

Local Government Finance



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Program Overview

- Taxing Bodies & Their Structure
- Fund Accounting Overview
- Revenues, Expenditures and Fund Balance
- Capital Planning
- Debt Management
- Questions & Answers: Open Items

Taxing Bodies & Their Structures

Taxing Entities

- **State (1)**
- **Counties and School Districts (17)**
- **Cities (19)**
- **Towns, General Improvement, and Special Districts (over 200)**
Hospital Districts, Fire Protection, Mosquito Abatement, Rodent, Weed, Library Districts. Enterprise Districts such as: Water Sub-Conservancy, GID's, Sanitation, Television, Utilities

Funds within an Entity

- A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.
- No limit to number of funds. Establish and maintain those funds required by law and sound financial administration.

Fund Purpose and Structure

NRS 354.479-354.578

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Proprietary Funds: Enterprise Funds & Internal Service Funds
- Fiduciary Funds: Pension Trust Funds, Investment Trust Fund, Trust & Agency Funds

General Fund

The general fund is the chief operating fund of the City and is used to account for all resources that do not have to be reported in another fund. There can be only one general fund

Special Revenue Funds

Special revenue funds are used for revenues that are legally destined for a specific purpose.



Carson City Special Revenue Funds - Examples

- **Senior Citizens Fund** – used to account for the 1984 voter-approved tax override of 5 cents per \$100 of assessed valuation for the Senior Citizens Center.
- **Carson City Transit Fund** – used to account for transit grants, fares, donations and additional City funding to be used for providing public transportation services.

Special Revenue Funds - Continued

- **Traffic Transportation Fund** – used to account for monies received for parking fees and fines.
- **Regional Transportation Fund** – used to account for the nine cent per gallon County fuel tax.
- **Streets Maintenance Fund** – used to account for all street maintenance activities using motor vehicle fuel taxes and local option (1/4 cent) sales tax.

Special Revenue Funds - Continued

- **Quality of Life Fund** – used to account for the ¼ cent sales tax override for the Question 18, Quality of Life Initiative.

Capital Projects Funds

Capital projects funds are used to account for the acquisition or construction of major capital facilities of the general government.

Carson City Capital Projects Funds - Examples

- **Residential Construction Fund** – This fund is used to account for the 1% tax on the valuation of each building permit issued or \$1000 per residential dwelling unit, whichever is less and is used for the purpose of providing neighborhood parks.
- **Capital Facilities Fund** – This fund is used to account for acquisition, construction, or renovation of City facilities.

Debt Service Funds

Debt service funds are used to report accumulations of resources to meet current and future debt service requirements on debt of the general government. There is typically only one Debt Service Fund.

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises and are financed primarily through user charges.

Carson City Enterprise Funds - Examples

- Ambulance Fund
- Sewer Fund
- Water Fund
- Cemetery Fund
- Building Fund
- Storm Drainage Fund

Internal Service Funds

Internal Service Funds are used to allocate the cost of providing certain centralized services. Typically the customers of these funds are other funds and departments within the government or are other governments.

Carson City Internal Service Funds - Examples

- Group Medical Insurance Fund
- Workers' Compensation Fund
- Insurance Fund
- Fleet Management Fund

Redevelopment Authority

- Authorized by NRS 279
- Definition – NRS 279.408
- Funding - Property tax on the increment

Property tax calculations

- First a “base assessed value” is established when the district is created
- In subsequent years, the amount of assessed value in excess of the base is considered “incremental value” and gets credited to the RDA.
- New or increased tax rates levied by a taxing agency that was approved by voters on or after November 5, 1996 is subtracted from the taxes received by the RDA – example in Carson City is voter approved School Debt.

General Fund Revenues

Revenue Base	Budgeted FY 2013
Consolidated Tax	31.65%
Property Tax	33.86%
Charges for Services	17.96%
License & Permits	11.11%
Miscellaneous	5.42%
Total	100.00%

Consolidated Tax for Dummies

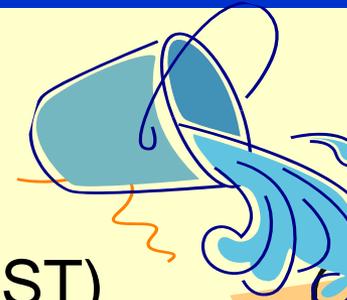
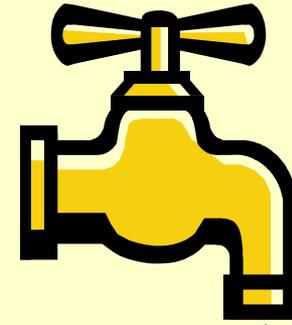
Or, "Can anyone explain the CTX?"

