



## An Educated Response: The Crisis Forums

“If you want to continue to live in a state that consistently ranks in the bottom of every education and quality of life measure, then by all means, sit back and watch your state burn. However, if you dream of a Nevada where you have pride in the quality of our life, then join me in doing something about it.”

- Chancellor Dan Klaich in *Reno Gazette Journal*, February 9, 2010.



## NEVADA'S BUDGET CRISIS

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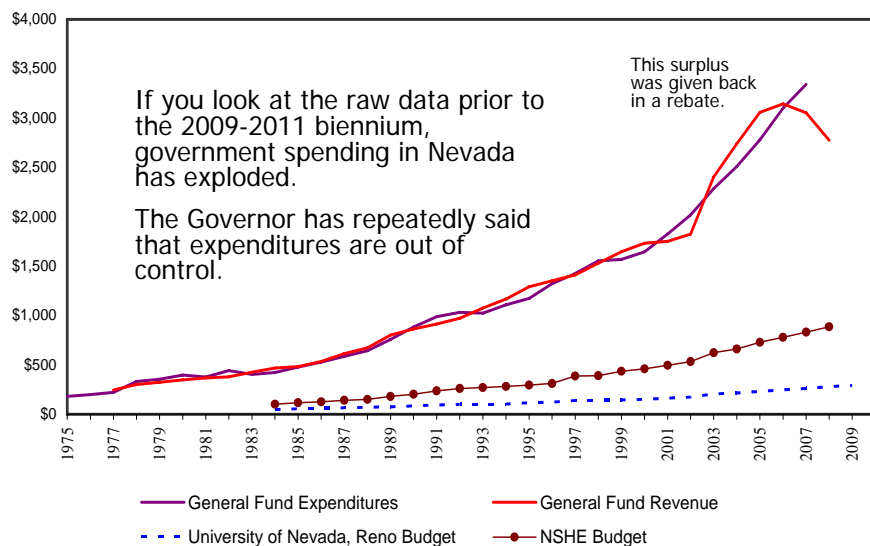
University of Nevada, Reno

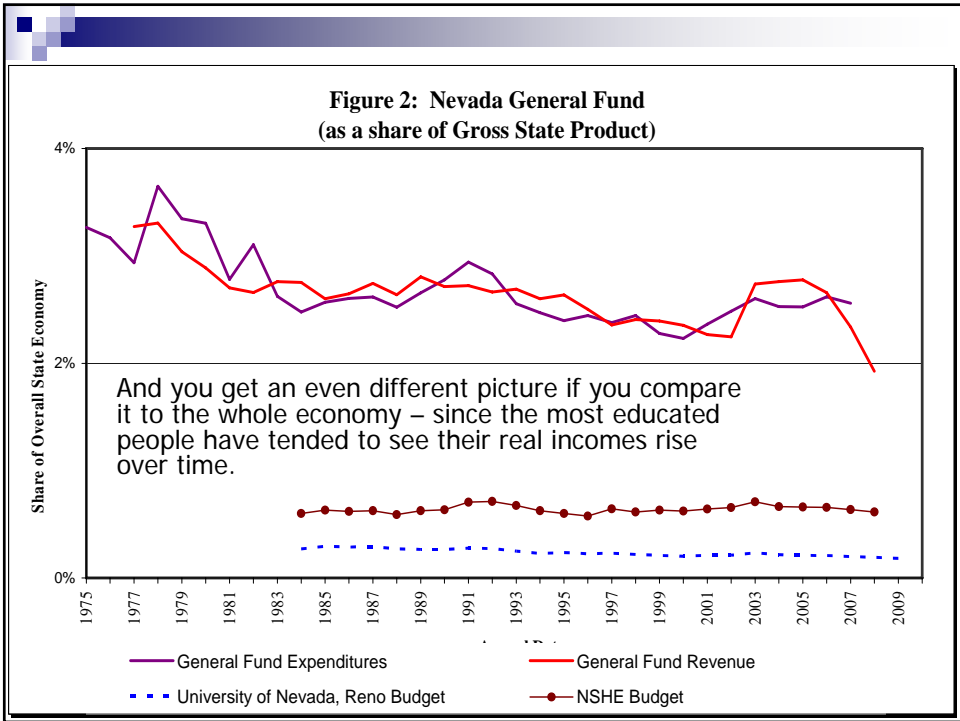
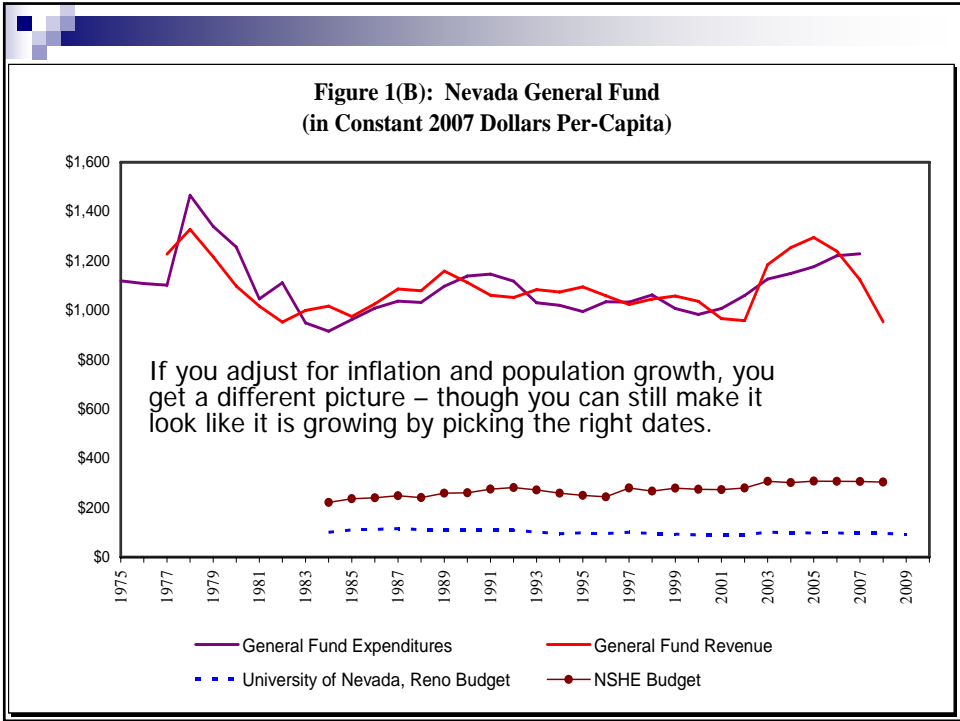
<http://www.business.unr.edu/faculty/parker>

