



# Nevada's Consolidated Tax

## A Review and Analysis of Alternatives



Assembly Committee: Taxation  
Exhibit: C Page 1 of 48 Date: 2/07/13  
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# Background

- June 15, 2011 - Assembly Bill 71 (2011) requires an interim legislative study of the “Allocation of Money Distributed from the Local Government Tax Distribution Account”
- Fall 2011 - Applied Analysis is retained by the City of Henderson and the City of Las Vegas to review and analyze Nevada’s Consolidated Tax (C-Tax) distribution formula
- February 1, 2012 to August 30, 2012 – Interim committee holds 6 meetings; a working group of local governments and other stakeholders has 40+ meetings to review and analyze the C-Tax and make recommendations to the legislative subcommittee



# What is the C-Tax?



# Simply

C-Tax is a formula used to equitably distribute local government revenues first among Nevada's counties (and Carson City) and then among the 150+ political subdivisions within those counties



# Taxes Included

1. Basic City-County Relief Tax
2. Supplemental City-County Relief Tax
3. Real Property Transfer Tax
4. Cigarette /Tobacco Taxes
5. Liquor Taxes
6. Governmental Services Tax



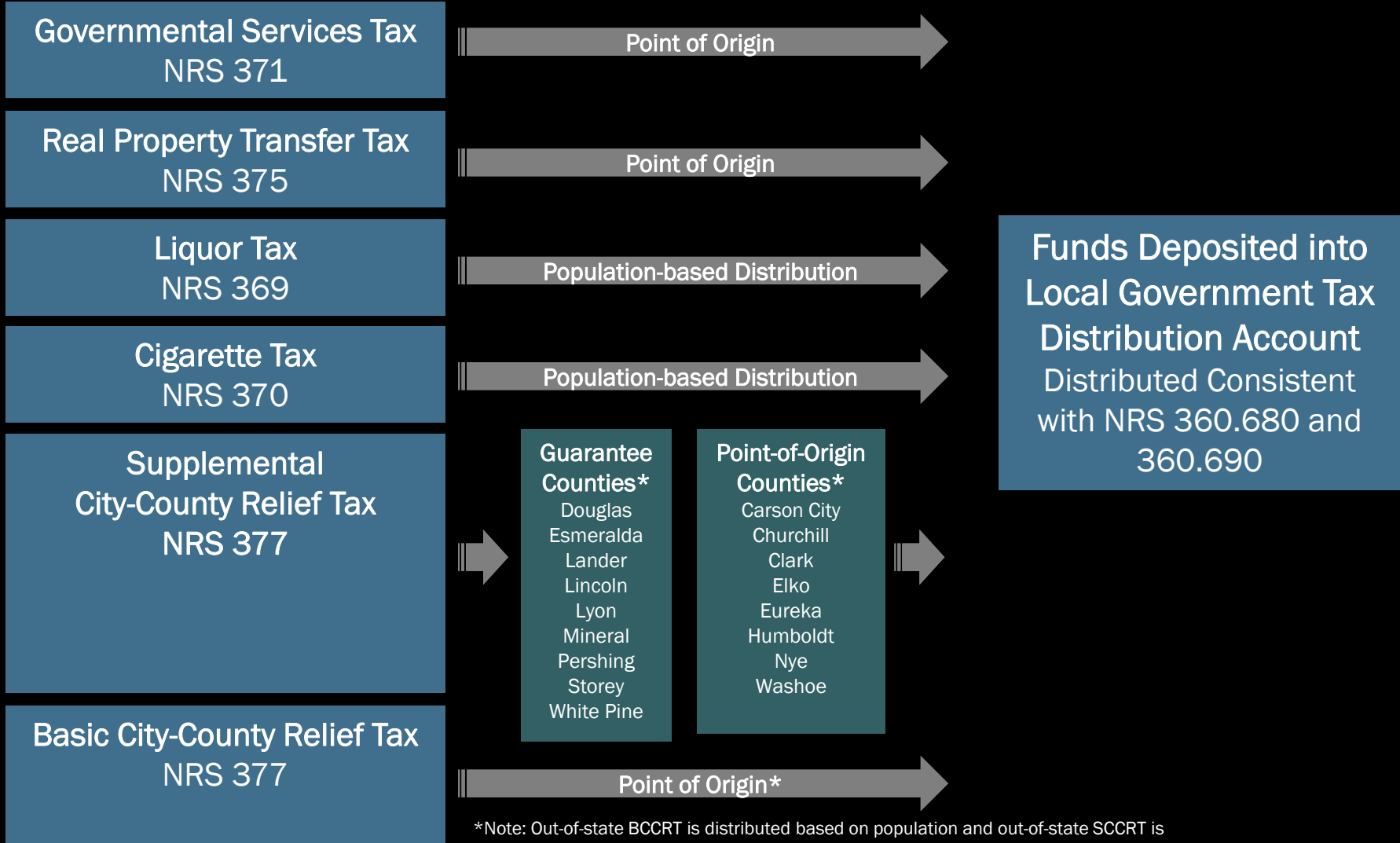
