

**NEVADA FISCAL ANALYSIS**  
**PREPARED BY APPLIED ANALYSIS**

**DECEMBER 2009**

## INTRODUCTION

By nearly every measure Nevada is at its weakest point in the past 30 years. General economic malaise linked to a weak housing market quickly devolved into a global economic crisis in which credit markets ground to a halt, long-standing financial institutions failed in rapid succession and mass layoffs became routine reporting. Nevada's consumer spending and construction-dependent economy has felt the full force of this downturn. Job losses are being reported in nearly every sector; the unemployment rate is at its highest level since the mid-1980s; the state's core gaming industry has halted multi-billion dollar construction projects, leaving half-built structures on the Las Vegas Strip; office and retail vacancy rates are at all-time highs; Nevada ranks first nationally in housing price declines and the rate of home foreclosure; and social service caseloads are increasing beyond state and local governments' practical capacity to provide services.

Weakness in the economy has translated into unprecedented declines in state revenues. Between January and December 2008, the state's general fund revenue shortfall escalated from \$565 million to \$1.51 billion. Legislative and executive actions managed the shortfall through a combination of programmatic reductions, draw downs on reserve accounts, accelerated mining tax payments and a reallocation of one-time monies. These fixes were intentionally short term, designed merely to provide a bridge until the 2009 Nevada Legislature convened on February 2, 2009.

Faced with the largest budget shortfall in the state's modern history, the Nevada Legislature appropriated and authorized a \$16.7 billion budget for the 2009-11 biennium. Notably, this represented a spending increase of \$810 million, or 5.1 percent, when compared to the \$15.9 billion appropriated and authorized for the 2007-09 biennium.<sup>1</sup> State general fund appropriations were \$6.6 billion for the 2009-11 biennium, a 9.0-percent reduction when compared to the \$7.3 billion appropriated by the 2007 Legislature for the 2007-09 biennium. General fund operating expenditures, which do not include one-time appropriations (\$32.3 million), replenishment of fund balances (\$16.2 million) or the estimated cost of the 2009 legislative session (\$15 million) totaled \$6.5 billion, a 3.7-percent decrease compared to the 2007-09 biennium general fund operating budget of \$6.8 billion approved for 2007-09.<sup>2</sup> Boiled to its essence, the state plans to spend more overall in the 2009-11 biennium, but less of this spending is sourced to the state's general fund which tends to be the most flexible and most visible source of program funding.

### State of Nevada Appropriations and Authorizations, All Funds

Function	2009-11	2007-09	Difference	Percent Change
Education	\$5,031,026,101	\$5,012,998,836	\$18,027,265	0.4%
Human Services	\$5,503,911,045	\$4,951,376,014	\$552,535,031	11.2%

<sup>1</sup> Note that this figure reflects the total amount of appropriations reported in the 2007 Appropriations Report. This total is included to reflect function-by-function appropriations and authorizations. Total spending during the 2007-09 biennium was actually \$16.2 billion including reductions to appropriations of \$48 million approved by the 24th Special Session and supplemental appropriations approved by the 2009 Legislature, but excluding allocations for "budget reserves". Thus, approved appropriations and authorizations increased by 3.8 percent actual 2007-09 expenditures and budgeted 2009-11 expenditures. The final growth rate cannot be calculated until after the close of the 2011 Legislative Session, when the budgeted 2009-11 figures are also adjusted for supplemental appropriations, spending reductions and other interim actions.

<sup>2</sup> Note that this figure reflects the total amount of appropriations reported in the 2007 Appropriations Report. This total is included to reflect function-by-function appropriations. Total general fund operating appropriations during the 2007-09 biennium was actually \$7.1 billion once supplemental appropriations and appropriation transfers between are accounted for. This does not reflect reductions for "budget reserves". This results an adjusted growth rate of -7.5 percent. The final growth rate cannot be calculated until after the close of the 2011 Legislative Session, when the budgeted 2009-11 figures are also adjusted for supplemental appropriations, spending reductions and other interim actions.

