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2014: Budget and Economic Improvement

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Introduction

The Nevada economy has been slowly improving, and the Nevada budget is resting on a solid foundation in terms of satisfying revenue projections contained in the 2013–2015 biennial budget (Nevada Department of Employment, Training and Rehabilitation, 2013). Nevada successfully faced and responded to a state economic environment characterized for the past few years by recession, a budget crisis, and political budget fights. The budget in Nevada is currently stable, and Nevada has experienced slow economic improvement during fiscal year 2013–2014.

Nevada’s economic improvement, compared to other areas of the United States, has been slow, and it will take a considerable amount of time before Nevada experiences significant recovery from the recession. The Nevada Legislature meets once every two years during odd numbered years, and 2014 is an off year. The off legislative year consists of monitoring economic indicators, preliminary construction of the new biennial budget, and previewing the fall general election.

Nevada’s budgetary politics have been highlighted by low levels of service provision and over reliance on two primary sources of revenue, sales and gaming taxes (Herzik 1991; Herzik 1992; Herzik and Statham 1993; Morin 1994; Herzik and Morin 1995; Morin 1996; Morin 1997; Morin 1998). This article examines the Nevada political environment, the state biennial process, and the fiscal environment. This article also previews the 2014 general election.

The Nevada Political Environment

The Nevada political environment is a composite of Nevada’s political culture, government structure, and tax structure. The health of the national and state economies directly impacts the operation of state government. The Nevada Legislature and government are sensitive to public opinion, and Nevada’s biennial budget usually conforms to public opinion and the results of the preceding general election (Herzik and Morin 1995; Morin 2000).

Political Culture

Nevada’s political culture is individualistic. An individualistic political culture possesses a political environment where politics is akin to an open market place where individuals and interest groups pursue social and economic goals (Elazar 1984; Dye 1994; Bowman and Kearney 1996). The political culture emphasizes limited government, fiscal conservatism, fragmentation of state governmental power, and citizen control over government at the ballot box. In terms of partisan politics, Nevada is becoming more Democrat. Party competition in the 1970s was two-
party Democratic dominant. In the 1980s this changed to two-party Republican leaning (Hrebenar and Benedict 1991).

In terms of party identification, a November-December 1996 poll revealed that southern Nevada leaned Democrat while northern and rural Nevada leaned Republican (Beal et al. 1997). Whether they are Republican or Democrat, Nevadans are politically conservative. As of March 2014, 590,274 were registered Democrats, 477,201 were registered Republicans, and 258,232 were nonpartisan. Clark County (southern Nevada) has become more and more Democrat, Washoe County (northern Nevada) has become equally split between Republicans and Democrats, and rural Nevada continues to be Republican (Secretary of State 2014).

Nevada’s political environment is conservative in budgeting and fiscal matters. Republican and Democrat legislators display fiscal conservatism in both the state senate and the state assembly (Morin 1996; Herzik and Morin 1995; Morin 1994; Herzik and Statham 1993). Nevada historically has provided a relatively low level of state services and a low tax burden (Morin 1996; Herzik and Morin 1995; Morin 1994; Herzik and Statham 1993). In the past, Nevadans were not necessarily opposed to spending on state programs, but they wanted others—visitors, tourists, gamblers and corporations—to bear much of the tax burden (Winter, Calder, and Carns 1993).

Government Structure

Nevada’s Constitution structures government at the state level by apportioning power among the legislative, executive, and judicial branches (Driggs and Goodall 1996). It provides a weak, fragmented, and decentralized executive branch. The governor, who has package veto power, shares executive power and authority with other elected executives, boards, commissions, and councils (Morin 1997a; Driggs and Goodall 1996). Nevada’s Constitution provides for a bicameral legislature. The state senate has 20 members serving four-year terms. The assembly has comprised 42 members serving two-year terms (Titus 1997; Driggs and Goodall 1996).

