for the purposes limited,] for purposes other than construction from the state general fund appropriated and authorized by the legislature for the biennium beginning on July 1, 1975.

2. The limit for each biennium is calculated as follows:

(a) The amount of expenditure constituting the base is multiplied by the percentage of change in population for the current biennium from the population on July 1, 1974, and this product is added to or subtracted from the amount of expenditure constituting the base.

(b) The amount calculated under paragraph (a) is multiplied by the percentage of inflation or deflation, and this product is added to or subtracted from the amount calculated under paragraph (a).

(c) If the amount resulting from the calculations under paragraphs (a) and (b) represents a net increase over the base biennium the chief may increase the proposed expenditure accordingly. If the amount represents a net decrease, the chief shall decrease the proposed expenditure accordingly. If the amount is the same as in the base biennium, that amount is the limit of permissible proposed expenditure.

3. The revised estimate of population for the state issued by the United States Department of Commerce as of July 1, 1974, must

be used, and the governor shall certify the percentage of increase or decrease in population for each succeeding biennium. The Consumer Price Index published by the United States Department of Labor for July preceding each biennium must be used in determining the percentage of inflation or deflation.

4. The chief may exceed the limit to the extent necessary to meet situations in which there is a threat to life or property.

Sec. 2. NRS 354.5981 is hereby amended to read as follows:

354.5981 1. [The amount budgeted by a local government, except a school district, pursuant to NRS 354.598 for the fiscal year commencing July 1, 1978, for expenditure from its general fund, less any amount allowed as an ending balance for that fiscal year and less any contribution to the state for aid to the medically indigent, is the base from which the permissible expenditure from that fund in subsequent years must be calculated.] Except as it may be adjusted pursuant to NRS 354.5983, the base from which the permissible expenditure by a local government, except a school district, from its aggregate of funds in subsequent years, must be calculated is the total expenditure from those funds for the fiscal year commencing July 1, 1978:

(a) Plus any amounts allowed as ending balances for that fiscal year; and

(b) Less any contribution to the state for aid to the medically indigent.

2. The governing body of a local government, except a school district, shall calculate the level of permissible expenditure from its [general fund] aggregate of funds for a given year as follows:

(a) The amount of expenditure in the base year is multiplied by the percentage of change in population in the current year from the base year and this product is added to or subtracted from the amount of expenditure in the base year.

(b) The amount calculated under paragraph (a) is multiplied by 80 percent of the average annual percentage of inflation or deflation for the [60] 36 months preceding the month of November preceding the fiscal year for which the budget is prepared and further multiplied by the number of years from July 1, 1978, to July 1 of the year for which the budget is prepared, and this product is added to or subtracted from the amount calculated under paragraph (a).

(c) If the amount resulting from the calculations under paragraphs (a) and (b) represents a net increase over the base year, a governing body may increase its expenditure accordingly. If the amount represents a net decrease, the governing body shall decrease its expenditure accordingly. If the amount is the same as in the base year, expenditures must not be increased.

3. The department of taxation shall disapprove any budget of a governing body which does not comply with the limitations of subsections 1 and 2.

4. On or before December 1 of each year, the governor shall certify the percentage of increase or decrease in population for each county and city. Every other local government, except a school district, must use the percentage of increase or decrease in population for the county in which it, or the largest fraction of its population, is located. If the Nevada tax commission finds that the percentage of increase or decrease in population so determined for a general improvement district or other special district differs grossly from the actual percentage, it may determine an equitable percentage to be used. Any local government which believes that the percentage certified by the governor is not a true figure may appeal the certification to the tax commission, which may increase or decrease the percentage as the evidence before it reasonably requires. The decision of the tax commission is final.

5. The [Consumer Price Index for All Urban Consumers,] <u>Implicit Price Deflator for State and Local Government Purchases of Goods and Services,</u> published by the United States Department of [Labor,] <u>Commerce,</u> must be used in determining the percentage of inflation or deflation.

6. The governing body of a local government, except a school district, may exceed the limitation imposed by subsections 1 and 2:

(a) To the extent necessary to meet situations not reasonably foreseeable in which there is a threat to life or property, or requirements for expenditure which are not subject to the control of the local government, if in either case <u>, except the special case described in paragraph (b),</u> the legislative commission approves the proposed expenditure.

