



Nevada Budget 101

A Primer for the 2017-2019 Biennium

Executive Summary

Governor Brian Sandoval released his Executive Budget in January of 2017, as required by State law. The 79th (2017) Session of the Nevada Legislature convened shortly thereafter, on February 6, 2017, for its biennial 120-day regular session. During the session, legislators must approve a budget to finance the operations of the State for the upcoming biennium (2017-2019). The differences between the Governor's proposed expenditures and legislators' decisions regarding programmatic and administrative spending will be reconciled over the course of the session, culminating in five budget implementation bills.

This policy brief explains Nevada's budget process—such as the role of the Economic Forum—and provides both a broad-based overview of budgetary sources and spending and a detailed account of revenues and proposed expenditures. It closes with a discussion of some of the uncertainties confronting the State Legislature as they make budgetary decisions, particularly the status of the Medicaid expansion and that of marijuana legalization.

Highlights include the following:

- The Governor's Recommended Budget for the 2017-2019 biennium amounts to approximately \$26.1 billion, an increase of roughly 10 percent over the Legislatively Approved Budget for the previous biennium.
- The General Fund, which is the State's major operating fund, comprises 30 percent of the total budget, at more than \$7.9 billion for the 2017-2019 biennium, reflecting a roughly 9 percent increase over the previous biennium.
- Sales and Use Taxes (\$2.5 billion) make up the largest share (30 percent) of the General Fund.
- Federal dollars account for more than one-third of total 2017-2019 revenues.
- At over \$11.1 billion, the Department of Health and Human Services is the largest department, per proposed expenditures; its share of total revenue is 42.6 percent.
- Education accounts for more the one-quarter of the budget—17.8 percent for the Department of Education (K-12) and 7.3 percent for the Nevada System of Higher Education (NSHE).
- More than two-thirds (67 percent) of the General Fund finances two departments: the Department of Health and Human Services (31.2 percent) and the Department of Education (35.8 percent). However, the Department of Health and Human Services' primary funding source is the Federal Fund (62.0 percent).

The Medicaid expansion following the Affordable Care Act implementation and underway for several years, and the legalization of marijuana, which went into effect on January 1, 2017, have unclear budgetary implications. For Medicaid, there could be a shortfall of funds if the Affordable Care Act of 2010 is amended. Regarding marijuana legalization, questions center on the accuracy of revenue estimates for the fledgling program and whether the federal government will take a different position on enforcement than it has in recent years.



Nevada Budget 101

A Primer for the 2017-2019 Biennium

Introduction

The Nevada Legislature meets biennially for a 120-day regular session in the calendar year following the election of members of the Assembly. With Assembly members having been elected at the General Election on November 8, 2016, the 79th (2017) Session convened on February 6, 2017.¹ Among its many responsibilities, which include “generating, revising, and occasionally *repealing* the laws of the State,” the Legislature is required to “appropriate the funds collected for the support of public institutions and the administration of State government.”² Put simply, legislators must approve a budget to finance the operations of the State for the upcoming biennium (2017-2019).

The budget operates on a two-year cycle that encompasses two fiscal years. Legislators approve budget bills during the 120-day session held during odd-numbered years and in advance of the first fiscal year of the biennium. Legislatively-approved funds for the biennium are effectuated on the first day of the fiscal year (July 1) of each odd-numbered year. The 2017-2019 biennium covers two fiscal years (FY), FY 2018 and FY 2019. FY 2018 begins on July 1, 2017, and goes through June 30, 2018, and FY 2019 begins on July 1, 2018, and goes through June 30, 2019.

Budgeting for the expenditure of public funds is often described as difficult to understand and complex in nature. The objectives of this primer are twofold: (1) to describe the State budget process; and (2) to examine the prospects and possibilities for spending in the 2017-2019 biennium.

The report will proceed as follows: Section One will be devoted to a high-level overview of budgetary sources and spending, as well as the budget process itself; Section Two will focus more closely on sources of revenue; Section Three will consider proposed spending; and Section Four will conclude with a brief assessment of the uncertainties facing the State Legislature.

Budgetary Sources and Spending

Nevada’s combined revenue is directed into six funding sources that finance the State’s operations. Note that no single source is dedicated to funding any one State agency (department):

- **General Fund:** The General Fund is a governmental fund “...used to receive all revenues and account for all expenditures not otherwise provided by law to be accounted for in any other fund.”³ The General Fund includes collections by the State in the form of taxes, certain licenses/fees, and use of money and property. The General Fund is the State’s major operating fund, and there is flexibility in how its deposits may be appropriated.⁴ (In contrast, some of the other funds described below are more restricted in use insofar as they are to be directed to specific purposes.);⁵
- **Federal Fund:** Money provided by the federal government, such as categorical grants to help finance certain programs (e.g., Medicaid). Some federal funds require state appropriation of matching funds, such as the Low Income Housing Trust Fund for federal housing programs and the Intergovernmental Transfer (IGT) account for Medicaid expenditures, amongst others;⁶

- **State Highway Fund:** Money received from motor fuels gasoline taxes, special fuels taxes, motor vehicle fees and taxes, federal aid reimbursement, and other miscellaneous revenues and receipts (e.g., Department of Motor Vehicles authorized revenue, Department of Public Safety authorized revenue, etc.).⁷ Motor fuels gasoline taxes constituted the largest projected share of the State Highway Fund's state user revenue in the previous (2015-2017) biennium at 42.6 percent;⁸
- **Interagency Transfers;**
- **Other Money:** Net of Interagency Transfers; and
- **Balance Forward:** Unexpended amounts from the previous year.

On the spending side, the Governor recommends allocations of the total available revenue to budget accounts within Nevada's Executive Branch departments, such as the Department of Health and Human Services, the Department of Education, and the Department of Transportation, amongst others.^a (For the 2017-2019 biennium, 37 departments will require funding, across 8 core functions of government.) Nevada uses a combination of traditional line-item budgeting (revenue and expenditure detail for budget accounts) and priorities- and performance-based budgeting. Priorities- and performance-based budgeting is a process whereby budgeted activities are linked to the core functions of government, the Governor's goals, objectives that align with those goals, and how departmental services fulfill these priorities.⁹ The Governor's outline of State spending priorities is known as the Governor's Recommended Budget.¹⁰ Pursuant to State law, total proposed expenditures and total anticipated revenues must equal one another in the Governor's Recommended Budget.¹¹ The Nevada Constitution requires a balanced budget, and the Legislature must ensure that revenues equal or do not exceed State expenses.¹²

Budget Process

On January 17, 2017, Governor Brian Sandoval established his spending priorities for the 2017-2019 biennium when he delivered his State of the State Address and concurrently transmitted his Recommended Budget to the State Legislature.¹³ While this suggests that the State budget process is triggered by the Governor's delivery of his proposals to the Legislative Branch, budgeting for State spending, in fact, begins in the year preceding that in which the new Legislature will be seated (i.e., an even-numbered year).¹⁴

For the 2017-2019 biennium, the budget process began officially with submission of Agency Budget Requests (in conjunction with the Constitutional Officers' budgets) on September 1, 2016.¹⁵ These are detailed line-item requests for funding budget accounts in Executive Branch departments to be included in the Governor's Recommended Budget for FY 2018 and FY 2019.^{b,16} Informally, the process began earlier

^a Budget accounts are funds within Executive Branch departments for divisions and offices and their related programmatic/administrative costs.

^b By September 1, 2016, agencies were also required to submit any statutory changes needed to implement their requests (i.e., bill draft requests or BDRs). See: Governor's Finance Office, Budget Division. "Introduction to State Budgeting: An Overview of the State of Nevada Budget Process." Available: [http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/Training/Intro to State Budgeting Training.pdf](http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/Training/Intro%20to%20State%20Budgeting%20Training.pdf).

in 2016, when the Governor communicated his goals and objectives to the various departments, which worked throughout the year to build their budgets.¹⁷ Departments prepare their budgets under guidelines set forth by the Governor's Finance Office Budget Division.¹⁸

Between September 1, 2016, and October 15, 2016, the Budget Division evaluated the requests to ensure conformity with the Governor's priorities, state law, and budgetary policy, as well as made any necessary adjustments.¹⁹ On or before October 15, 2016, the Agency Budget Requests were submitted to the Legislature's Fiscal Analysis Division, per Nevada statute.²⁰

While the Governor's Office and the Budget Division reviewed and reevaluated Agency Budget Requests to prepare the Governor's Recommended Budget between October 15, 2016, and January 17, 2017, they did not have a full sense of available money—specifically, the General Fund—until December 2016.²¹ On December 6, 2016, a state-mandated panel, called the Economic Forum, convened to submit its revenue projections for the General Fund to the Governor and the Legislature.²² This five-member committee is drawn from the private sector, with three members selected by the Governor and one nominated by the Assembly and Senate.²³ The Governor is constrained by the Economic Forum's General Fund December forecast in using expected General Fund revenue to build his budget. Following the receipt of revenue projections, the Governor was required to submit his proposed budget to the Director of the Legislative Counsel Bureau for transmittal to the Legislature no later than 14 calendar days before the start of the session, or January 23, 2017.^{c,24}

From the time the Legislature began the 79th Session on February 6, 2017, 120 days are given to review the budget and make spending decisions for the State. No final decisions on Nevada's budget can be made until the Economic Forum meets again in May 2017 to provide its confirmed or revised forecast for legislative action.²⁵ In the meantime, the money committees—Ways and Means in the Assembly and Finance in the Senate—will deliberate in joint subcommittees, who report their recommendations to the full committees.²⁶ The full committees will vote on individual departmental funding.²⁷

After the agency budgets have been approved, they are rolled into five budget implementation bills for floor votes: the Appropriations Act, the Authorizations Act, the K-12 Education Funding Act, the State Employee Compensation Act, and the Capital Improvement Plan Act.^{d,28} All must be enacted before the regular session adjourns.²⁹ After approval, the entire budget is referred to as the Legislatively Approved Budget. This budget is transmitted to the Controller's Office and to the Budget Division for budget execution.³⁰

The budget process is dynamic, rather than static, in nature. As actual dollars collected by the State "catch up" to forecasted revenue, and as new funding needs emerge, adjustments may be necessary over the course of the biennium to fulfill the balanced budget requirement. Thus, after the close of the session, the money committees meet bimonthly as the Interim Finance Committee to address any additional budgetary imperatives that may arise.³¹

^c As noted, the Governor submitted his Recommended Budget on January 17, 2017.

^d Under the Nevada Constitution, the K-12 Education Funding Act must be passed first. See: Nev. Const. art. 11 § 6(2). Available: <https://www.leg.state.nv.us/const/nvconst.html#Art11Sec6>.

Sources of Revenue

This section examines sources of revenue for the Nevada, first by walking through the Economic Forum's forecasts for the General Fund, and second, by exploring the statewide revenue summary.

Economic Forum—General Fund

Background: Procedures, Methods, and Reliability

The Economic Forum's role in the budget process cannot be understated, given that the General Fund comprises a significant portion (30 percent) of the total budget. The Economic Forum was established through legislative action:

Senate Bill 23 (1993) provided for the creation of an Economic Forum to forecast future State General Fund revenues. The Forum, a panel of five representatives from the private sector with backgrounds in economics, business, and taxation, is required to adopt an official forecast of unrestricted General Fund revenues for the biennial budget cycle. All agencies of the state, including the Governor and the Legislature, must use the Forum's forecast. A seven-member Technical Advisory Committee made up of Executive and Legislative Branch staff members as well as a representative of local government was also created in S.B. 23 to provide assistance and resources to the Forum.^{e,32}

As noted previously, the Economic Forum's General Fund December forecasts (even-numbered years, e.g., 2016) are binding on the Governor's Recommended Budget, and its May forecasts (odd-numbered years, e.g., 2017) are binding on the Legislatively Approved Budget.³³ The Forum *also* holds periodic additional meetings throughout the biennium to receive updates on economic indicators and/or to prepare its forecasts.³⁴ Pursuant to Nevada law, two additional meetings—one in December (odd-numbered years, e.g., 2017) and June (even-numbered years, e.g., 2018)—are held in order to update the status of actual General Fund revenues relative to forecasted amounts.³⁵

The Economic Forum projects expected revenue for each statutorily-required source that is deposited in the General Fund. These revenue sources may be subdivided further into two categories: major General Fund revenues and non-major General Fund Revenues.

A major fund is one in which its "total assets, liabilities, revenues, or expenditures/expenses... are at least 10 percent of the corresponding total for all funds of that category or type."³⁶ Major General Fund Revenues consist of the following specific taxes: Sales Tax; Gaming Percentage Fee Tax; Live Entertainment Tax—Gaming; Commerce Tax; Cigarette Tax; Modified Business Tax (for each Nonfinancial Businesses, Financial Businesses, and Mining Businesses); Insurance Premium Tax; and Real Property Transfer Tax.

Non-major General Fund revenues include all other taxes (e.g., Mining Tax—Net Proceeds of Minerals, Liquor Tax, Branch Bank Excise Tax, etc.); licenses (e.g., Marriage Licenses, Private School Licenses, etc.), fees/fines (e.g., Divorce Fees, Civil Action Fees, etc.); use of money and property (e.g., Forestry Nurseries

^e The Economic Forum is codified in the *Nevada Revised Statutes* at NRS 353.226 – NRS 353.229.

