

THE BALANCED PLAN FOR GROWTH: A COMPROMISE BUDGET FOR NEVADA

**State Controller Ron Knecht,
Assemblyman Jim Wheeler and
Assistant Controller Geoffrey Lawrence**

**Presentation 14 May 2015 to Nevada
Assembly Taxation Committee – Room
4100, Nevada Legislature**

BALANCED PLAN FOR GROWTH GOALS AND APPROACH – PART I

- 1) To secure the education, human services and other state public services goals of Nevadans
- 2) To foster economic growth – So, no new or increased taxes, and the sunset taxes should actually expire
- 3) BPfG is a vehicle for compromise to allow budget completion without a special legislative session

BALANCED PLAN FOR GROWTH GOALS AND APPROACH – PART II

- 4) **BPfG works both revenues and expenses to close \$1.1 billion gap (Economic Forum revenues versus Governor's recommended budget)**
- 5) **BPfG actually increases current total state spending, but at a rate lower than the growth rate of the Nevada economy**
- 6) **BPfG presented originally as a work in progress, which it remains; this is version 2.0 (much improved, as with any version 2.0)**

KEY BACKGROUND FACTS & STATISTICS – FROM COMPREHENSIVE ANNUAL FINANCIAL REPORTS

- 1) State spending has grown 10% in real terms per person in last 10 years – that is, over and above the state spending growth caused by inflation and population growth, spending has grown 10% more
- 2) Relative to Nevada's economy, state revenues have grown 9% in 2004-2014 decade, including 19% since 2008
- 3) Conclusion: State of Nevada has a spending problem, not a revenue problem

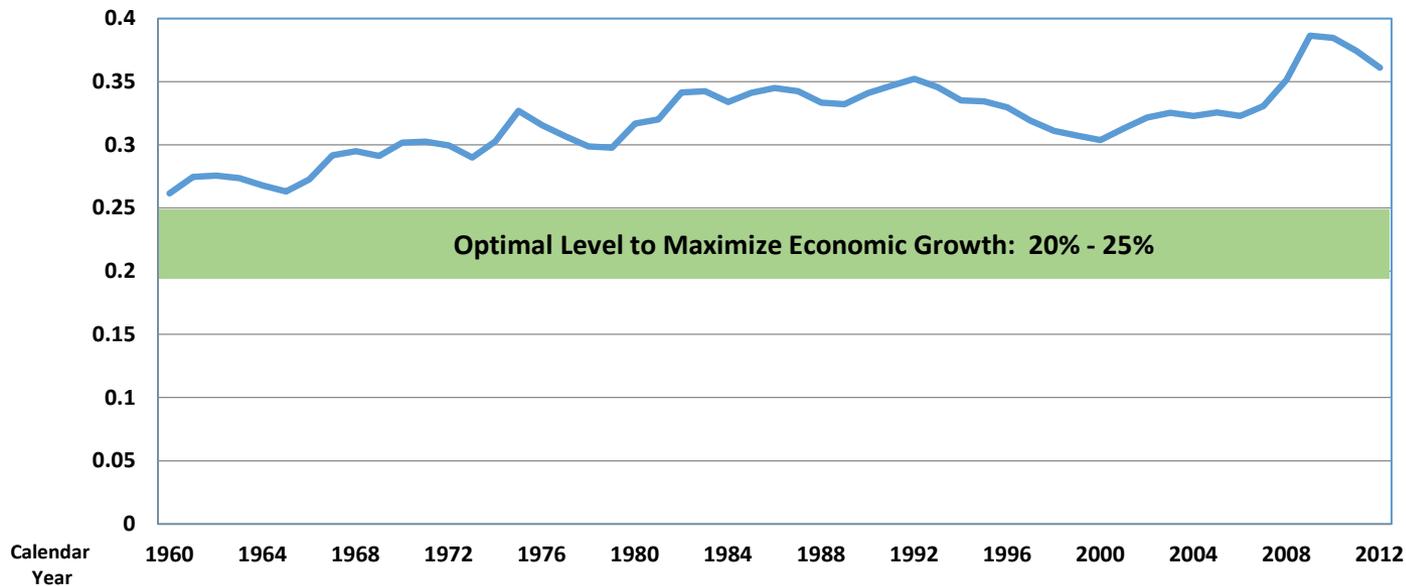
KEY BACKGROUND FACTS: FOR GROWTH, NEW AND INCREASED TAXES SHOULD BE AVOIDED

- 1) Government in US has grown greatly over 50+ years relative to our economy (and thus as a factor in people's lives), from mid-20% range to high-30% range – a truly unsustainable trend
- 2) Empirical studies show that the range of government spending to GDP that serves the public interest (i.e., maximizes growth and thus maximizes overall human well-being) is 20% - 25%
- 3) State and local government have been as much a part of the excess growth of government as has the federal government
- 4) Nevada has been as much a part of the problem as any state, with its tax burden having grown to 25th or 26th among states, depending on how measured – No longer a low-tax state

CONSISTENT GROWTH OF GOVERNMENT VERSUS UNITED STATES ECONOMY (GDP)

U.S. Public-sector Spending/GDP Ratio, 1960-2012 Includes Federal & State/Local Total Net Spending