(b) <u>To the extent necessary to meet an increase in expenditures required by a state or federal law or regulation enacted or adopted after July 1, 1981, if the director of the department of taxation approves the proposed expenditure. The director may condition his approval or limit it to any period of time as he deems appropriate. Any decision of the director made under this paragraph is final.</u>

<u>(c)</u> To the extent necessary to provide a new or expanded program of service if:

(1) The program of service is to be supported entirely by ad valorem taxes which do not exceed the statutory limit on ad valorem taxes; and

(2) The governing body proposes the program and it is approved by a majority of the voters voting on the question in a general election or a special election called for that purpose.
[Such an approval may be made effective for not more than 2 years.]

Sec. 3. NRS 354.5983 is hereby amended to read as follows:

354.5983 1. Except as otherwise provided in this section, for the purposes of NRS 354.5981, 354.599 and 354.615, ["general fund" means the aggregate of all funds] <u>"aggregate of funds" means the</u>

general fund and all special funds, however designated, which are supported in whole or in part by taxes or license fees, except a tax on aviation fuel.

2. The term does not include:

(a) An enterprise fund;

(b) An intragovernmental service fund or a trust or agency fund;

(c) A fund set up to account for one or more projects of capital construction or for revenues from special assessments;

(d) A debt service fund; or

(e) A regional street and highway fund.

3. The limit imposed by NRS 354.5981 does not apply to expenditures:

(a) Of a fair and recreation board or a hospital, except the expenditure of revenue from ad valorem taxes or license fees for gaming;

(b) Of a metropolitan police department;

(c) From money accumulated during several years for a specified purpose; or

(d) Of money received from the Federal Government.

4. The Nevada tax commission shall determine the status of any disputed fund by applying generally recognized principles of governmental accounting.

5. The director of the department of taxation shall, in cases where the designations or sources of revenue for the funds of a

local government are changed, determine the manner of taking the changes into account for the purposes of NRS 354.5981. If the source of money for the support of a particular governmental activity is changed in whole or in part by a local government from its aggregate of funds to a fund described in subsection 2, the base from which the permissible expenditure by the local government from its aggregate of funds in subsequent years must be calculated must be decreased to the extent of the change as determined by the director. If such a change is made by a local government from a fund described in subsection 2 to its aggregate of funds, the base may be increased to the extent of the change as determined by the director. If the proportionate contribution of a local government to the support of an agency which is jointly supported by two or more local governments and for which a separate budget is prepared pursuant to this chapter is changed after the base year, the director shall appropriately adjust the calculations required by NRS 354.5981. Any decision of the director made under this subsection is final.

Sec. 4. NRS 354.599 is hereby amended to read as follows:

354.599 1. In any year in which the legislature by law increases or decreases the revenues of a local government, and that increase or decrease was not included or anticipated in the local government's final budget as adopted pursuant to NRS 354.598, the governing body of any such local government may, before July 15 of the budget year, file an amended budget with the department of taxation increasing or decreasing its anticipated revenues and expenditures from that contained in its final budget to the extent of the actual increase or decrease of revenues resulting from the legislative action.

2. In any year in which the legislature enacts a law requiring an increase or decrease in expenditures of a local government, which was not anticipated or included in its final budget as adopted pursuant to NRS 354.598, the governing body of any such local government may, before July 15 of the budget year, file an amended budget with the department of taxation providing for an increase or decrease in expenditures from that contained in its final budget to the extent of the actual amount made necessary by the legislative action.

3. The amended budget, as approved by the department of taxation, is the budget of the local government for the current fiscal year.

4. The provisions of this section do not increase the permissible expenditure of a local government from its [general fund.] <u>aggregate of funds.</u>

Sec. 5. NRS 354.615 is hereby amended to read as follows:

354.615 1. If resources actually available during a budget period exceed those estimated, a local government may augment a budget in the manner provided below:

(a) If it is desired to augment the appropriations of an appropriation fund, the governing body shall, by majority vote of all members of the governing body, adopt a resolution reciting the appropriations to be augmented, and the nature of the unbudgeted resources intended to be used for the augmentation.