***It is Complicated...***



# Understanding C-Tax

Tax Revenues Are Remitted to the State of Nevada

Tier 1 Allocations Tax Revenues Are Remitted to the State of Nevada



\*Note: Out-of-state BCCRT is distributed based on population and out-of-state SCCRT is pooled with in state and distributed based on the proportion of in-state SCCRT

# Understanding C-Tax – cont.

Tax Revenues Are Distributed to 153 Eligible Counties, Cities, Towns, Special Districts and Enterprise Districts

Funds Deposited into Local Government Tax Distribution Account Distributed Consistent with NRS 360.680 and 360.690

Control Totals Established for Each County Based on Tier 1 Allocations (County Subaccounts)

Allocation to Enterprise Districts Unadjusted Based on Prior Year Allocation

Determination of Base Allocation (Non-Enterprise) Prior Year Allocation, Minus Any Excess Amount Allocated, Times One Plus the Percent Change in CPI

Collections Greater Than Base Allocations?

Yes

No

Available funds allocated consistent with current year base calculation

Available funds allocated based on a pro rata distribution calculated using the base allocations

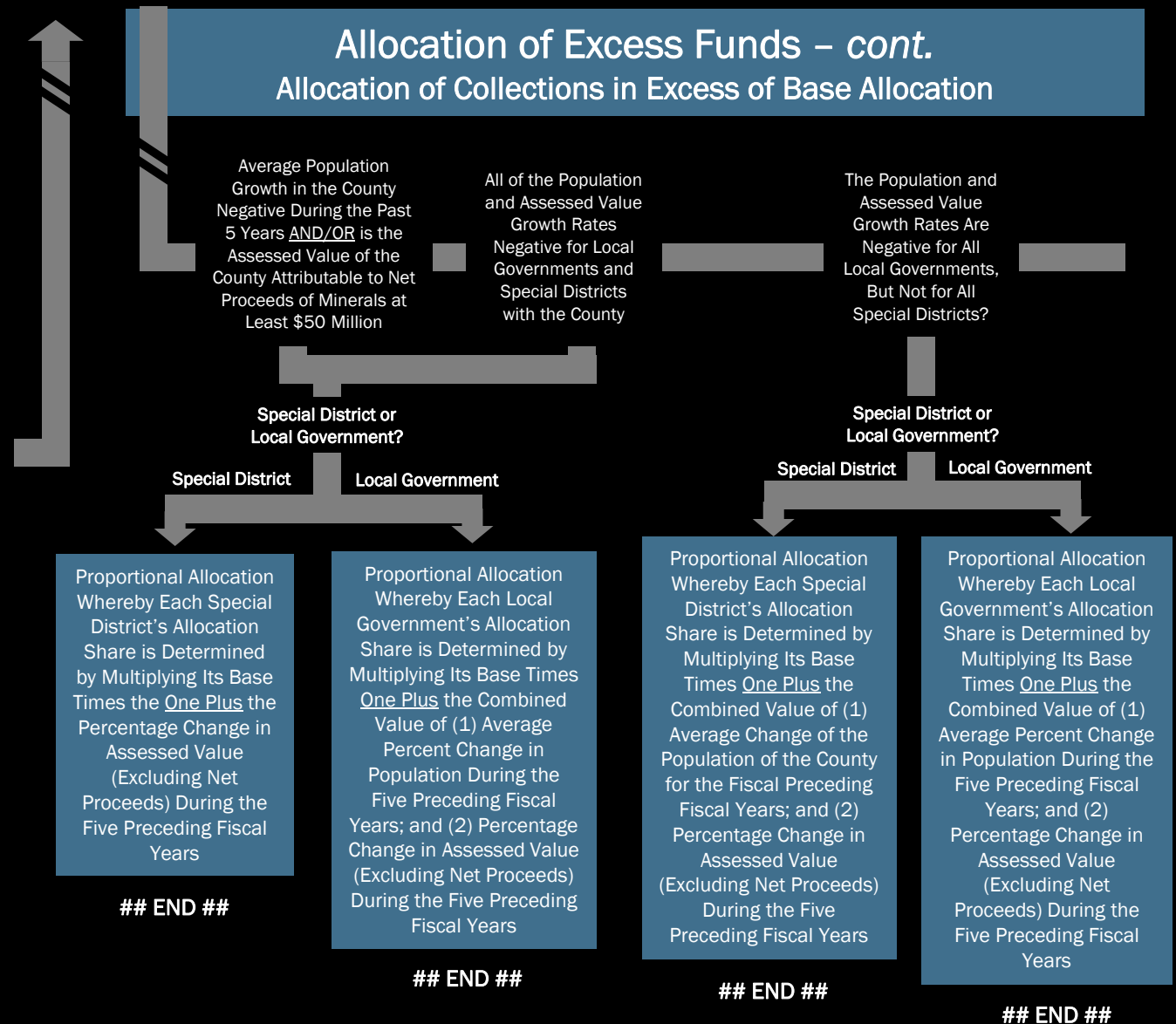
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# Understanding C-Tax – cont.

