



University of Nevada, Reno
Statewide • Worldwide

MEMORANDUM

January 14, 2009

To: Milton Glick, President

From: Elliott Parker, Professor of Economics

RE: Some Proposals on State Budget Cuts

With a few exceptions, the responses I have seen regarding my recent columns in the *Las Vegas Sun* and the *Reno Gazette Journal* have been positive and supportive. Nevadans seem to appreciate being given facts that are not distorted to fit a political agenda, and many deeply appreciate both the need for education in the state and the contributions made by the Nevada System of Higher Education. But a common question from some respondents has been to ask me, “If we don’t cut higher education dramatically, how can we possibly balance the budget?” It is one thing to complain, they suggest, but another to offer proposals for a solution.

State legislators have my deepest sympathy this Spring, as they try to wrestle with a Gordian knot. State revenues are narrowly focused on a few sectors which have been particularly hard hit by the current financial crisis and recession, increasing taxes is politically unpopular and likely to increase economic hardship, and cutting state expenditures is likely to be catastrophic. There are no good choices, and few reasonable solutions have been offered. Voters are likely to be unhappy with whatever choice legislators might make, especially if legislators act responsibly.

I would therefore like to make some suggestions. In putting these forward, I am most decidedly not acting in my role as chair-elect of the faculty senate, but rather as an economist and a citizen. I have asked a number of my colleagues for their suggestions to deal with the budget crisis, and include most of their proposals here for your consideration. I also asked Mehmet Tosun, a colleague of mine who specializes in public finance, for his ideas. I attach his memo to me at the end of this memo. These proposals are in no particular order, and because they come from multiple sources they are not entirely consistent. I am not even sure I agree with all of them.

1. The state should figure out some way to borrow from future revenues in order to avoid overly large tax increases or expenditure cuts. This may require some way of borrowing through the federal government, or with federal guarantees, since otherwise – in the current financial climate – the risk premium may make the costs of borrowing prohibitive.

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2. The state should realize that cutting expenditures hurts the economy more than raising taxes, unless the expenditure was producing literally nothing of value to the state. Any such expenditure of no value should be cut regardless of whether the state is facing a budget crisis.
3. As long as the spending was producing something of adequate social value in the first place, any spending cuts should be seen as temporary rather than as permanent cuts to the base budget. Institutions and individuals can adjust to temporary cuts more easily, and with less damage, if there is an explicit promise to restore budgets once state revenues have recovered.
4. The state should not count on a federal bailout, for several reasons. If states are given a federal grant, they are not as likely to spend it as efficiently as if it was the state's own money, and the federal government is likely to prefer funding new infrastructure projects over operating costs, even though those operating costs may be more important to the state's welfare. Even states that do not have a budget crisis are likely to line up for grants, so there is less likely to be much there for us.
5. If state employees are asked to accept a pay cut, then we are less likely to lose our most productive people if that pay will be restored once revenues have recovered. Furthermore, once we start hiring again, it will need to be at a competitive rate of pay.
6. The state should consider a temporary tax surcharge, which expires after two years, so that higher taxes are not seen as leading to permanent increases in the size of the state.
7. The state should have both a temporary strategy to deal with the permanent budget crisis, and a long-run strategy to create a broader, more stable tax base to avoid future crises.
8. Personnel rules for both professional and classified staff should be reformed to make it easier for state agencies to terminate less-productive employees. Where appropriate, procedures should be revised to allow greater flexibility, to make it easier for state agencies to deal with future budget crises.
9. The tax on mining should be increased, as mining's tax to value-added ratio is very low and gold prices are high. Many other states have more stable revenues through severance taxes. The state owns the minerals, and should not give them away for free.
10. Gaming taxes should not be increased, as this increases our dependency on casinos for revenue, and our vulnerability to future shocks. In addition, our state no longer has a monopoly on gaming, so higher gaming and entertainment taxes may cause more casinos to close.

11. A state lottery is a popular option, because it is seen as a voluntary tax, if a tax on those citizens with poor math skills. But in Nevada it is not likely to raise much revenue, in part because it competes with casinos which, frankly, offer better odds, and if a reduction in casino gambling occurs, this reduces other state revenues.
12. We have shown that we can pay higher gas prices, and higher prices encourage us to drive less, buy more fuel-efficient cars, and develop alternatives. Thus we should have a significantly higher gas tax, though it would be best if California would follow suit as it deals with its own budget crisis. In the short-run, these revenues could help balance the budget. In the long-run, these revenues could fund the development of infrastructure to develop alternative energy sources for export to California and elsewhere.
13. Legal brothels currently pay little in taxes, other than a license fee to their county governments. They should no longer be exempted from state taxes, and it may merit even a higher tax rate than other businesses.
14. A low income tax of 1-2% would be a more stable revenue source that meets most of the conditions for a good, broad-based tax. Ever since the Great Depression, however, Nevada has tried to woo the wealthy to move here by having no income taxes. As a result, Nevada has a very regressive tax system, but some people like it that way. Others worry that any income tax would be the camel's nose under the tent, and would pave the way for a much larger state government. If implemented, this would take time and public support as it would require a constitutional amendment.
15. The state should consider a small value-added tax on all of its businesses.
16. The state should carefully review its tax expenditures, in order to reduce the number of exemptions from taxation and collect more net revenue.
17. Once revenues recover, the state should create a much larger rainy-day fund, and avoid tax rebates like the ones given in 2005.
18. The state appears to spend more per-capita on corrections than most other states. Many people are imprisoned for minor drug offenses, due to mandatory sentencing laws, leaving fewer jail cells to incarcerate those who have committed more serious crimes against persons or property.
19. The state should consider temporary furloughs, perhaps graduated to gross income. If workers are paid less, they should be given a reduced work week. Some personnel might even be willing to take significant unpaid leave if their job would be there when they returned. One approach might be to set base

budgets according to what legislators think they should be, and then simply underfund them for the biennium.

20. As property values decline, so too are property taxes starting to fall. These changes should be symmetrically limited. Just as there is a statutory limit to how fast taxes rise, there might need to be a limit to how fast they can fall, so local governments are not forced to also make drastic and poorly-timed cuts.
21. The state should allow the universities to raise their tuition and keep any increase in revenue.
22. If the state borrows from millennium scholarship funds, the state may want to reform the program to include only students who either (a) have demonstrated financial need and a B average, or (b) students who have much better grades. We may no longer be able to offer it to just any Nevada student with a B average, and perhaps that is what in-state tuition is for.
23. The Nevada System of Higher Education should consider merging some of its smaller institutions, perhaps making them branch campuses of bigger institutions and reducing their program duplication and administrative overhead costs.
24. The state and the Nevada System of Higher Education should take a hard look at how administration costs have increased over time. From the chancellor's office to the president's office and the dean's office, many faculty think there has been an increase in executives and support staff.
25. Once the budget recovers, the Nevada System of Higher Education should reduce its reliance on cost of living increases and increase its merit pay. In time, this will reduce the real income of less productive faculty and staff, and encourage them to either work harder or take a job elsewhere.
26. The universities should consider reducing or eliminating their athletics budgets. If it can be shown to be cost-effective, perhaps both UNR and UNLV should move to lesser divisions. If we can't get the funding to compete with the big schools academically, then perhaps we should not be competing against them on the playing field.
27. If the university must cut its budget by more than it already has, it should focus on saving, in order, its core mission, its centers of excellence, its status as a comprehensive research university, and its unique and well-known specialties. The problem, of course, is that most of what we do falls into one of these categories or another.