## State of Nevada Appropriations and Authorizations, All Funds

Function	2009-11	2007-09	Difference	Percent Change
Public Safety	\$1,148,824,419	\$1,299,144,651	\$(150,320,232)	-11.6%
Elected Officials <sup>3</sup>	\$1,777,053,283	\$1,105,881,726	\$671,171,557	60.7%
Finance & Administration	\$231,947,543	\$242,245,571	\$(10,298,028)	-4.3%
Commerce & Industry	\$479,031,620	\$528,857,553	\$(49,825,933)	-9.4%
Infrastructure	\$2,061,239,989	\$2,405,487,811	\$(344,247,822)	-14.3%
Special Purpose Agencies <sup>4</sup>	\$509,790,570	\$385,645,081	\$124,145,489	32.2%
<b>Total</b>	<b>\$16,742,824,570</b>	<b>\$15,931,637,243<sup>5</sup></b>	<b>\$811,187,327</b>	<b>5.1%</b>

## State of Nevada Appropriations and Authorizations, General Fund Operating Expenditures

Function	2009-11	2007-09	Difference	Percent Change
Education	\$3,613,672,737	\$3,701,269,471	\$(87,596,734)	-2.4%
Human Services	\$1,924,800,074	\$1,927,008,728	\$(2,208,654)	-0.1%
Public Safety	\$556,841,950	\$666,404,907	\$(109,562,957)	-16.4%
Elected Officials	\$198,479,178	\$194,030,990	\$4,448,188	2.3%
Finance & Administration	\$100,471,712	\$124,584,886	\$(24,113,174)	-19.4%
Commerce & Industry	\$85,647,693	\$105,173,700	\$(19,526,007)	-18.6%
Infrastructure	\$57,229,323	\$69,489,461	\$(12,260,138)	-17.6%
Special Purpose Agencies	\$11,299,239	\$14,159,265	\$(2,760,026)	-19.5%
<b>Total</b>	<b>\$6,548,441,906</b>	<b>\$6,802,121,408<sup>6</sup></b>	<b>\$(253,579,502)</b>	<b>-3.7%</b>

Because Nevada has a balanced budget requirement and existing revenues were insufficient to fully fund state programs, the State Legislature had to augment its 2009-11 budget with new revenue sources. The Economic Forum met on May 1, 2009 and opined that the state could expect general fund revenues of \$5.3 billion from existing sources during the 2009-11 biennium. Earlier in the session, legislators had increased the state's transient lodging tax (i.e., the room tax), which added \$219 million in revenue and gave the state \$5.5 billion in expected receipts. To reach the final, approved general fund appropriations of \$6.6 billion, the state required an additional \$1.2 billion. These additional funds came from several sources, including, without limitation, tax increases, local government

<sup>3</sup> Increase is primarily related to funds which are subsequently transferred to the state's higher education and corrections accounts over the 2009-11 biennium; increased authorized expenditures from the bond interest and redemption account is also reflected.

<sup>4</sup> Increase may be related to the "functional" transfer of the deferred compensation account to this function from the finance and administration function. Additional research is required.

<sup>5</sup> Note that this figure reflects the total amount of appropriations reported in the 2007 Appropriations Report. This total is included to reflect function-by-function appropriations and authorizations. Total spending during the 2007-09 biennium was actually \$16.2 billion including reductions to appropriations of \$48 million approved by the 24th Special Session and supplemental appropriations approved by the 2009 Legislature, but excluding allocations for "budget reserves". Thus, approved appropriations and authorizations increased by 3.8 percent actual 2007-09 expenditures and budgeted 2009-11 expenditures. The final growth rate cannot be calculated until after the close of the 2011 Legislative Session, when the budgeted 2009-11 figures are also adjusted for supplemental appropriations, spending reductions and other interim actions.

<sup>6</sup> Note that this figure reflects the total amount of appropriations reported in the 2007 Appropriations Report. This total is included to reflect function-by-function appropriations. Total general fund operating appropriations during the 2007-09 biennium was actually \$7.1 billion once supplemental appropriations and appropriation transfers between are accounted for. This does not reflect reductions for "budget reserves". This results an adjusted growth rate of -7.5 percent. The final growth rate cannot be calculated until after the close of the 2011 Legislative Session, when the budgeted 2009-11 figures are also adjusted for supplemental appropriations, spending reductions and other interim actions.

funding diversions, and an interim credit line sourced to the state's local government investment pool. These sources and uses are summarized in the schedule provided below.

