

NEVADA

2009: RECESSION, BUDGET CRISIS AND THE POLITICAL BUDGET BATTLE

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INTRODUCTION

The 2009 Nevada Legislature faced an environment characterized by recession, a budget crisis and a political budget fight. The 2007 Nevada Legislature enacted the 2007-2009 biennial budget in a no new tax and no tax increase political environment. Republican Governor Jim Gibbons was committed to the formulation of a balanced 2009-2011 biennial budget based upon reduced spending, no tax increases and no new taxes. Budgeting in Nevada is driven by the basic fiscal conservatism of the state's politics. Nevada's budgetary politics have been highlighted since 1990, with one exception, by low levels of service provision, consistent under estimation of revenues, over reliance on two primary sources of revenue (sales and gaming taxes), and the potential for fiscal problems linked to the state's population growth (Herzik, 1991; Herzik, 1992; Herzik and Statham, 1993; Morin, 1994; Herzik and Morin, 1995; Morin, 1996; Morin, 1997; Morin, 1998).

Nevada faced a recession, an unemployment rate that continued to climb and bleak revenue projections that served as the basis of the 2009-2011 biennial budget. This article shall examine the Nevada political environment, the state biennial process, and the social and fiscal environment. This article shall also examine the 2008 and 2009 Nevada economic environment, the 2007 and 2008 budget cuts, the 2008 General Election and the 2009 Nevada Legislature.

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 kind of an open market place where individuals and interest groups pursue social and economic goals (Elazar, 1984; Dye, 1994; Bowman and Kearney, 1996). Nevada's 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 Democratic than Republican. Nevada's party competition classification in the 1970s was two-party Democratic dominant; however, in the 1980s this classification 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 Republican or Democrat, Nevadans are politically conservative. The same 1996 poll showed that 75 percent of Nevadans identified themselves as moderate or conservative on economic issues and 72 percent identified themselves as moderate or conservative on social issues (Beal et al., 1997). For the close of voter registration for the 2004 General Election, there were 429,808 registered Democrats, 434,239 registered Republicans and 161,620 registered as non-partisan. Southern Nevada continues to lean Democratic while northern and rural Nevada continues to lean Republican (Secretary of State, 2004).

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 resulting in 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; however, Nevadans 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 between the legislative, executive and judicial branches (Driggs and Goodall, 1996). It provides for a weak, fragmented, and decentralized executive branch. The Governor, who possesses package veto power, shares executive power and authority with other elected executive officials, boards, commissions, and councils (Morin, 1997a; Driggs and Goodall, 1996). Nevada's Constitution provides for a bicameral Legislature. The state Senate is comprised of 20 members serving 4-year terms. The state Assembly is comprised of 42 members serving 2-year terms (Titus, 1997; Driggs and Goodall, 1996). The Nevada Legislature meets on a biennial basis, in odd numbered years, is a citizen or amateur Legislature, and is 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 Nevada Legislature's part-time status, low levels of staff support, and crowded agenda during a 120 day biennial session inadequately equips the Legislature to address long-term budgeting and policy issues in any significant manner (Morin, 1996; Herzik and Morin, 1995; Morin, 1994; Herzik, 1992).

The Nevada judicial branch consists of a 7 member Supreme Court, district, family, justice and municipal courts. The state's voters have repeatedly rejected proposed constitutional amendments to create an intermediate appellate court (Driggs and Goodall, 1996; Neilander, 1997). The Nevada 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 by Nevada voters (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, the initiative, and the referendum (Driggs and Goodall, 1996; Bushnell and Driggs, 1984).

Nevada's governmental structure necessarily entails a lack of capacity to adequately respond to economic and budget problems. Heavy reliance upon gaming and sales tax revenue renders Nevada highly vulnerable to economic trends, which must be addressed by the Legislature more than once every two years (Morin, 1996; Herzik and Morin, 1995; Morin, 1994). Annual sessions of the Nevada Legislature, whether a regular annual session or an additional annual budgeting session, were supported by a majority of 60 percent in a December 1994 public opinion poll (Winter and Calder, 1995). A November-December 1996 public opinion poll revealed that 60 percent of Nevadans support the Legislature holding additional yearly sessions, with 23 percent supporting the existing biennial session arrangement (Beal et al., 1997). Presently, the Legislature employs an Interim Finance Committee in order to address fiscal and budget matters of limited scope, which may 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 state and local revenue system characterized as more decentralized to having one more centralized than the average state and local revenue system in the United States (Ebel, 1990). In 1979, the Legislature enacted a tax relief package and, in response, Nevada voters defeated a constitutional initiative to limit local property taxes, which was similar to California's Proposition 13 (Ebel, 1990). As a result, control of local revenues has been shifted from local elected officials to the Nevada Legislature and its Interim Finance Committee, and to the Nevada Tax Commission (Ebel, 1990). Nevada presently possesses one of the most centralized fiscal systems in the United States. The state controls, in one way or another, approximately 80 percent of the total revenues 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 primarily survived on their own tax base (Ebel, 1990).