(b) Before the adoption of such a resolution, the governing body shall publish notice of its intention to act thereon in a newspaper of general circulation in the county for at least one publication. No vote may be taken upon [such a] the resolution until 10 days after the publication of the notice.

(c) If it is desired to augment the budget of any other fund, the governing body shall adopt, by majority vote of all members of the governing body, a resolution providing therefor at a regular meeting of the body.

2. A budget augmentation becomes effective upon delivery to the department of taxation of a certified copy of the resolution providing therefor.

3. A governing body shall not increase the budgeted expenditures from its [general fund] aggregate of funds beyond the amount permitted by NRS 354.5981.

Sec. 6. NRS 387.199 is hereby amended to read as follows:

387.199 1. The amount computed by multiplying the rate levied pursuant to subsection 1 of NRS 387.195 by the average assessed valuation of the school district during the first [3] 2 of the [4]

3 fiscal years preceding the year for which the tax is levied is the base amount from which the permissible amount of revenue to be derived from the tax whose levy is authorized by subsection 1 of NRS 387.195 must be calculated. The average enrollment in the school district during the same [3] 2 years is the base enrollment from which changes in enrollment must be calculated.

2. The board of trustees shall calculate the amount of permissible revenue from the specified tax for a given year as follows:

(a) The base amount is multiplied by the percentage of change in enrollment in the current year from the base enrollment and this product is added to or subtracted from the base amount.

(b) The amount calculated under paragraph (a) is multiplied by 80 percent of the average annual percentage of inflation or deflation for the [60] 36 months preceding the month of November preceding the fiscal year for which the budget is prepared and this product is added to or subtracted from the amount calculated under paragraph (a).

(c) If the amount resulting from the calculations under paragraphs (a) and (b) represents a net increase over the base amount, the board of trustees may increase its recommended levy accordingly. If the amount represents a net decrease, the board shall decrease its recommended levy accordingly. If the amount is the same as the base amount, the recommended levy must not be increased.

3. The department of taxation shall disapprove any tentative budget of a school district which does not comply with the limitations of subsections 1 and 2.

4. On or before December 1 of each year, the state board of education shall certify the percentage of increase or decrease in enrollment for each school district. For the purposes of this section, "enrollment" means the sum of the particular counts of pupils enrolled in and scheduled to attend programs of instruction in the public schools described in subparagraphs (1) to (4), inclusive, of paragraph (a) of subsection 1 of NRS 387.1233.

5. The [Consumer Price Index] Implicit Price Deflator for State and Local Government Purchases of Goods and Services published by the United States Department of [Labor] Commerce must be used in determining the percentage of inflation or deflation.

Sec. 7. NRS 463.323 is hereby amended to read as follows:

463.323 1. The county license department, or the sheriff if there is no county license department, shall collect all county license fees, and no license money paid to the sheriff or county license department may be refunded, whether the slot machine, game or device for which [such] a license was issued has voluntarily ceased or its license has been revoked or suspended, or for any other reason. The sheriff in his county or the county license department shall demand that all persons required to procure county licenses in accordance with this chapter take out and pay for the licenses, and the sheriff if there is no county license department is liable on his official bond for all money due for [such] <u>those</u> licenses remaining uncollected by reason of his negligence.

2. On or before the 5th day of each month the sheriff of a county which has no county license department shall pay over to the county treasurer all money received by him for licenses and take from the county treasurer a receipt therefor, and he shall immediately on the same day return to the county auditor all licenses not issued or disposed of by him as is provided by law with respect to other county licenses.

3. In a county which has a county license department, all money received for county gaming licenses must be paid over to the county treasurer at the time and in the manner prescribed by county ordinance.

4. All money received for county gaming licenses under this chapter must be retained by the county treasurer for credit to the county general fund, except:

(a) Where the license is collected within the boundaries of any incorporated city or town, the county shall retain 25 percent of the money, and the incorporated city or town is entitled to 75 percent of the money, which must be paid into the general fund of the incorporated city or town.

(b) Where the license is collected within the boundaries of any unincorporated city or town under the control of the board of county commissioners pursuant to chapter 269 of NRS, the county shall retain [25] 50 percent of the money, and [75] 25 percent of the money must be placed in the town government fund for the general use and benefit of the unincorporated city or town. The county may also place the remaining 25 percent of the money in the town government fund or may retain it for the use of the county.