Ron Knecht 21 June 2013, using U.S. Bureau of Economic Analysis Data



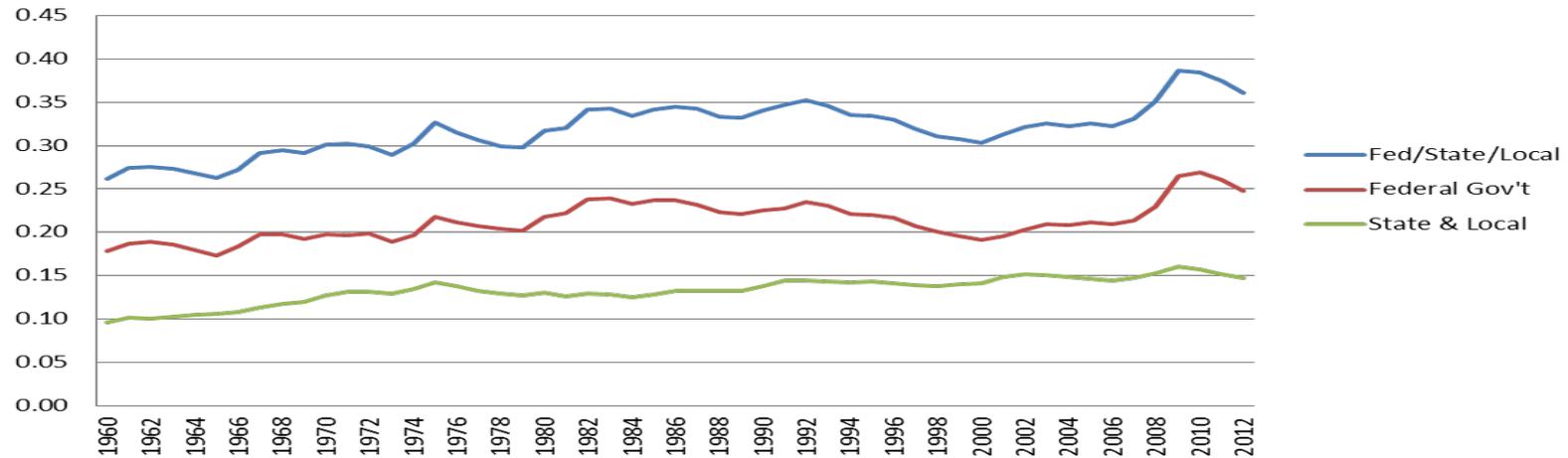
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CONSISTENT GROWTH OF GOVERNMENT VS. GDP – STATE/LOCAL AS MUCH AS FEDERAL

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U.S. Government Spending vs. GDP, 1960-2012 Federal, State/Local and Total Components

Ron Knecht 22 June 2013 with Data from U.S. Bureau of Economic Analysis



SUMMARY OF KEY NUMBERS FOR BUDGET

- 1) **Expected 2015-17 revenues, per Economic Forum: \$6.33billion → \$6.16billion**
- 2) **General fund spending in 2013-15: \$6.60billion**
- 3) **Governor's recommended spending for 2015-17: \$7.31billion**
- 4) **Balanced Plan for Growth proposed general fund spending for 2015-17: \$6.92billion**

BALANCED PLAN FOR GROWTH SPENDING ISSUES

- 1) **Block grants to replace K-12 categorical funding**
- 2) **Process used to generate cuts other than K-12 blocks**
- 3) **Higher education: LV med school, community colleges**
- 4) **Health & human services: The storm next time**
- 5) **Information technology: maintenance & upgrades**
- 6) **State employees held harmless; ends furloughs**
- 7) **Summary table of cuts by budget area**

Historic Nevada Spending by Function

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	FY12	FY13	FY14	FY15
Elected Officials	\$95,745,355	\$97,937,668	\$99,986,261	\$101,350,272
Finance & Administration	\$41,046,726	\$40,981,174	\$39,332,807	\$52,966,226
Education:				
Higher Education	\$473,255,848	\$473,257,970	\$479,590,988	\$491,663,228
K-12	\$1,151,272,994	\$1,177,015,140	\$1,286,393,103	\$1,261,243,105
Other Education	\$549,977	\$341,135	\$1,364,681	\$1,413,969
Subtotal Education	\$1,625,078,819	\$1,650,614,245	\$1,767,348,772	\$1,754,320,302
Commerce & Industry	\$45,818,310	\$34,075,265	\$47,374,019	\$47,753,576
Human Services	\$979,134,087	\$958,585,228	\$1,005,147,981	\$1,046,498,292
Public Safety	\$291,160,994	\$290,842,405	\$289,673,219	\$289,421,829
Infrastructure	\$22,677,521	\$22,802,159	\$23,532,139	\$20,934,254
Special Purpose Agencies	\$4,065,233	\$4,044,884	\$5,225,781	\$5,231,491
Total	\$3,104,727,045	\$3,099,883,028	\$3,277,620,979	\$3,318,476,242

Governor's Recommendation and Balanced Plan for Growth by Function

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	Gov Rec FY16	Gov Rec FY17	BpFG FY16	BpFG FY17
Elected Officials	\$126,003,810	\$129,417,800	\$114,153,463	\$118,785,113
Finance & Administration	\$44,411,481	\$42,180,534	\$35,587,371	\$34,957,445
Education:				
Higher Education	\$527,440,099	\$536,863,566	\$504,425,352	\$492,857,158
K-12	\$1,414,200,191	\$1,467,452,698	\$1,428,453,526	\$1,399,994,660
Other Education	\$304,254	\$309,064	\$304,254	\$309,064
Subtotal Education	\$1,941,944,544	\$2,004,625,328	\$1,933,183,132	\$1,893,160,882
Commerce & Industry	\$73,966,167	\$53,948,508	\$36,759,174	\$37,557,682
Human Services	\$1,048,476,426	\$1,141,825,952	\$989,354,039	\$1,049,045,292
Public Safety	\$312,655,870	\$319,049,104	\$301,422,353	\$308,184,882
Infrastructure	\$32,447,016	\$31,563,985	\$27,348,073	\$23,138,134
Special Purpose Agencies	\$5,621,567	\$6,015,271	\$7,394,909	\$7,468,613
Total	\$3,585,526,881	\$3,728,626,482	\$3,445,202,514	\$3,472,298,042