## Why do we have a Budget Crisis?

- Two Basic Viewpoints:
  - State expenditures have risen.
  - Tax revenues have fallen.
- Is it Temporary or Permanent?
- Is it Necessary or Optional?

**Figure 1: Nevada General Fund  
(in Millions of Dollars)**





## Components of the Budget

- The state budget consists of the General Fund, plus other funds that are either paid for through special taxes (e.g., the highway fund) or through federal funding or matching (e.g., Medicaid).
- The university budget has a main budget bucket and seven other separate buckets that it is responsible for.
- Each area has a state-funded operating budget, which includes student fees and general fund contributions, plus separate self-funded budgets.
- There are also budgets funded by external grants and contracts, which cannot be used for operating expenses.

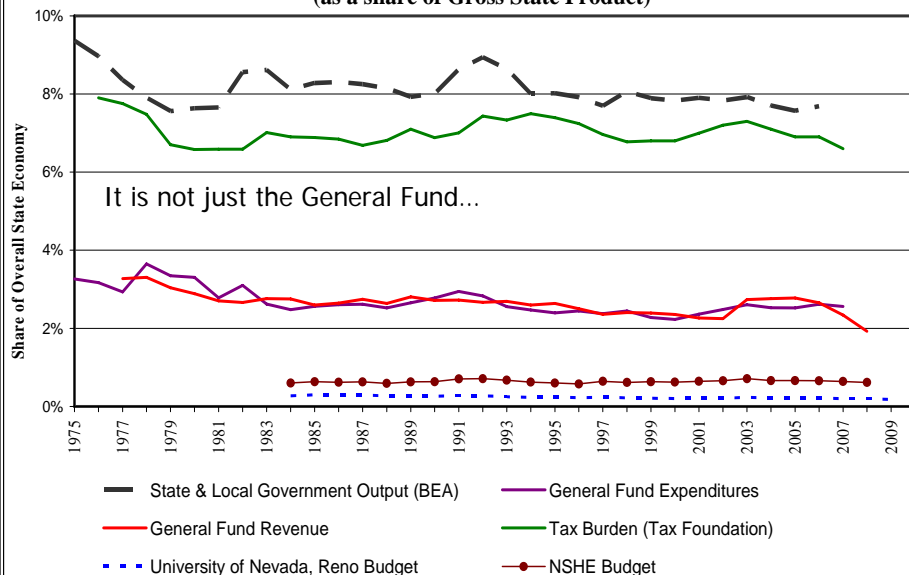
## Different ways to measure the size of government

- General Fund
- Federal and Local vs. State.
- Total Spending, including federal pass-throughs.
- Total purchases of goods and services, including state employee income.
- Tax Burden
- Number of state (or state & local) employees.