Fund Repayment, Interest Income, etc.); and other revenue (e.g., Nevada Report Sales, Miscellaneous Refunds, etc.) collected by the State.³⁷

In formulating its projections, the Economic Forum receives forecasts from the Budget Division (Governor's Office of Finance), the Fiscal Analysis Division (Legislative Counsel Bureau), certain Executive Branch agencies (the Department of Taxation and the Gaming Control Board), a national forecasting firm (Moody's Analytics; for specific major revenues only), and the Technical Advisory Committee (non-major revenues only).³⁸ Economic Forum members then vote on perceived accuracy of a given forecast. For example, at the December 6, 2016, meeting, members voted unanimously on the Fiscal Analysis Division's forecast for the Sales Tax, the Budget Division's forecast for the Insurance Premium Tax, and the Technical Advisory Committee's forecast for all non-major revenues.³⁹ The distinction between major and non-major General Fund revenues is important here, insofar as the members of the Economic Forum's votes on each major revenue source are carried out on an individual basis, whereas non-major revenues are grouped together for a single vote.

The forecasts rely on global, national, and statewide economic indicators, including trade agreements, recovery from the Great Recession, growth, employment, inflation, interest rates, housing, consumer spending, Nevada's population outlook, and more fine-grained data, such as stability of tax base on a month-to-month basis for the Live Entertainment Tax–Gaming.⁴⁰

A brief comparison of the data indicates that the forecasts perform well, particularly considering that they are projected over an entire biennium. A comparison of the December 3, 2014, Economic Forum's forecasts for FY 2015 and FY 2016 and actual revenues for those fiscal years, respectively, reveals the following:

- Forecasted revenue for FY 2015 was \$3,205,289,294, while actual FY 2015 revenue was \$3,284,482,699 (dollar difference: \$79,193,405; percent difference: 2.44 percent).⁴¹
- Forecasted revenue for FY 2016 was \$3,069,593,035, while actual FY 2016 revenue was \$3,693,842,787 (dollar difference: \$624,249,752; percent difference: 18.46 percent).⁴²
- Total forecasted revenue for the 2015-2017 biennium (FY 2015 and FY 2016) was \$6,274,882,329, while actual revenue for the 2015-2017 biennium was \$6,978,325,486 (dollar difference: \$703,443,157; percent difference: 10.62 percent).⁴³

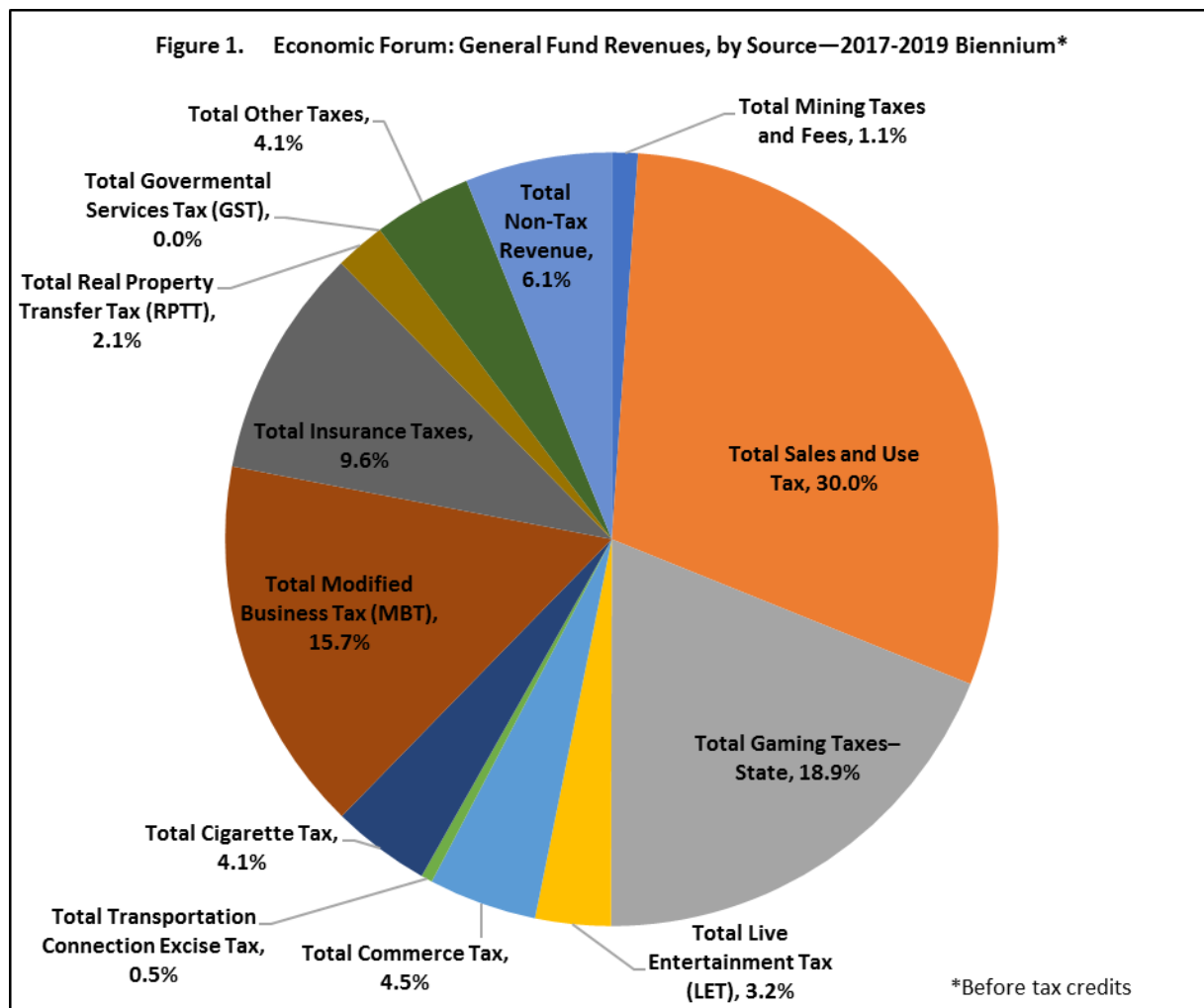
While the dollar differences may seem relatively large, especially for the FY 2016 projection, several points should be noted: (1) the percent differences are not significantly large—a 10.62 percent difference over the biennium, that is, from the vantage point of more than 18 months out, is within reasonable limits of forecasting; (2) the 18.46 percent difference for FY 2016, relative to the 2.44 percent difference for FY 2015, speaks to the uncertainty of modeling revenue estimates over long periods and the fact that some actual dollar amounts were known for FY 2015, as some of that money had been collected by December 2014 (informational certainty helped enhance the reliability of the FY 2015 forecast); and (3) the forecasts *underestimate*, rather than *overestimate*, revenue—this is beneficial to the State, as more conservative forecasting helps avoid budgetary shortfall.

However, the Economic Forum’s projections do require an ongoing revision process, particularly given the State Constitutional provision for a balanced budget, and the binding nature of its forecasts. As just one example, consider that, “Compared to the December 2016 Economic Forum projections, and based on Department analysis, the General Fund portion of the Sales and Use Taxes is approximately 0.45 percent, or \$1.9 million, below the Economic Forum forecast for Fiscal Year 2017 through the November period.”⁴⁴

General Fund Revenue Forecasts

Table 1 presents the Economic Forum’s General Fund revenue projections, by source, at the summary category level.⁴⁵ (The Economic Forum’s General Fund forecast groups revenues into summary categories, with some including both major and non-major General Fund revenues and others containing just non-major General Fund revenues.) Figure 1 depicts this data graphically, with each summary category a percentage of total General Fund revenue (before tax credits).⁴⁶

Table 1. Economic Forum: General Fund Revenues, by Source—2017-2019 Biennium				
Description	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	Biennium Total (FY 2018 and FY 2019)
TAXES				
Total Mining Taxes and Fees	\$13,617,800	\$45,035,800	\$43,966,800	\$89,002,600
Total Sales and Use Tax†	\$1,140,027,000	\$1,201,496,000	\$1,262,245,000	\$2,463,741,000
Total Gaming Taxes—State†	\$756,301,600	\$762,927,700	\$790,542,700	\$1,553,470,400
Total Live Entertainment Tax (LET)†	\$123,838,000	\$127,513,000	\$131,421,000	\$258,934,000
Total Commerce Tax*	\$194,412,000	\$181,220,000	\$189,919,000	\$371,139,000
Total Transportation Connection Excise Tax	\$21,032,000	\$16,769,000	\$22,232,000	\$39,001,000
Total Cigarette Tax*	\$173,301,000	\$170,402,000	\$167,534,000	\$337,936,000
Total Modified Business Tax (MBT)*	\$597,406,000	\$628,940,000	\$660,828,000	\$1,289,768,000
Total Insurance Taxes†	\$375,001,600	\$388,717,800	\$401,728,700	\$790,446,500
Total Real Property Transfer Tax (RPTT)*	\$80,964,000	\$84,856,000	\$87,559,000	\$172,415,000
Total Governmental Services Tax (GST)	\$37,915,000			
Total Other Taxes	\$166,597,000	\$167,976,000	\$169,609,000	\$337,585,000
TOTAL TAXES—BEFORE TAX CREDITS	\$3,680,413,000	\$3,775,853,300	\$3,927,585,200	\$7,703,438,500
<i>(Tax Credits)</i>				
Total Commerce Tax Credits	(\$82,500,000)	(\$86,460,000)	(\$90,610,000)	(\$177,070,000)
Total Tax Credit Programs	(\$75,272,591)	(\$63,750,500)	(\$78,787,000)	(\$142,537,500)
TOTAL TAXES—AFTER TAX CREDITS	\$3,522,640,409	\$3,625,642,800	\$3,758,188,200	\$7,383,831,000
Non-Tax Revenue				
Total Licenses	\$132,448,800	\$133,910,900	\$135,302,100	\$269,213,000
Total Fees and Fines	\$60,845,200	\$62,239,000	\$63,436,100	\$125,675,100
Total Use of Money and Property	\$2,459,935	\$3,481,963	\$4,247,251	\$7,729,214
Total Other Revenue	\$50,806,100	\$49,792,500	\$51,037,800	\$100,830,300
TOTAL NON-TAX REVENUE	\$246,560,035	\$249,424,363	\$254,023,251	\$503,447,614
TOTAL GENERAL FUND REVENUES (ECONOMIC FORUM)	\$3,769,200,444	\$3,875,067,163	\$4,012,211,451	\$7,887,278,614
* Denotes major General Fund revenue.				
† Indicates that major General Fund revenue comprises portion of the total: Total Sales and Use Tax includes Sales Tax; Total Gaming Taxes—State includes the Gaming Percentage Fee Tax; Total LET comprises both LET—Gaming and LET—Nongaming; and Total Insurance Taxes includes the Insurance Premium Tax.				



Sales and Use Taxes make up the largest source of revenue in the General Fund, at approximately \$2.5 billion over the biennium, for 30 percent of the total. They are followed by Gaming Taxes—State (19 percent; approximately \$1.6 billion), Modified Business Taxes (16 percent; approximately \$1.3 billion), and Insurance Taxes (10 percent; approximately \$790 million). Other Taxes and non-tax revenue comprise smaller shares. While the Transportation Connection Excise Tax percentage of the total rounds to a small share of 0.5 percent, it amounts to about \$39 million over the biennium. The Governmental Services Tax is forecasted at zero dollars for FY 2018 and FY 2019, though the Governor’s Recommended Budget suggests that 25 percent of the revenue realized from it is expected to be diverted to the General Fund (with 75 percent continuing to be deposited in the State Highway Fund).⁴⁷ The Commerce Tax was implemented in the 78th (2015) Session and is forecasted to supply approximately \$371 million to the General Fund over the biennium (5 percent of the total, which is greater than each of the Live Entertainment Tax, the Cigarette Tax, the Real Property Transfer Tax, Mining Taxes and Fees, and all Other Taxes).⁴⁸ Overall, total General Fund revenues are expected to increase over the previous biennium, even after tax credits are taken into account.⁴⁹ In fact, with the exception of Other Taxes and Other Revenue,

each revenue (summary) category is forecasted to increase; the Other Taxes category is expected to decrease by about \$47.4 million (10.79 percent), and Other Revenue—part of Non-Tax Revenue as per Table 1—is expected to decrease by approximately \$9.9 million (8.82 percent).⁵⁰