Tax Revenues Are Distributed to 153 Eligible Counties, Cities, Towns, Special Districts and Enterprise Districts

Funds Deposited into Local Government Tax Distribution Account Distributed Consistent with NRS 360.680 and 360.690



*It Has Been  
a Moving  
Target...*



# C-Tax Timeline

## 1995 Regular Session

Legislature passes SCR 40, directing the Legislative Commission to study the distribution of taxes among local governments. A subcommittee of eight legislators is appointed to conduct the study, with assistance from an advisory committee of eight local government finance officers.

## Fiscal Year 1999

First C-Tax Distributions Tax Place

## 1997 Regular Session

Legislature passes SB 254, consolidating the distribution of BCCRT, SCCRT, liquor, cigarette, Real Property Transfer and Government Services taxes to local entities within a county. C-Tax distribution formula implemented. Inter-local agreements are authorized for implementation of alternate distributions with the consent of the affected entities. A one-year window was provided to allow entities to petition the Committee on Local Government Finance for a modified distribution upon implementation of C-Tax; which, if approved, would be included in that entity's base in future years.

## 1999 Regular Session

Legislature passes SB 534, permitting the Department of Taxation to adjust the C-Tax allocation of an entity in which assessed value has declined in each of the preceding three years. Action requires approval of Committee on Local Government Finance and Tax Commission.

Legislature passes SB 535, including the value of property within a redevelopment agency in C-Tax calculation

Legislature passes SB 538, modifying the rolling average for assessed valuation from the five years immediately preceding the year in which the allocation is made, to the year in which the allocation is made and the four years immediately preceding years. In addition, the bill included treatment of conflicts between population as certified by the Governor and by the Bureau of the Census and for new methods of determining population.

# C-Tax Timeline – cont.

## 2001 Regular Session

Legislature passes SB 317. Further amending determination of population for purposes of allocating C-Tax and providing for withholding of C-Tax distributions to entities found not in compliance with specified financial reporting requirements.

## 2003 Regular Session

Legislature passes SB 469, which (1) changes the proration of shortfall against base from the percentage of previous year's allocation to the proportionate percentage of the total amount of the bases; (2) changes the population factor to the average percentage change over the five years immediately preceding the year in which the allocation is made; (3) changes the basis of excess allocation to special districts to the average percentage change over the year in which the allocation is made and the immediately preceding four years; (4) imposes one-plus for distribution of excess to all local governments and special districts countywide when all their combined growth factors are negative; and (5) imposes one-plus for distribution of excess to local governments when all local government combined growth factors are negative and the growth factor for any special district is positive (in which case excess distribution to special districts is based on one-plus a modified combined growth factor for special districts including countywide population change over the past five years plus the five-year average change in assessed valuation over the past five years for each special district).

## 2001 Special Session

Legislature passes AB 10, excluding previous years' excess from the current year base, providing four-year phase-out of one-plus language in determining combined growth factor, calling for an interim study of the formula, and giving City of Henderson a \$4,000,000 base adjustment effective FY 2002 forward.

## 2005 Regular Session

Legislature passes SB 38, imposing one-plus for allocating excess in a county in which the average amount of assessed value over the last five years attributable to Net Proceeds of Mines is at least \$50 million or the five year average in population change is negative; OR in which the average amount of assessed value over the last five years attributable to Net Proceeds of Mines is at least \$50 million and the five year average in population change is negative.