## How to make the numbers look bigger...

- Don't compare spending to GSP or employees to population.
- Use per-capita spending, since Nevada has a higher average income, and a higher cost of living, than the average state.
- If comparing over time, don't adjust for inflation or population growth, and especially avoid comparing to prevailing wages or rising average incomes.
- Pick starting and ending years carefully, for most growth.
- Be sure to include city and county data for overall government, but avoid using it for higher education, since in most states counties pay for community colleges.
- Include federal taxes if possible, since Nevadans pay higher federal taxes (higher average incomes, fewer deductions).
- Focus on revenues during good times, expenditures in bad.
- If looking at wages, compare apples to oranges, and don't include entire pay & benefits package.

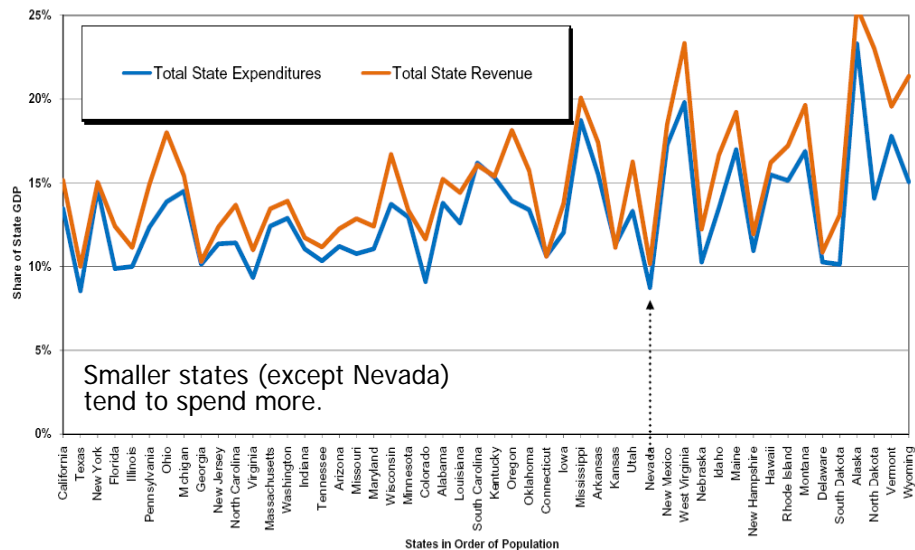
**Figure 3: Nevada Government Spending  
(as a share of Gross State Product)**