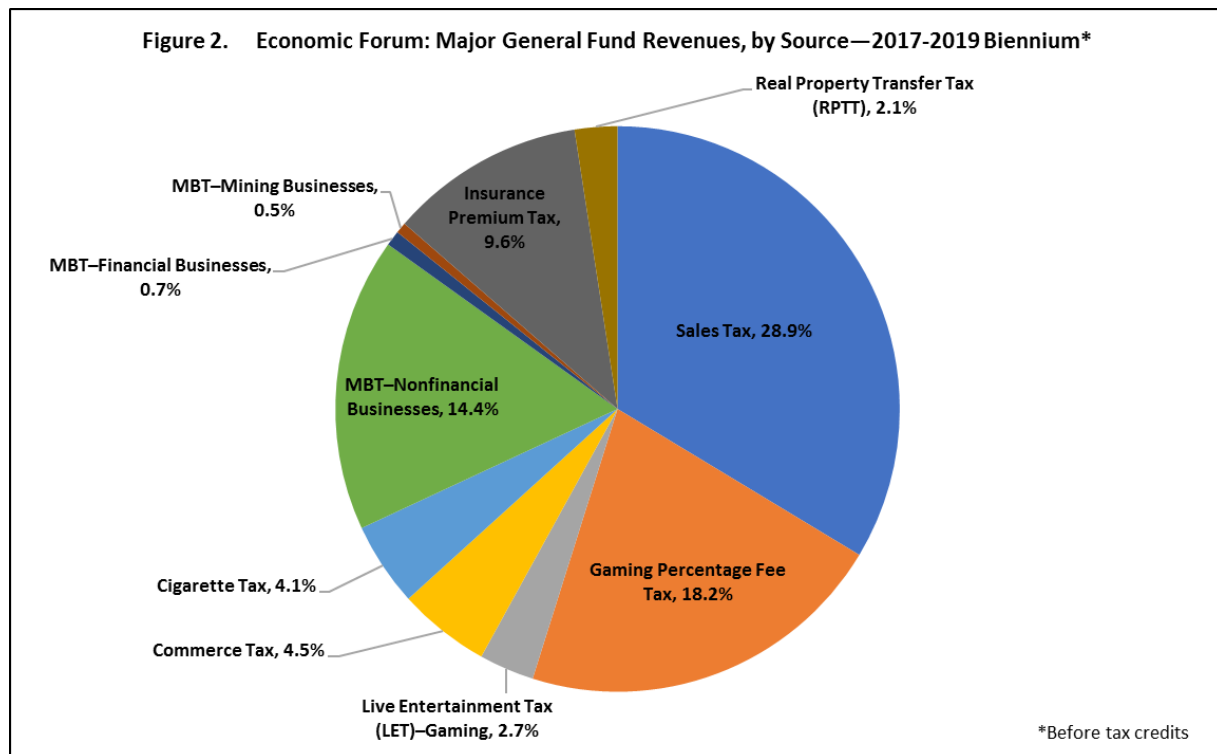
Before tax credits, major funds represent 85.9 percent of the Economic Forum’s forecasted General Fund revenue for the 2017-2019 biennium. Given that the major funds occupy such a significant share of the General Fund, they merit sustained attention. Table 2 presents the Economic Forum’s major General Fund revenue projections, by source.⁵¹ Figure 2 displays each major fund revenue source as a percentage of total General Fund revenue (before tax credits) for comparability with Figure 1.^{f,52}

Description	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	Biennium Total (FY 2018 & FY 2019)
Sales Tax	\$1,097,045,000	\$1,156,198,000	\$1,214,657,000	\$2,370,855,000
Gaming Percentage Fee Tax	\$725,000,000	\$735,000,000	\$762,535,000	\$1,497,535,000
Live Entertainment Tax (LET)—Gaming	\$106,449,000	\$109,598,000	\$112,946,000	\$222,544,000
Commerce Tax	\$194,412,000	\$181,220,000	\$189,919,000	\$371,139,000
Cigarette Tax	\$173,301,000	\$170,402,000	\$167,534,000	\$337,936,000
Modified Business Tax (MBT)				
Nonfinancial Businesses	\$547,083,000	\$577,066,000	\$607,468,000	\$1,184,534,000
Financial Businesses	\$28,224,000	\$29,819,000	\$31,372,000	\$61,191,000
Mining Businesses	\$22,099,000	\$22,055,000	\$21,988,000	\$44,043,000
Insurance Premium Tax	\$373,840,000	\$387,533,000	\$400,520,000	\$788,053,000
Real Property Transfer Tax (RPTT)	\$80,964,000	\$84,856,000	\$87,559,000	\$172,415,000
TOTAL MAJOR GENERAL FUND REVENUES (ECONOMIC FORUM)*	\$3,348,417,000	\$3,453,747,000	\$3,596,498,000	\$7,050,245,000

* Before tax credits.



^f Percentages in Figure 2 sum to 85.7 percent, rather than 85.91 percent, as a result of rounding.



- **Sales Tax:** The Sales Tax is alternately referred to as the Sales and Use Tax or the State 2 percent Sales Tax. It is a tax imposed upon retailers at a rate of two percent on the taxable sale or use of personal property.⁵³
- **Gaming Percentage Fee Tax.** The Gaming Percentage Fee Tax consists of those fees due on taxable gross gaming revenues from non-restricted licensees, according to a progressive schedule: 3.5 percent on monthly revenue of up to \$50,000; 4.5 percent on monthly revenue in excess of \$50,000 up to \$134,000; 6.75 percent on monthly revenue in excess of \$134,000.⁵⁴
- **Live Entertainment Tax (LET)-Gaming.** The LET-Gaming Tax is paid by licensed gaming establishments for their live entertainment events; the rate is nine percent on the admission charge.⁵⁵
- **Commerce Tax.** The Commerce Tax is imposed on businesses with more than \$4 million in Nevada gross revenue in a given fiscal year but is levied only on the Nevada gross revenue portion above \$4 million, with rates varying by industry classification for the business.⁵⁶
- **Cigarette Tax.** The Cigarette Tax is a per-pack (20 cigarettes) tax of \$1.80 that is pre-collected by the seller but is paid directly by the consumer as an add-on to the selling price.⁵⁷
- **Modified Business Tax (MBT).** The MBT is imposed on every employer who is subject to Nevada Unemployment Compensation Law, with taxes levied on taxable wages, defined as total gross wages, net employee health care benefits; rates vary in accordance with the business's classification as a

- nonfinancial business (all taxable wages exceeding \$85,000 at a rate of 1.475 percent), a financial business (2 percent of taxable wages), or a mining business (2 percent of taxable wages).⁵⁸
- **Insurance Premium Tax.** The Insurance Premium Tax is paid by insurers whose tax liability was at least \$2,000 in the prior year at a rate of 2 percent of net premiums (risk retention groups) and 3.5 percent of net premiums (all other insurers).⁵⁹
- **Real Property Transfer Tax (RPTT).** The RPTT is a tax levied on the value of real property transferred from one person to another—the value of the transfer, exclusive of any encumbrance, must exceed \$100; rates vary by county size, with certain optional and additional taxes permitted in some counties.⁶⁰

Note that, of the major General Fund revenue sources, only the Cigarette Tax and RPTT are not distributed to the General Fund in their entirety.⁶¹ The Cigarette Tax is distributed to the General Fund and local governments; the RPTT is distributed to the General Fund, Local Governments (Consolidated Tax), Low-Income Housing Trust Fund, Clark County School District, Washoe County (“Fair Share”), and Churchill County (“Fair Share”).⁶²

Overall, major General Fund revenue is projected to increase over actual dollars realized in the previous biennium, from \$5,672,363,815 to \$7,050,245,000, for a dollar difference of \$1,377,881,185 and a percent increase of 24.29 percent.⁶³ Excluding the Commerce Tax and MBT—Mining Businesses Tax, for which no FY 2015 data was available, thus making biennium-to-biennium comparisons invalid for those taxes, all major General Fund revenues but the LET—Gaming Tax are projected to increase.⁶⁴ The LET—Gaming Tax is projected to decrease by approximately \$20.3 million (8.36 percent).⁶⁵

Patterns observed across the revenue summary categories seem to hold. The Sales Tax makes up the largest source of revenue in the General Fund and is the largest major fund source, at approximately \$2.4 billion over the biennium, for 29 percent of the total. It is followed by the Gaming Percentage Fee Tax (18 percent; approximately \$1.5 billion), the MBT—Nonfinancial Businesses Tax (14 percent; approximately \$1.2 billion), and the Insurance Premium Tax (10 percent; approximately \$788 million). All other major General Fund revenues represent 5 percent or less of the total, with the Commerce Tax at 5 percent, followed by the Cigarette Tax (4 percent), the LET—Gaming Tax (3 percent), the RPTT (2 percent), and each the MBT—Financial Businesses Tax and the MBT—Mining Businesses Tax at 1 percent.

Statewide Revenue Summary

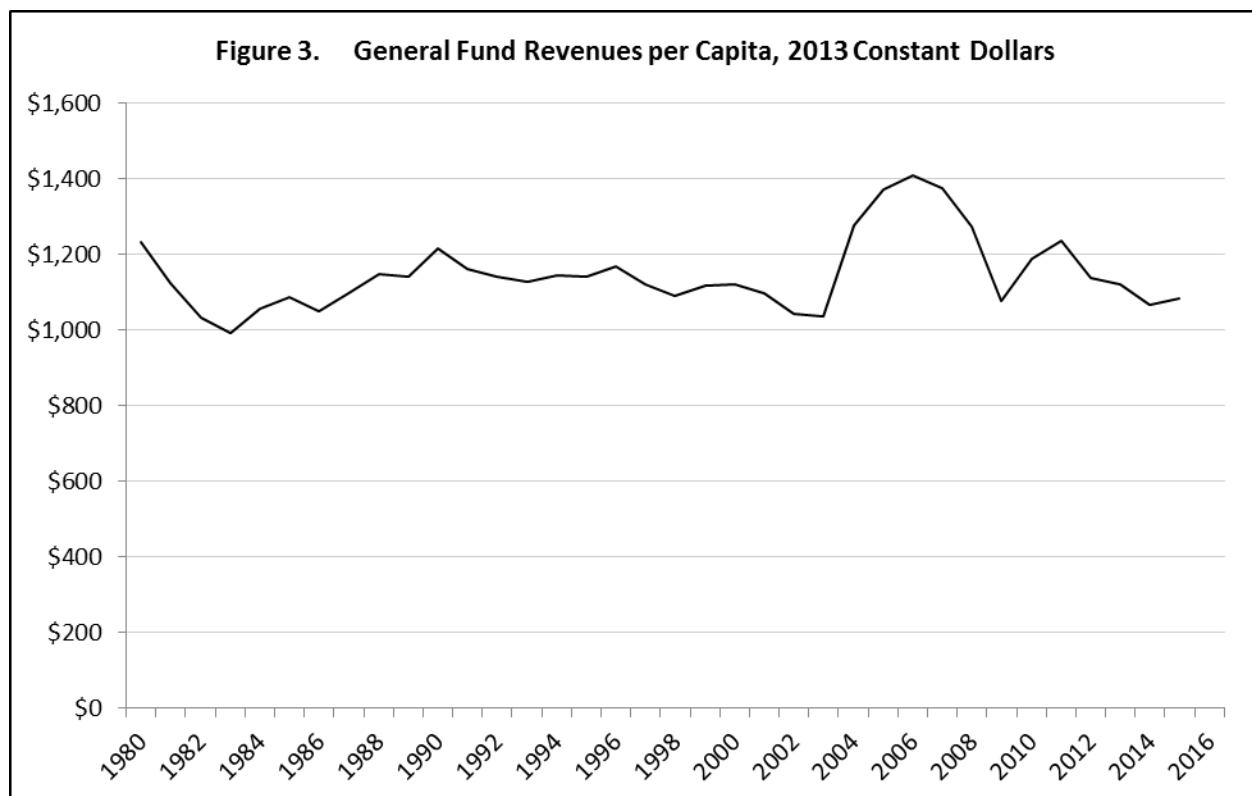
Based on the Economic Forum’s General Fund revenue forecast, one inference that may be drawn is that Nevadans (and visitors) fund the State’s operations directly—and in large part—through Sales and Use

⁵⁸ Beginning in FY 2017, the MBT is adjusted against the Commerce Tax. Taxpayers receive a credit on the MBT in a given fiscal year of up to 50 percent of the amount of the Commerce Tax paid in the previous fiscal year. Furthermore, the implementing legislation for the Commerce Tax reduces the rate of the MBT if the “actual combined collections from the MBT, the Branch Bank Excise Tax, and the Commerce Tax exceed 104 percent of the revenue projected from these sources in an even-numbered fiscal year.”

See: Nevada Legislative Counsel Bureau, Fiscal Analysis Division. 2017. “Revenue Reference Manual.” Available: <http://www.leg.state.nv.us/division/fiscal/FinalRRM2017.pdf>. (Quoted portion at page 89.)

Taxes, which comprise the largest share (30 percent) of the General Fund. Nevadans also finance State government directly through its payment of fees that are deposited in the State Highway Fund, as well as indirectly, via federal income taxes that eventually return to the State in the form of federal transfers.