BALANCED PLAN FOR GROWTH SPENDING, K-12: BLOCK GRANTS REPLACE CATEGORICAL GRANTS

- 1) State spending on K-12 schools has grown faster than everything but HHS in last decade: 23% increase in addition to increased amounts for inflation and population growth**
- 2) Categorical grants presently total \$549million; Governor recommends adding \$424million, for \$974million total**
- 3) BPfG consolidates categorical grants into a single block grant of \$665million, for savings of \$309million**
- 4) Flexibility: Allows each K-12 district to spend these monies as needed at each school – not one size fits all template**
- 5) Accountability and effectiveness problems with K-12 categorical grants -- Solution: Required compliance audits and performance reporting**

BALANCED PLAN FOR GROWTH SPENDING

PROCESS USED TO GENERATE NON-K-12 SPENDING

- 1) Done line by line, starting with 2011-13; then apply three screens
- 2) Start with FY12 and FY13 and increase each amount by 10% for inflation and population growth to current biennium
- 3) Screen resulting amounts versus FY14 and FY15 levels, restoring many lines to at least those levels
- 4) Screen the resulting amounts versus Governor recommended levels for FY16 and FY17 to determine whether increases needed
- 5) Add back specific enhancements too important to defer (e.g.,IT)
- 6) Not carved in stone: A starting point for negotiation and a template to use with budgets already closed

BALANCED PLAN FOR GROWTH SPENDING, NSHE

- 1) **BPfG proposed NSHE \$992million total is higher than NSHE requested and an increase versus current biennium's \$971million**
- 2) **Does not include the full incentive amounts Governor recommended adding to NSHE request**
- 3) **Funds proposed UNLV medical school at Governor's recommended level**
- 4) **Fair to community colleges: full bridge funding – they will not survive reasonably without it**

BALANCED PLAN FOR GROWTH SPENDING, HHS

- 1) Health & Human Services spending in Nevada has grown faster than anything else: 37% increase in last decade in addition to increases for inflation and population growth
- 2) Increases in entitlement programs driven much by federal mandates and funded significantly with federal grants
- 3) Medicaid has grown to be the second largest item in Nevada budget – enrollments doubled from 300,000 in 2013 to 600,000 today
- 4) In 2017-19 biennium, federal support for ACA-driven Medicaid expansion begins to decline – huge liability
- 5) BPfG covers all eligible Medicaid beneficiaries, but holds provider reimbursements to current rates, saving \$60million

BALANCED PLAN FOR GROWTH SPENDING: INFO TECH MAINTENANCE AND DEFERRED UPGRADES

- 1) Since the Great Recession and resulting spending constraints, state agencies have been operating with legacy IT and related systems: Many are obsolete, now requiring high staff levels and costs while delivering poor service
- 2) Some systems approaching or already at the end of vendor support – serious risks of system/service breakdowns and high additional costs if not replaced very soon – akin to deferred maintenance problems
- 3) State spending has been deferred longer than reasonable, so BpFG includes all \$20M+ of these enhancements recommended by Governor

BALANCED PLAN FOR GROWTH SPENDING

STATE EMPLOYEES HELD HARMLESS VS. GOV. REC.

- 1) BPfG would end all state employee furloughs (currently six days per year, for 2.3% pay cut)
- 2) Previous state compensation cuts have roughly mirrored the misfortunes of taxpayers as a group; but poor recovery has now brought taxpayers back to pre-recession income levels
- 3) So, it's reasonable also to restore state employees to same status as taxpayers by ending furloughs and fully restoring merit pay for classified employees
- 4) Version 2.0 of BPfG thus does not include changes to PERS and PEBP included in version 1.0 – but instead holds state employees harmless versus Governor's budget and gives them a net increase in compensation

BPF_G Spending by Department (1 of 3)

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	Actual FY14	Work Plan FY15	Gov Rec FY16	Gov Rec FY17	BPF _G FY16	BPF _G FY17
Adjutant General	\$3,381,919	\$3,413,043	\$4,088,298	\$4,201,420	\$4,030,474	\$4,143,596
Attorney General's Office	\$15,646,925	\$16,202,186	\$18,526,332	\$17,367,063	\$15,002,218	\$15,317,867
Colorado River Commission	\$0	\$0	\$0	\$0	\$0	\$0
Commission on Ethics	\$238,104	\$234,376	\$163,865	\$162,472	\$163,865	\$162,472
Commission on Mineral Resources	\$0	\$0	\$0	\$0	\$0	\$0
Commission on Peace Officer's Standards & Training	\$0	\$0	\$0	\$0	\$0	\$0
Commission on Post Secondary Education	\$311,771	\$318,504	\$304,254	\$309,064	\$304,254	\$309,064
Controller's Office	\$4,427,566	\$4,369,629	\$6,363,454	\$4,789,907	\$6,038,144	\$4,667,787
Deferred Compensation	\$0	\$0	\$0	\$0	\$0	\$0
Department of Administration	\$8,790,326	\$21,075,123	\$14,414,516	\$12,470,385	\$7,910,290	\$6,684,772
Department of Agriculture	\$2,176,979	\$2,152,765	\$3,570,305	\$3,490,446	\$2,162,874	\$2,129,970
Department of Business and Industry	\$2,796,747	\$2,850,923	\$1,786,833	\$2,250,538	\$1,651,319	\$1,681,926
Department of Conservation and National Resources	\$21,869,577	\$19,380,775	\$29,887,055	\$29,334,586	\$26,820,045	\$22,606,522
Department of Corrections	\$243,905,327	\$243,402,555	\$259,477,639	\$264,586,176	\$257,018,735	\$262,981,053