The legislature meets biennially, is a citizen legislature and one of a small number of state legislatures to employ a biennial budget system (Morin 1996; Herzik and Morin 1995; Morin 1994; Herzik 1992, Thomas 1991). The legislature’s part-time status, low levels of staff support, and crowded agenda during a 120-day biennial session inadequately equips it to address long-term budgeting and policy issues in any significant manner (Morin 1996; Herzik and Morin 1995; Morin 1994; Herzik 1992).

The Nevada judiciary consists of a seven-member Supreme Court, district, family, justice and municipal courts. Voters have repeatedly rejected proposed constitutional amendments to create an intermediate appellate court (Driggs and Goodall 1996; Neilander 1997). Nevada’s Constitution specifically provides for the various types of courts; however, it grants considerable authority to the Nevada Legislature to determine the structure and operation of the judicial system. Although elected officials of the legislative and executive branches run for office on a partisan ballot, all state and local judges are elected on a nonpartisan ballot (Bushnell and Driggs 1984).

Nevadans have a long tradition of taking matters into their own hands at the polls and have shaped the structure, operation, and direction of state and local government. The Nevada Constitution provides for the recall of public officers, initiatives, and referenda (Driggs and Goodall 1996; Bushnell and Driggs 1984).

The governmental structure lacks the capacity to adequately respond to economic and budget problems. Heavy reliance on gaming and sales tax revenue renders Nevada highly vulnerable to economic trends that must be addressed by the legislature more than once every two years.
Presently, the legislature employs an Interim Finance Committee to address fiscal and budget matters that arise between regular sessions. The Interim Finance Committee is comprised of members of the Senate Committee on Finance and the Assembly Committee on Ways and Means from the preceding legislative session (Legislative Counsel Bureau 1997).

**Tax and Fiscal Structure**

Beginning in the late 1970s, Nevada moved from having a more decentralized state and local revenue system to having a more centralized structure than the nation’s average (Ebel 1990). In 1979, the legislature enacted a tax relief package, and voters responded by defeating a constitutional initiative to limit local property taxes similar to California’s Proposition 13 (Ebel 1990). As a result, control of local revenues has shifted from local elected officials to the legislature’s Interim Finance Committee and the Nevada Tax Commission (Ebel 1990).

The state controls, in one way or another, approximately 80 percent of the revenue of local governments (Atkinson and Oleson 1993). Fiscal centralization refers to the degree to which the state restricts local governmental autonomy to determine the level and mix of revenues and expenditures (Gold 1989). Prior to the reduction in local property taxes in 1979 and a tax shift in 1981, only school district revenue was highly centralized, and local governments largely survived on their own tax base (Ebel 1990).

The Nevada Constitution requires a balanced state budget (Driggs and Goodall 1996). Although the constitution previously limited the level of state general obligation debt to one percent of the state’s assessed property value, voters approved a ballot question in 1996 that amended the constitution to increase the limit to two percent (Ebel 1990; Driggs and Goodall 1996). Debt issued for the purpose of protecting or preserving the state’s property or natural resources is excepted from the two percent limit (Ebel 1990).

Nevada relies on seven main types of taxes for General Fund revenue: sales, gaming, casino entertainment, business license, mining, cigarette, and insurance premiums. Gaming and sales taxes were to constitute approximately 50 percent of the General Fund revenue for the 2009–2011 biennium (Legislative Counsel Bureau 2010). Earmarking, the dedication of certain tax revenues to specific programs, is popular in Nevada with politicians and the public. One of the most earmarked states in the nation (Ebel 1990), Nevada ranks fifth among the 50 states and earmarks 52 percent of tax revenues, almost two and a half times the national average of 21 percent (Gold, Erickson, and Kissell 1987).

Earmarking presents three main disadvantages for state government. First, the legislature lacks systematic review in the regular appropriation process. Second, earmarking reduces legislative flexibility in tailoring the budget to address economic change. And third, once a revenue source is earmarked, legislators may feel they are absolved from further responsibility to appropriate additional General Fund revenues to the program (Winter 1993; Thomas 1991; Ebel 1990).