The Governor’s Recommended Budget for the 2017-2019 biennium amounts to approximately \$26.1 billion, an increase of roughly 10 percent over the Legislatively Approved Budget for the previous biennium.^h However, the State budget has remained relatively flat over time. Figure 3 shows that, after adjusting for inflation, over the period 1980-2015, General Fund revenues per capita have oscillated somewhat, but have only slightly exceeded \$1,400 per capita once and dipped just below \$1,000 per capita once. The mean is \$1,148 per capita, and most years witness General Fund revenues per capita hewing closely to that average.⁶⁶ For years in which the data was available, inflation-adjusted General Fund budgets per capita decreased initially and then began to increase incrementally (see Figure 4).⁶⁷



^h The Governor’s Recommended Budget presents a total budget of \$23.4 billion for the 2017-2019 biennium, for an increase of \$2.4 billion (11.7 percent) over the 2015-2017 biennium (State of Nevada, Governor Brian Sandoval. 2017. “Executive Budget: 2017-2019.” Page: BUDGET OVERVIEW – 6. Available: http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/StateBudget/2018-2019/FY2017-2019_GovExecBudgetBook-Online.pdf). The “Revenue Sources” table, included as part of his budget, show numbers that do not match the revenue sources data provided through the openbudget.nv.gov website, the official site from which the Guinn Center obtained its data. An example of a discrepancy is that Interagency Transfers are not displayed in the Governor’s Recommended Budget “Revenue Sources” table; another is the use of Total Appropriations / Transfers as the General Fund amount. As this section describes, the official website uses Operating Appropriations for the General Fund instead. Per a Guinn Center conversation with the Budget Division (Governor’s Office of Finance) on January 20, 2017, the official site’s numbers accurately reflect the revenue sources available and proposed expenditures. As such, it is those amounts that will be used for the remainder of this report.

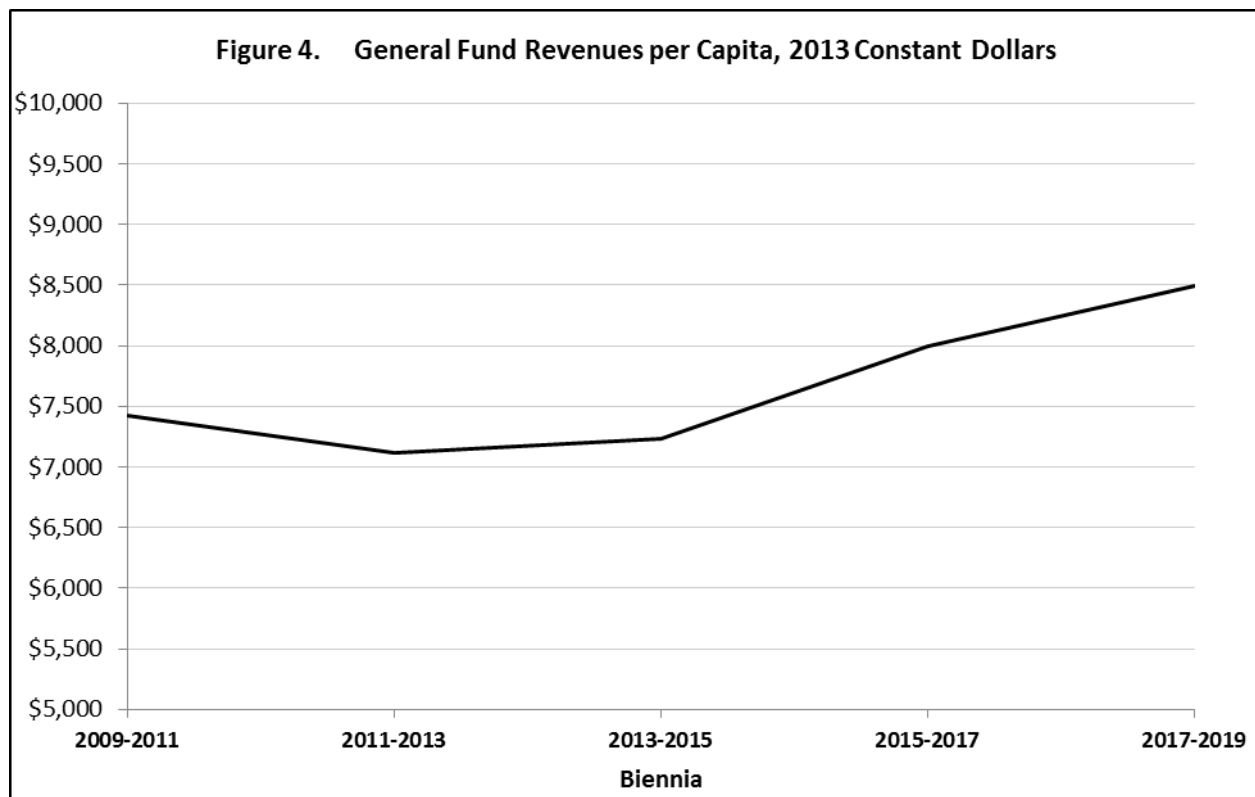
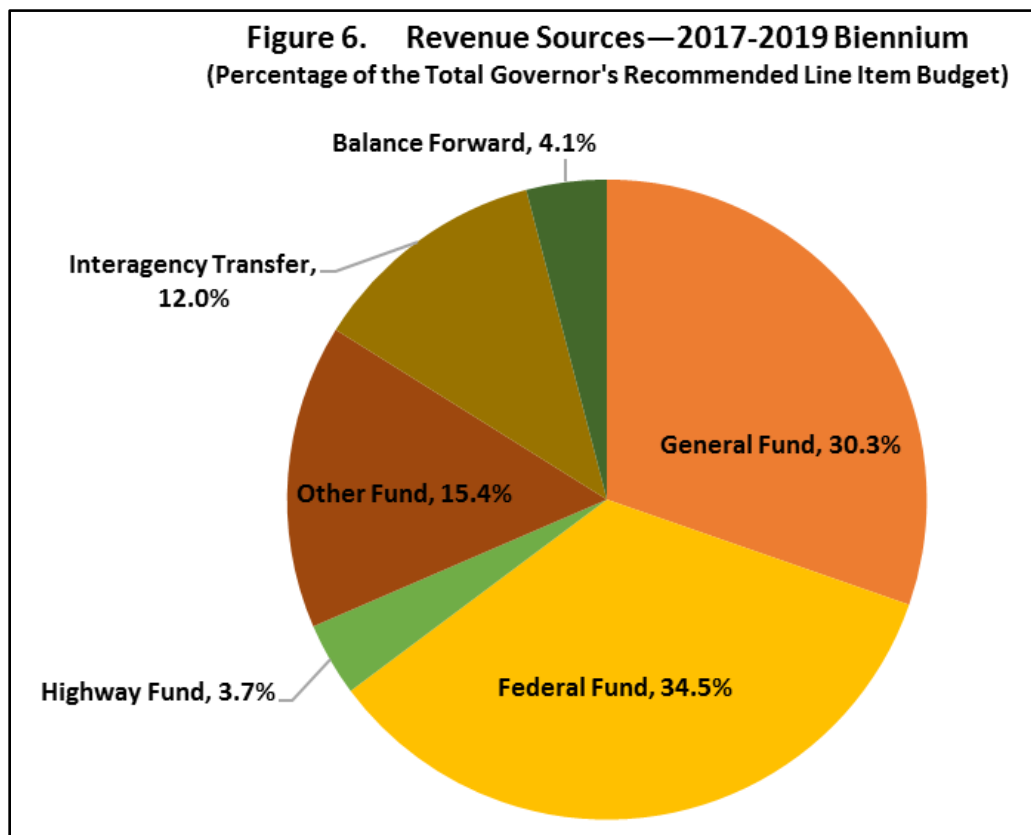
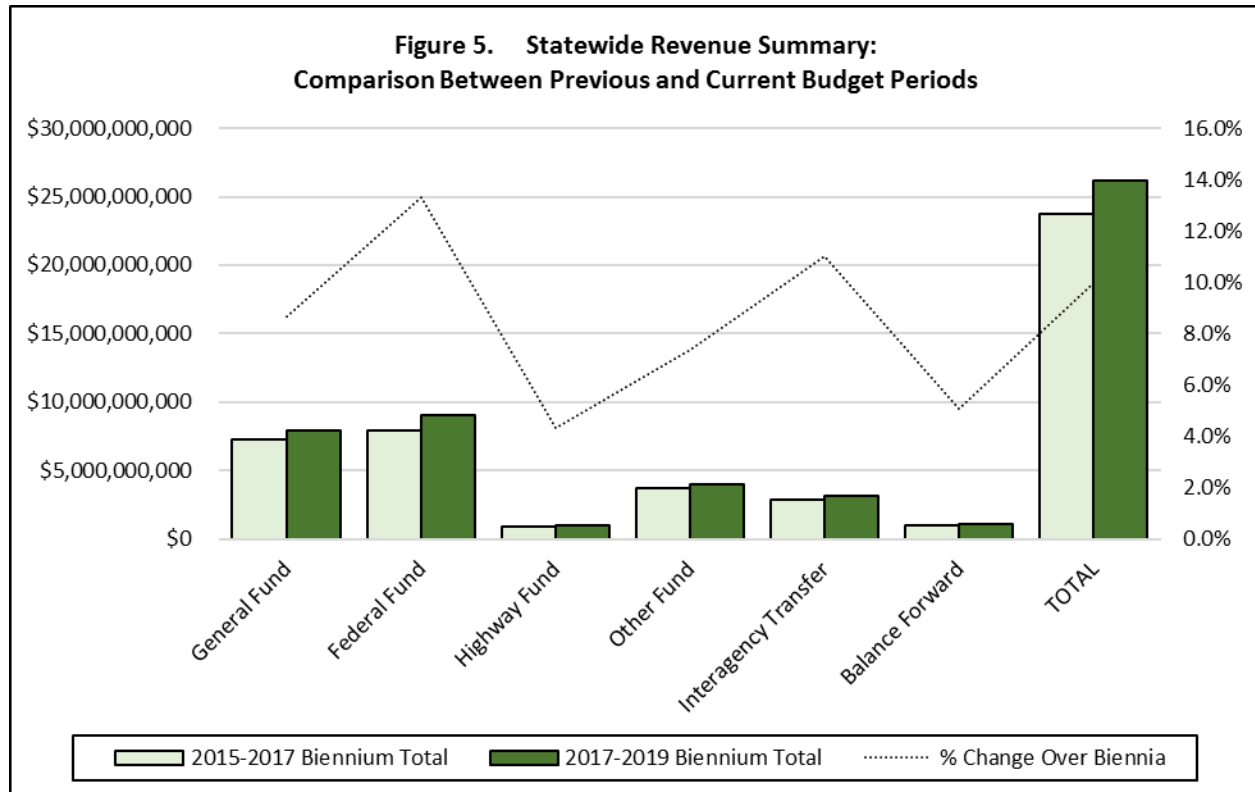


Table 3 provides a breakdown of the six funding sources that finance the State's programs and administration.⁶⁸ It compares the Governor's Recommended Budget for the 2017-2019 biennium to the Legislatively Approved Budget for the previous biennium. Figure 5 displays the information in Table 3 graphically, as does Figure 6, though the latter highlights the 2017-2019 biennium.⁶⁹

Table 3. Statewide Revenue Summary: Comparison Between Previous and Current Budget Periods					
	<i>Legislatively Approved Budget</i>		<i>Governor's Recommended Line Item Budget</i>		
Funding Source	2015-2017 Biennium Total	% Total	2017-2019 Biennium Total	% Total	% Change Over Biennia
General Fund	\$7,296,769,113	30.7	\$7,930,220,817	30.3	8.7
Federal Fund	\$7,954,752,641	33.5	\$9,011,867,649	34.5	13.3
Highway Fund	\$930,774,774	3.9	\$971,066,281	3.7	4.3
Other Fund	\$3,746,304,344	15.8	\$4,023,048,627	15.4	7.4
Interagency Transfer	\$2,834,242,028	11.9	\$3,146,359,341	12.0	11.0
Balance Forward	\$1,011,057,509	4.2	\$1,062,398,506	4.1	5.1
TOTAL	\$23,773,900,409	100.00	\$26,144,961,221	100.00	10.0



Here we note that the total General Fund revenue in the statewide summary does not match the Economic Forum's forecasted General Fund revenue. The Economic Forum *does provide* a forecast of unrestricted General Fund revenues and includes tax credits.⁷⁰ That said, it does not take into account the following: Extension of Sunsetting Revenue Sources – General Services Tax (Depreciation); Excess Court Assessment Fees not allocated to Statutorily Required Programs; and the net of certain tax credit programs, which combine to equal Total Unrestricted General Fund Revenue.^{i,71} In addition, the Governor's Recommended Budget also takes Restricted General Fund revenue and reversions into consideration, which are not under the Economic Forum's purview.^j The General Fund amounts in Table 3 match to Operating Appropriations in the Governor's Recommended Budget.⁷²

Each fund, as a proportion of the total, for the 2015-2017 biennium and the 2017-2019 biennium, does not change in any systematic way (see Table 3). The General Fund holds at just under one-third of the total budget, and the Federal Fund represents just slightly over one-third of the total. Taken together, they comprise nearly two-thirds of the funding sources in the budget. The other funds make up far smaller shares of the total budget.

Commensurate with the entire budget increasing 10 percent over the two biennia, each funding source increased, as well. The 8.7 percent increase in the General Fund is worthy of note, as state agencies were briefed in March 2016 to prepare for a flat budget, based on the expectation that the General Fund would increase to only \$7.5 billion.⁷³ The Governor's Finance Office directed agencies to implement 5 percent reduction plans at the department level.⁷⁴ With tax collections higher than expected, the General Fund increased to about \$7.9 billion, well over \$400 million above the March 2016 prediction.

