Local Government Debt

Cities, counties and school districts in Nevada are legal subdivisions of the state. Unlike many states, Nevada has no municipal bankruptcy statute to allow mismanaged local governments to restructure debt obligations. This means the liability of poor fiscal management at the local government level ultimately falls upon state taxpayers.

As such, state lawmakers must remain vigilant over local government finances and indebtedness. Lawmakers are responsible for developing the finance rules within which local governments must operate and for monitoring to ensure that these statutory parameters are effectively safeguarding taxpayers' interests.

Key Points

Current local government debt restrictions are tied to property values. Because significant shares of local government revenues are generated through property taxes, local government debt limits are expressed as a percentage of the total assessed valuation (AV) within each jurisdiction. The limits are as follows:

Counties:	10% of AV
Cities:	Depends on charter
School Districts:	15% of AV
Towns:	25% of AV
General Improvement Districts:	50% of AV
Library Districts:	10% of AV
Hospital Districts:	10% of AV
Convention Centers:	10% of AV
Fire Protection Districts:	5% of AV

Revenue bonds and other special obligations do not count towards debt limits. Current statutory language exempts revenue bonds and similar special obligations from debt-limit restrictions even though these obligations can encumber local government finances. For example, revenue bonds issued by redevelopment agencies against future appreciation in property values can encumber for decades revenue that would otherwise be available to finance core government services.

To meet debt obligations in full, Nevada's local governments must pay more than $2.0 billion annually. The minimum debt payment for all local governments combined will be $2.090 billion for FY24, with Clark County governments owing $1.767 billion of that total.[1]

In total, local government debt exceeds $20 billion. As of June 30, 2023, the total of outstanding local government obligations in Nevada was $20.229 billion. That amount is 12.54% of the statewide assessed valuation total of $167.1 billion.

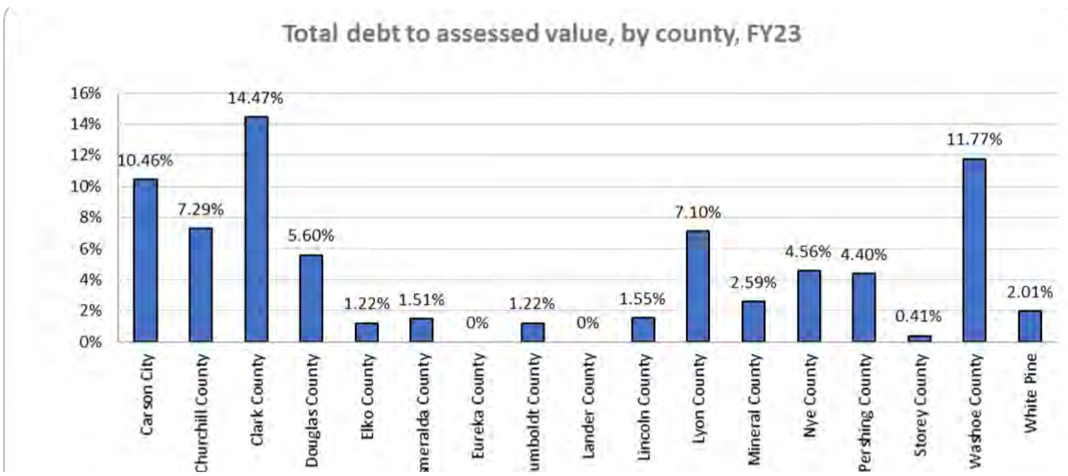
The debt-to-assessed-value ratio has fallen rapidly over the past decade as total assessed value has grown. At the close of FY14, total outstanding debt amounted to 23.5 of statewide assessed value. Local governments have retired only 7.7% of debt, on net, since FY15. Assessed values have grown 99.6% over the same time period, reflecting a rapid increase in the value of Nevada's real properties and, consequently, local governments' official bonding capacity.

Recommendations

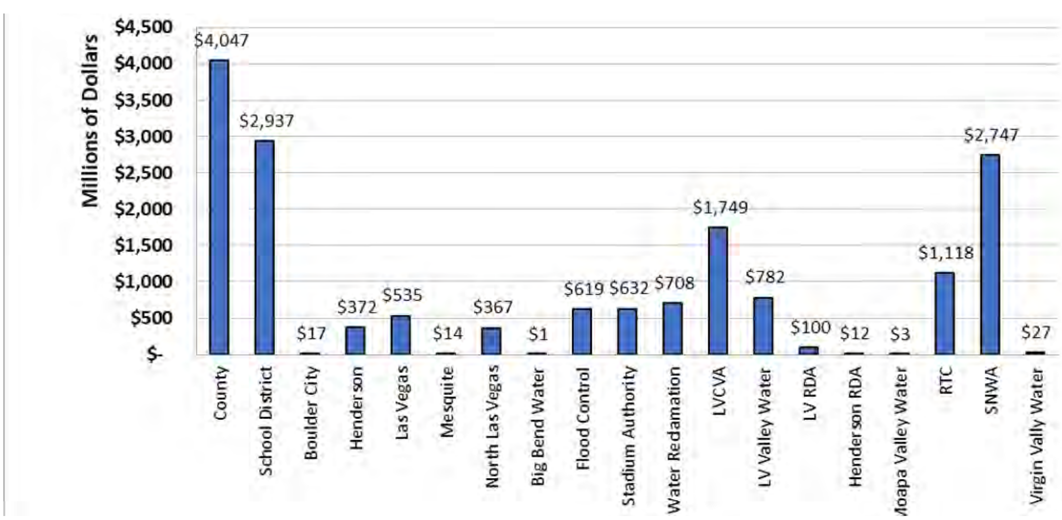
Reduce construction costs by repealing prevailing wage requirements. The bulk of local government bonds are issued to finance the construction of public infrastructure. These costs – and the bond issues required to finance them – can be dramatically reduced by repealing the state's prevailing wage requirements, which artificially inflate labor costs by about 45%, on average.[2]

Enact a municipal bankruptcy statute. State taxpayers should not be forced to act as a backstop for poor fiscal management by local politicians. Instead, local politicians who make elaborate and unaffordable promises should openly face the market discipline imposed by investors who must consider default risk.

Total debt to assessed value, by country, FY23



Outstanding obligations in Clark Country, FY23



Source: State of Nevada, Department of Taxation, "FY 2022-2023 Report of Local Government Indebtedness."

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[1] State of Nevada, Department of Taxation, Division of Assessment Standards, "FY 2020-2021 Report of Local Government Indebtedness."
[2] See "Prevailing Wage."