Introduction to the Consolidated Tax Distribution (CTX)

- It was implemented in 1997 as a way to combine the distribution of six different tax types into one monthly distribution.
- This document provides descriptions of each tax type and the various distribution formulas.
- Additional details may be found in the Nevada Revised Statutes, or by contacting the Department of Taxation.

The Components of CTX

- 1) Cigarette Tax
- 2) Liquor Tax
- 3) Government Services Tax (GST)
- 4) Real Property Transfer Tax (RPTT)
- 5) Basic City County Relief Tax (BCCRT)
- 6) Supplemental City County Relief Tax (SCCRT)



The CTX components explained

- **Cigarette Tax** -- 5 mills (1/2 cent) per cigarette/10 cents per pack of 20. The total amount of tax collected statewide is distributed amongst the counties on the basis of their population. NRS 370.260
- **Liquor Tax** -- 50 cents per gallon of liquor containing over 22% alcohol. The total amount of tax collected statewide is distributed amongst the counties on the basis of their population. NRS 369.173



The CTX components explained

- **Government Services Tax (GST)** – formerly called Motor Vehicle Privilege Tax (MVPT) is collected by the Department of Motor Vehicles. It is based on the value of a motor vehicle at the time of registration. The GST is distributed back to the county of origin. NRS 482.180 and 482.181
- **Real Property Transfer Tax (RPTT)** – 55 cents per \$500 of value on real property transfers within each county. The RPTT is distributed back to the county of origin. NRS 375

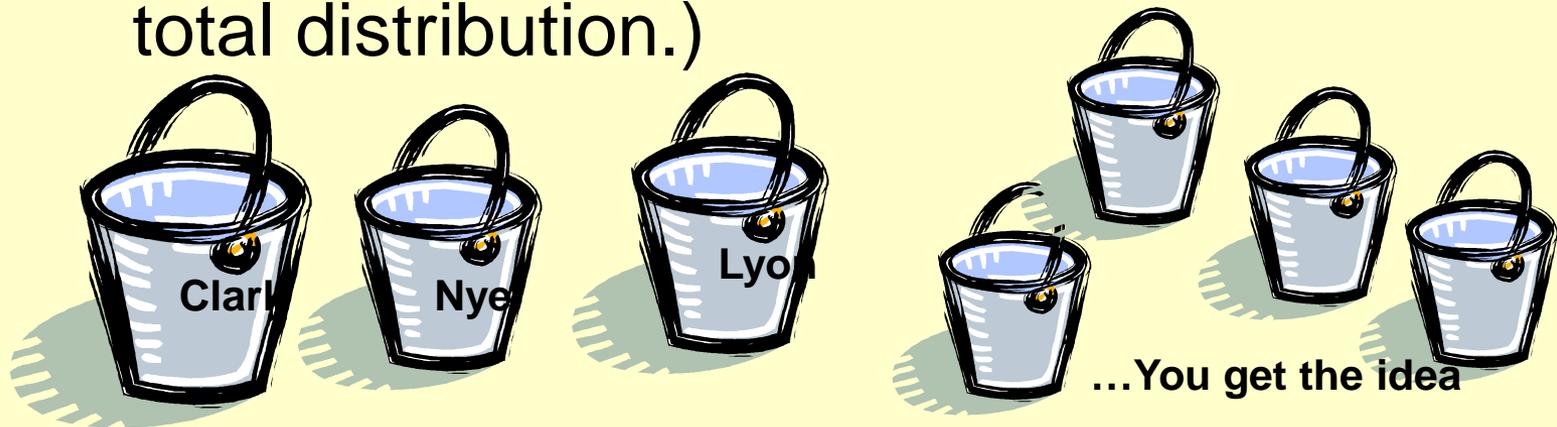


The CTX components explained

- **Basic City County Relief Tax (BCCRT)** - $\frac{1}{2}\%$ of the 6.85% statewide sales/use tax rate. The BCCRT is distributed to the county where the company is located. For out-of-state companies, the BCCRT is distributed amongst all counties on the basis of population. NRS 377.055
- **Supplemental City-County Relief Tax (SCCRT)** -- 1.75% of the 6.85% statewide sales/use tax rate. SCCRT is distributed back to the counties based on a statutory distribution formula. NRS 377.057