At the March 2016 briefing, there were also indications that growth in the Medicaid program was being met with a concurrent reduction in the federal government's share of the cost.⁷⁵ This seemed to suggest that the Federal Fund could decrease or experience flatter growth. In fact, the Federal Fund increased 13.3 percent between the 2015-2017 biennium and the 2017-2019 biennium, for a total dollar difference of more than \$1 billion. Irrespective of whether the federal government reduced its share, total federal

ⁱ In fact, the Economic Forum's forecast does not appear as a line item in and of itself in the "Statement of Projected Unappropriated General Fund Balance - Fiscal Years 2017-2019" (Governor's Recommended Budget). The line item General Fund Revenues, under Unrestricted General Fund Revenue, is equivalent to the Economic Forum's forecast of: (Total Taxes—Before Tax Credits + Total Non-Tax Revenue) – Total Commerce Tax Credits.

See: State of Nevada, Governor Brian Sandoval. 2017. "Executive Budget: 2017-2019." Page: BUDGET OVERVIEW – 16, "Statement of Projected Unappropriated General Fund Balance - Fiscal Years 2017-2019." Available: http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/StateBudget/2018-2019/FY2017-2019_GovExecBudgetBook-Online.pdf.

^j Note that the \$650 million in Unclaimed Property safeguarded by the Nevada State Treasurer is not a funding source for the State, per se. (On the total amount of unclaimed property, see: Nevada State Treasurer, Unclaimed Property Division. Available: http://www.nevadatreasurer.gov/Unclaimed_Property/UP_Home/.) However, a portion of it—\$15.2 million over the 2017-2019 biennium—funds the Millennium Scholarship and thus appears as a line item under Restricted General Fund revenue in the "Statement of Projected Unappropriated General Fund Balance - Fiscal Years 2017-2019" (Governor's Recommended Budget). See: State of Nevada, Governor Brian Sandoval. 2017. "Executive Budget: 2017-2019." Page: BUDGET OVERVIEW – 16, "Statement of Projected Unappropriated General Fund Balance - Fiscal Years 2017-2019." Available: http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/StateBudget/2018-2019/FY2017-2019_GovExecBudgetBook-Online.pdf.

dollars increased, with “[t]he primary driver of federal fund increases...related to changes and growth in the Medicaid program.”⁷⁶

In sum, compared to the Legislatively Approved Budget for the 2015-2017 biennium, revenues are projected to be higher for the 2017-2019 biennium, per the Governor’s Recommended Budget. A larger budget means that more money is available to finance operations at the State level.

Proposed Expenditures for the 2017-2019 Biennium

The Governor’s Recommended Budget emphasizes Governor’s Sandoval’s spending priorities for the 2017-2019 biennium.^k They center on the Medicaid expansion; workforce development; economic development (e.g., investment in the Knowledge Fund to foster start-up businesses); additional resources for K-12 education (e.g., specific initiatives for English language learners, at-risk students, special education, and gifted and talented students); natural resource enhancements (e.g., the acquisition of three riverfront ranches for a new state park in central Nevada); environmental improvements (e.g., funding for drought management and water conservation); improvements to the state’s parole system; investments in capital improvements; and cost of living adjustments for State employees in FY 2018 and FY 2019 (often referred to as “roll-ups”).⁷⁷

The Governor also reports certain savings and efficiency gains in his Recommended Budget, such as an expected \$60 million in General Fund savings in the Department of Health and Human Services that could result from the automation of the Medicaid/Medicare Part B buy-in process, review of supplemental hospital payments, and more.⁷⁸

^k There is a statutorily-imposed spending cap on proposed expenditures, which puts a ceiling on “General Fund spending per Nevadan at the 1975-1977 biennium level adjusted for inflation and population growth. The budget submitted by the Governor cannot exceed the amount appropriated for the 1975-1977 biennial budget multiplied by the percent change in population from July 1974 and the percent change in the Consumer Price Index (CPI) from the same month.” (There are certain exemptions from the limit: the Rainy Day Fund—which will be discussed in the subsequent note—construction expenditures, and payments to reduce the unfunded liability for retirees’ health insurance.) The spending cap for the 2017-2019 biennium was calculated at an amount that was higher than the Economic Forum’s projections; as such, the Governor’s Recommended Budget neither meets nor exceeds the cap. See: State of Nevada, Governor Brian Sandoval. 2017. “Executive Budget: 2017-2019.” Page: BUDGET OVERVIEW – 17. Available: http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/StateBudget/2018-2019/FY2017-2019_GovExecBudgetBook-Online.pdf. In addition, the Governor’s Recommended Budget “must have a General Fund reserve for each fiscal year of between 5% and 10% of proposed General Fund appropriations for the operation of state government.” See: State of Nevada, Governor Brian Sandoval. 2017. “Executive Budget: 2017-2019.” Page: BUDGET OVERVIEW – 13. Available: http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/StateBudget/2018-2019/FY2017-2019_GovExecBudgetBook-Online.pdf. The projected minimum 5 percent ending balance is \$201,237,032 for FY 2018 and \$202,939,425 for FY 2019. See: State of Nevada, Governor Brian Sandoval. 2017. “Executive Budget: 2017-2019.” Page: BUDGET OVERVIEW – 16, “Statement of Projected Unappropriated General Fund Balance - Fiscal Years 2017-2019.” Available: http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/StateBudget/2018-2019/FY2017-2019_GovExecBudgetBook-Online.pdf.

Proposed Department-Level Expenditures

Table 4 displays proposed expenditures for each department; it is sorted in descending order of largest budget for the 2017-2019 biennium.^{1,79} For a biennium-to-biennium comparison, the Legislatively Approved Budget for the 2015-2017 is shown, as well. As with the revenue summary in the previous section, the purpose is to compare actual amounts appropriated/authorized for the agencies with what is being proposed in order to get a sense of “true” projected increases or decreases over time. Figure 7 expresses proposed expenditures as a percentage of total revenues for each department (2017-2019 biennium) graphically, and Figure 8 highlights the 10 largest departments (by size of proposed expenditures—2017-2019 biennium) for a closer view.⁸⁰

Four departments that were funded in the 2015-2017 biennium no longer have department-level status for the 2017-2019 biennium. The Commission on Postsecondary Education is a division of the Department of Employment, Training, and Rehabilitation in the 2017-2019 biennium.⁸¹ Deferred Compensation and the Public Employees’ Benefits Program were consolidated with the Department of Administration for the 2017-2019 biennium.⁸² The Legislative Branch has been elevated to department-level status in the 2017-2019 biennium and now houses the Legislative Counsel Bureau.⁸³

For the 2017-2019 biennium, the Department of Health and Human Services enjoys the largest proposed expenditures, by far, at over \$11.1 billion. Its share of total revenue is 42.6 percent. In practice, this means that the largest portion of State revenue would be dedicated to funding this department. Proposed spending is more than two times the dollar amount of the second closest agency, the Department of Education, for which proposed expenditures are approximately \$4.7 billion (17.8 percent of total State revenue). Following the Department of Education are the Nevada System of Higher Education (NSHE), the Department of Administration, and the Department of Transportation. NSHE and the Department of Administration each represent approximately 7 percent of total State revenue, at about \$1.9 billion and \$1.8 billion, respectively. Proposed expenditures for the Department of Transportation place it in the fifth spot, at \$1.6 billion (6 percent of total revenue). The rest of the departments represent far smaller shares of total revenue, with the smallest being the Lieutenant Governor’s Office, at just less than \$1.2 million.

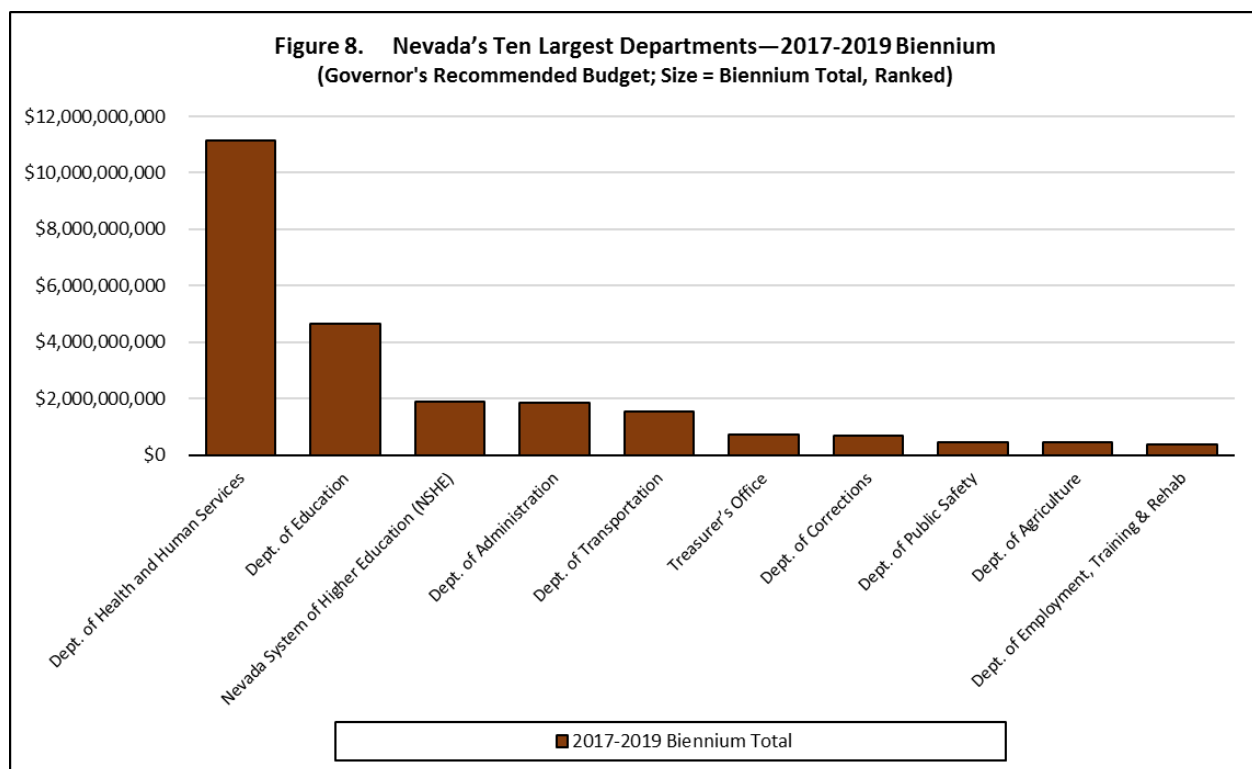
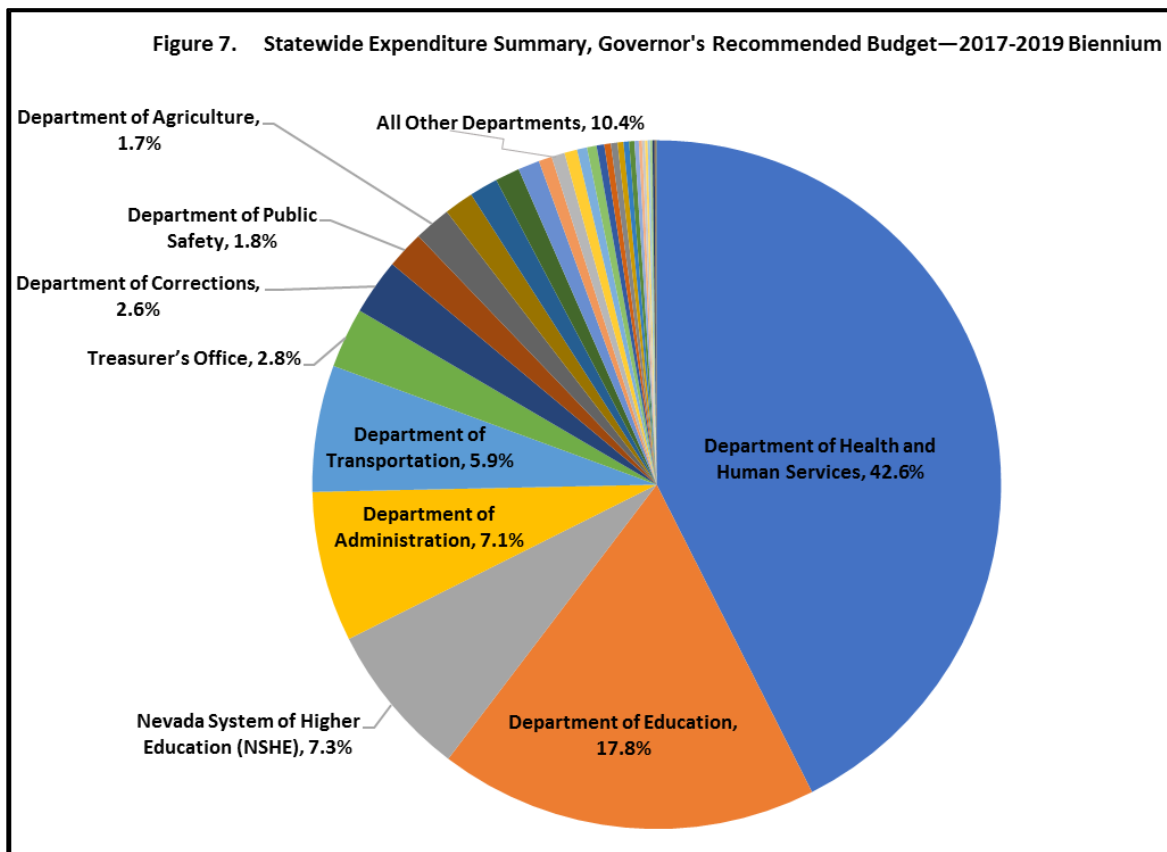
Most agencies’ proposed expenditures are projected to increase moderately across the two biennia, particularly for what this report has characterized as the largest agencies. These increases tend to reflect what may be called “Significant Budget Items.”⁸⁴ Proposed expenditures for the Department of Health and Human Services, which increases by 13.8 percent over the biennia, include funding for aging and disability services (autism caseload, early intervention services, home delivered meals for homebound