# C-Tax Timeline

## 2011 Regular Session

Legislature passes AB 71, requiring the Legislative Commission to appoint a subcommittee to study the C-Tax formula.

Legislature passes SB 31, extending to May 31, 2011 the date by which local entities within a county may submit a local cooperative agreement providing for an alternative calculation of C-Tax allocations.



*It Has Some  
Problems...*



# Background

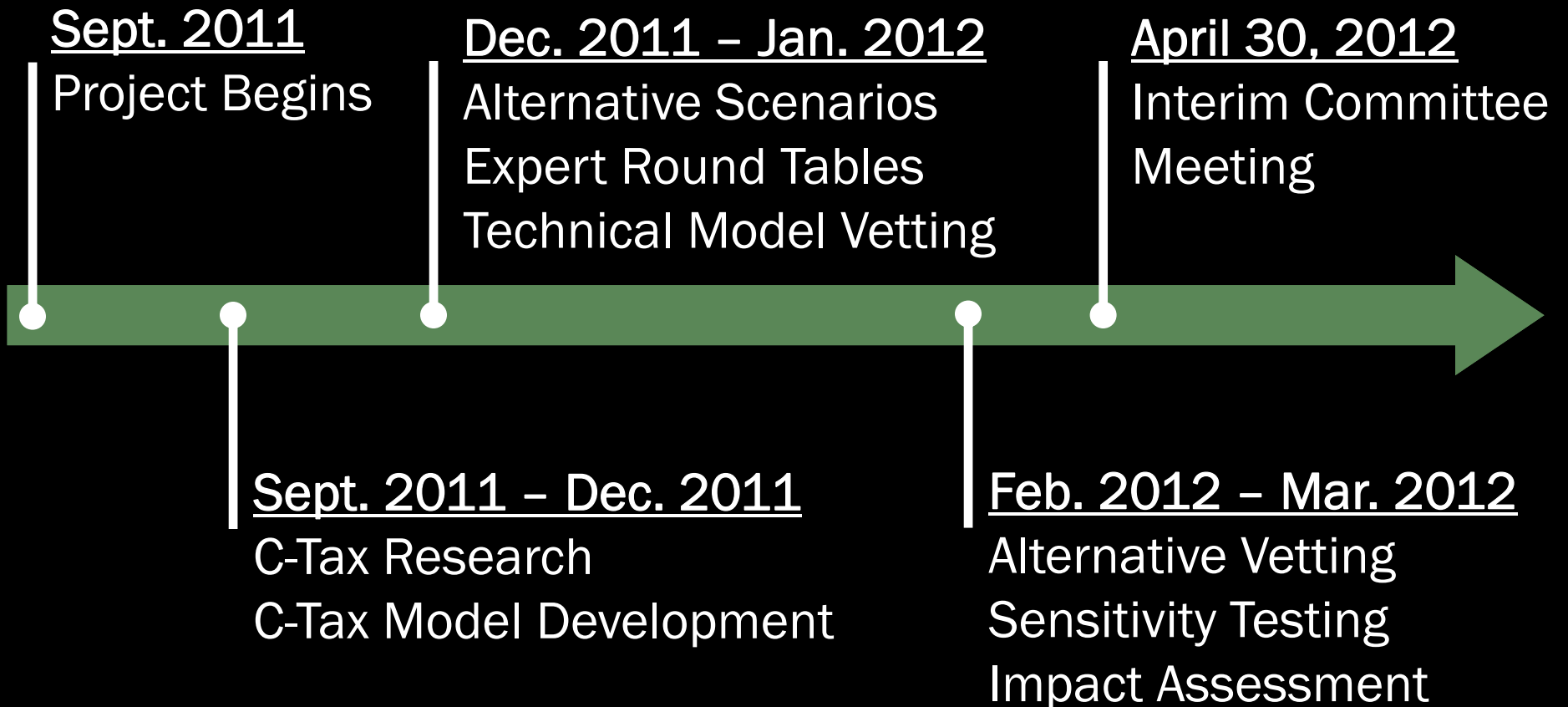
- Original C-Tax distribution formula favored slower growing entities (intentionally)
- Changes to C-Tax in 2001, have had unintended consequences
- C-Tax formula has struggled to adapt to the boom-bust cycle of the past several years
- Sharp downturns in property values are distorting distribution mechanics
- Concerns over legacy base allocations