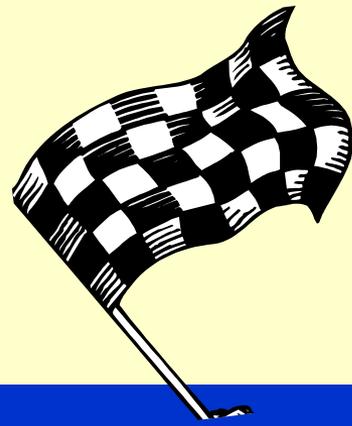
First Tier vs. Second Tier distribution

- **First Tier** – Total amount of CTX available for distribution from all of the components is allocated among the 17 counties. (Think of 17 buckets, each containing one county's total distribution.)



First Tier vs. Second Tier distribution

- **Second Tier** – Each county's Second Tier distribution is a further breakdown of the First Tier distribution. This time the revenue is allocated among the Local Governments and Special Districts in each county according to *Base* and *Excess* Distribution formulas.



Summary

- The CTX distributes six different tax types
- The first tier calculation is the gross revenue allocated to each of the 17 counties
- The second tier calculation allocates the revenue among the entities within a county

Sales Taxes

- Carson City's sales tax rate is 7.475%
- Made up of:
 1. State Sales and Use Tax – 2%
 2. Local School Support Tax – 2.60%
 3. B.C.C.R.T. – .5%
 4. S.C.C.R.T. – 1.75%
 5. County Option, Streets – .25%
 6. County Option, Quality of Life – .25%
 7. County Option, V&T – .125%

Sales Tax Rate within State of Nevada

- Washoe 7.725%
- Carson 7.475%
- Churchill 7.60%
- Lyon 7.10%
- Douglas 7.10%
- Storey 7.60%
- Pershing 7.10%
- Mineral 6.85%
- Esmeralda 6.85%
- Humboldt 6.85%
- Lander 7.10%
- Eureka 6.85%
- Nye 7.10%
- Elko 6.85%
- White Pine 7.725%
- Lincoln 7.10%
- Clark 8.1%

Source: Dept Tax Web Site
Effective July 1, 2012

Sales Tax– State and Local Governments

- Sales tax is applied as a percentage of taxable sales of tangible goods. Distribution of most sales tax is same statewide, but 9 counties have adopted local options

- **Clark County example:**

• State		2.00%
• Local school support		2.60
• Basic city/county relief		.50
• Supplemental city/county relief		<u>1.75</u>
• Subtotal mandatory		6.85%
• Local option flood	.25	
• Local option water/sanitation	.25	
• Local option transit	.25	
• Local option transportation	.25	
• Clark County Sales & Use Act 2005	<u>.25</u>	
• Total in Clark County		8.1%

- Other counties electing various local options include Washoe, Nye, Douglas, Lincoln, Carson City, Churchill, White Pine, and Storey

Sales Tax– State and Local Governments

- Sales tax is applied as a percentage of taxable sales of tangible goods. Distribution of most sales tax is same statewide, but 9 counties have adopted local options
- **Washoe County example:**
- State 2.00%
- **Local school support 2.60**
- Basic city/county relief .50
- Supplemental city/county relief 1.75
- Subtotal mandatory 6.85%
- Local option flood/public safety .125
- Local option railroad grade separation .125
- Local option transportation .375
- Local option revenue replacement .25
- Total in Washoe County 7.725%
- Other counties electing various local options include Clark, Nye, Douglas, Lincoln, Carson City, Churchill, White Pine, and Storey

Sales Tax– State and Local Governments

- Sales tax is applied as a percentage of taxable sales of tangible goods. Distribution of most sales tax is same statewide, but 9 counties have adopted local options
- **Carson City example:**
- State 2.00%
- **Local school support 2.60**
- Basic city/county relief .50
- Supplemental city/county relief 1.75
- Subtotal mandatory
- Local option Q18 .25 6.85%
- Local option transportation .25
- Local option Infrastructure Tax .125
- Total in Carson City 7.475%
- Other counties electing various local options include Clark, Nye, Douglas, Lincoln, Carson City, Churchill, White Pine, and Storey