BPFg Spending by Department (2 of 3)

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	Actual FY14	Work Plan FY15	Gov Rec FY16	Gov Rec FY17	BPFg FY16	BPFg FY17
Department of Education	\$1,299,835,798	\$1,247,050,410	\$1,413,800,191	\$1,467,452,698	\$1,428,053,526	\$1,399,994,660
DETR	\$3,836,482	\$3,829,643	\$5,576,052	\$5,694,463	\$4,933,671	\$4,991,405
DHHS	\$993,651,392	\$1,050,328,756	\$1,042,900,374	\$1,136,131,489	\$984,420,368	\$1,044,053,887
DMV	\$106,427	\$25,943	\$29,719	\$30,078	\$29,719	\$30,078
DPS	\$45,601,397	\$46,134,106	\$53,148,512	\$54,432,850	\$44,373,899	\$45,173,751
Department of Taxation	\$25,431,173	\$26,261,393	\$29,996,965	\$29,710,149	\$27,677,080	\$28,272,673
Department of Tourism and Cultrual Affairs	\$3,138,677	\$3,146,825	\$3,603,143	\$3,761,938	\$2,893,178	\$3,063,493
DOT	\$0	\$0	\$0	\$0	\$0	\$0
Department of Veterans Services	\$1,712,395	\$1,818,448	\$1,533,269	\$1,813,851	\$1,533,269	\$1,813,851
Department of Wildlife	\$494,765	\$494,765	\$728,795	\$718,233	\$528,028	\$531,612
Gaming Control Board	\$26,090,391	\$25,919,405	\$30,542,040	\$30,936,237	\$27,325,109	\$27,913,127
Governor's Office	\$8,434,835	\$8,961,056	\$11,255,166	\$12,850,027	\$7,479,756	\$7,639,330
Governor's Office of Economic Development	\$13,171,225	\$13,683,658	\$34,463,846	\$13,509,349	\$2,726,694	\$2,769,167
Judicial Branch	\$31,119,335	\$31,532,272	\$36,672,101	\$38,518,898	\$36,376,640	\$38,030,846
Judicial Discipline Commission	\$647,511	\$643,129	\$837,860	\$792,436	\$737,622	\$753,495

BpFG Spending by Department (3 of 3)

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	Actual FY14	Work Plan FY15	Gov Rec FY16	Gov Rec FY17	BpFG FY16	BpFG FY17
LCB	\$30,564,489	\$30,246,658	\$31,356,836	\$30,898,693	\$30,553,511	\$30,898,693
Lt. Gov's Office	\$494,211	\$508,152	\$552,817	\$587,758	\$502,763	\$512,818
NSHE	\$479,610,988	\$491,683,228	\$526,323,488	\$535,736,286	\$503,308,741	\$491,729,878
PEBP	\$0	\$0	\$0	\$0	\$0	\$0
PERS	\$0	\$0	\$0	\$0	\$0	\$0
PUC	\$0	\$0	\$0	\$0	\$0	\$0
Secretary of State's Office	\$13,288,885	\$13,945,657	\$19,798,815	\$23,030,548	\$16,822,379	\$20,381,806
Silver State Health Insurance Exchange	\$0	\$0	\$0	\$0	\$0	\$0
State Public Charter School Authority	\$750,000	\$0	\$400,000	\$0	\$400,000	\$0
TRPA	\$1,118,532	\$1,107,532	\$1,831,166	\$1,511,166	\$1,831,166	\$1,511,166
Treasurer's Office	\$741,099	\$721,515	\$476,564	\$419,998	\$476,564	\$419,998
Western Interstate Commission on Higher Education	\$1,052,910	\$1,095,465	\$1,116,611	\$1,127,280	\$1,116,611	\$1,127,280
Total	\$3,284,438,158	\$3,312,537,895	\$3,585,526,881	\$3,728,626,482	\$3,445,202,514	\$3,472,298,042

BALANCED PLAN FOR GROWTH REVENUE ISSUES

- 1) **BPfG version 2.0 revenue measures do not include local-government property tax diversions nor state employee PERS/PEBP changes of version 1.0**
- 2) **BPfG version 2.0 revenues include only two minor new sources: \$39million of excess fund and closed-program sweeps, plus \$31million of mining tax deduction limits and prepayments – so \$70million in FY2016**
- 3) **Major new revenues (\$744million) gained from bringing local government employees half way to parity with state employees in employee PERS contributions**

Balanced Plan for Growth Revenue Summary

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	FY16	FY17	Total
Economic Forum Projection (5/1)	\$2,989,236,235	\$3,165,980,185	\$6,155,216,420
Fund Sweeps	\$36,432,331	\$2,444,622	\$38,876,953
Mining deductions and pre-pay (extend AB 561 and SB 493 from 2011 through FY17)	\$31,011,000	\$0	\$31,011,000
PERS Savings	\$359,237,029	\$382,587,436	\$741,824,464
Total	\$3,415,916,595	\$3,551,012,243	\$6,966,928,837