# Review Process

# The Review Process



# The Review Process

May 10, 2012

Working Group Meeting  
Las Vegas, City Hall

May 24, 2012

Working Group Meeting  
Las Vegas, City Hall

May 15-16, 2012

Meeting with Mesquite  
Meeting with Henderson Library District  
Meeting with North Las Vegas  
Meeting with Clark County



# The Review Process

May 29, 2012

Meeting with NACO on  
Rural C-tax Issues

May 31, 2012

Working Group Meeting  
Applied Analysis

May 30, 2012

Meeting with Library  
Districts on Excess  
Distribution Formula  
Issues

June 6, 2012

Meeting with City of Fernley  
Meeting with North Las Vegas



# The Review Process

June 7, 2012

Working Group Meeting  
Reno, City Hall

June 18, 2012

Legislative C-Tax  
Subcommittee Meeting  
(Progress Update)

June 14, 2012

Working Group Meeting  
Las Vegas, City Hall

June 20, 2012

Meeting with City of Reno



# The Review Process

June 27, 2012

Working Group Meeting  
Las Vegas, City Hall  
Meeting with Fernley

July 19, 2012

Working Group Meeting  
Reno, City Hall  
Washoe County Sub-group Meeting

July 12, 2012

Working Group Meeting  
Las Vegas, City Hall  
Laughlin Issues Meeting

July 25, 2012

Henderson Library District  
Meeting



# The Review Process

July 26, 2012

Legislative C-Tax  
Subcommittee Meeting  
(Progress Update/  
Work Session)

August 30, 2012

Legislative C-Tax  
Subcommittee Meeting  
(Final Review)

Feb. 2013

Legislative  
Session

August 2012

Technical Review, LCB and  
Department of Taxation  
Various Working Group and  
Subgroup Meeting

Sept. - Dec. 2012

Local Government  
Individual Jurisdiction  
Review, Managers and  
Elected Officials



# Bottom Line

40+ Meetings Over 8 Months

Consensus Among Local Governments

Reviewed by the Department of Taxation

Unanimous Acceptance From  
Legislative Subcommittee



~~Plan A~~

Plan B



# Recommended C-Tax Changes

# Major Recommendations

1. “Base” Carry Forward
2. 5-Year Average CPI
3. Plus Factor: 0%+ to 2%+
4. Setting a Floor for Property Tax Declines
5. Memorandum of Understanding Dates
6. Population Estimates
7. Library Districts
8. Incorporation Clarification



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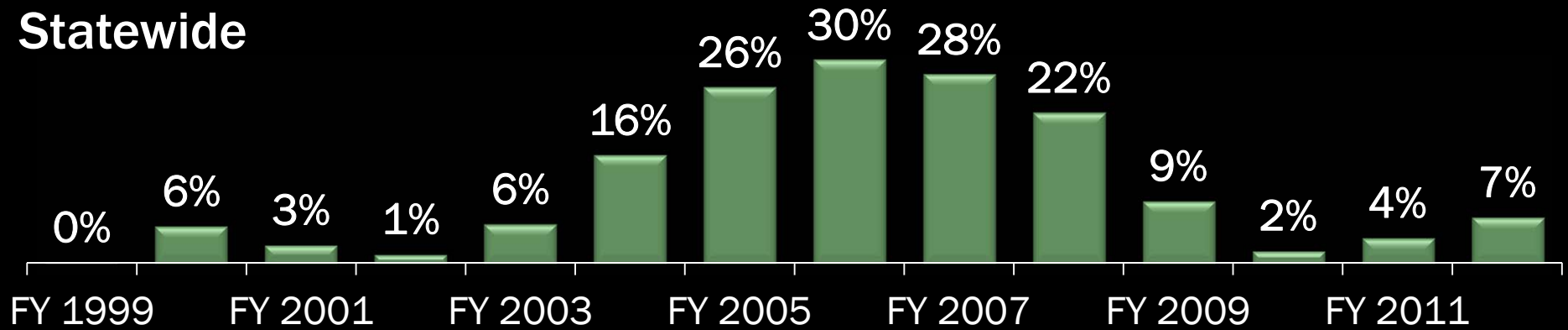