Structure of Property Taxes

- **Property Tax (The most talked about tax)**
- Taxable Value of Property is based on land at full cash value plus improvements at replacement cost less depreciation at 1 ½% per year up to 50 years
- Assessment is at 35% of taxable value
- Carson City rate is **\$3.56** per \$100 assessed valuation for FY 2012-13. Some Cities/Counties are at or near \$3.66 cap. (Dept Tax Red Book)
- Distribution of tax to State, schools districts, cities, counties, towns, general and special districts

Nevada Taxpayers Association

- Published “Understanding Nevada’s Property Tax System”

A must read for Elected Officials
Copy Available on-line at NTA’s Website

- NevadaTaxpayers.org



FY 12-13 High County Wide Tax Rate

- Carson \$3.6600
- Churchill \$3.6400
- Clark \$3.4030
- Douglas \$3.6600
- Elko \$3.6567
- Esmeralda \$3.0195
- Eureka \$1.9896
- Humboldt \$3.1716
- Lander \$3.6600
- Lincoln \$3.6600
- Lyon \$3.5245
- Mineral \$3.6600
- Nye \$3.6567
- Pershing \$3.6592
- Storey \$3.4607
- Washoe \$3.6600
- White Pine \$3.6600

● Source: Dept Tax Red Book

Property Tax Calculation Example

\$150,000 Improved Property

- **Sample calculation for residence:**

● Land full cash value	\$ 50,000
● Home replacement cost	100,000
● Less 10 years depreciation	<u>-15,000</u>
● Taxable value	135,000
● Assessment @ 35%	47,250
● Total average tax rate/\$100	<u>3.56</u>
● Tax bill	\$ 1,682

- **Tax Bill Apportioned to various entities**

- **AB 489/SB 509 placed CAPS on property taxes from year to year.**

Property Tax Cap Summary

- Owners occupied Single Family Residence 3%
- Residential Rental Property 3% Cap if rent does not exceed FMV-Rents HUD's most recent report
- All other property Cap equals: Avg % Change in AV over 10 years or 8% whichever is less compared that value to twice the increase in CPI for the previous calendar year. After comparison, the higher percentage between the two is the % limit on the increase in property taxes.

Property Tax Cap Summary Notes

- Excluded from the Cap is any increase in the assessed valuation of the property from the prior year which is due to any improvements or change in the actual use of the property.
- “Single Family Residence” defined as a parcel of real property or personal property intended to be occupied by one family with facilities for living, sleeping, cooking and eating. Includes mobile/manufactured home, condominiums

Exceptions to the CAP

- Any property tax rate imposed by the Legislature
- Ballot questions that ask voters for approval of a property tax increase that will be outside the cap, if so stated on the ballot question.
- If an additional tax rate is necessary to satisfy general obligation bonds, the tax rate required is outside the property tax cap.

Carson City Property Tax Rates – Budgeted Funds FY 2012-13

• Carson City Operating	1.9522
• Cooperative Extension	0.0128
• Carson City Debt	0.0000
• Senior Citizens	0.0500
• State Medical Indigent	0.0150
• Supplemental Indigent	0.1000
• Capital Projects	0.0500
• School Operating	0.7500
• School Debt	0.4300
• State of Nevada	0.1700
• Subconservancy District	0.0300
• SFFPD	<u>0.1000</u>
Tax Rate	<u>3.6600</u>

Charges for Services

- Internal Service Charges
- Landfill Fees
- Culture and Recreation Fees
- Health Fees

Miscellaneous Revenues

- Interest Earnings
- Rents & Royalties
- Donations

Conclusions Part Two— Impact of Revenue Structure on Governments

- Sales taxes subject to economic fluctuation comprise a high percentage of State revenues
- Sales taxes also comprise a high percentage of local government's revenues
- Property Tax rates are subject to various statutory regulations
- Need to understand where the local governments obtain revenue resources. *"Show me the money"*