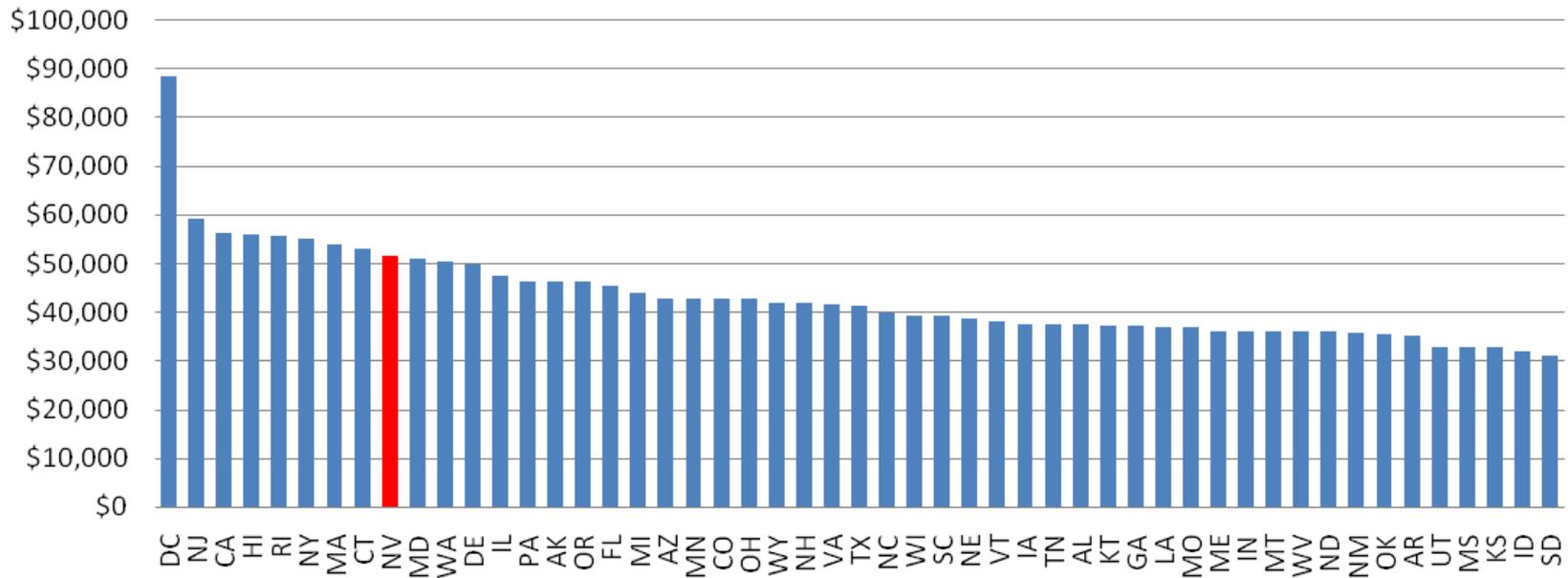
BPFG REVENUES: LOCAL GOV'T EMPLOYEE PERS

- 1) As shown in following graphs and in other studies and data, on average Nevada local-government employees' wage/salary compensation is roughly 8% - 11% above comparable state employee compensation**
- 2) Local-government employees' compensation is also much above comparable private-sector compensation in Nevada, while state compensation is much closer to market levels**
- 3) With 28% total retirement contributions (employer plus employee, non-public-safety employees), Nevada public-sector benefits exceed private sector and national levels; employment security and conditions values are also attractive; local-government employees' margins are much greater than those of state employees**

LOCAL GOVERNMENT WAGES BY STATE

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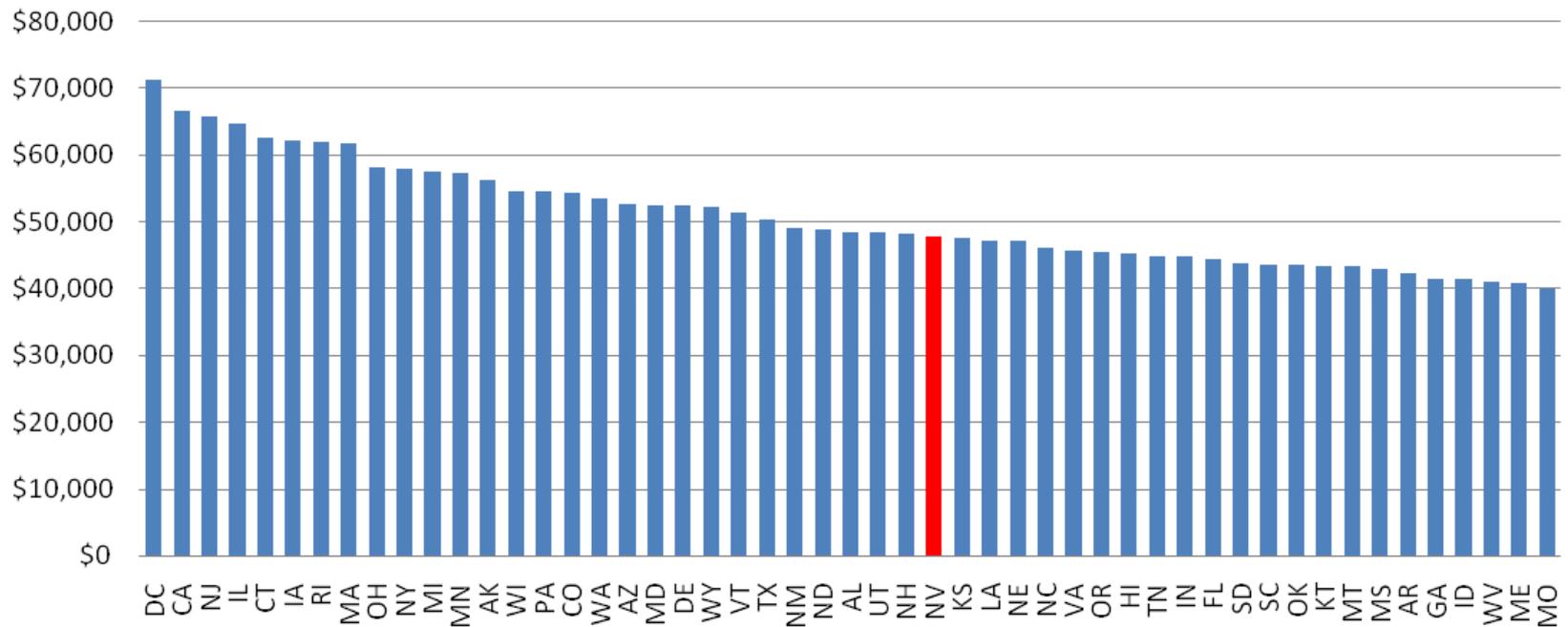
Annual Wages (Excluding Benefits) of Local Government Employees, 2013



