

**PROPOSED REGULATION OF THE  
COMMITTEE ON LOCAL GOVERNMENT FINANCE**

**LCB File No. R007-12**

EXPLANATION – Matter in *bold italic* is new; matter in brackets ~~[omitted material]~~ is material to be omitted.

AUTHORITY: §§1-7, NRS 354.107; SB 65

A REGULATION relating to local government finance; prescribing the method by which general, overhead, administrative and similar expenses of a local government which may be equitably allocated to an enterprise fund; and providing other matters relating properly thereto.

**Section 1.** Chapter 354 of NAC is hereby amended by adding thereto the provisions set forth as sections 2 to 13, inclusive, of this regulation.

**Sec. 2.** *As used in sections 2 to 13, inclusive, of this regulation, unless the context otherwise requires, the words and terms defined in sections 3 through 10 of this regulation have the meanings ascribed to them in those sections.*

**Sec. 3.** *“Applicable credits” means those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to the enterprise fund, such as a product return..*

**Sec. 4.** *“Central service cost allocation plan” means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a local government on a centralized basis to its departments, agencies, and enterprise funds.*

**Sec. 5.** *“Cost” means an amount as determined on a cash, accrual, or other basis.*

**Sec. 6.** *“Direct cost” means a cost of services, materials or labor incurred by a department, agency, or enterprise fund of a local government that is specifically associated*

*and used by that department, agency, or enterprise fund. An example of a direct cost might be the rental or lease fee charged to an enterprise fund for use of a building.*

**Sec. 7.** *“Indirect costs” are costs incurred for a common or joint purpose benefiting more than one cost objective and include costs incurred by other departments in supplying goods, services, and facilities to the enterprise fund. As an example, indirect costs are generally overhead costs not directly linked to a specific program.*

**Sec. 8.** *“Local government” has the meaning ascribed to it in NRS 354.474.*

**Sec. 9.** *“PILOT” is an acronym which means payments in lieu of taxes. Such payments are paid to local governments that help offset losses in property taxes and are verifiable, determinable and tie back to the property tax.*

**Sec. 10.** *“Reasonable cost” means a cost if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.*

**Sec. 11. 1.** *The central service cost allocation plan may include the costs of goods and services provided by the general fund, internal service funds, and other funds. It does not include transfers of franchise fees, PILOT payments for use of right-of-ways, debt service or direct costs which are directly billable to the department, agency, or enterprise fund.*

**2.** *Costs allowed for allocation to an enterprise fund must be necessary and reasonable. In order to be an allowable cost, the cost must meet the following general criteria:*

**a.** *Be necessary and reasonable for proper and efficient performance and administration of the enterprise fund;*

*b. Be consistent with policies, regulations, and procedures that apply uniformly to the enterprise fund and other activities of the local government;*

*c. Be determined in accordance with generally accepted accounting principles;*

*d. Be the net of applicable credits;*

*e. Be adequately documented; and*

*f. Be a reasonable cost.*

*3. In determining whether a cost is reasonable, consideration shall be given to:*

*a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the enterprise fund;*

*b. The restraints or requirements imposed by such factors as: sound business practices; arm's length bargaining; and state laws and regulations;*

*c. Market prices for comparable goods or services;*

*d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, and the public at large; and*

*e. Significant deviations from the established practices of the local government which may unjustifiably increase the cost to the enterprise fund.*

*4. Examples of centralized services which may be subject to a cost allocation plan include, without limitation, legislative costs of the governing body, legal costs, general administration, emergency services, public relations, property management, grants management office, contracts and procurement, grounds maintenance, budgeting, general ledger accounting, internal audit, accounts payable, planning, human resources, building maintenance, general services, motor pool, road maintenance, public works,*

*telecommunications, risk management, payroll, automatic data processing services, warehouse and storage, printing, library, water and sewer, records maintenance, and animal control.*

**Sec. 12. 1.** *A central service cost allocation plan may be based upon audited historical data or budget data. The determination of which data to use must anticipate whether there are any expected program changes for the coming year which would not be reflected in historical data.*

*2. Any allocation basis may be used as long as it provides an equitable distribution of general, overhead, administrative, and similar costs of the local government and the goods or services involved are chargeable or assignable to the cost objective of the enterprise fund. For example, the costs of the personnel office have been determined to be allowable and reasonable, and the enterprise fund uses the services of the personnel office. The basis for allocation may be the number of employees. Using employee rosters to identify the number of full-time equivalents (FTEs) in each benefiting program, department, and enterprise fund, divide the enterprise fund's total FTEs by the total number of FTEs for the entire local government. The result is the rate to be applied to the costs of the personnel office. Multiply the rate so determined for the enterprise fund times the costs of the personnel office to determine the amount to be allocated to the enterprise fund.*

*3. The central service cost allocation plan must include a description of the methodology used to determine the basis of allocation and a schedule of current rates.*

*4. A central service cost allocation plan which affects an enterprise fund must be updated annually prior to submission of the tentative budget to the Department of Taxation on April 15.*