NEVADA TAXPAYERS ASSOCIATION

March 2005

OVERVIEW of RECOMMENDATIONS FOR A SOUND FISCAL POLICY

Since the late 1970s, history has shown that government at all levels has experienced ten to thirteen year cycles in which there is both an economic downturn when revenue is less than projected and a period of prosperity when surplus revenue occurs. And while, at least in Nevada, we have seen most governmental units moving into a period of prosperity, there is a need to step back and prepare for the next cycle even though it may be six to eight years away.

In stepping back and reviewing prior budget cycles, it becomes evident that when revenues are not materializing to meet budgeted expectations, the demand for government services, particularly in the area of human services, is greater than normal. Conversely, in times when a greater than anticipated revenue materializes, there is pressure on government to increase programs. Meanwhile, the taxpayer *at the very time their income is reduced or stagnant* is often asked to contribute more to maintain government budgets; yet, when their income is improving they do not see any attempt to reduce their tax liability.

The following recommendations provide a series of changes to maximize the use of existing dollars and minimize the need for new tax and/or fee revenues. Various recommendations have already been adopted and are in use by some governmental units in Nevada. These are not revolutionary recommendations. They are, in fact, *evolutionary*, and many are based on best practices in both government and the private sector.

As you review these recommendations, we would also include a thought about unanticipated revenue increases and grants. Our recommendations encourage strong fiscal responsibility. In many of our suggestions we have recommended that higher-than-projected revenues be set aside for use in specific categories and not used in starting new programs that place enormous demands on future budgets. Also, we caution government entities of the need to thoroughly analyze the long-term impact of grants. While a grant may seem too good to pass up, it may also carry a significant impact on future budget cycles. Grants should be carefully reviewed before they are accepted and continuously reviewed if, in fact, they are received.

It is anticipated that many of our recommendations will provide a starting point for evaluating the expenditure side of government while increasing service delivery and cost efficiencies.

In an effort to address revenue issues between Nevada units of government and the taxpayer, these recommendations are presented for consideration by elected officials and policymakers.

RECOMMENDATIONS TOWARDS SOUND FISCAL RESPONSIBILITY
LOCAL GOVERNMENT REFORMS

Budget Reforms

1. Expenditure of Funds
2. Program Budgets
3. Outcome-based Indicators
4. Revenue and Expenditures
5. Earmarked Taxes and Fees
6. Grants
7. Yellow Page Test
8. Budget Augmentations
9. Overtime
10. Financial Policy and Procedure Manual
11. Manual Approval

Expenditure Reforms

12. Retirement Benefits – Shared Contributions
13. PERS – Leaving System
14. PERS – Collective Bargaining
15. PERS – Fully Funded
16. PERS – Defined Contribution
17. Vacation and Sick Leave
18. Employee Compensation
19. Compensation Procedure
20. Vacant Positions
21. Salary Savings
22. Binding Arbitration
23. Employee Cross-training

Other Reforms

24. Fund Transfers
25. County Assessors
26. Entitlement Programs
27. Equipment and Vehicles
28. Bidder Requirements

1. Prioritize the expenditure of funds.

Reason: Frequently, when the need arises for fiscal "belt-tightening", it is often a vocal minority who argues for nonessential program enhancements. Priorities, such as public safety, health, transportation, school and other programs and services that are essential to the well being of the general public or carry penalties for noncompliance, such as mandated programs and services should be established.

Action Required: This recommendation can be implemented at the local level and become part of the financial policy and procedures manual as proposed in recommendation 10.

2. Program- or Performance-based budgets should be utilized when possible.

Reason:

Program-based: Where multiple agencies and departments provide similar programs, those agency/department budgets should be coordinated by a lead agency. This would allow the establishment of non-conflicting priorities to provide program continuity and minimize administrative costs.

Performance-based: Many agencies and departments are responsible for delivering a specific service(s). These departmental budgets should be based on what is necessary to efficiently perform/deliver the service(s) in the most cost effective means as determined by measurable achievement.

Note: Authority for the development and adoption of regulations should be given to the Committee on Local Government Finance.

Action Required: This recommendation requires statutory change to enable local governments to take advantage of these budgeting tools. *It should not be mandated.* Local governments should support State lead agency recommendations.

3. Outcome based performance indicators should be developed for each program within all departments.

Reason: To determine the effectiveness of each program by measuring the results against the objectives.

Action Required: This recommendation can be implemented at the local level.

4. Revenue and budgeted expenses should occur in the same year.

Reason: To provide a more accurate view and better evaluation of budget expenditures.

Action Required: This recommendation can be implemented at the local level.

5. Earmarked taxes and/or fees, in whole or in part, should be reviewed on a regularly scheduled basis.

Reason: Elected officials should determine the necessary level of funding for programs based on the needs of the program over the budget period. Earmarking a specific revenue source tends to eliminate accountability and does not take into account the priority of the program or function on an ongoing basis. A regularly scheduled review would allow a determination as to whether earmarked funds should continue at: a) the same level; b) be reduced; or, c) be eliminated.