The Nevada Constitution requires a balanced budget for the state (Driggs and Goodall, 1996). Although the Nevada Constitution previously limited the level of state general obligation debt to 1 percent of the state's assessed property value, Nevada voters approved a ballot question in 1996 which amended the Constitution to increase the limit to 2 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 2 percent constitutional debt limit (Ebel, 1990).

Nevada relies on seven main types of taxes as sources of revenue for the state's General Fund. The seven types of taxes include sales, gaming, casino entertainment, business license, mining, cigarette, and insurance premiums. Gaming and sales taxes accounted for 72.5 percent of all state General Fund revenue for fiscal year 1995-1996 (Legislative Counsel Bureau, 1997a). Gaming and sales taxes accounted for 62.6 percent of all state General Fund revenue for fiscal year 2003-2004 (Legislative Counsel Bureau, 2005). Earmarking, the dedication of certain tax revenues to specific programs, is popular in Nevada with both politicians and the public. Nevada is one of the most earmarked states in the United States (Ebel, 1990). Nevada ranks fifth among the 50 states, earmarking 52 percent of its total state tax revenues, which is almost two and a half times the earmarking rate of 21 percent of the average state (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 changes. Third, once a revenue source has been earmarked, legislators may feel that 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 any real ability to enact a personal income tax because Nevada voters passed a state constitutional prohibition on personal income taxation (Herzik, 1991). Nevada state law requires a 5 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 quite difficult to examine the state's finances in a comprehensive manner (Dobra, 1993). Over the course of the past 7 years, gaming and sales taxes have represented approximately 75 to 62 percent of all state revenue (Legislative Counsel Bureau, 2005; Morin, 1998; Morin, 1997; Morin, 1996; Herzik and Morin, 1995; Morin, 1994; Herzik, 1992). The only viable tax policy options available to the Legislature entail increased tax burdens on business, increasing the sales tax rate from 7.0 percent to a higher percentage rate, and increasing property taxes (Advisory Commission on Intergovernmental Relations, 1994; Dobra, 1993). The Legislature does have the option of increasing nontax revenues, such as charges for services, licenses, fees and fines (Legislative Counsel Bureau, 1997a).

THE NEVADA BUDGETING PROCESS

The Nevada budgeting process is driven by the condition of the national economy and the Nevada state economy. Nevada's heavy reliance upon gaming and sales taxes for state revenue places Nevada in a position of being quite vulnerable to economic fluctuations. The fate of Nevada's economy is contingent upon the state of the national economy (State of Nevada Economic Forum, 1994; Morin, 1996). Nevada experienced the effects of the 1981-1982 national recession, resulting in a budget crisis during the 1981-1983 biennium (State of Nevada Economic Forum, 1994; Herzik and Statham, 1993). Nevada again experienced the effects of the 1990-1991 national recession, resulting in a budget crisis during the 1991-1993 biennium (State of Nevada Economic Forum, 1994; Morin, 1994). The fortunes of Nevada's economy in the 1990s and 2000s have paralleled the fortunes of the national economy. Over the past 30 years Nevada

has prospered as long as the national economy has remained healthy (State of Nevada Economic Forum, 1996).

State 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 2008 for the 2009-2011 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 one-half years ahead of the end of the biennial budget. The state Budget Director may also 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 4 percent over the existing biennial budget of the agency, and can also 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 state Budget Director by September 1 of the even-numbered years. The state Budget Director spends September through December examining the agency budget 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 state 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 make an appeal to the Governor. Agency budget requests are submitted to the Nevada Legislature by December 10 (Driggs and Goodall, 1996; Reno Gazette-Journal, 1996). State agency budgets are outside of the one for the state's building program. The State Public Works Manager receives state construction requests and must present a list of requested projects to the Governor by October 1 for ultimate 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 Nevada 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 upon a quite optimistic revenue estimate accepted by the Nevada 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 revertsments" (Herzik and Statham, 1993:59). In response to the 1991-1993 biennial budget crisis, the Nevada Legislature enacted legislation in 1993, which provided for the creation of 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 agencies of the state, including the Governor and Nevada 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 shortly before the beginning of a new legislative session (State of Nevada Economic Forum, 1996). This 1993 enactment effectively serves to reduce 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 Nevada 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 legislative session. The proposed executive budget is delivered to the Nevada Legislature shortly after the Governor's State of the State address (Driggs and Goodall, 1996). The 1995 Nevada Legislature attempted to directly 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 Nevada Legislature and Governor Miller ultimately reached a compromise when Governor Miller threatened to veto the proposed legislative budget office. The compromise entailed giving 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 provided the 1997 Nevada Legislature with 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 the context of public hearings and are the subject of interest group and lobbying activities and 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 Nevada Legislature want 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 budget 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 in the budget that he prepares and presents to the Nevada Legislature. Nevada's Governor is the only governor in the thirteen western states to lack line-item veto power; therefore, he must sign or veto the budget passed by the Nevada

Legislature as an entire package. Unlike the President, he lacks pocket veto power. Any bills vetoed by the Governor after the Nevada Legislature has adjourned its biennial session are subject to veto override attempts two years later when the Nevada Legislature meets again for its next regular session. A vetoed bill must receive a two-thirds vote of all members elected to each house in order to override a Governor's veto and become law (Morin, 1997a; Driggs and Goodall, 1996).