## How does Nevada compare?

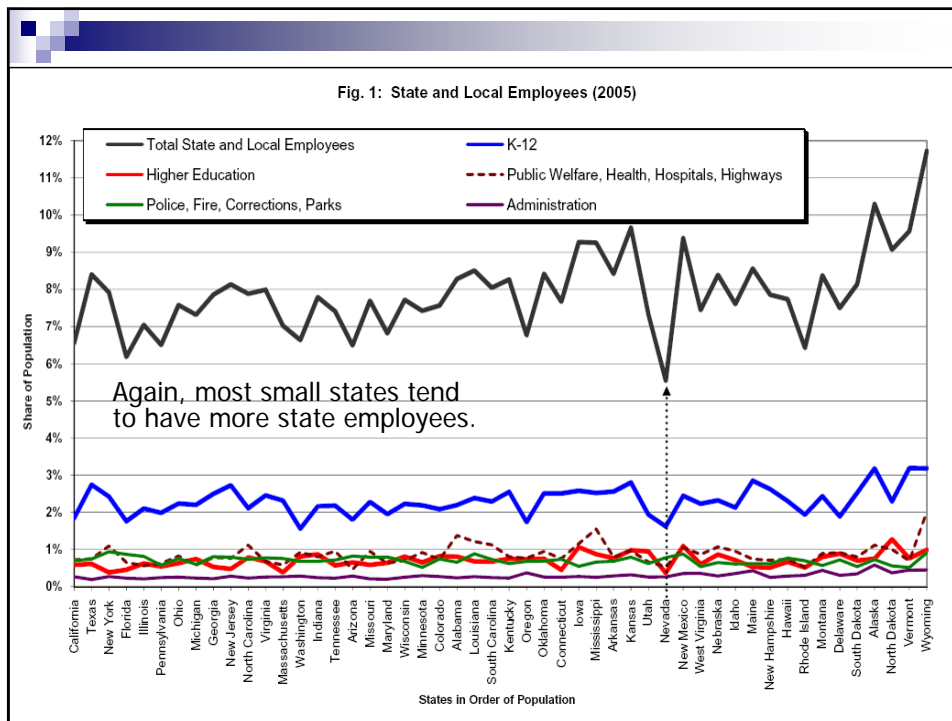
- Nevada has the second-lowest tax burden in the country (Alaska's was lowest, but their expenditures were much higher).
- Nevada has the smallest general fund in the country, as a share of GSP.
- Nevada's state government spent 6.4% of GSP, lowest in the country.
- Combining state and local government spending, Nevada spent 12.4% in 2005, 38th in per-capita terms, 48th as a share of GSP.
- Nevada's state employees earned slightly more than the national average – but cost of living was about 10% higher than average.
- Nevada's city and county employees earned more than 10% above national average, but K-12 teachers earn close to median.
- University of Nevada, Reno paid the average salary for comparable universities.
- Are benefits comparable?

Fig. 2: State Budgets (2004)



## State and Local Employment: How does Nevada compare?

- In 2005, Nevada had approximately 86,000 government employees, of which 22,000 were state employees and the rest local.
  - 45% in K-12, 10% in higher education, 10% in local police and fire protection, 8% in administration, and the rest in corrections, parks and recreation, highways, hospitals, health, and public welfare.
- Only 5.5% of Nevadans worked for state and local governments – lowest amount of the 50 states.
  - Average of all states = 7.5%.
- Nevada was also 50<sup>th</sup> in the number of state employees in higher education, and 49<sup>th</sup> in the number in K-12.



## Is more government spending good?

- Relative efficiency of private sector.
- Sometimes markets fail.
- Public Goods – provided or paid for.
- Examples: roads, ports, bridges, schools, national defense, courts, police, firefighters, bank auditors, cloud seeders and even a social safety net or a functioning health care system.
- State & Local vs. Federal.
- U-shaped relationship.