STATE GOVERNMENT WAGES BY STATE

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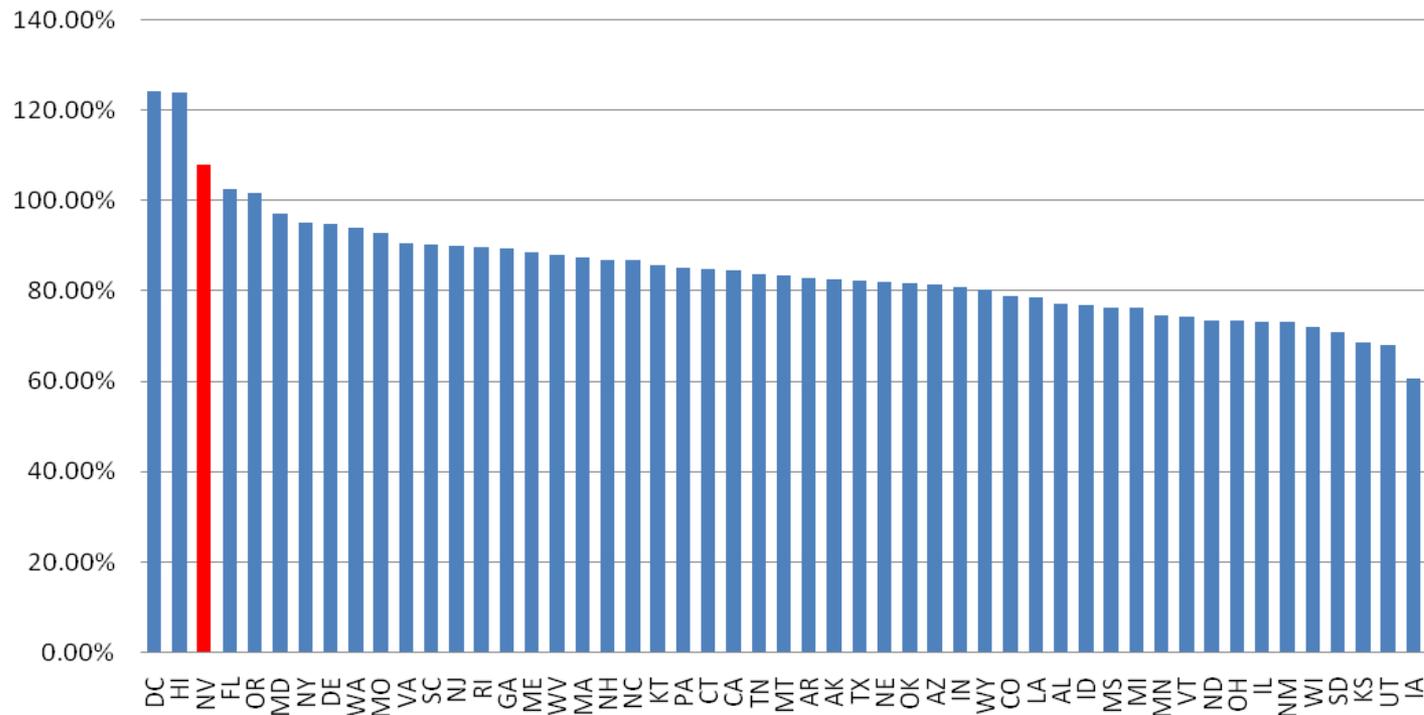
Annual Wages (Excluding Benefits) of State Employees, 2013