Nevada does not have a personal income tax, and the legislature lacks the ability to enact one tax because voters passed a state constitutional amendment prohibiting personal income taxation (Herzik 1991). Nevada state law also requires a five percent minimum balance of the General Fund at the end of each fiscal year that cannot be touched (O’Driscoll 1994). Nevada lacks a unified budgeting and accounting system, which renders it difficult to examine state finances in a comprehensive manner (Dobra 1993). Over the course of the many years, gaming and sales taxes have represented approximately 50 to 75 percent of state revenue (Legislative Counsel Bureau 2010, Morin 1998; Morin 1997; Morin 1996; Herzik and Morin 1995; Morin 1994; Herzik 1992).
The only viable tax policy options available to the legislature are increases in sales and/or property taxes (Advisory Commission on Intergovernmental Relations 1994; Dobra 1993). The legislature has the option to increase nontax revenues, such as charges for services, licenses, fees, and fines (Legislative Counsel Bureau 1997a).

The Nevada Budgeting Process


The budget process in Nevada consists of four stages: (1) executive preparation and presentation, (2) legislative review and adoption, (3) implementation, and (4) review. The four stages are not discrete; they overlap with some activities occurring simultaneously (Driggs and Goodall 1996). Stage one, executive preparation and presentation, begins in the spring of even-numbered years, which was the spring of 2012 for the 2013–2015 biennial budget. The state budget director, a gubernatorial appointee, requests that state agencies prepare their budget requests. Agencies are required to estimate their needs three and a half years ahead of the end of the biennial budget. The state budget director may provide guidelines for agencies to follow in the agency budget request formulation process (Driggs and Goodall 1996; Reno Gazette-Journal 1996). The guidelines may limit agency requests, such as to a maximum increase of four percent over the existing biennial budget of the agency, and can incorporate the governor’s priorities for the upcoming biennium. The state budget director may convey to state agencies a governor’s directive that agencies are to hold the line or that there will be no new taxes (Driggs and Goodall 1996).

All state agencies must submit their biennial budget requests to the budget director by September 1 of the even-numbered years. The budget director spends September through December examining the agency requests, meeting with each agency head, estimating how much revenue will be available for the biennium, and trying to put together a set of budget recommendations that will be acceptable to the governor. The budget director informs each agency head in December of the office’s preliminary budget for the agency.

In the event an agency is unsatisfied with its preliminary budget, the agency has the right to appeal to the governor. Agency budget requests are submitted to the legislature by December 10 (Driggs and Goodall 1996; Reno Gazette-Journal 1996). Agency budgets are outside the one for the state building program. The state public works manager receives state construction requests and presents a list of requested projects to the governor by October 1 for inclusion in the governor’s proposed executive budget (Reno Gazette-Journal 1996).

Prior to 1993, the governor was responsible for submitting a budget proposal to the legislature containing his estimated forecast of future state General Fund revenues and proposed expenditures (Morin 1997a). The 1991–1993 budget broke ranks with past budgets and adopted an aggressive 30 percent increase in state spending based on a quite optimistic revenue estimate ac-
cepted by the legislature and the governor. Nevada’s break with conservative budget practices could not have been more poorly timed (Herzik and Morin 1995). Almost immediately after the fiscal year commenced, the effect of the national recession began to show up in Nevada. State revenue collections plunged, and a hiring freeze was invoked.

Over the next 18 months, state agencies suffered through three budget revertments” (Herzik and Statham 1993, 59). In response to the 1991–1993 biennial budget crisis, the legislature enacted legislation in 1993 that created an economic forum to estimate and forecast future state General Fund revenues. The forum, a panel of five economic and taxation experts from the private sector, is required to adopt an official forecast of future state General Fund revenues for the biennial budget cycle. All state agencies, including the governor and the legislature, are required to use the forum’s forecast (State of Nevada Economic Forum 1994). The forum must provide its first forecast no later than December 1 of the even numbered years, just before the beginning of a new legislative session (State of Nevada Economic Forum 1996). The 1993 enactment effectively reduced the scope of the governor’s formal powers in preparing the budget.