## Fiscal Effects

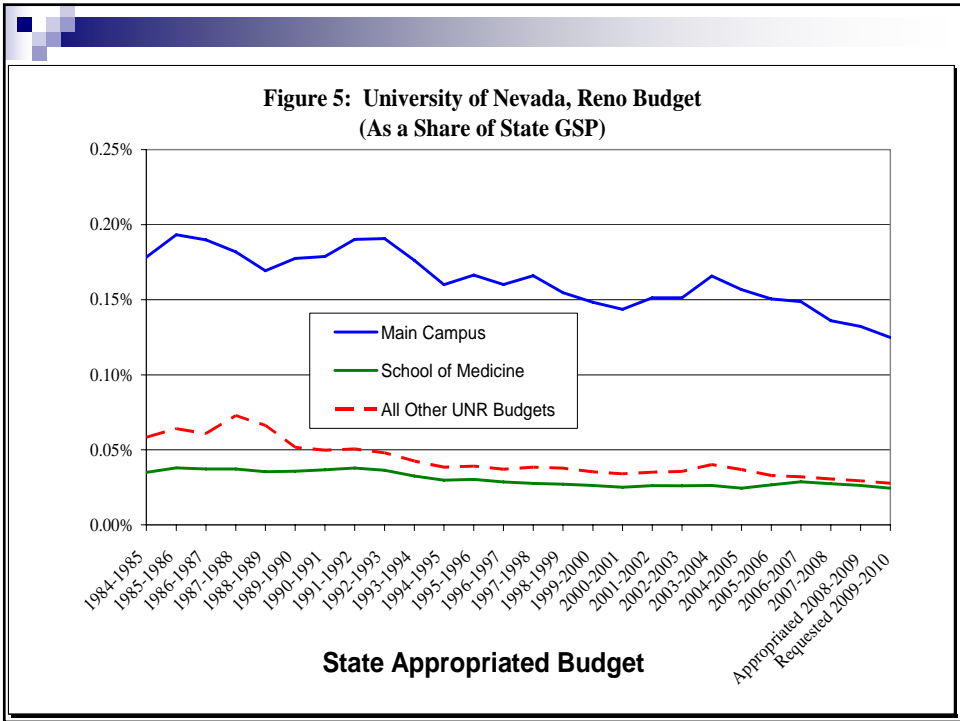
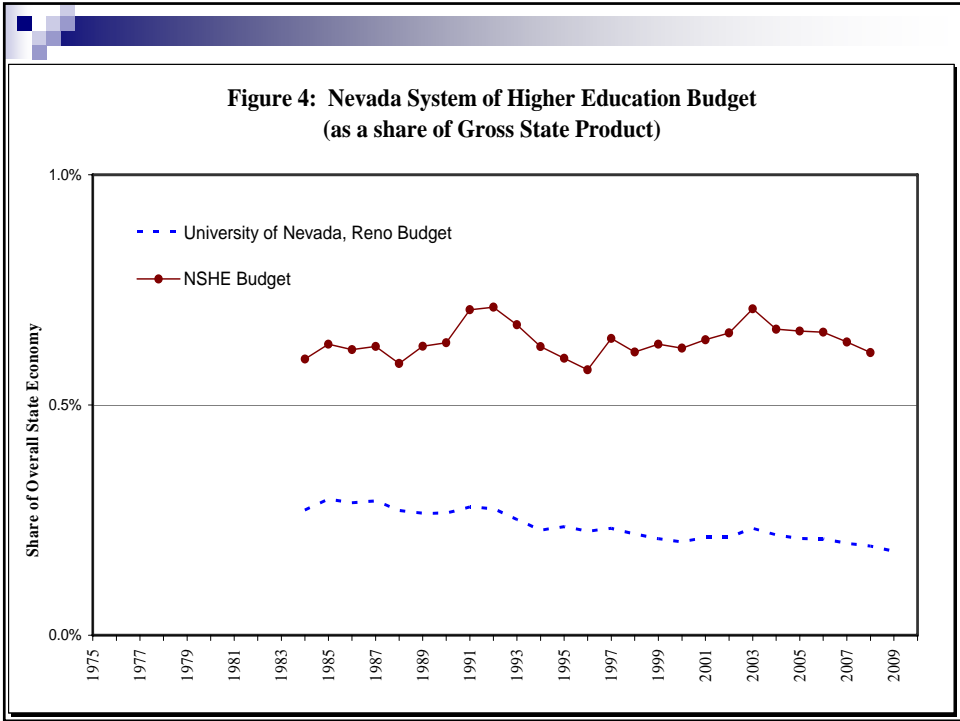
- When spending is falling, this leads to more cuts in spending. Government spending can help stabilize overall spending.
- Tax hikes are bad for an economy in recession, but spending cuts are worse.
  - Kilkenny, Harris, and Fadali – In Nevada, cuts in state government spending will lead to \$1 billion less in private spending (tax hikes \$0.5 billion).
- Role of states in the Great Depression.