NEVADA ONE OF FEW STATES IN WHICH LOCAL GOVERNMENT PAYS BETTER THAN STATE

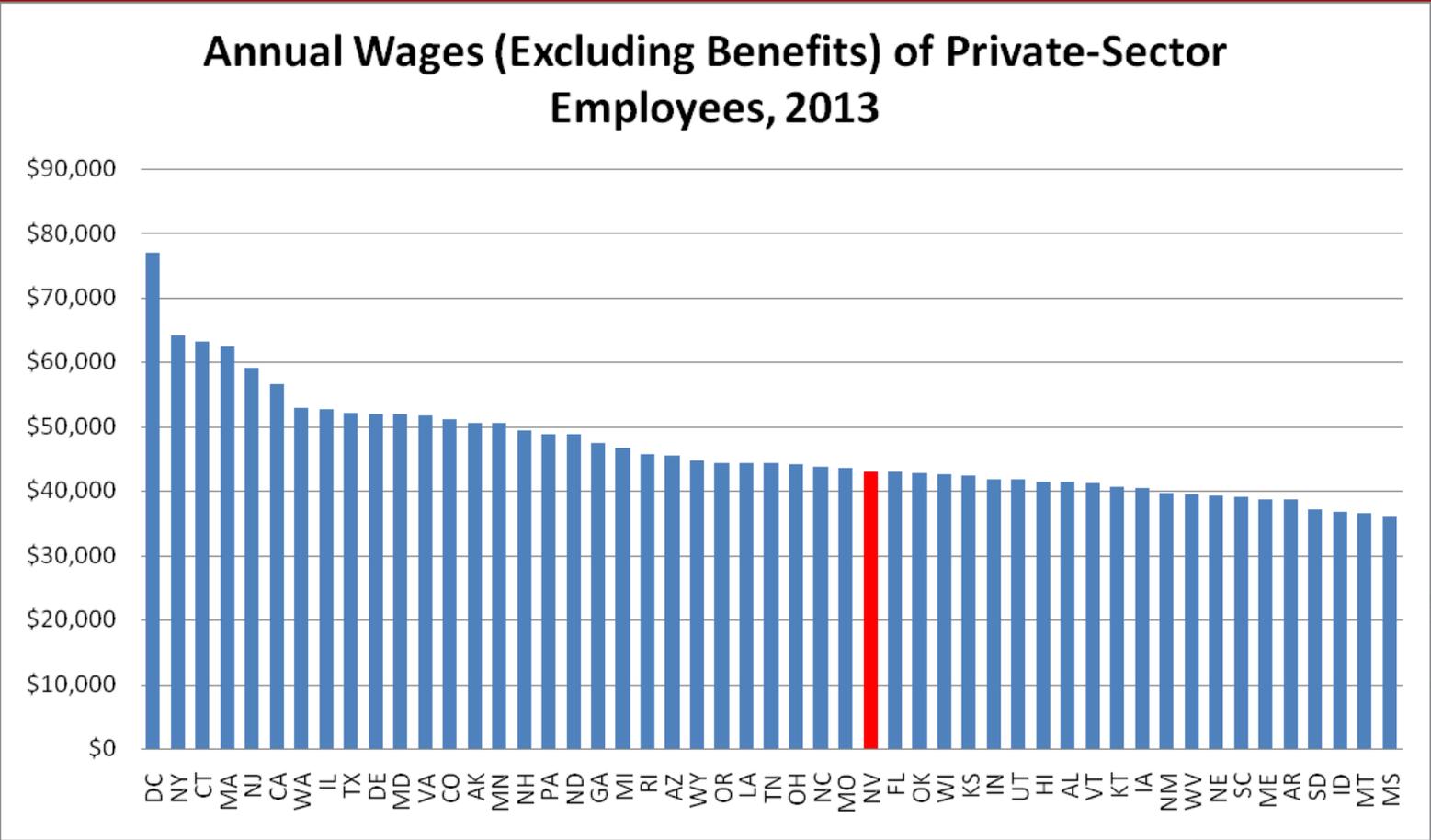
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Local Government Wages as Percentage of State Government Wages, 2013



PRIVATE SECTOR WAGES BY STATE

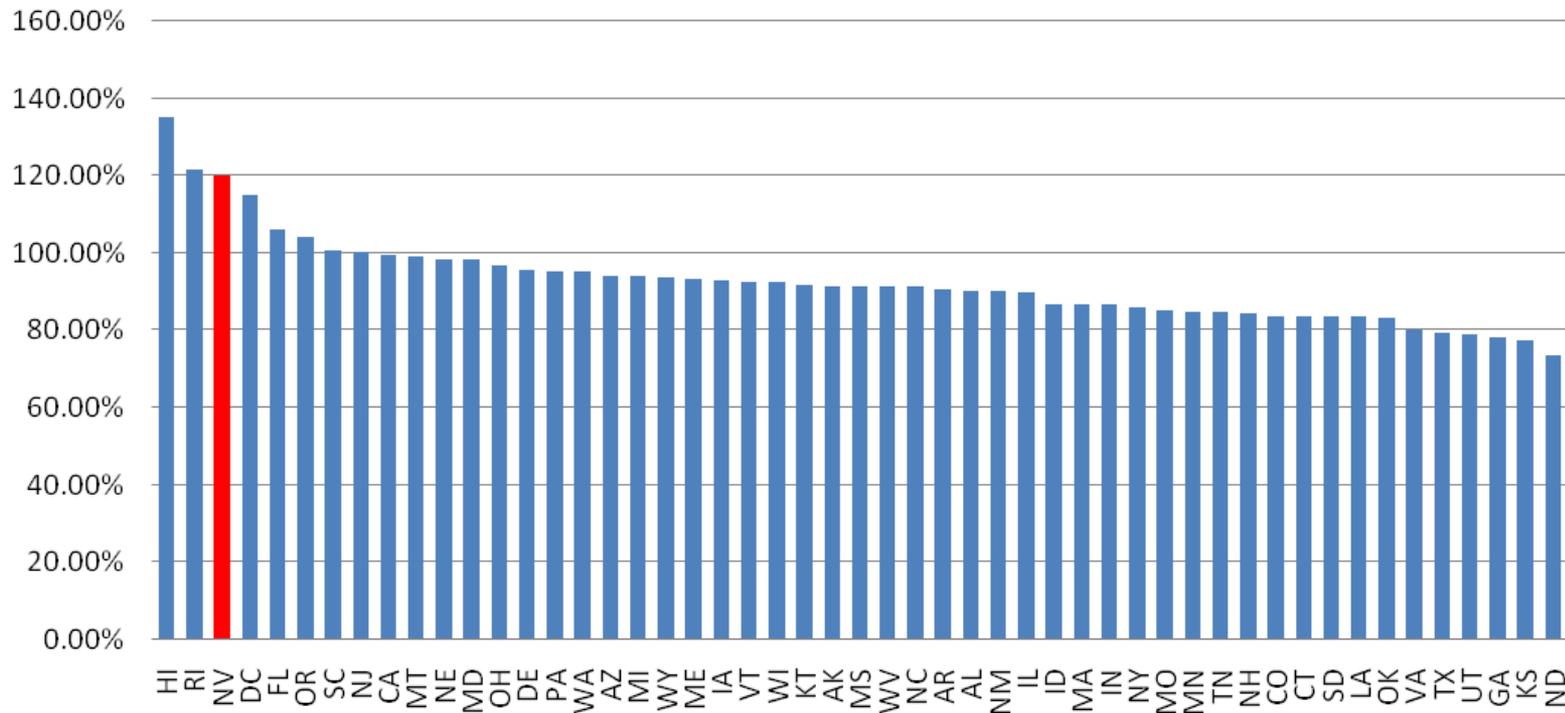
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NEVADA IS ONE OF A FEW STATES IN WHICH LOCAL GOVERNMENT PAYS BETTER THAN PRIVATE SECTOR