¹ Money allocated to the Account to Stabilize the Operation of State Government, the “Rainy Day Fund,” is not included as a proposed expenditure, as it is a financial reserve, not an expenditure, per se. It is used to “cover revenue shortfalls” and can be construed as both a revenue source and an expenditure. As a revenue source, “When the ending General Fund balance is greater than 7% of General Fund operating appropriations, 40% of the amount in excess of 7% of General Fund operating appropriations is allocated to the Rainy Day Fund.” But when there is a shortfall, the money can be returned to the General Fund to offset the loss and thus acts as an expenditure. The “Rainy Day Fund” balance at the end of 2017-2019 biennium is projected to be \$205.2 million. See: State of Nevada, Governor Brian Sandoval. 2017. “Executive Budget: 2017-2019.” Pages: BUDGET OVERVIEW – 13-14. Available: http://budget.nv.gov/uploadedFiles/budgetnvgov/content/StateBudget/2018-2019/FY2017-2019_GovExecBudgetBook-Online.pdf.

seniors, and home and community based/frail elderly waiver); health care finance and policy (particularly the expected increase in Medicaid caseload); public and behavioral health (forensic inpatient caseload and Managed Care Organization staff services); welfare and supportive services (caseload increases, e.g., assistance to aged and blind and child assistance and development); and child and family services (juvenile justice reform, county child welfare, and the Desert Willow Treatment Center).⁸⁵

Table 4. Statewide Expenditure Summary, by Department: Comparison Between Previous & Current Budget Periods

	<i>Legislatively Approved Budget</i>		<i>Governor's Recommended Line Item Budget</i>		
Department	2015-2017 Biennium Total	% Total	2017-2019 Biennium Total	% Total	% Change Over Biennia
Department of Health and Human Services	\$9,777,159,811	41.1	\$11,127,255,057	42.6	13.8
Department of Education	\$4,334,317,286	18.2	\$4,653,145,494	17.8	7.4
Nevada System of Higher Education (NSHE)	\$1,679,282,377	7.1	\$1,896,981,255	7.3	13.0
Department of Administration	\$384,034,865	1.6	\$1,845,278,531	7.1	380.5
Department of Transportation	\$1,545,861,640	6.5	\$1,551,866,012	5.9	0.4
Treasurer's Office	\$718,914,358	3.0	\$738,969,395	2.8	2.8
Department of Corrections	\$601,737,435	2.5	\$688,380,821	2.6	14.4
Department of Public Safety	\$432,330,181	1.8	\$462,922,242	1.8	7.1
Department of Agriculture	\$324,126,308	1.4	\$451,692,178	1.7	39.4
Department of Employment, Training & Rehab	\$329,997,360	1.4	\$362,097,276	1.4	9.7
Department of Motor Vehicles	\$303,187,461	1.3	\$350,749,321	1.3	15.7
Department of Business and Industry	\$269,636,148	1.1	\$300,653,291	1.2	11.5
Department of Conservation & Natural Resources	\$255,448,509	1.1	\$265,036,039	1.0	3.8
Colorado River Commission	\$168,227,108	0.7	\$161,875,683	0.6	-3.8
Attorney General's office	\$145,497,104	0.6	\$161,636,477	0.6	11.1
Governor's Office	\$55,438,208	0.2	\$157,040,778	0.6	183.3
Judicial Branch	\$123,049,788	0.5	\$124,021,145	0.5	0.8
Gaming Control Board	\$123,864,926	0.5	\$117,060,489	0.5	-5.5
Department of Wildlife	\$86,840,141	0.4	\$93,375,486	0.4	7.5
Department of Tourism and Cultural Affairs	\$69,822,059	0.3	\$80,121,879	0.3	14.8
Department of Taxation	\$63,389,543	0.3	\$79,879,041	0.3	26.0
Legislative Branch	—	—	\$73,177,139	0.3	—
Department of Veterans Services	\$58,966,266	0.3	\$68,644,214	0.3	16.4
Governor's Office of Economic Development	\$71,519,357	0.3	\$65,222,995	0.3	-8.8
Adjutant General	\$52,607,019	0.2	\$52,076,242	0.2	-1.0
Silver State Health Insurance Exchange	\$15,204,562	0.1	\$39,712,968	0.2	161.2
Secretary of State's Office	\$47,432,321	0.2	\$36,982,488	0.1	-22.0
State Public Charter School Authority	\$18,603,769	0.1	\$30,458,373	0.1	63.7
Public Utilities Commission	\$28,784,461	0.1	\$29,173,395	0.1	1.4
Tahoe Regional Planning Agency	\$33,697,718	0.1	\$28,935,261	0.1	-14.1
Public Employees' Retirement System	\$21,925,930	0.1	\$26,180,477	0.1	19.4
Controller's Office	\$19,205,659	0.1	\$9,225,369	0.0	-52.0
Commission On Mineral Resources	\$5,085,014	0.0	\$5,544,928	0.0	9.0
Commission On Peace Officer Standards & Training	\$4,805,321	0.0	\$4,861,109	0.0	1.2
Judicial Discipline Commission	\$1,696,903	0.0	\$1,838,063	0.0	8.3
Commission On Ethics	\$1,666,626	0.0	\$1,707,569	0.0	2.5
Lieutenant Governor's Office	\$1,141,422	0.0	\$1,182,741	0.0	3.6
Commission on Postsecondary Education	\$818,710	0.0	—	—	—
Deferred Compensation	\$903,299	0.0	—	—	—
Legislative Counsel Bureau	\$136,420,458	0.6	—	—	—
Public Employees' Benefits Program	\$1,461,432,978	6.2	—	—	—
TOTAL	\$23,773,900,409	100.0	\$26,144,961,221	100.0	10.0



With a 13.0 percent increase between the 2015-2017 biennium and 2017-2019 biennium, proposed NSHE expenditures include continued formula funding; career and technical education programs; capacity building projects; a doubling of the Silver State Opportunity Grant; the build-out of the University of Nevada, Las Vegas (UNLV) Medical School; and money for each the UNLV Hotel College and the University of Nevada, Reno (UNR) Engineering Building.⁸⁶ The Department of Education's growth results from increased funding to the Distributive School Account; additional supplemental funding for special education; expansion of the English language learners program (Zoom Schools); expansion of Victory Schools; increased resources for gifted and talented education; a continuation of existing funding for Nevada Ready 21 Technology Grants; new funding for the Teach Nevada Scholarship Program; additional teacher hiring incentives; and the establishment of Education Savings Accounts.⁸⁷

The spikes in funding for the Department of Administration (380.5 percent)—the fourth-largest department in the 2017-2019 biennium—as well as those for two smaller departments, the Governor's Office (183.3 percent) and the Silver State Health Insurance Exchange (161.2 percent) are striking, though the latter two represent smaller increases in total dollars (about \$101.6 million and \$24.5 million, respectively). The pronounced increase in proposed expenditures for the Department of Administration presumably is the result of agency consolidation, with the Public Employees' Benefits Program and the Deferred Compensation Program—funded as agency line items in the 2015-2017 biennium—having been transferred to the Department of Administration for the 2017-2019 biennium.⁸⁸ With a budget of \$942,616,275 for the 2017-2019 biennium, the shift of the Public Employees' Benefits Program to the Department of Administration for the 2017-2019 biennium, likely makes for a substantial impact on the latter department's proposed expenditure level. (Deferred Compensation adds \$822,862, for a total across the two programs of \$943,439,137).^{m,89} The establishment of a permanent Office of Workforce Innovation in the Governor's Office, at a cost of \$3,198,830, and a more than 8.5 times increase in funding for the Governor's Finance Office—from \$10,551,997 in the 2015-2017 biennium to \$100,691,998 in the 2017-2019 biennium—largely explain the percentage change.⁹⁰ The sharp increase in funding for the Governor's Finance Office may be attributed, in part, to an institutional change, that is, the transfer of responsibility for debt collection activities from the Controller's Office to the Governor's Finance Office.⁹¹ The Silver State Health Insurance Exchange more than doubles over the biennia, from about \$15.2 million to \$39.7 million, for a difference of approximately \$24.5 million). Thus, the percentage change is relatively high, but the amount of money as a proportion of total revenue is on the lower side. The Silver State Health Insurance Exchange is Nevada's marketplace under the Affordable Care Act (ACA), and as more Nevadans have taken up insurance, pursuant to ACA, the costs to administer the program likely have risen accordingly.

Only seven agencies will face decreases at the department level in the 2017-2019 biennium: Colorado River Commission, Gaming Control Board, Governor's Office of Economic Development, Adjutant General, Secretary of State's Office, Tahoe Regional Planning Agency, and the Controller's Office.

^m As Table 4 demonstrates, the legislatively approved amounts for the Public Employees' Benefits Program and Deferred Compensation in the 2015-2017 biennium were higher than these proposed expenditures for the 2017-2019 biennium. Over the two biennia, there is a total decrease across the two programs of approximately \$518.9 million or 35.5 percent.

Proposed Core Function Expenditures

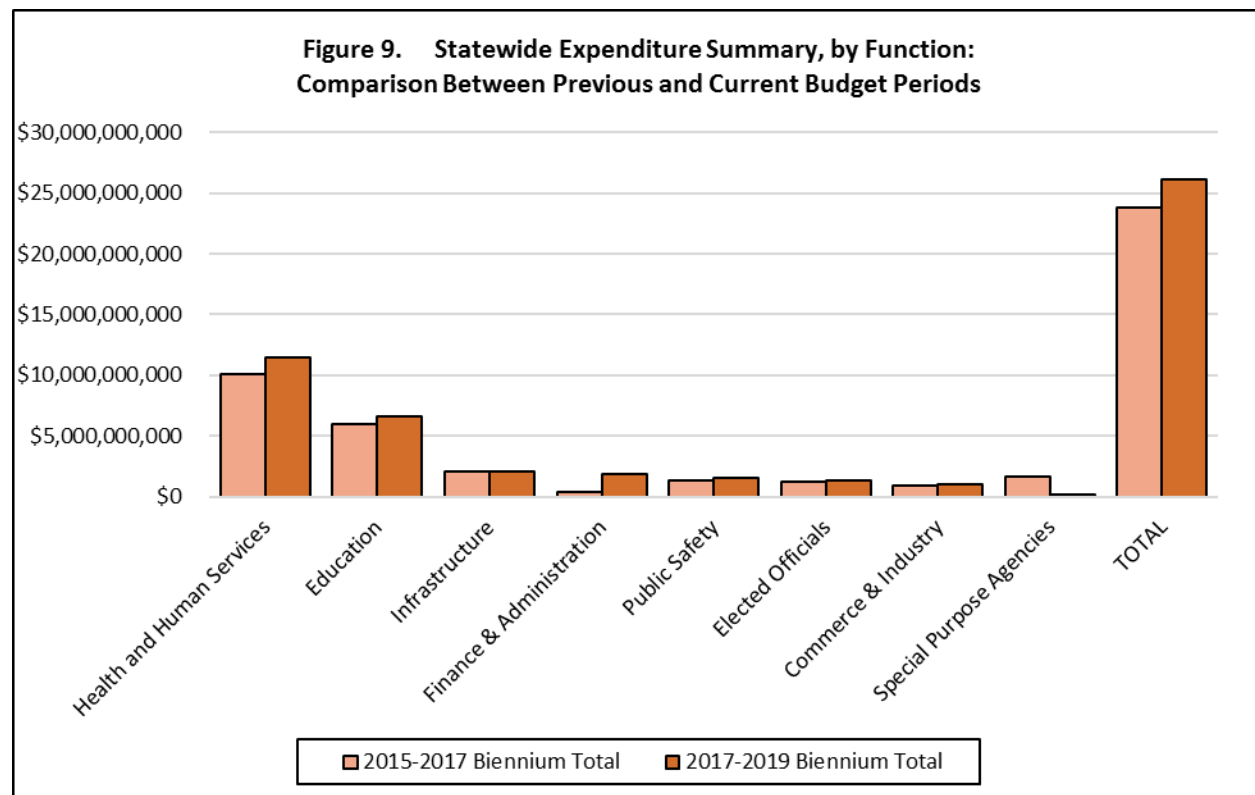
Core governmental functions effectively summarize departmental funding, and are required by law under priorities- and performance-based budgeting. The core governmental functions are established by the Governor.⁹² As these core functions provide the framework for the goals, objectives, activities, and performance measures, under the Governor’s overarching strategic priorities, they warrant attention.⁹³