The third stage of Nevada's budgeting process is implementation and is the responsibility of the executive branch. The Nevada Legislature employs an Interim Finance Committee to address budget and fiscal matters which may 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 Nevada's budgeting process is review, which entails reviewing the past budget activities of state government. The state Controller audits claims against the state and the Legislative Auditor's office also conducts periodic audits of the financial records of the various 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 are considering and formulating the next, new biennial budget (Driggs and Goodall, 1996).

In 1991, the Nevada Legislature created a "rainy day" fund to help stabilize the state budget. This enactment created a state trust fund which would be built up during good times and would 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" trust fund to help the state through fiscal emergencies (Herzik and Morin, 1995; Morin, 1996; Legislative Counsel Bureau, 1997a). In fiscal year 1993-1994, surplus General Funds exceeded the threshold and the state Controller transferred two-fifths (40 percent) of the excess to the rainy day fund. The actual transfer for fiscal year 1993-1994 was \$18 million. The remaining three-fifths (60 percent) of the excess remained in the General Fund to satisfy supplemental and one-time appropriation needs as well as the state capital improvement program requirement. During the 1995 Nevada Legislature, Governor Miller proposed and the Legislature approved an appropriation of \$81.9 million to bring the rainy day fund to \$100 million (Herzik and Morin, 1995; Legislative Counsel Bureau, 1997a). The 1995 Nevada Legislature indexed the maximum limit on the rainy day fund to 10 percent of annual appropriations (Legislative Counsel Bureau, 1997a).

THE NEVADA SOCIAL AND FISCAL ENVIRONMENT

Social Environment

The Nevada social and fiscal environment has not changed very much over the course of the past decade. Nevada continues to experience rapid population growth and continues to provide a relatively low level of state services (Herzik, 1991; Morin, 2001). Nevada is the country's fastest growing state. The 2000 census showed that 1,998,257 people live in Nevada, a 66.3 percent increase since 1990 when Nevada had 1,201,833 residents. Nevada's rapid population growth is attributable to the population growth of the Las Vegas metropolitan area.

The Las Vegas metropolitan area was the nation's fastest growing metropolitan area in the 1990s (Cox, 2000; Armas, 2000). Henderson and North Las Vegas, two Las Vegas metropolitan suburbs, were the fastest growing cities of at least 100,000 population during the 1990s. The population explosion in Las Vegas is brought about by an expansion in the casino industry, which then brings in small business (Cox, 2000; Armas, 2000).

Nevada has been one of the fastest growing states decade to decade after 1930 (Cox, 2000). The Nevada State Demographer predicted that Nevada will add 644,000 residents by 2010, increasing Nevada's population to approximately 2.6 million residents. As in the recent past, most of the new residents will settle in Clark County, the Las Vegas metropolitan area. By 2010, it is projected that Clark County will have a population of 1.8 million (Smith, 2000). It appears as though the predictions of the Nevada State Demographer may be too conservative. 87.1 percent of Nevada's 2.4 million population live in two of the state's seventeen counties. 71.2 percent of the state's population, 1.7 million, live in Clark County. 15.9 percent of the state's population, 383,453, live in Washoe County (Nevada State Demographer, 2005).

Nevada's social environment also includes an examination of quality of life. The United Way conducted a study that ranked Nevada 44th in the nation in the health and well-being of residents. The United Way conducted a 10-year study that measured trends in education, health, volunteerism, safety and natural environment. Nevada showed high rates of teen dropouts and pregnancies, residents living below the poverty line and medically uninsured children and adults than did most of the country (Guidos, 2000). The United Way report cited improvements in Nevada. The amount Nevada public schools spend per pupil increased and the number of pupils in each classroom decreased. The report showed a smaller gap between rich and poor when compared to the rest of the nation. Fewer people are unemployed in Nevada when compared to the rest of the nation; however, on a comparative basis, wages are not as high as in other areas of the nation. In 1988, the United Way study ranked Nevada 40th in the nation (Guidos, 2000).

K-12 education in Nevada is unequally distributed. 70 percent of the students are served by the Clark County School District, with 16 percent being served by Washoe County School District and the remaining 14 percent being served by the remaining 15 rural school districts (McRobbie and Makkonen, 2005). Nevada's school enrollment for K-12 grew 188 percent between 1970 and 2000. This represented the largest increase in school enrollment in the United States and it is estimated that Nevada will continue to lead the nation in terms of enrollment growth over the course of the next decade. In Clark County, the rapidly increasing student population is changing ethnically, racially and socioeconomically. 51 percent of the students are of color and Hispanic students represent the fastest growing group. Many of the new students are immigrants, from poor families and are English learners. In part attributable to student enrollment growth and increasing student diversity, student achievement in Nevada is low. Nevada ranks near the bottom in state by state comparisons and significant achievement gaps persist among different racial, ethnic and socioeconomic groups (McRobbie and Makkonen, 2005). A recent study assigned low grades to the performance of the Nevada System of Higher Education on the basis of five indicators. Nevada earned a grade of D in terms of preparation, although the academic preparation of high school students has improved nationally over the past decade. Nevada earned a grade of C in terms of participation. Smaller proportions of young and working age adults are enrolling in postsecondary education. Nevada earned a grade of F in

terms of affordability. College and universities have become less affordable for students and families. Nevada earned a grade of F in terms of completion. This factor or indicator measures whether students make progress toward and complete certificates and degrees in a timely manner. Nevada earned a grade of C- in terms of benefits. This indicator measures what benefits a state receives as a result of having a highly educated population (The National Center for Public Policy and Higher Education, 2004).