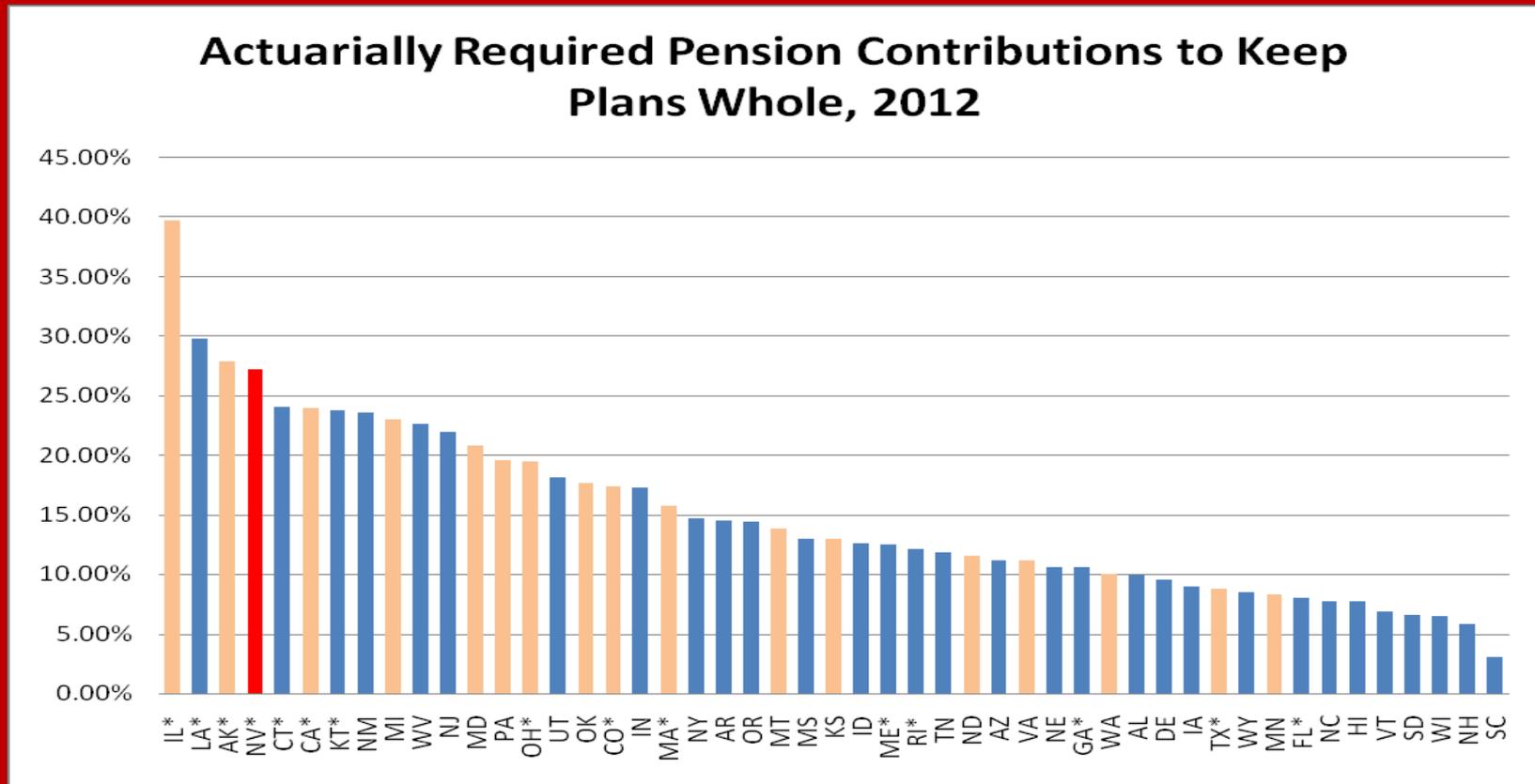
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Local Government Wages as Percentage of Private-Sector Wages, 2013



NEVADA HAS ONE OF HIGHEST TOTAL PENSION CONTRIBUTION RATES

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*Does not participate in Social Security

Orange = Past underfunding has increased current ARC

BPFG LOCAL GOVERNMENT EMPLOYEE PROPOSAL

- 1) Move local-government employee PERS contributions to parity with state employees' contributions over a few years**
- 2) Move half-way to parity now: 7% contribution for non-public-safety employees and 10.125% for public-safety employees (versus 28% and 40.5% total PERS contributions)**
- 3) Generates \$744million net state revenues**
- 4) BPfG is the only revenue proposal this session that passes with simple majority vote in each house (LCB General Counsel)**

CONCLUSION: BPFPG IS CONSISTENT WITH RECENT TRENDS AND NEVADA ECONOMIC GROWTH; GOVERNOR'S PROPOSAL IS NOT

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General Fund: Historic and Proposed