There are eight core functions of government: Health and Human Services, Education, Infrastructure, Finance and Administration, Public Safety, Elected Officials, Commerce and Industry, and Special Purpose Agencies. Each corresponds to certain statewide departments; that is, the 37 departments requiring funding for the 2017-2019 are summarized to the core function level. For example, Finance and Administration encompasses the Department of Administration and the Department of Taxation. Proposed funding for the Department of Administration (2017-2019 biennium) is \$1,845,278,531, and proposed funding for the Department of Taxation (2017-2019 biennium) is \$79,879,041. As Table 5 shows, the Finance and Administration core function 2017-2019 biennium total is \$1,925,157,572, which is the sum of the Department of Administration and Department of Taxation amounts.⁹⁴ (See the Appendix for a crosswalk between the 8 core functions and 37 departments with proposed funding in the 2017-2019 biennium.) Figure 9 displays the tabular data graphically.⁹⁵

Table 5. Statewide Expenditure Summary, by Function: Over time Comparison					
	Legislatively Approved Budget		Governor’s Recommended Line Item Budget		
Function	2015-2017 Biennium Total	% Total	2017-2019 Biennium Total	% Total	% Change Over Biennia
Health and Human Services	\$10,107,157,171	42.5	\$11,489,352,333	43.9	13.7
Education	\$6,035,970,662	25.4	\$6,580,585,122	25.2	9.0
Infrastructure	\$2,089,895,116	8.8	\$2,101,088,481	8.0	0.5
Finance and Administration	\$447,424,408	1.9	\$1,925,157,572	7.4	330.3
Public Safety	\$1,342,060,398	5.6	\$1,506,913,493	5.8	12.3
Elected Officials	\$1,247,508,549	5.3	\$1,304,073,595	5.0	4.5
Commerce and Industry	\$892,838,273	3.8	\$1,049,469,155	4.0	17.5
Special Purpose Agencies	\$1,611,045,832	6.8	\$188,321,470	0.7	-88.3
TOTAL	\$23,773,900,409	100.0	\$26,144,961,221	100.00	10.0
Note: Percentages in “% Total” column for the 2015-2017 Legislatively Approved Budget do not sum to 100 due to rounding.					

Following the pattern established at the department level, Health and Human Services, as a core function, is expected to receive the most funding in the 2017-2019 biennium, as it did in the 2015-2017 biennium. It is over one and one-half times the size of the next largest core function, Education, and represents 43.9 percent of total revenue for the 2017-2019 biennium. Thus, a large portion of Nevada’s resources service the core function of Health and Human Services. Under the Strategic Planning Framework established by the Governor, the goals of Health Services are the promotion of health and wellness across all age groups, improvement in the quality and accessibility of primary medical services, and the reduction of the prevalence of risky and addictive behaviors; and the goals of Human Services are a reduction in the

unemployment rate among target populations, improvement in the accessibility and quality of supportive services for at-risk populations, being the most veteran-friendly state in the nation, reduction in dependency on social services by 2020, and reduction of food insecurity.⁹⁶



Education, which consists of the Department of Education, NSHE, and the State Public Charter School Authority, also reflects department-level funding, given that the Department of Education and NSHE are the second and third largest agencies as proportions of total revenue. Education's share of total revenue for the 2017-2019 biennium is 25 percent. After Education, for the 2017-2019 biennium, there is a steep drop-off to Infrastructure (8.0 percent), followed by Finance and Administration (7.4 percent), Public Safety (5.8 percent), Elected Officials (5.0 percent), Commerce and Industry (4.0 percent), and Special Purpose Agencies at a distant eighth (0.7 percent).

Over the two biennia, Health and Human Services is expected to increase by 13.7 percent. Relatively moderate increases are expected for each Elected Officials (4.5 percent), Education (9.0 percent), Public Safety (12.3 percent), and Commerce and Industry (17.5 percent). Infrastructure spending, however, is relatively flat, with a modest increase of 0.5 percent over the previous biennium. Two core functions deviate significantly from the flat-to-moderate proposed funding expansions, as discussed below.

The biggest outlier is the expected 330.3 percent increase for Finance and Administration, which incorporates the Department of Administration's 380.5 percent increase over the 2015-2017 biennium and the Department of Taxation's 26.0 percent increase over the previous biennium. There are two likely drivers of this increase. First, as previously noted, the merging of the Public Employees' Benefits Program and the Deferred Compensation Program into the Department of Administration means a transfer of the

former two's budgetary resources, particularly the Public Employees' Benefits Program, to the latter department. Second, on November 8, 2016, voters approved the statewide initiative petition to regulate and tax marijuana, which legalized the possession and retail sale of marijuana for recreational and other uses in the State. The Department of Taxation is charged with administering the provisions of the law, which includes collections of fees and taxes.⁹⁷ The construction of an administrative apparatus to oversee this new policy and all that it entails undoubtedly informs the proposed expenditure increase for the Department of Taxation portion of the Finance and Administration core function.

There is an 88.3 percent decrease in the Special Purpose Agencies core function, or approximately \$1.4 billion. The Public Employees' Benefits Program and the Deferred Compensation Program were categorized under the Special Purpose Agencies core function for the 2015-2017 biennium.⁹⁸ The consolidation of these two agencies with the Department of Administration in the 2017-2019 biennium means an increase for that department (and the Finance and Administration core function) but an equivalent subtraction from the Special Agencies core function in the 2017-2019 biennium. Except for the Adjutant General, which decreased slightly over the two biennia, other departments corresponding to this core function—the Department of Veterans Services, the Public Employees' Retirement System, the Silver State Health Insurance Exchange, and the Commission on Ethics, which was previously part of the Elected Officials core function—did increase but likely not enough to offset the loss of the Public Employees' Benefits Program and the Deferred Compensation Program.⁹⁹

Capital improvement projects are dispersed across agencies and core functions, so it can be challenging to assess their budgetary impact. They are also funded from a variety of sources. However, given that Governor Sandoval stressed the importance of these projects in his Recommended Budget and the fact that construction expenditures are exempt from the expenditure limit, they are worthy of note.¹⁰⁰ One estimate for the 2017-2019 biennium places the capital improvements budget at about \$344 million.¹⁰¹ With the State's future debt capacity and affordability evincing improvement since the 2015-2017 biennium and expectations for a continuation of that trend, long-term planning for the State's Capital Improvement Program may be possible.¹⁰²

Proposed Expenditures and Revenue Sources

Lastly, revenues and proposed expenditures are integrated to form a more complete picture of budgetary relationships for the 2017-2019 biennium. Table 6 displays the percentages of funding sources, as distributed across the 15 largest departments (by size of proposed expenditures, 2017-2019 biennium).^{n,103} Figure 10 offers a graphic presentation of this information for all departments.^{n,104} As the General Fund is one of the largest funding sources for State government and the vehicle through which Nevadans support the State most directly, Figure 11 depicts a department summary of the General Fund.¹⁰⁵

ⁿ Note that names of funding sources differ slightly from line item budget; funding sources (by department) is based on Activity Budget, for which data was available.

Table 6. Nevada's Fifteen Largest Departments, by Funding Source—2017-2019 Biennium

Department	General Fund	Federal Fund	Highway Fund	Other	Transfers	Total
Department of Health and Human Services	22.3%	62.0%	0.0%	6.9%	8.8%	100.0%
Department of Education	61.2%	11.9%	0.0%	18.2%	8.6%	100.0%
Nevada System of Higher Education (NSHE)	64.5%	0.3%	0.0%	35.2%	0.0%	100.0%
Department of Administration	0.6%	0.3%	0.0%	16.1%	83.0%	100.0%
Department of Transportation	0.0%	44.3%	43.5%	11.7%	0.5%	100.0%
Treasurer's Office	8.4%	0.0%	0.0%	78.0%	13.7%	100.0%
Department of Corrections	85.6%	1.0%	0.0%	11.9%	1.6%	100.0%
Department of Public Safety	25.6%	10.9%	31.8%	20.7%	11.0%	100.0%
Department of Agriculture	1.4%	85.0%	0.0%	12.0%	1.6%	100.0%
Department of Employment, Training & Rehab	2.8%	66.0%	0.0%	15.9%	15.3%	100.0%
Department of Motor Vehicles	0.0%	0.0%	38.1%	54.9%	7.0%	100.0%
Department of Business and Industry	2.0%	7.9%	1.7%	81.6%	6.8%	100.0%
Department of Conservation & Natural Resources	28.1%	13.6%	0.0%	44.2%	14.1%	100.0%
Colorado River Commission	0.0%	0.0%	0.0%	96.0%	4.0%	100.0%
Attorney General's Office	8.1%	5.7%	0.0%	18.0%	68.2%	100.0%

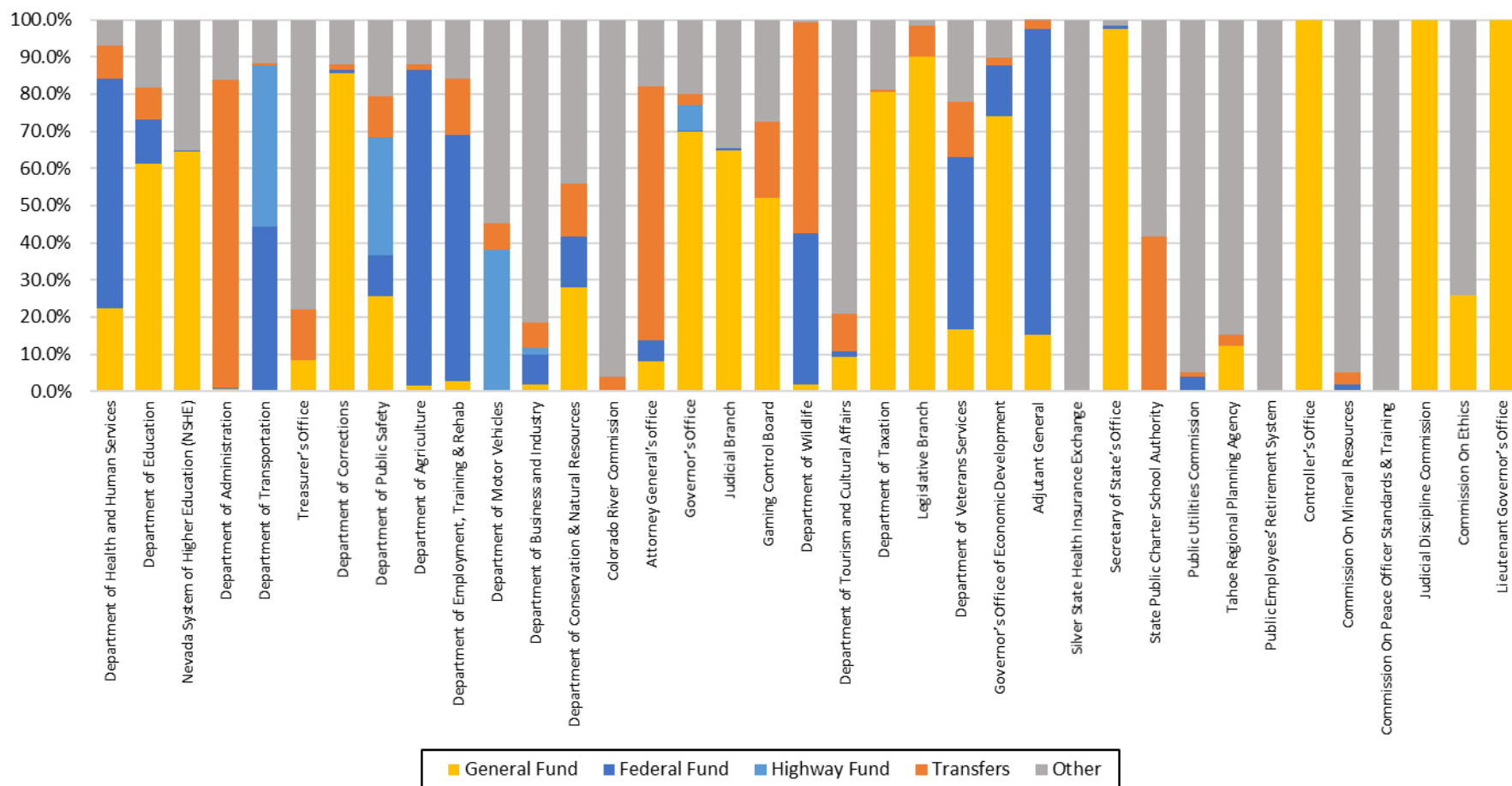
Note: Size of department is defined in terms of total recommended funding by the Governor; departments are ordered from largest to smallest.