Fiscal Environment

Nevada's heavy reliance upon gaming and sales taxes for state revenue places Nevada in a position of being quite vulnerable to economic fluctuations. The fate of Nevada's economy is contingent upon the state of the national economy (Morin, 2001). The nation's economy began its tenth year of economic expansion in the spring of 2000 and through November 2000 the nation's economy had continued to grow. The nation's economy had been growing for 116 consecutive months, representing the longest expansion of the nation's economy in the history of the United States (State of Nevada Economic Forum, 2000). The United States and Nevada experienced difficult times during the early 2000s. The United States economy has been continuously expanding since the official end of the last economic recession in November 2001. The Nevada State Economic Forum concluded in December 2004 that national forecasts for the unemployment rate, housing starts, the consumer price index and interest rates should result in a solid national economic performance throughout Nevada's 2005-2007 biennium (State of Nevada Economic Forum, 2004). Nevada experienced economic difficulties as a result of a sharp downturn in the tourist economy following the 9-11 terrorist attacks. The Nevada economy has recovered from 9-11 and the 2001 recession. Visitor volume in the tourist driven Clark County economy has increased, a new mega-resort casino operation is being built in Las Vegas, Nevada's payroll enrollment has increased and the unemployment rate is the lowest in more than 25 years. The State of Nevada Economic Forum concluded in December 2004 that the Nevada economy was in a position to continue its strong economic performance through the 2005-2007 biennium (State of Nevada Economic Forum, 2004).

Nevada's economic performance continued to be strong. Economic disruptions and energy price spikes experienced nationally because of the fall 2005 Gulf Coast hurricanes did not serve as a drag on the Nevada economy. Job growth continued, unemployment was low, gross gaming win increased and taxable sales also increased (Nevada Department of Employment, Training and Rehabilitation, 2005). In November of 2005, rural Nevada experienced a strong and growing economy. The world's gold markets experienced a great increase in the price of gold. The price of gold averaged \$271 per ounce in 2001; however, the price of gold reached over \$500 per ounce in November of 2005. Since January of 2003, mining employment has increased by approximately 30 percent. Sustained high gold prices have been an economic boon for rural Nevada (Nevada Department of Employment, Training and Rehabilitation, 2005a).

The performance of the Nevada economy was impressive during 2005. Nevada led the United States in percentage job growth for the tenth time in the past 16 years. The 2005 average job growth percentage for Nevada was 6.3 percent, compared to 1.6 percent for the United States as a whole. Nevada's 2005 average unemployment rate was 4.0 percent, compared to 5.1 percent for the United States as a whole. Nevada's major industries performed at high levels. Nevada's

gross gaming win for November 2005 was up 16.0 percent from that for November 2004. Nevada's taxable sales for October 2005 were up 9.3 percent from that for October of 2004. The construction industry and the retail sales sector also experienced growth and strong performances. Nevada's gold mining industry experienced an excellent year in 2005, with gold prices at their highest levels in 25 years (Nevada Department of Employment, Training and Rehabilitation, 2006).

The performance of the Nevada economy continued to be impressive during 2006. In the first part of 2006 the average job growth percentage for Nevada was 6.1 percent, nearly quadrupled the national rate. Nevada's unemployment rate was for the first part of 2006 was 3.8 percent, which was a full point below the national rate of 4.8 percent (O'Driscoll, 2006). Nevada's taxable sales continued to increase during 2006 resulting in a very healthy sales tax revenue situation. Taxable sales increased because of the strength of construction related sales reflecting the continued building expansion in Nevada (O'Driscoll, 2006a).

In January of 2006, state gaming revenue posted a new record of \$1.14 billion, which was up 24 percent from January of 2005 (Randazzo, 2006). In February of 2006, state gaming revenue was \$1.03 billion, which was up 12.8 percent from February of 2005. Additionally, state collections from gaming revenue were 27 percent higher than what the state had projected for February of 2006 and 35 percent more than it was in February of 2005. As one would expect, the Nevada gaming revenue was driven for the most part by the 24 major Las Vegas Strip casinos (Randazzo, 2006a). In March of 2006, state gaming revenue was the \$1.06 billion, the second highest monthly amount of revenue on record, representing an increase of 3.4 percent over March of 2005. March of 2006 was the 20th consecutive month of growth for statewide gaming revenue (Randazzo, 2006b). 2005 was an excellent year for the Nevada economy and 2006 was also an excellent year for the Nevada economy. Increases in gaming and sales taxes produced higher than expected revenues. 2006 constituted the fourth straight year of surpluses. Governor Gibbons and the 2007 Nevada Legislature enjoyed a budget surplus in 2007 (Damon, 2006; Damon, 2006a).