**State of Nevada General Fund Sources and Uses Summary  
2009-11 Biennium**

**USES**

General Fund Operating Appropriations	\$ 6,548,441,906
One-Time Appropriations	\$ 32,256,676
Replenishment of Fund Balances	\$ 16,150,000
Estimated Cost of 2011 Session	<u>\$ 15,000,000</u>
<b>Total Uses</b>	<b>\$ 6,611,848,582</b>

**SOURCES**

**Existing Sources**

Unrestricted General Fund Revenues (From Existing General Fund Revenues)	\$ 5,283,117,525
Unrestricted General Fund Reversions	\$ 111,500,000
Spend-down of Beginning Fund Balance	<u>\$ 37,667,408</u>
Total Existing	\$ 5,432,284,933

**New Sources**

State Local Government Investment Pool Credit Line (a)	\$ 160,000,000
Room Tax Increase (b)	\$ 219,862,000
Business License Fee Increase (c)	\$ 83,057,400
Government Services Tax Depreciation Rate Adjustment (d)	\$ 94,254,100
Modified Business Tax Increase (c)	\$ 345,723,400
Sales Tax Collection Allowance Reduction	\$ 32,710,800
Cigarette Tax Collection Allowance Reduction	\$ 473,500
Liquor Tax Collection Allowance Reduction	\$ 203,200
Other Tobacco Tax Collection Allowance Reduction	\$ 47,830
Increase in Secretary of State Fees	\$ 4,090,625
Car Rental Lease Fee Increase	\$ 23,448,900
State Engineer Fee Increase	\$ 1,800,000
Redirection of Unclaimed Property Funds (a)	\$ 7,600,000
Redirection of 4-Cent Clark and Washoe Property Tax Rate (a)	\$ 68,457,400
Redirection of 5-Cent Capital Rate from Clark and Washoe (a)	\$ 60,167,600
Redirection of Room Tax	\$ 5,599,997
Redirection of Court Administrative Assessments (a)	\$ 10,896,555
Transfer of Insurance Verification Fees (a)	\$ 13,000,000
Transfer of Indigent Medical Assistance Funds (a)	<u>\$ 48,170,342</u>
Total New Sources	\$ 1,179,563,649

**Total Sources**

**\$ 6,611,848,582**

(a) One-time actions approved only for the 2009-11 biennium.

(b) Revenue from the room tax is deposited in the state general fund for FY 2010 and FY 2011 is expected to be dedicated to K-12 education beginning in FY 2012. That said, there is a possibility, based on the legislation as approved by the 2009 Legislature, that this funding could be deposited to the general fund in fiscal years 2012 and 2013.

(c) Revenue source sunsets by statute, June 30, 2011.

(d) Additional revenue is deposited in the general fund through FY 2013 and is then deposited in the state highway fund beginning in FY 2014.

In addition to new revenue sources included within the state's general fund, the State Legislature also increased revenues outside the general fund to balance the budget. In total, the final budget included \$541 million in *American Recovery and Reinvestment Act* funds as well as \$275 million sourced to a 0.35-percent increase in the sales tax, \$20 million taken from the Clark County School District's capital project fund, \$11.4 million redirected from the Clark County's redevelopment agency and a reduction in the local school support sales tax collection allowance, all of which were budgeted into the state's distributive school account. Notably, the sales tax increase is scheduled to sunset on June 30, 2011 and the other sources are non-recurring in nature. Thus, the state's 2009-11 budget is predicated on \$1.3 billion of new taxes, fees, charges, and diversions; \$541 million in federal stimulus; and a \$160 million interim credit facility. Combined, this totals just over \$2.0 billion in new revenues, 96 percent of which are either scheduled to sunset or are non-recurring in nature.

This leaves the state with a number of fiscal challenges. Most obvious is the \$1.96-billion structural shortfall programmed into the 2011-13 budgeting cycle. Less an extraordinary turnaround in collection trends or a second stimulus package from the federal government, and assuming state service levels remain materially unchanged, the 2011 Legislature will have to enact, approve or reauthorize nearly \$2.0 billion in new revenues to simply keep the state whole.

That said, the more immediate challenge, is that current revenues are not hitting the targets set by the Economic Forum and used by the Legislature to construct its 2009-11 budget. Through the first three months of the biennium, revenues are approximately \$85 million under projections. While this is only 1.3 percent of the state's general fund operating budget (\$6.5 billion) and only 0.5 percent of the state's overall budget (\$16.7 billion), the state has completely depleted its revenue stabilization fund (i.e., the rainy day fund) and is operating with a minimal level of budget reserves. As such, the margin for error is essentially zero, and even relatively modest funding shortfalls represent an immediate threat to the state's ability to meet its obligations. The best available information would tend to suggest that state revenues will fall between \$200 and \$500 million short of expectations during the 2009-11 biennium.

Paid for by Sandoval for Governor