Economic and Budget Matters for Nevada

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Nevada’s General Fund

- Adjusting for inflation and population, Nevada’s general fund has not changed much over forty years, even though needs have grown considerably.
- We could also look at the general fund as a share of the economy.
- The economy shrinks during recessions, so we need to adjust for these declines in real GSP per capita.
- Adjusting for recessions, it sure doesn’t look like we have a spending problem.

The Recession Made a Bad State Budget Situation Even Worse

As a share of GSP:
- Nevada has one of the very smallest state general funds.
- Nevada spends the least on public education, and is near the bottom in the number of universities and community colleges per resident.

As a share of Population:
- Nevada has the fewest government employees.
- Nevada has the fewest employees in higher education, and is near the very bottom for K-12.
- Nevada ranks at the bottom for high school graduates, college graduates.
- Nevada ranks above Appalachia and the Deep South for the share of population with a college degree, but only because of in-migration.
The Budget for July 1, 2013 – June 30, 2015 totaled $6.4 billion – about 2.4% of GSP

Nevada’s Fiscal Structure

- State’s revenue depends on sales & use taxes, gaming tax, modified business tax, and other taxes (insurance, entertainment, cigarettes, recordings and transfers).
- State required to balance biennial general fund budget, with a 5% cushion plus the rainy day stabilization fund.
- Borrowing for capital budget limited by assessed value.
- State shares cost of K-12 with local government, but must make up any shortfall.
- Cities and counties depend on property taxes are their primary revenue. Their revenues have declined because assessed value declined significantly (though caps affected this).
By fiscal year, taxable sales grew 5.2% in FY2013 and 4.9% in FY2014.

For FY2015 through Nov. 2014, taxable sales are up 5.9%.

After declining by 14% in FY2009 and 4% in FY2010, gaming win has only recovered modestly, mostly in Las Vegas.

More competitive market, nationally and worldwide.

Economic Forum projected growth, but gaming revenues below projection.
MBT is the “sunset” tax.

- Depends on payroll of large firms.
- Tax base had growth in 2013 (2%) and 2012 (1%).
- Net -16% in tax base since 2008.
- As of Oct. 2014, only up 2.4% over prior year to date.

What do we spend our GF Revenue on?
Current Ending Balances
Not enough to pay our bills

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<thead>
<tr>
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<th>Leg Approved</th>
<th>Actual</th>
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<tbody>
<tr>
<td>FY 2012</td>
<td>$162 million</td>
<td>$336 million</td>
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<tr>
<td>FY 2013</td>
<td>$213 million</td>
<td>$300 million</td>
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<tr>
<td>FY 2014</td>
<td>$181 million</td>
<td>$184 million</td>
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<td>FY 2015</td>
<td>$174 million</td>
<td>$8 million</td>
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What is the Problem?

- Gaming Revenues below Forecast:

- Mining Revenues below Forecast:

- DSA Enrollments above Forecast:
  (Hold Harmless: +$8 m. in FY2014, +$18 m. in FY2015.)
What is the Governor Proposing?

- Through June 30, draining the rainy day fund (again) and sweeping most unspent accounts.
- Making the “Sunset” MBT permanent to keep $580 million in the budget (net 0.2% of GSP).
- Business License Fee (now, BLT) to raise $438 million over the biennium. (net 0.2% of GSP).
  - Currently, about 300,000 businesses pay $200 per year.
  - Proposed, they would pay $400 minimum, and the fee would increase at a rate of about 0.1-0.2% of total revenue, until total revenue hits $1 billion. Varies by industry.
- Devoting a larger share of the budget to K-12 spending.

Are there issues with this Proposal?

- It is a start, but we would still have one of the smallest governments in the country, and still be in the bottom fifth in public education spending.
- Almost no new money would go to higher education.
- Rates double for the smallest businesses, but the tax is capped for the largest businesses.
- Can it pass in this Legislature, or will we have to wait until after the next election?
Will Economic Growth Pull Us Out?

- Our revenue structure no longer fits our economy.
- Our revenues won’t grow as our economy grows.
- Casinos and construction will no longer cut it. We need to reinvent ourselves, and our revenue structure needs to fit what we will become, not what we were.
- Our state economy hasn’t quite recovered yet, but our people and our state budget have lost a lot of ground.

Nevada just experienced the deepest recession in the nation.
Good News!
Our state’s unemployment rate has fallen considerably, and is no longer highest in the nation.

But why?
Until the recession, Nevada’s total employment grew the fastest of any state in the nation. In spite of population growth still being faster than the national average, we remain far below the 2007 peak.

- From 1979 to 2007, average real income for the top 1% rose by 164%. For the other 99%, average income fell by 12%.
- After the Great Recession, average income of the 99% is now 40% less than it was 35 years.
- One of four states in which income for the 99% declined.
- Third most unequal state: average income of the top 1% now more than 44 times the average income of everybody else.
Because of casinos and construction, Nevada used to be a state where less-educated workers could make a decent living.

No more.

Nationwide, Net Profits are High

As share of GDP, Corporate Profits are the highest they have been in 60 years: especially after tax.
Nationwide, effective Average Income Tax Rates are not historically high (contrary to popular opinion).