Although 2006 produced a very strong economy, it became clear as we started 2007 that the hot Nevada economy was beginning to cool down. Employment trends indicated signs of moderation in Nevada's labor markets. Nevada's unemployment rate slightly increased, raising from 3.6 percent in January of 2006 to 4.5 percent in January of 2007. Job growth fell from 6.3 percent in January 2006 to 3.7 percent in January of 2007. The gap between Nevada and the United States narrowed in terms of the jobless rate and job growth. Construction employment in late summer 2006 and during the fall 2006 lowered in Nevada as Nevada experienced a housing slowdown during the second half of 2006. As we entered early 2007, the Nevada economy remained strong and it was anticipated that the current decade would be characterized by impressive growth (Nevada Department of Employment, Training and Rehabilitation, 2007). The Economic Forum issued its revised revenue forecast for the 2007-2009 biennium on May 1, 2007. The Nevada economy, although strong, was beginning to cool down as the Nevada 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 what was originally forecasted by the Economic Forum in December of 2006 (State of Nevada Economic Forum, 2007).

THE 2007 NEVADA LEGISLATURE

Infrastructure issues were dominant during the 2007 Nevada Legislature. Tremendous growth has resulted in demand for additional state highway construction, specifically in the Clark County area. Nevada's continued growth has resulted in a gridlock problem on many of Nevada's highways. Projects designed to ease gridlock face \$3.8 billion shortfall and another \$4.6 billion worth of projects are being proposed. The Nevada Department of Transportation has projected that Nevada's highway fund will run dry by 2015 in the event the Department of Transportation does not receive new revenues. Schools represented a significant issue. Additional school funding was needed. School construction was a pressing issue. The remodel of existing schools and the construction of new schools are required. The school funding and construction issues were pressing in Washoe County. The Washoe County School District favored a proposal to impose a real estate transfer tax and dedicate the funds generated for school construction. Another issue regarding infrastructure was the issue of beds in prisons. Nevada's inmate populations are exceeding forecasts and state prisons are becoming overcrowded. Nevada either had to slow the rate of incarceration of inmates or increase the number of prisons in order to increase the total number of inmate beds. Governor Gibbons favored the construction of additional correctional facilities in order to make available 2,672 new beds over a two year period of time and plan to or build an additional 3,258 beds. Democrats in the Nevada Legislature wanted to establish and fund full time kindergarten for all Nevada kindergarten age students. Governor Gibbons wanted to maintain the existing, limited, pilot all day kindergarten program. (Bellisle, 2007; Voyles, 2007; Ryan, 2006; Hagar, 2006).

Governor Gibbons presented the 2007 Nevada Legislature with his 2007-2009 Executive Budget In Brief on January 22, 2007. Governor Gibbons employed the revenue projections of the Nevada Economic Forum in the formulation of the proposed biennial budget. For fiscal year 2008, the Nevada Economic Forum projected General Fund revenues to approach \$3.3 billion, 5.6% more than fiscal year 2007. For fiscal year 2009, the Nevada Economic Forum projected General Fund revenues to increase to \$3.5 billion, a 7 % increase over 2008. Governor Gibbons recommended an Executive Budget that totaled \$6.907 billion in appropriations for the 2007-2009 biennium. K-12 and Higher Education would receive 52.6 percent of the total general fund appropriations for the 2007-2009 biennium. Human Services would receive 29.4 percent and Public Safety would receive 9.8 percent of the total general fund appropriations for the 2007-2009 biennium. Gaming taxes were projected to constitute 28 percent of total general fund revenue for the 2007-2009 biennium and sales and use taxes were projected to constitute another 32 percent of total general fund revenue for the 2007-2009 biennium (Department of Administration, 2007).

The 2007 Nevada Legislature approved a 2007-2009 biennial budget that totaled \$6.802 billion, less than what was proposed by Governor Gibbons. Governor Gibbons' proposed budget was based upon revenue projections contained in the Economic Forum's December 2006 report. The Economic Forum issued its revised and final revenue projections on May 1, 2007. The 2007 Nevada Legislature approved the 2007-2009 biennial budget based upon the May 2007 revenue forecast that was adjusted downward, based upon an economy that was cooling down (Legislative Counsel Bureau, 2007a). The 2007-2009 biennial budget was based upon a revenue forecast of an increase of 4.7 percent in FY 2007-08 and 6.8 percent in FY 2008-2009. The

2007-2009 biennial budget approved by the 2007 Nevada Legislature was very similar to Governor Gibbon's proposed budget in terms of appropriations and very similar to the 2005-2007 biennial budget in terms of appropriations. K-12 and Higher Education received 53.9 percent of the total general fund appropriations for the 2007-2009 biennium. Human services received 28.3 percent and public safety received 9.8 percent of the total general fund appropriations for the 2007-2009 biennium. Gaming taxes were projected to constitute 27.5 percent of the total general fund revenue for the 2007-2009 biennium and sales and use taxes were projected to constitute another 33.0 percent of the total general fund revenue for the 2007-2009 biennium (Legislative Counsel Bureau, 2007a).