The second stage of the budget process is legislative review and adoption, which begins with the governor providing the legislature with a general outline of priorities and the proposed executive budget in the State of the State address during the first week of the biennial session. The proposed budget is delivered to the legislature shortly after the governor’s State of the State address (Driggs and Goodall 1996). The 1995 legislature attempted to challenge the executive branch’s institutional powers by proposing the establishment of a state legislative budget office, similar to the Congressional Budget Office, which would have been responsible for drafting its own version of the state budget for review by the money committees of the assembly and senate (Morin 1997a).

The legislature and Governor Miller ultimately reached a compromise when Governor Miller threatened to veto the proposed legislative budget office. The compromise gave legislative budget analysts more say in the preparation of the executive budget drafted by the governor’s office. However, the compromise legislation contained a sunset clause providing that the legislation would be void after two years (Morin 1997a). In accordance with this 1995 legislative enactment, the Fiscal Analysis Division of the Legislative Counsel Bureau gave the 1997 Nevada Legislature its first report that provided legislators a summary of the financial status of the state and Governor Miller’s budget recommendations for the 1997–1999 biennium (Legislative Counsel Bureau 1997a).

The legislative review process is centered almost entirely in the Senate Finance Committee and the Assembly Ways and Means Committee. State budgeting issues and the governor’s budget recommendations are considered by these committees in public hearings. They are the focus of interest group and lobbying activities as well as the subject of discussion and compromises by state legislators (Driggs and Goodall 1996). The Taxation Committee in each house considers tax bills and must act before the Assembly Ways and Means and Senate Finance Committees can finalize the biennial budget.

Although the Economic Forum must provide its first forecast no later than December 1 of the even numbered years, the forum is required to revise its forecast, if necessary, by May 1 during the legislative session. If either the governor or the legislature wants to appropriate more than what is available pursuant to the forum’s official forecast, a revenue enhancement proposal must be made (State of Nevada Economic Forum 1996; Legislative Counsel Bureau 1997a). A reconciliation process takes place between the two money committees prior to the budget going to the
floors of the two houses for approval. Consideration of the budget by the full houses is almost always perfunctory (Driggs and Goodall 1996).

The second stage of the process concludes with legislative passage of the biennial budget and presentation to the governor for signature. The governor lacks effective power to resist legislative changes to the budget he prepares and presents to the legislature. Nevada’s governor is the only governor in the 13 western states who lacks line-item veto power; he must sign or veto the budget passed by the legislature as an entire package. Unlike the president, he lacks pocket veto power. Any bills he vetoes after the legislature has adjourned its biennial session are subject to veto override attempts two years later when the legislature meets for its next regular session. A vetoed bill must receive a two-thirds vote of all members elected to each house to override a veto and become law (Morin 1997a; Driggs and Goodall 1996).

The third stage of the budgeting process, implementation, is the responsibility of the executive branch. The legislature employs an Interim Finance Committee to address budget and fiscal matters that arise between regular sessions. The Interim Finance Committee is comprised of members of the Senate Finance Committee and the Assembly Ways and Means Committee from the preceding legislative session (Driggs and Goodall 1996; Legislative Counsel Bureau 1997).

The fourth stage of the budgeting process, review, entails reviewing past budget activities of state government. The state controller audits claims against the state, and the Legislative Auditor’s office conducts periodic audits of the financial records of the agencies. The state budget director and the legislative fiscal analysts review past budgets when they prepare recommendations for the future. Lastly, the legislative money committees review past budget actions as they consider and formulate the next biennial budget (Driggs and Goodall 1996).