**What is  
the “Base”?**

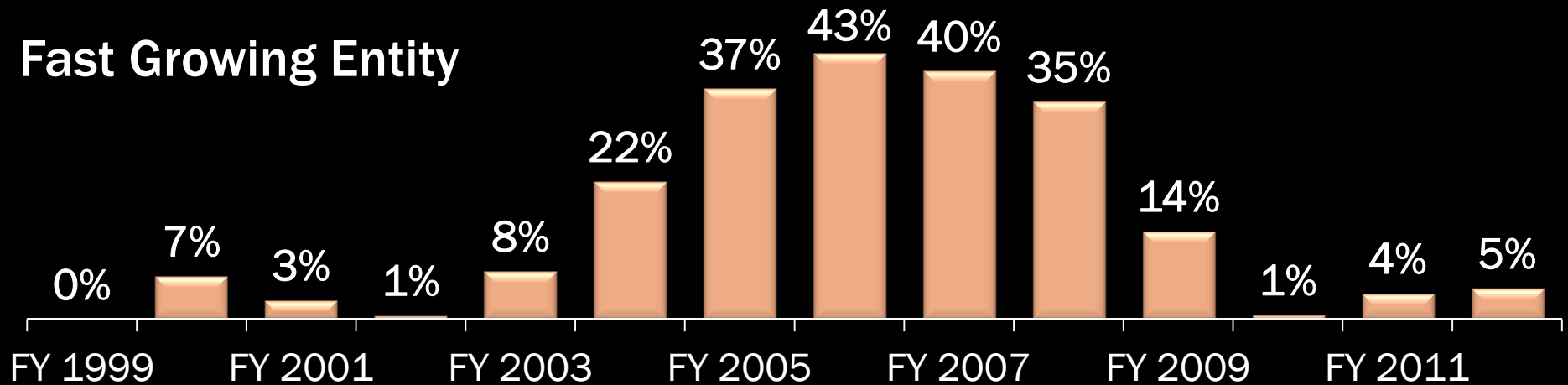
# Elements of the Consolidated Tax



## Statewide



## Fast Growing Entity



## Slow Growing Entity



# Washoe County Examples (FY 2006)

	<u>Base</u>	<u>Excess</u>	<u>Total</u>
Washoe County	\$78,313,510	\$24,799,032	\$103,112,543
Shares of Total	75.9%	24.1%	100.0%
City of Reno	\$44,417,990	\$10,333,893	\$54,751,883
Shares of Total	81.1%	18.9%	100.0%
City of Sparks	\$18,877,299	\$6,871,596	\$25,748,895
Shares of Total	73.3%	26.7%	100.0%



## Issue

# Treatment of the C-Tax Base (Annual Base Calculation)

### Current

Prior Year C-Tax  
Allocation, Minus Any  
Excess Allocation,  
Times One Plus the  
Percent Change in CPI

### Recommended

Prior Year C-Tax  
Allocation Times One  
Plus the Average  
Percent Change in CPI  
During the Preceding  
Five Years



# Why?

- Excess carry forward creates distribution inequities, particularly when the economy declines
- Allows the C-Tax to evolve over time, bases adjust with communities
- Limits the misconception that “excess” is “extra”
- Five-year CPI average smoothes out sharp ups and downs