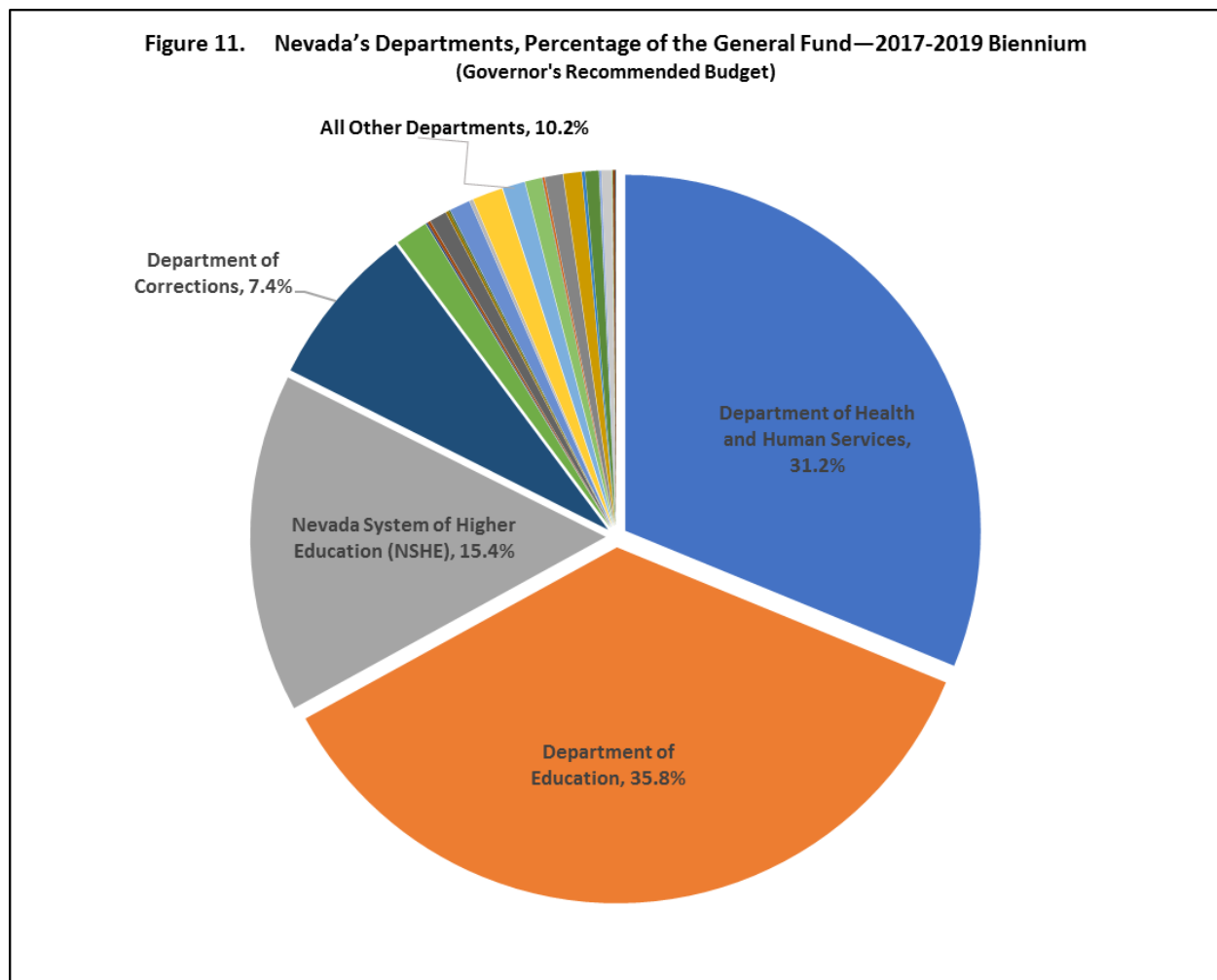
There is no regular pattern in funding sources across the top 15 largest agencies, relative to the other 22 agencies. Funds are distributed across agencies in ways that are statutorily prescribed. The Department of Health and Human Services' primary funding source is the Federal Fund (62.0 percent); even though it is the largest agency in terms of proposed expenditures, only 22.3 percent of its money comes directly from Nevadans and visitors through General Fund collections. The total Federal Fund amount of nearly \$6.9 billion goes to programs such as Medicaid, Temporary Assistance to Needy Families (TANF), and the Special Supplemental Food Program for Women, Infants, and Children (WIC), amongst others, as well as certain administrative costs.¹⁰⁶

The Nevada Department of Education and NSHE each receive over 60 percent of their funding from the General Fund, and, of the 15 largest agencies, only the Department of Corrections receives a greater share of its funding from the General Fund, at 85.6 percent. Across the rest of the agencies, the Governor's Office, the Judicial Branch, the Gaming Control Board, the Department of Taxation, the Legislative Branch, the Governor's Office of Economic Development, and the Secretary of State's Office receive the majority—though not all—of their money through the General Fund. The Department of Administration will receive 83.0 percent of its funding through transfers, reflecting its consolidation with the Public Employees' Benefits Program and Deferred Compensation Program.

As noted previously, no funding source is dedicated to one particular agency, though some sources have restrictions on their uses.¹⁰⁷ The State Highway Fund, for example, only finances programs and operations in six departments: Department of Transportation, Department of Public Safety, Department of Motor Vehicles, Governor's Office, Department of Business and Industry, and the Legislative Branch. However, the converse does not hold. Some agencies are funded entirely by a single source. The Controller's Office, the Judicial Discipline Commission, and the Lieutenant Governor's Office receive funding from the General Fund only, and the Silver State Health Insurance Exchange, the Public Employees' Retirement System, and the Commission on Peace Officer Standards and Training are financed solely through the Other Fund.

Figure 10. Nevada's Departments (All), by Funding Source—2017-2019 Biennium
(Governor's Recommended Budget, Ordered from Largest to Smallest)





The General Fund department summary shows that a great deal of its resources is allocated to the Department of Education (35.8 percent) and the Department of Health and Human Services (31.2 percent). These are followed by NSHE (15.4 percent) and the Department of Corrections (7.4 percent). Funding for the rest of the departments' proposed expenditures, taken together, comprise 10.2 percent of the General Fund.

Uncertainties

As the 79th (2017) Legislative Session takes the budget under consideration for the 2017-2019 biennium, it will confront two major uncertainties. The first is the status of the Medicaid expansion, and the second surrounds the legalization of marijuana.

Section 2001 of Title II of the Affordable Care Act (ACA) of 2010 "provide[s] that, beginning on January 1, 2014, nonelderly, non-pregnant individuals under the age of 65 with income below 133 percent of the

federal poverty level (FPL) will be made newly eligible for Medicaid.”¹⁰⁸ The legality of this section of ACA was called into question, as some interpreted the provision to mean that states that refused to expand Medicaid would lose *all* federal funds for the program.¹⁰⁹ The matter ultimately came before the United States Supreme Court in *National Federation of Independent Business v. Sebelius* (2012).¹¹⁰ The Court held that withholding funds for Medicaid in a punitive fashion in order to force compliance with ACA was “coercive and unconstitutional.”¹¹¹ States could opt to expand Medicaid, and, in so doing, would receive federal matching funds for those newly eligible under ACA, or they could choose not to expand the program, but would continue to receive federal funds for those already on Medicaid; in both cases, all pre-ACA Medicaid provisions would remain intact for pre-ACA beneficiaries.¹¹² The Court’s decision essentially rendered Medicaid expansion optional for the states.

Under ACA, the federal government was responsible for 100 percent of the medical costs for the first three years of expansion (i.e., through 2016), with states accountable for administrative costs. States would take on more of the medical costs beginning in 2017, and by 2020 (and beyond), the federal government would be contributing at a level of 90 percent.¹¹³ Nevada announced its opt-in to the Medicaid expansion in 2012.¹¹⁴ Since expansion, Nevada’s Medicaid caseloads have increased, with a sharp spike after the initial take-up followed by a steadier uptick over time. In October 2013, the total approved recipient count was 330,623; by October 2014, that number nearly doubled to 621,570.¹¹⁵ By the end of the 2017-2019 biennium, Medicaid enrollees are projected to increase further, to almost 677,000 individuals.¹¹⁶

However, following the November 2016 election, several national elected officials have signaled their intent to dismantle the provisions of ACA, at least in part. The implications for the Medicaid expansion in Nevada remain unclear. One question is whether only those recipients of Medicaid under the expansion would be affected, or would the provisions for the pre-ACA beneficiaries continue to “remain intact”? For the 2017-2019 biennium, the Governor’s Recommended Budget has proposed a total of \$7,422,634,331 for Medicaid, with funding from a variety of sources.¹¹⁷ Under the proposed spending plan, \$1,381,193,985 would come from the General Fund, and \$5,587,408,214 from federal dollars.¹¹⁸ Given the large sum expected from the federal government, if the Medicaid expansion were to be repealed, Nevada legislators would have to identify how to address a potential budgetary shortfall.

The second major uncertainty relates to the legalization of marijuana. From a purely financial standpoint, it is unclear how much money will be realized from the program. The initiative petition passed by the voters in November 2016 carried with it certain fees and a 15 percent excise tax on the wholesale sale of recreational marijuana that were effectuated upon the effective date of January 1, 2017.¹¹⁹ In addition, the Governor’s Recommended Budget proposes a 10 percent excise tax on all retail sales of recreational marijuana that will require legislative approval.¹²⁰ The combination of fees, the wholesale sales tax, and the retail sales tax are expected to bring in approximately \$143.5 million over the 2017-2019 biennium.¹²¹ The money from fees and the wholesale sales tax would be distributed first to the Department of Taxation and Local Governments for administrative costs, with the remainder used to support K-12 education. All revenue from the retail sales tax would be directed to K-12 education.¹²²

During recent hearings, members of the Nevada State Legislature have raised the question of whether the expected revenue has been overestimated, and if so, how that would affect K-12 funding (i.e., the Distributive School Account), specifically, and the General Fund, more broadly.¹²³ The Governor’s Finance

Office has maintained that it underestimated expected revenues intentionally in order not to build too much money into the budget if the program underperforms.¹²⁴ However, if revenues are lower than expected, money to be deposited in the Distributive School Account—that is, the residual balance from fees and the wholesale sales tax, after administrative costs and the entire retail sales tax—would be back-billed to the General Fund.¹²⁵ The implication here is that, if the legalization of marijuana does not bring in the expected revenue, the impact on K-12 education could be a reduced amount of funding, and the effect on the General Fund could be less money for other programs.

A second concern is that national elected officials may not be supportive of marijuana legalization.¹²⁶ While several states have legalized marijuana, the possession, distribution, and/or assistance therein remains a violation of federal law.¹²⁷ Thus far, the federal government has assumed a policy of discretion in choosing whether or not to prosecute individuals or businesses engaged in marijuana activity where it has been legalized for medical or other purposes.¹²⁸ It is not yet clear whether the current national government will maintain a similar stance or may take another tack entirely. As of January 24, 2017, the State has not held any specific conversations with the federal government regarding enforcement and its position on a potential shutdown of recreational marijuana programs nationwide.¹²⁹ Were the latter to be effectuated, the budgetary impact is clear: no proposed revenues from Nevada’s recreational marijuana program would be realized, meaning less money in both the Distributive School Account and the General Fund and less overall available resources to fund certain governmental activities.

Nevada’s State legislators will need to pay close attention to federal policy decisions throughout the 79th Session as they consider budgetary imperatives. A budget, by definition, acts as a constraint on any spending wish list, with the upper bound being the total revenues available. Even with expected revenues of \$26.1 billion for the 2017-2019 biennium, not every financing demand can be met. With 42 members of the Assembly and 21 Senators, all representing different constituencies, legislative preferences are likely to be diverse. The alignment between the spending priorities delineated in the Governor’s Recommended Budget and those of State legislators will be a defining question for the 79th Session.





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The Kenny C. Guinn Center for Policy Priorities is a 501(c)(3) nonprofit, bipartisan, independent research center focused on providing fact-based, relevant, and well-reasoned analysis of critical policy issues facing Nevada and the Intermountain West. The Guinn Center engages policy-makers, experts, and the public with innovative, data-driven research and analysis to advance policy solutions, inform the public debate, and expand public engagement.

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Appendix. Crosswalk Between Functions and Departments—2017-2019 Biennium¹³⁰	
Function	Department
Commerce & Industry	Commission on Mineral Resources
	Department of Agriculture
	Department of Business and Industry
	Department of Tourism and Cultural Affairs
	Gaming Control Board
	Governor's Office of Economic Development
	Public Utilities Commission
Education	Department of Education
	Nevada System of Higher Education (NSHE)
	State Public Charter School Authority
Elected Officials	Attorney General's Office
	Controller's Office
	Governor's Office
	Judicial Branch
	Judicial Discipline Commission
	Legislative Branch
	Lieutenant Governor's Office
	Secretary of State's Office
	Treasurer's Office
Health and Human Services	Department of Employment, Training & Rehab
	Department of Health and Human Services
Infrastructure	Colorado River Commission
	Department of Conservation & Natural Resources
	Department of Transportation
	Department of Wildlife
	Tahoe Regional Planning Agency
Finance & Administration	Department of Administration
	Department of Taxation
Public Safety	Commission on Peace Officer Standards & Training
	Department of Corrections
	Department of Motor Vehicles
	Department of Public Safety
Special Purpose Agencies	Adjutant General
	Commission on Ethics
	Department of Veterans Services
	Public Employees' Retirement System
	Silver State Health Insurance Exchange

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