In 1991, the legislature created a rainy day fund to help stabilize the state budget. They created a state trust fund that would be built up during good times and could be accessed in the case of a fiscal emergency. When the state General Fund surplus reaches a certain threshold at the end of a fiscal year, a portion of the excess is held in the rainy day (Herzik and Morin 1995; Morin 1996; Legislative Counsel Bureau 1997a). The 1995 legislature indexed the maximum limit on the rainy day fund to 10 percent of annual appropriations (Legislative Counsel Bureau 1997a).

The Nevada Fiscal Environment

Nevada’s heavy reliance on gaming and sales taxes for state revenue makes it quite vulnerable to economic fluctuations. The fate of Nevada’s economy is contingent on the state of the national economy (Morin 2001). The national economy began its tenth year of economic expansion in the spring of 2000 and through November 2000 it had continued to grow. The nation’s economy had been growing for 116 consecutive months, the longest expansion in history (State of Nevada Economic Forum 2000).

In early 2007, the Nevada economy remained strong and the state anticipated the decade would be characterized by impressive growth (Nevada Department of Employment, Training and Rehabilitation 2007). But the Nevada economy, although strong, was beginning to cool down as the legislature began to debate the final components of the 2007–2009 biennial budget. The Economic Forum’s forecast was for a slower rate of growth in the Nevada economy than it had originally forecast in December of 2006 (State of Nevada Economic Forum 2007).

There was an economic slowdown throughout 2007 that continued through 2008. The poor Nevada economy was the result of a housing slowdown, stagnant retail sales, stagnant gaming revenue, and slow job growth. The poor Nevada economy had resulted in a state budget shortfall
By the end of 2008, Nevada’s economy was officially in recession (Nevada Department of Employment, Training and Rehabilitation 2008d).

The Nevada economy continued to weaken and decline during 2009. The unemployment rate increased in December 2009 to 13.0 percent, the second highest unemployment rate in the nation. Taxable sales were down and gaming revenue slipped in December 2009 (Department of Employment, Training and Rehabilitation 2009b; Department of Employment, Training and Rehabilitation 2010). Nevada’s economy continued to be in recession through 2010 and 2011. The unemployment rate in January of 2011 was 13.6 percent. It improved to 12.4 percent in June of 2011, 12.6 percent that December, and increased 12.7 percent in January of 2012. The gaming win increased 1.1 percent in 2011 compared to the same period in 2010, and sales tax revenue also grew.

Taxable sales increased 8.5 percent in 2011 compared to the same period in 2010. Nevada suffered the effects of a long-term housing slowdown, foreclosures, increased fuel prices, reduced tourist traffic, lack of available credit for commercial construction projects, high levels of unemployment, uncertain consumer confidence, and increased consumer prices (Nevada Department of Employment, Training and Rehabilitation 2008a; Nevada Department of Employment, Training and Rehabilitation 2008b; Nevada Department of Employment, Training and Rehabilitation 2008c; O’Driscoll 2008; Department of Employment, Training and Rehabilitation 2009a; Nevada Department of Employment, Training, and Rehabilitation 2011; Nevada Department of Employment, Training, and Rehabilitation 2011a; Nevada Department of Employment, Training, and Rehabilitation 2011b; Nevada Department of Employment, Training, and Rehabilitation 2012).

Nevada’s economic and budget situation improved in 2014. The 8.8 percent unemployment rate in December of 2013 was the lowest in Nevada since November of 2008. The labor market experienced slow job growth. The December 2013 job growth rate, an increase of 1.8 percent over December 2012, represented a slow growth rate. The June 2014 job growth was up 3.8 percent over June 2013. Gross revenue from gaining operations, increased 11.9 percent in November 2013 compared to November of 2012. The increase in gaming win produced an increase in gaming tax revenue. Taxable sales in October 2013 increased 6.1 percent over 2012, and taxable sales in January 2014 increased 2.1 percent over 2013. The increase in taxable sales generated an increase in sales tax revenue. Taxable sales and use revenue for the period ending June 30, 2014 increased 4.7 percent over prior year.

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