The 2007 Nevada Legislature enacted the 2007-2009 biennial budget in a no new tax and no tax increase political environment. The 2007 Nevada Legislature was a repeat of the 2005 Nevada Legislature. The 2007 Nevada Legislature did address infrastructure issues. The 2007 Nevada Legislature approved appropriations to fund approximately \$1 billion for highway construction, with most of the funding for road projects in Clark County. The Washoe County School District was provided with the authority to place a ballot question before Washoe County voters in order to raise taxes for school construction and maintenance. The 2007 Nevada Legislature appropriated additional funds to the Department of Corrections for the construction of prison facilities to help alleviate overcrowding. The 2007 Nevada Legislature also increased appropriations to fund expansion of Nevada's full day kindergarten program (Hager, 2007; Reno Gazette-Journal, 2007; Clifton, 2007).

THE 2008 AND 2009 NEVADA ECONOMIC ENVIRONMENT

There was an economic slowdown throughout 2007 and the economic slowdown continued during 2008. The poor Nevada economy is attributable to a housing slowdown, stagnant retail sales, stagnant gaming revenue and slowing job growth. The poor Nevada economy has resulted in a state budget shortfall (Nevada Department of Employment, Training and Rehabilitation, 2007a). By the end of 2008, Nevada's economy was officially in recession (Nevada Department of employment, Training and Rehabilitation, 2008d).

Nevada's unemployment rate reached a low of 4.1 percent in late 2005 and early 2006. The unemployment rate climbed to 4.6 percent by the middle of 2007 and the unemployment rate increased to 5.8 percent in December of 2007. Nevada's 5.8 percent unemployment rate in December of 2007 was higher than the national unemployment rate of 5.0 percent in December of 2007. Nevada's job growth rate averaged 1.0 percent in 2007. This was the second weakest job growth percentage in Nevada in the past 15 years. Population growth in Nevada has slowed down; however, Nevada's economy has been unable to absorb many of the new workers. The housing market correction has resulted in a steep decline in new construction and high rates of foreclosure. The housing market slowdown is primarily responsible for the decline in jobs in the construction industry and the resultant increase in the unemployment rate. The financial industry sector and the temporary employment services have also lost jobs. The retail sales employment sector usually experiences an increase in employment positions for the holiday shopping season. This retail sector did not experience its usual increase in employment positions and in

fact was at a rate that was the lowest in the past 10 years (Nevada Department of Employment, Training and Rehabilitation, 2008; Nevada Department of Employment, Training and Rehabilitation, 2007a).

The Nevada economy continued to weaken and decline during the first half of 2008. Unemployment rates continued to rise during 2008. The unemployment rate increased from 5.7 percent in April 2008 to 6.2 percent in May 2008 to 6.4 percent in June 2008. Nevada's job growth was down 0.4 percent from April 2007 to April 2008. Job growth was down 0.7 percent from May 2007 to May 2008. Job growth was again down in June 2008 by 0.9 percent from June 2007. Taxable sales experienced a small decrease during the first half of 2008. Nevada's gaming revenue experienced a very significant decline in the first half of 2008. Gaming revenue declined 5.4 percent in February 2008 from February 2007 and again declined 5.1 percent in April 2008 from February 2007. Nevada then experienced a huge decline in gaming revenue in May 2008, down 15.7 percent from May 2007. The 15.7 percent drop in gaming revenue was the steepest monthly drop in at least 10 years.

The Nevada economy continued to weaken and decline during the second half of 2008. The unemployment rate increased from 6.6 percent in September 2008 to 8.1 percent in November 2008 to 9.1 percent in December 2008. Nevada's job growth continued to decline during the second half of 2008. Job growth was down 1.2 percent from November 2007 to November 2008. Taxable sales also continued to decline. Taxable sales were down 5.2 percent from September 2007 to September 2008. Nevada's gaming revenue experienced a significant decline in the second half of 2008. Gaming revenue declined 22.3 percent in October 2008 from October 2007. The decline in the Nevada economy has continued in 2009. The unemployment rate was 9.4 percent in January 2009. The unemployment rate was 12.0 percent in June 2009 and June 2009 was the second straight month that Nevada's unemployment rate posted an all time high. Gaming revenue declined in January 2009, down 26.22 percent from January 2008, and continued to decline during the first half of 2009. Taxable sales were down 17.9 percent from April 2008 to April 2009 (Department of Employment, Training and Rehabilitation, 2008d; Department of Employment, Training and Rehabilitation, 2009; Department of Employment, Training and Rehabilitation, 2009a). Nevada's economy is in recession. A perfect economic storm is occurring in Nevada. Nevada is suffering from the effects of a long-term housing slowdown, increasing fuel prices, reduced tourist traffic, lack of available credit for commercial construction projects, increasing unemployment, reduced consumer confidence and increasing 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).