Note: Earmarked revenue streams should be evaluated at a minimum of once every four years.

Action Required: This recommendation can be implemented at the local level.

6. During budget preparation, each department should be required to include a summary of all grants received by the department.

Reason: To provide the necessary tool to allow: a) review of matching fund grants; b) better coordination of similar programs in different departments funded by grants; c) an evaluation to determine if the funding match/commitment has remained the same; and, d) a way to determine if the program funded by the grant should be continued.

Action Required: This recommendation can be implemented at the local level.

7. Require a "yellow page" test by agencies and departments to determine if new and/or expanded programs/services are currently being provided by businesses or nonprofit organizations.

Reason: Government should not displace business but should take advantage of the expertise of business or non-profit organizations that provide services. (Examples may include culvert cleaning, janitorial services, golf course management/operations or latchkey services.)

Action Required: This recommendation can be implemented at the local level.

8. Budget augmentations of surplus funds should be restricted to non-recurring expenses.

Reason: Surplus funds occur for many reasons and cannot be guaranteed to recur. Because of this, surplus funds should be prioritized and used for such purposes as: a) establishing or adding to a capital replacement/improvement fund; b) establishing or adding to a rainy day fund; or, c) providing employee training.

Note: The replacement of capital equipment or construction of capital projects should require that existing revenues cover any maintenance contracts or operating costs.

Action Required: Statutory authority exists for local governments to establish both rainy day and capital funds. Statutory change is required to expand the use of a rainy day fund to include disaster relief.

9. During budget preparation, each department should be required to identify the amount of overtime paid each month of the prior year.

Reason: This would allow the evaluation of overtime to determine if: a) additional personnel are needed; b) excessive absenteeism needs review; or, c) the use of overtime was more cost effective than hiring additional personnel; or d) there is an excessive use of discretionary overtime.

Action Required: This recommendation can be implemented at the local level.

10. The finance/budget offices in conjunction with various departments should develop a financial policy and procedures manual.

Reason: Every department should have the same understanding of fiscal policy and procedures to assist in the development and preparation of budgets. For example, each department should know if the policy of dealing with grants or federal funds requires coordination or approval through the finance department. Additionally, any criteria that are required to be met should be clearly identified.
Action Required: This recommendation can be implemented at the local level.

11. The appropriate governing board should approve any financial policy and procedure manual.

Reason: Elected officials have the ultimate responsibility for being the fiscal stewards of taxpayers' dollars and related spending. They also need to have the knowledge of sound fiscal practices in order to evaluate spending requests upon which the budget is based.

Note: Financial policies and procedures should be reviewed at least every two years and the manual updated as necessary.

Action Required: This recommendation can be implemented at the local level.

EXPENDITURE REFORMS - LOCAL GOVERNMENTS

12. Both the employer and the employee should share all retirement contributions for new hires.

Reason: The Nevada Public Employee Retirement System (PERS) functions in place of Social Security for government employees. As with Social Security and other private sector retirement systems, the cost should be shared by the employer and the employee. Under the current system, however, the retirement program allows employees to choose to have the employer pay the full amount.

Action Required: This recommendation requires a statutory change.

13. Upon the implementation of recommendation 12, an employee who leaves government employment should receive any earned interest on the contributions made by the employee during his or her period of employment.

Reason: Currently, an employee who has chosen to pay into PERS and leaves receives only the dollar amount of his or her contribution. As those contributions have been invested, the employee portion should be returned with the earned interest.

Action Required: This recommendation requires a statutory change.

14. Retirement benefits, including PERS, should not be subject to collective bargaining.

Reason: In Nevada, PERS functions in place of Social Security for government employees. As with Social Security and other private sector retirement systems, the cost should be shared by both the employer and the employee. However, under the current system retirement benefit contributions are subject to collective bargaining.

Note: In 2003, the Governor recommended and the Legislature approved an increase in the rate of contribution from 18.65 percent to 20.35 percent. While statute provides that this is a shared contribution, all school district contracts have been negotiated to require this benefit to be paid by the districts. Local governments generally negotiate this benefit. This increase required $46 million in additional contributions to PERS. In many instances, this additional expense had to be covered by tax revenue.

Action Required: This recommendation requires a statutory change.

15. Any changes to PERS, such as increased benefits or vesting, should be prohibited until the system is fully funded.

Reason: PERS is the largest unfunded liability in the State. Every effort should be made to see that the system is fully funded as soon as possible. When benefits are increased and investment income does not materialize as projected, the door is opened to either delay the time frame to fully fund the plan or require an increase in the rate of contribution. The former is not fair to employees and the latter is not fair to taxpayers.

Action Required: This recommendation requires a statutory change.

16. Change PERS from a defined benefit plan to a defined contribution plan for new employees.

Reason: Any changes made to the current plan increases the length of time before the plan will be fully funded, or requires an increase in the rate of contribution so the fund will be fully funded according to the current plan. In addition, consideration might also be given to allow employees to choose a 401(k) plan also administered by PERS.

Action Required: This recommendation requires a statutory change.

