

FINANCIAL IMPACT OF THE TASC FOR NEVADA INITIATIVE

FINANCIAL IMPACT – CANNOT BE DETERMINED

OVERVIEW

The TASC for Nevada Initiative (Initiative) proposes to add a new article designated 10A and entitled “Tax and Spending Control for Nevada” to the Constitution. This Initiative limits the increase in state and local government expenditures to growth in population plus inflation; allows spending above the expenditure limit when approved by voters of the government entity; requires voter approval for a new tax or increase in an existing tax, a policy change resulting in a tax revenue gain, or multi-year direct or indirect debt; and provides for the refund to taxpayers of revenues above the expenditure limits after achieving a specified threshold.

The Initiative would become effective January 1, 2009, requiring the state to implement its provisions during the 75th (2009) Session of the Nevada Legislature for the 2009-2011 biennium budget period (July 1, 2009 – June 30, 2011). Local governments subject to the Initiative would be required to implement its provisions for their fiscal year 2009-2010 budget (July 1, 2009 – June 30, 2010).

STATE FINANCIAL IMPACT OF THE INITIATIVE

For any biennial budget period beginning after January 1, 2009, the State Spending Limit shall be the greater of: (i) the total amount of biennial spending in the preceding biennial budget cycle adjusted for the percentage change in inflation and population for the two preceding calendar years; or (ii) the State Spending Limit for the previous biennial budget cycle.

In general, if the growth in total state revenue in a biennial budget period is less than the rate of growth in population and inflation, then the Initiative does not limit the level of state spending for that biennial budget period. If the growth in total state revenue is greater than the rate of growth in population and inflation, the growth in expenditures is restricted to the State Spending Limit.

The Initiative establishes provisions for the allocation of funds when actual total state revenue exceeds the calculated State Spending Limit for a biennial budget period to an Emergency Reserve Fund, a Budget Stabilization Fund, and a Refundable Tax Surplus Fund. If the balance of the Refundable Tax Surplus Fund becomes equal to or greater than 0.5 percent of the State Spending Limit, the Initiative establishes provisions for refunding or crediting the amount back to taxpayers through state motor vehicle taxes paid and state excise taxes on wages paid by employers to their employees.

The following summarizes those areas of the Initiative that may affect the level of state spending and generate potential financial impacts on state government to implement and administer the provisions of the Initiative:

- An estimate of the potential financial impact on the state’s biennial spending for the 2009-2011 biennium or future biennia cannot be established with any degree of certainty. The Initiative limits expenditures to the State Spending Limit for each biennial budget period, but the level of state spending approved by the Legislature in the 2009-2011 biennium and future biennia to provide government services cannot be predicted. The Legislature can only approve expenditures above the State Spending Limit if the actions establishing this level of spending receive voter approval.
- Based on the Initiative’s definition of total state spending and total state revenue, the number of budget accounts and revenue sources currently included in the Governor’s Executive Budget and considered by the Legislature will increase. This increase in workload may require additional staff in both the Executive and Legislative branches of state government to implement and administer the provisions of the Initiative. It is difficult to estimate the number of additional staff and associated costs required with any degree of certainty.

- If a refund is required, the Department of Motor Vehicles and Department of Taxation will incur costs to implement and administer refunds or credits from the Refundable Tax Surplus as specified in the Initiative, but these costs cannot be estimated with any degree of certainty.
- The provisions of the Initiative requiring voter approval of specified legislative actions will increase the costs of holding elections and these additional expenses will be greater if an election is held in a non-general election year. Given the inability to predict the timing of legislative actions requiring voter approval under the Initiative, the potential financial impact from additional election costs cannot be estimated with any degree of certainty.
- Any costs associated with implementing and administering the Initiative, providing refunds to taxpayers, holding elections, and any other expenses incurred due to the Initiative will have to be funded within the State Spending Limit during the biennium in which these expenses occur. This will potentially reduce the amount of funds available for expenditure in other program areas of state government.

LOCAL GOVERNMENT FINANCIAL IMPACT OF THE INITIATIVE

Under the Initiative, all local government spending by counties and cities chartered by the state is subject to a Local Government Spending Limit. For any fiscal year budget period beginning after January 1, 2009, the Local Government Spending Limit shall be the greater of: (i) the total amount of spending in the preceding fiscal year increased by a percentage amount equal to the rate of inflation plus the percent change in the local government population; or (ii) the Local Government Spending Limit for the previous fiscal year.

In general, if total revenue growth is less than the rate of growth in population and inflation for a fiscal year budget period in a county or city, then the Initiative does not limit the level of spending for that fiscal year period. If the growth in the local government's revenue is greater than the rate of growth in population and inflation, the growth in expenditures is restricted to the Local Government Spending Limit.

If revenue exceeds the Local Government Spending Limit, the county or city may retain up to half of the surplus for a Budget Reserve Fund up to 5 percent of the Local Government Spending Limit. Any remaining surplus is allocated to the Refundable Local Tax Surplus and if the balance is equal to or greater than 1 percent of the Local Government Spending Limit, the amount will be credited proportionally to next year's property tax bill for each private parcel in the city or county.

The following summarizes those areas of the Initiative that may affect the level of spending by counties and cities and generate potential financial impacts for these local governments to implement and administer the provisions of the Initiative:

- An estimate of the potential financial impact on the level of spending for a county or city for the 2009-2010 fiscal year or future budget periods cannot be established with any degree of certainty. The Initiative limits expenditures to the Local Government Spending Limit for each fiscal year budget period, but the level of spending approved by a county or city in fiscal year 2009-2010 and future fiscal years to provide government services cannot be predicted. A county or city can only approve expenditures above their Local Government Spending Limit if the actions establishing this level of spending receive approval by the voters of the local government entity.
- A county or city required to provide a tax refund will incur costs to implement and administer the property tax credits from the Refundable Local Tax Surplus as specified in the Initiative, but these costs cannot be estimated with any degree of certainty.

- The provisions of the Initiative requiring voter approval of specified local government actions will increase the costs of holding elections for the county or city. Given the inability to predict the timing of actions requiring voter approval under the Initiative, the potential financial impact on counties or cities from additional election costs cannot be estimated with any degree of certainty.
- Any costs incurred by a county or city associated with implementing and administering the Initiative, providing refunds to taxpayers, holding elections, and any other expenses incurred due to the Initiative will have to be funded within the Local Government Spending Limit during the fiscal year in which these expenses occur. This will potentially reduce the amount of funds available for expenditure in other program areas of the city or county.

Prepared by the Fiscal Analysis Division of the Legislative Counsel Bureau – January 9, 2006

The language contained in this Financial Impact Statement provides a brief description of the elements of the Initiative that may result in a financial impact on state and local governments and is not intended to provide a complete explanation of the Initiative. Please refer to the TASC for Nevada Initiative Petition filed with the Secretary of State for the actual language and provisions of the Initiative, which is available on the Secretary of State's website at http://secretaryofstate.biz/nvelection/int_ref/Int_AmendCont.htm.