THE 2007 AND 2008 BUDGET CUTS

During the last quarter of 2007 it became apparent that Nevada was going to experience a budget shortfall due to stagnant sales tax revenue and gaming tax revenue. The 2007-2009 biennial budget was based upon the May 2007 revenue forecast of the Economic Forum. In late 2007, Governor Gibbons anticipated a \$440 million tax revenue shortfall over the course of two years. Governor Gibbons originally took the position that

all state agencies, except Nevada school districts and public safety agencies, would have to cut their budgets by 5 percent. Governor Gibbons increased his proposed cuts from 5 percent to 8 percent in December of 2007 as the Nevada economy softened more than originally anticipated. In December of 2007, Governor Gibbons reversed his initial position of exempting Nevada school districts and public safety agencies from the state budget cuts. Governor Gibbons determined that there would be an across-the-board 4.5 percent cut on all state agencies (Damon, 2007; Damon, 2008).

The Nevada economic slowdown continued during the first half of 2008, resulting in a much more serious state budget shortfall. In December of 2007 the projected shortfall was \$440 million. The projected shortfall had increased to \$500 million in February 2008 and to \$900 million in April of 2008. In June of 2008 Governor Gibbons faced a \$1.16 billion shortfall for the 2007-2009 biennium and called a Special Session of the Nevada Legislature. Prior to the start of the Special Session, Governor Gibbons had imposed cuts of more than \$900 million. These cuts included \$228 million with 4.5 percent cuts of state agencies across the board, \$185.6 million in the postponement of capital projects, \$267 million from emptying Nevada's rainy day fund and \$45 million in the postponement of one-shot funding grants approved by the 2007 Nevada Legislature. The June 2008 Special Session of the Nevada Legislature resulted in a plan to cover the last \$275 million remaining in the budget shortfall. The \$275 million plan relied on \$106 million in cuts to state agency operating budgets, resulting in another 3.3 percent cut to agencies' operating budgets over previous operating budget cuts incurred by agencies. The plan included cuts in funding for grade school textbooks and the delay or cancellation of transportation projects (Hager, 2008; Damon, 2008a). In December of 2008 Governor Gibbons faced an additional shortfall in General Fund revenue of approximately \$340 million and called a Special Session of the Nevada Legislature to address the additional shortfall (Legislative Counsel Bureau, 2009).

THE 2008 GENERAL ELECTION

2008 was a year of partisan political change in Nevada with the Democrats enjoying great electoral success. Democrat Barack Obama won Nevada's Electoral College votes in the November 2008 General Election. Barack Obama won 55.15 percent of the statewide vote and John McCain won 42.65 percent of the statewide vote. Nevada's statewide voter turnout was 80.27 percent. Democrat Congresswoman Shelley Berkley was reelected in U.S. House District 1 with 67.65 percent of the vote. Republican Dean Heller was reelected in U.S. House District 2 with 51.82 percent of the vote. Three term Republican Congressman Jon Porter was defeated in his reelection bid in U.S. House District 3. Congressman Jon Porter received 42.29 percent of the vote and Dina Titus received 47.43 percent of the vote. Congresswoman Dina Titus, former State Senate Minority Leader, was the Democrat candidate for Governor in the 2006 General Election, losing to Republican Jim Gibbons. None of the statewide constitutional officer elective positions were on the 2008 General election ballot (Nevada Secretary of State, 2008; Nevada Secretary of State, 2008a).

The Democrats enjoyed success during the 2008 General Election regarding the partisan composition of the 2009 Nevada Legislature. All of the 42 State Assembly seats and half of the

21 State Senate seats were up for election in the 2008 General Election. The Clark County delegation continued to control almost 70 percent of both houses of the 2009 Nevada Legislature. The 2006 General Election produced a divided state government. Republican Governor Jim Gibbons faced a 2007 State Assembly controlled by the Democrats by a margin of 27 to 15 and a 2007 State Senate controlled by the Republicans by a margin of 11 to 10 (Legislative Counsel Bureau, 2007). The 2008 General Election once again produced a divided state government; however, the democrats increased the size of their majority in the 2009 State Assembly and captured the majority in the 2009 State Senate. Republican Jim Gibbons faced a 2009 State Assembly controlled by the Democrats by a margin of 28 to 14 and a State Senate controlled by the Democrats by a margin of 12 to 9 (Legislative Counsel Bureau, 2009).

THE 2009 NEVADA LEGISLATURE

The Nevada economy and biennial budget were the dominant issue areas during the 2009 Nevada Legislature. Governor Jim Gibbons presented the 2009 Nevada Legislature with his 2009-2011 Executive Budget in Brief on January 15, 2009. Governor Gibbons' 2009-2011 proposed budget was approximately \$2.2 billion smaller than his 2007-2009 proposed budget. Governor Gibbons' approach to the budget was relatively simple and clear. Governor Gibbons was opposed to the adoption of new taxes and tax increases. Governor Gibbons proposed to cut state expenditures, maintain a balanced budget and provide essential government services. Governor Gibbons employed the revenue projections of the Nevada Economic Forum in its December 2008 report in the formulation of the proposed biennial budget. For fiscal year 2009-2010, the Nevada Economic Forum projected General Fund revenues to be \$2.8 billion. For fiscal year 2010-2011, the Nevada Economic Forum projected General Fund revenues to be \$2.9 billion. The 2009-2011 biennial total of \$5.7 billion is 3.0 percent lower than the revised revenue estimate of \$5.8 billion for the 2007-2009 biennium. Gaming taxes were projected to constitute 26.6 percent of the total General Fund revenue for the 2009-2011 biennium and sales and use taxes were projected to constitute another 32.5 percent of the total General Fund revenue for the 2009-2011 biennium. Governor Gibbons recommended an Executive Budget that reduced General Fund appropriations for all functional appropriation categories except for Human Services where Governor Gibbons recommended a slight increase in appropriation. Governor Gibbons recommended a 36 percent cut in the appropriation for the Nevada System of Higher Education and a 6 percent pay cut for all state employees. The Democrat leaders in the Nevada Legislature contended that Governor Gibbons' recommended budget and cuts were unacceptable (Department of Administration, 2009; State of Nevada Economic Forum, 2008).