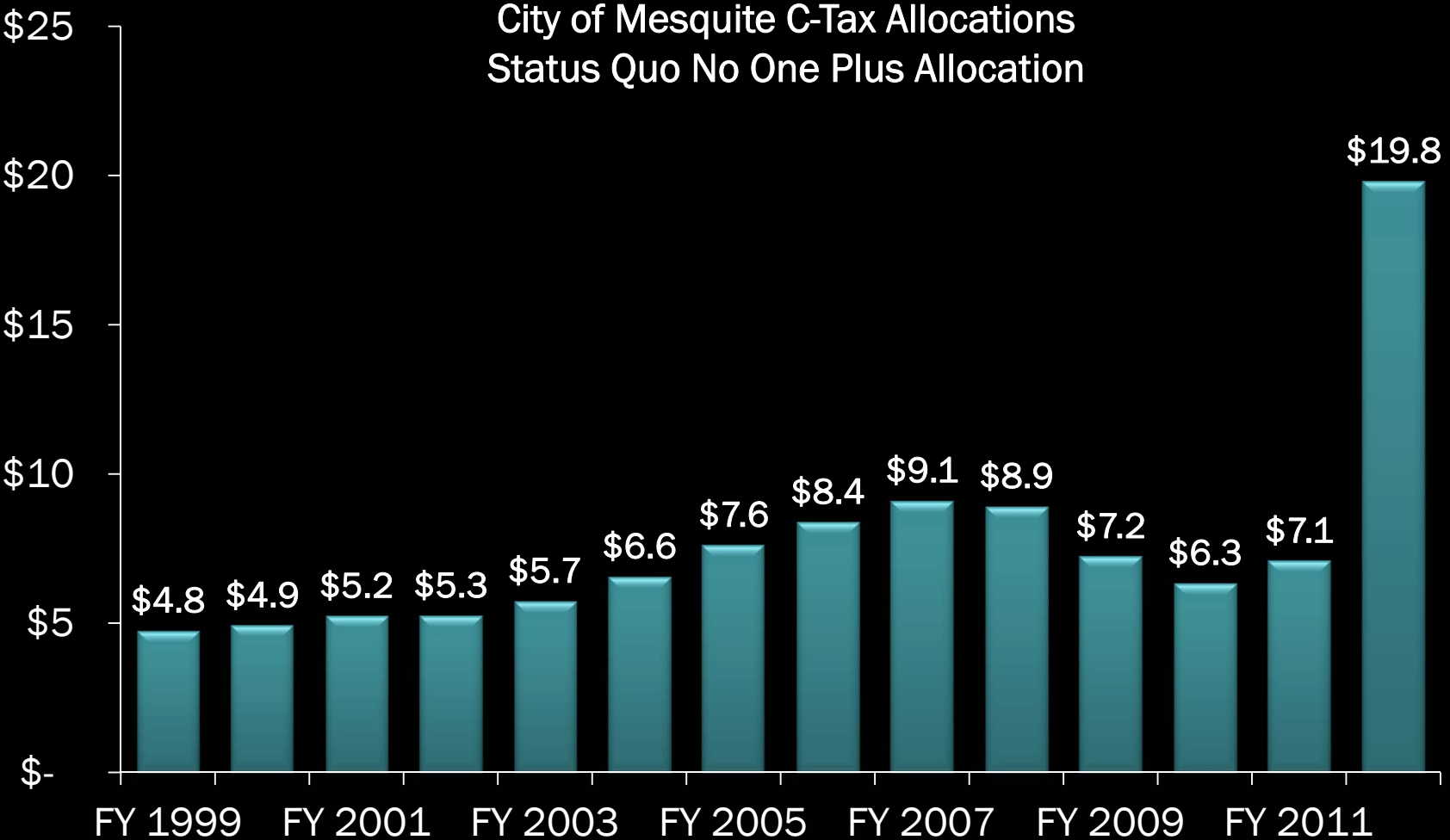


# Major Recommendations

1. “Base” Carry Forward
2. 5-Year Average CPI
- 3. Plus Factor: 0%+ to 2%+**
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# The 0%+ Dilemma



	100%+	0%+	2%+
<b>Advantages:</b>	Stable, predictable, and consistent	Distributions reflect and adapt to growth	Stable; distributions reflect and adapt to growth
<b>Disadvantages:</b>	Perpetuates the status quo; disadvantages faster-growing entities	Unstable distortions in economic downturns; Math issues	Although highly unlikely, potential for math issues; circuit breaker
<b>Bottom Line:</b>	Works for Rurals Not for Urbans	Good in concept; significant challenges in practice	A good balance, of stability and adaptability



## Issue

### Plus Factor Used in the Tier 2 Excess Distribution Formula

#### Current

0%+ in Some Counties;  
100% in Other Counties

#### Recommended

2%+ in Urban  
Counties (Washoe  
and Clark); 100%+ in  
All Rural Counties



# Why?

- Balances system stability and the nexus between revenue growth and community growth
- Addresses the difference between rural communities and urban communities
- Approximates a modest rate of growth for all entities

Additional consideration: When the C-Tax was originally created, it was intentionally designed to maintain the status quo. Today, the objectives have changed somewhat, as there is a desire to have C-Tax allocations, in part, adapt to growth patterns within counties.