General Fund Expenditures

- General Government ● 24.14%
- Judicial ● 8.37%
- Public Safety ● 46.43%
- Public Works ● 3.96%
- Sanitation ● 2.84%
- Health ● 3.16%
- Welfare ● .69%
- Culture & Rec ● 9.54%
- Community Support ● .87%

Expenditure Categories

- Salaries – 52%
- Benefits – 26%
- Services and Supplies –22%
- Capital Outlay – less than 1%

Fund Balances: General Info

- Allow for stability and continuity of operations
- Cushion against revenue shortfall or unanticipated emergency Allows an entity to “schedule emergencies”
- Reflects prudent financial operations for bond rating
- Allow sufficient financing for liabilities such as accrued employee leave and insurance obligations. Assure sufficient actuarial evaluation of these issues.
- Recommended Level of Fund Balance (4-8.3%)

Part Four-----

Capital Budgeting

- **Capital budgeting not restricted to expansion of facilities**
- **All local governments have substantial depreciating assets**
- **If depreciation is disregarded, unfunded costs will accumulate and future expenditure will detract from services**
- **Fund replacement/refurbishment with:**
 - Annual transfers to capital projects fund**
 - Dedicated percentage of budget**
 - Dedicated percentage of capital base**
 - Annual allocation of savings or surpluses**
- **Fund expansion of facilities with**
 - Approved bonds or other indebtedness**
 - Approved pay-as-you-go-financing**
 - Direct appropriations**

Capital Planning

- Anticipate Needs as they arise
- Schedule commitment of scarce resources
- Identify timing and means of acquiring needed assets

Elements of Capital Planning

- Short-term revenue and expenditure forecasts
- Long-term forecasts
- Capital Improvement Plans
- Needs Assessments
- Acquisition Assumptions

Part Five-----

Debt Management NRS Chapter 350

Debt Management Policy

Schedule of Indebtedness

Debt Management Committee NRS 350

Types of Debt Issuances / Bonds

Debt Management: Types of Bonds

- General Obligation Bonds (GO Bonds)
- GO Revenue Supported Bonds
- Revenue Bonds
- Medium Term Obligations
- Assessment District Bonds
- Tax Increment Bonds

General Obligation Bonds

- Repaid by property taxes
- Full faith and credit if pledged (lower int rate)
- Requires Voter Approval
- Maximum term 30 years
- Typically issued by school districts

GO / Revenue Supported Bonds

- Findings must be made that pledged revenues will be sufficient to pay debt service
- Pledged revenues are typically net operating revenues plus depreciation
- Revenues from the operating rate cannot be pledged
- Minimum coverage of 1.00 x's is required
- Can be issued without a vote unless a petition is filed
- Maximum term of 30 years

Revenue Bonds

- Only pledged revenues secured for payment
- Reserve fund usually required
- Required coverage level is based on volatility of pledged revenues. (i.e. 1.1 for sales tax, 1.5 for room tax)
- Rate maintenance covenant is required
- Additional bonds test
- Maximum term of 40 years

Medium Term Obligations

- All legally available funds of the issuer are pledged for repayment
- Usually used for general governmental projects for which no specific revenue resource exists
- General Obligation
Max term 10 years.... A promise to Pay
- Installment Purchase Agreement (Lease)
Contains non=appropriation clause
Maximum term of 30 years

Tax Increment Bonds

- Bonds paid from incremental revenues in redevelopment agency or increment area
- High coverage factors and reserve funds are required
- ABATEMENT.....
- *CONSULT WITH A QUALIFIED FINANCIAL ADVISOR AND BOND COUNSEL*

Authorization Process

- Debt Management Commission
Approves all “GO” Bonds and any financing from small GIDs
- Board/Council Actions
Depending on the type of bond issued there are many actions taken by the Board/Council including public hearings and resolutions/ordinances
- Department of Taxation
Approves all Medium Term Financing

Don't Swim Alone with the Sharks

- **Debt Issuance is too important to make a mistake... Develop your Financing Team**
- **Financing Team**
Issuer, Bond Counsel, Financial Advisor, Administrative Participants, Rating Agencies, Underwriters, Staff

Additional Information / Contacts

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Are We Having Fun Yet??

Questions / Answers

*The One Question You Always
Wanted To Ask But Were
Afraid To For Fear of
Sounding Stupid?*

*"Working Together We Shall Achieve
Superior Results"*

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Thank You