The 2009 Nevada Legislature faced an environment characterized by recession, a budget crisis and a political budget battle. Governor Gibbons, a Republican, engaged in a political battle with Assembly Speaker Barbara Buckley and Senate Majority Leader Steven Horsford, both Democrats, regarding the Federal stimulus package and the Nevada budgeting issues of taxation and spending. Governor Gibbons public statements that he was not sure that Nevada should accept all, a portion or none of the Federal stimulus money. Speaker Buckley wanted to accept Federal stimulus money. Speaker Buckley and Majority Leader Horsford were not pleased with Governor Gibbons' proposed 2009-2011 Executive Budget. Speaker Buckley wanted to review Nevada's tax and revenue system, stating that perhaps some revenue enhancements were

necessary. Governor Gibbons was steadfast in his position of no new taxes and no tax increases. Legislators worked all through the 2009 Session of the Nevada Legislature drafting an alternative budget to Governor Gibbons' proposed \$6.2 billion biennial budget (Damon, 2009).

The Nevada Economic Forum issued its revised and final revenue projections on May 1, 2009, allowing the Nevada Legislature to work on formulating the biennial budget during May of 2009. The Economic Forum revised its December 1, 2008 projection of state tax revenue over the 2009-2011 biennium downward by \$380 million (Vogel, 2009; Legislative Counsel Bureau, 2009a). The political battle lines were clearly drawn after the release of the Economic Forum's revised forecast on May 1, 2009 because the Nevada Legislature and Governor Gibbons were bound by statute by the revised and final revenue projections when formulating the 2009-2011 biennial budget. The political battle lines were drawn on an institutional basis with Governor Gibbons on one side and the Nevada Legislature on the other side. Governor Gibbons' position continued to be one of no new taxes, no tax increases and cut spending to a level where spending equaled the revenue projections contained in the May 1, 2009 report of the Economic Forum. The Nevada Legislature's position was that the biennial budget would be formulated on a combination of tax increases and reductions in spending along with Nevada accepting Federal stimulus money. Ultimately, the Nevada Legislature won the institutional political battle (Vogel, 2009; Damon, 2009; Damon, 2009a; Damon, 2009b; Damon, 2009c; Legislative Counsel Bureau, 2009a).

The Nevada Legislature passed multiple taxation bills that collectively constituted a \$781 million tax increase over the course of the 2009-2011 biennium. The tax package included increases to the sales and use tax, room tax, Modified Business Tax, Governmental Services Tax, and the short-term car rental tax. The Nevada Legislature also relied upon more than \$500 million in federal stimulus money and borrowed \$160 million. The Nevada Legislature also enacted legislation to create and authorize a tax study to study long-term revenue needs during the 2009-2010 interim. Governor Gibbons vetoed all of the tax increase measures and all of these vetoes were overridden by the Nevada Legislature (Legislative Counsel Bureau, 2009a; Damon, 2009; Damon, 2009a; Damon, 2009c).

The 2009 Nevada Legislature passed a budget of approximately \$6.9 billion for the 2009-2011 biennium, which was approximately \$312 million more than the amount recommended by Governor Gibbons in his Executive Budget. K-12 and Higher Education shall receive 54.9 percent of the total general fund appropriations for the 2009-2011 biennium. Human Services shall receive 29.4 percent and Public Safety shall receive 8.5 percent of the total general fund appropriations for the 2009-2011 biennium. Governor Gibbons vetoed the 2009-2011 biennial budget passed by the Nevada Legislature and his veto of the budget was also overridden by the Nevada Legislature (Legislative Counsel Bureau, 2009a; Damon, 2009; Damon, 2009a; Damon, 2009b; Damon, 2009c).

CONCLUSION

The Nevada Legislature certainly did win the political budget battle and Governor Gibbons lost that battle. The institutional battle was hard fought and bitter. Governor Gibbons

ended the 2009 Session of the Nevada Legislature vetoing a total of 48 bills. The number of bills vetoed by Governor Gibbons and the number of vetoes that were overridden by the 2009 Nevada Legislature were the most in Nevada's history (Legislative Counsel Bureau, 2009a). Governor Gibbons may have lost the battle; however, the war is far from completed. Even in times of recession, there are many citizens and business concerns that supported Governor Gibbons' position during the political budget battle. Which institution that ultimately wins the war may well be decided during the 2010 General Election in Nevada when all of the state constitutional offices are up for election along with all of the Assembly seats and one half of the Senate seats. The future looks bleak in Nevada. The recession seems to be getting worse with little hope of a quick economic improvement.

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