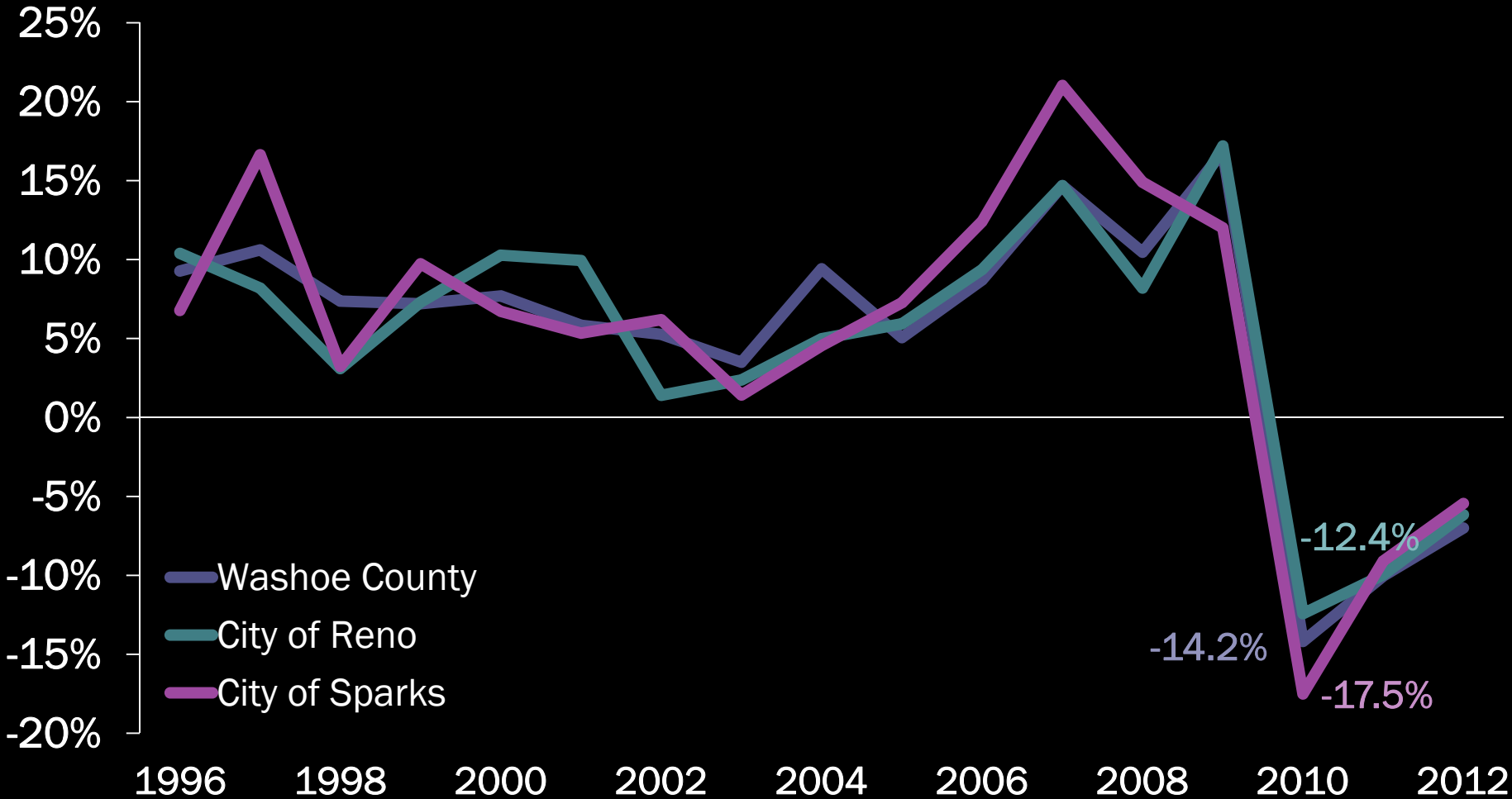


# Major Recommendations

1. “Base” Carry Forward
2. 5-Year Average CPI
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# Washoe County Assessed Value Trends Selected Jurisdictions, 1996-2012



## Issue

# Treatment of Negative Excess Factor Growth Rates (Hold Harmless Provisions)

### Current

Population Factor  
Added to AV Factor,  
Sum Cannot be Less  
than Zero

### Recommended

Population Factor  
Can be Less than  
Zero; AV Factor  
Cannot be Less than  
Zero; Sum Cannot be  
Less than Zero



# Why?

- Factors intended to reflect changing growth patterns
- Sharp declines in assessed value do not necessarily reflect sharp declines in service demand
- Declines recorded during the past four years have overshadowed changes in population
- Declining population bases need to be factored into C-Tax distributions, will require monitoring



# Major Recommendations

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## Issue

# Timing for Memoranda of Understanding for Alternative Tier 2 Distributions

### Current

December 31<sup>st</sup> of the  
Preceding Fiscal Year

### Recommended

April 15<sup>th</sup> of the  
Current Fiscal Year



# Why?

- Budget planning and flexibility
- Practical reality of getting consensus among a potentially large group of entities
- Timing relative to the budget approval process, including required open meetings



# Major Recommendations

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# In The End...

1. Consensus solution
2. Improved tax policy
3. Forward-looking
4. Addresses regional concerns





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