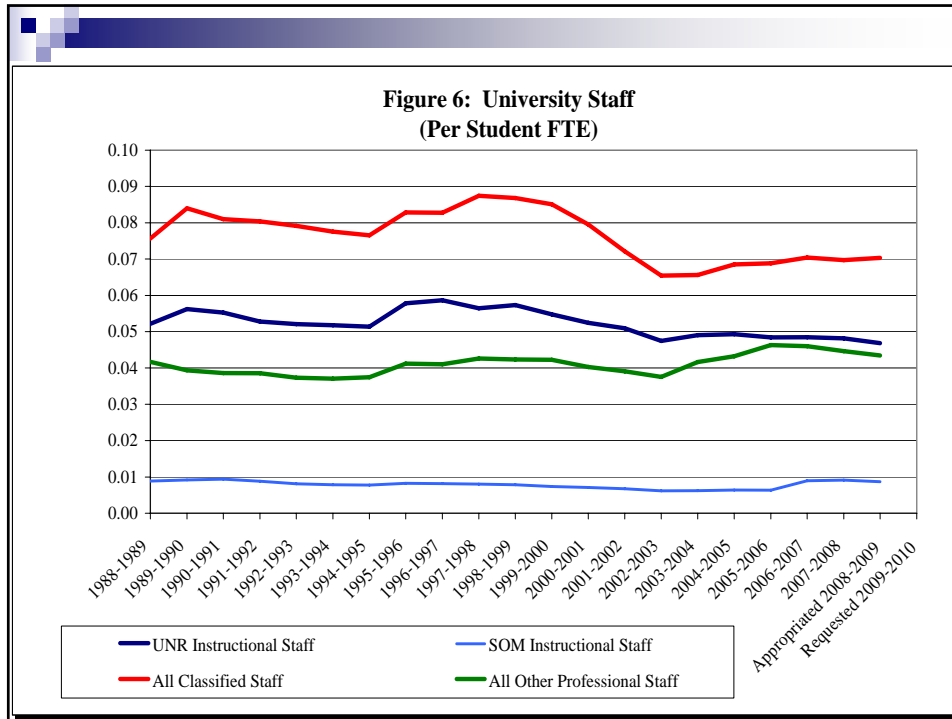
## Parts of the General Fund

- K-12 – grew from 35% of 2000-01 budget to 40% of 2010-11 budget.
- Human Services – grew from 25% to 31%.
- NSHE – stable at 19% (about 0.6% of GSP) until 2008, now 15%.
  - UNR's share of NSHE budget fell from 45% to 32%.
- Public Safety – fell from 12% to 10%, now 7%.
- Everything else fell from 10% to 7% of budget.

## Is Nevada especially generous to Higher Education?

- The state pays a greater share of your education than in most states – but state law (NRS 396.540) says it should be free for most Nevadans.
- The state spends a larger portion of the general fund on higher education than in most states – but that general fund is small, and there are few true private universities that compete for students.
- Just because a poor man spends more of his money on food does not mean he eats better.





## What Happened to Our Economy?

- Housing prices fell more than elsewhere, most mortgages underwater.
- Personal income had been growing by 8% per year for previous decade. It declined by 6% from 2008:1-2009:1, and has been flat since.
- Gaming in long-run decline – 17% of GSP in 1980s, 10% in 2007, 8% in 2009.
- Construction boomed from 1997-2006, became largest share of any state.
- Unemployment second-highest in country.

## Budget Cuts – the last versions

- Biennial budgets, from July 1 to June 30.
- Expenditures matched to Economic Forum projections for tax revenues.
- Biennial budget for 2007-09 = \$6.8 billion (about 2.6% of 2007-08 GSP), but only \$6.3 billion spent as spending was cut in special session.
- State government faced \$2 billion shortfall.

## Budget for 2009-11 = \$6.9 billion

(Remember, Population + Prices = 8% higher).

- Federal stimulus funds (\$350m).
- Many K-12 teacher salaries rose due to contracts.
- NSHE budget cut by 12.5% (15% at UNR).
- Business payroll tax for large businesses (\$346m).
- Sales tax increase (\$280m).
- Clark County room tax (\$220m).
- Furloughs.
- Share of Clark and Washoe property taxes.
- State is borrowing to pay for unemployment benefits.

## What happened to Revenues?

- Economic Forum projections were lower for 2009-2011 than for 2007-2009.
- Sales tax revenues continue to fall.
- Gaming win continues to fall (over half comes from the Strip).
- On Jan. 22, the Economic Forum reduced its projections again, predicting a shortfall of \$900 million (about \$13 per person, per month).
- In 2011, federal stimulus funds disappear, tax increases sunset, and we have to start paying back unemployment benefits. \$3 billion shortfall.

## Are there options?

- Increases in existing tax rates: sales tax, gaming tax, reduced deductions for mining.
- More service fees, including tuition.
- Broader tax base: personal income tax, corporate income tax, sales taxes on more services, more goods, internet sales.
- Reductions in salaries and/or benefits, IF it can be shown that these are more generous than in competing states.
- Borrowing to get through the biennium, from internal funds and delayed contributions, securitizing future revenues, general-purpose bonds, or delayed payments.

## My favorites?

- Gas tax – a 50¢ per gallon tax could raise about \$500 million per year.
  - Mining – currently pays less than 2% of proceeds, but reducing deductions could raise from \$25-\$100 million per year, depending on how many deductions you cut.
  - Extend sales tax to more goods and services – could raise \$1 billion per year, but would take time to collect.
  - Corporate income tax of 3-5% – could raise \$300 million.
- (Obviously, not all of these options simultaneously, and waiting until after the recession may be best.)
- Decriminalization of marijuana to reduce prison costs.
  - Borrowing to get through biennium, then tax restructuring.