17. Eliminate accumulated vacation time and sick leave "buy backs" and provide specific conditions when sick leave or vacation time may be extended beyond the year in which it should be taken.

Reason: "Buy backs" are a phenomenon of government. They cannot be budgeted, yet have a budgetary impact when taken. Further, they are not "bought back" at the salary the person was earning at the time the vacation time or sick leave accrued.

Action Required: This recommendation requires a statutory change.

18. Change the procedures by which employee compensation is increased by: a) eliminating longevity pay; and, b) changing "merit pay" to a "merit bonus" awarded solely on the basis of achievement.

Reason: When combined with step-pay increases, longevity pay, merit pay and increases associated with "COLAs" create "salary creep." Additionally, longevity pay has nothing to do with performance or the level of skill required to perform the job. Also, a monetary reward based on merit should have a relationship to the attainment of specific goals. A bonus acknowledges achievement for a specific time period. It does not assume the achievement will be ongoing with no further attainment of increased performance or productivity.

Action Required: Local authority exists for merit pay to be changed to bonus pay. A statutory change is necessary to eliminate longevity pay.

19. Change the procedure by which classified employee compensation is approved.

Reason: Classified employee compensation levels exceeding a three-year average of the Consumer Price Index (CPI) should be a noticed agenda item. There should be justification for the increase provided as part of the record and a vote to approve. Currently, salaries of non-classified public employees are subject to public hearing.

Action Required: Local authority exists for implementing this recommendation. A statutory change is required for classified employees who are under contract.

20. All vacant positions should be limited to 12 months.

Reason: If a department has been able to function for 12 months without an employee, it can be presumed that the position was not needed. There should be a review of the reason(s) the position remained vacant.

Action Required: This recommendation can be enacted at the local level.

21. At the end of every quarter, sweep salary savings into either a rainy day or a capital project fund.

Reason: Salary savings that result from employee absenteeism or the departure of an employee during a quarter represent a monetary commitment to an expense that did not occur. In these instances, there is no justifiable reason for that money in the department's budget.

Action Required: This recommendation can be implemented at the local level.

22. Change the current procedure for contractual collective binding arbitration to include: a) the use of a three-person panel agreed to by both sides that might include an employee representative, a management representative and a representative with a financial background; and, b) require a showing of financial ability over the life of the contract to afford an award that is made by the panel, which includes consideration of mandated programs and services.

Reason: Awards have been made increasing an entity's fiscal obligation without consideration of the entity's fiscal ability to sustain during the life of the contract.

Action Required: This recommendation requires a statutory change.

23. Cross-train employees.

Reason: To enhance employee skill levels and to provide a pool of employees than can cover other positions during leaves of absence, vacations and sicknesses.

Action Required: This recommendation can be implemented at the local level.

OTHER REFORMS - LOCAL GOVERNMENTS

24. Establish priority scheduling for technology enhancements and training for departments that generate significant revenue.

Reason: To allow revenue collections to be maximized and expenditures to be minimized. In conjunction with this recommendation, electronic reporting and filing should be utilized. Electronic fund transfers would allow additional interest income to be generated.

Action Required: This recommendation can be implemented at the local level.

25. County Commissioners should provide the necessary financial assistance to the Assessor to provide for an annual reappraisal cycle.

Reason: Taxpayers in the five-year reappraisal areas would experience less sticker shock and greater equality. The governmental entities in the area would have a more consistent revenue stream. Both the taxpayer and the local governments within a county would benefit.

Action Required: This recommendation can be implemented at the local level.

26. Create a "means test" for all entitlement programs, or in the alternative, establish a fee schedule for "non-disadvantaged" persons to participate in the program.

Reason: Entitlement programs are created to provide services that assist persons who cannot otherwise afford these services. In instances where a program is expanded to the public, there should be a schedule of fees based on income and/or ability to pay.

Action Required: Local authority exists for some changes. Statutory changes are required in other instances.

27. Establish a schedule to review and evaluate equipment and vehicle usage by department. Reassign, remove or sell equipment and vehicles that are no longer needed or are no longer cost effective. Special emphasis should be placed on: a) telecommunication equipment and services; and, b) heavy equipment, particularly equipment used for road construction and/or maintenance.

Reason: To maximize the use of resources, especially equipment used in telecommunications and construction.

(a) Enhanced telecommunications services may be acquired without the prior service or lines being eliminated. For instance, DSL service may be established, yet unused phone lines are still being billed and paid for.

(b)When equipment is purchased that will not be used to maximum efficiency, it takes away money that could go into construction or maintenance. An evaluation should be done to determine whether leasing, renting or purchasing is the most cost effective manner to secure needed equipment. Today, it is often more efficient to rent or lease equipment. New leases usually allow for the replacement or upgrading of equipment every two to four years.

Action Required: This recommendation can be implemented at the local level.

28. Require all bidders for purchasing or construction contracts to have the necessary State and local licenses and be registered with the Nevada Department of Taxation.

Reason: This will insure that all taxes and fees are remitted if the bidder is successful.

Action Required: This recommendation can be implemented at the local level.