

Nevada Budget 101

OVERVIEW

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.

Budgetary Sources and Spending

Nevada's combined revenue is directed into six funding sources that finance the State's operations. No single source is dedicated to funding any one State agency (department): the General Fund, the Federal Fund, the State Highway Fund, the Other Fund, Interagency Transfers, and Balance Forward.

The Governor recommends allocations of the total available revenue to budget accounts within Nevada's Executive Branch departments in his outline of State spending priorities, known as the Governor's Recommended Budget. For the 2017-2019 biennium, 37 departments 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.

Budget Process

Budgeting for State spending begins in the year preceding that in which the new Legislature will be seated (i.e., an even-numbered year). 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.

Between September 1, 2016, and October 15, 2016, the State's 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. On or before October 15, 2016, the Agency Budget Requests were submitted to the Legislature's Fiscal Analysis Division, per Nevada statute.

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. 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. Following the receipt of revenue projections, the Governor submitted his proposed budget on January 17, 2017.

From the time the Legislature began the 79th Session on February 6, 2017, 120 days were 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.

After the agency budgets have been approved, they will be 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. All must be enacted before the regular session adjourns.

SOURCES OF REVENUE

Economic Forum—General Fund

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. Their forecasts rely on global, national, and statewide economic indicators. The Economic Forum projects expected revenue for each statutorily-required source that is deposited in the General Fund.

Per the December 2016 forecast, total General Fund revenues are expected to increase over the previous biennium, even after tax credits are taken into account. Sales and Use Taxes are projected to 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.

All major General Fund revenues but the Live Entertainment Tax (LET)—Gaming Tax are projected to increase; the LET—Gaming Tax is projected to decrease by approximately \$20.3 million (8.4 percent).

Statewide Revenue Summary

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. Each of the six funding sources (e.g., the

General Fund, the Federal Fund, etc.) is expected to increase over the previous biennium. A larger budget means that more money is available to finance operations at the State level.

PROPOSED EXPENDITURES FOR THE 2017-2019 BIENNIUM

Proposed Department-Level Expenditures

For the 2017-2019 biennium, the Department of Health and Human Services enjoys the largest proposed expenditure at over \$11.1 billion. Its share of total revenue is 42.6 percent. This means that the largest portion of State revenue would be dedicated to funding this department. Proposed expenditures for the Department of Education 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.

Most agencies' proposed expenditures are projected to increase moderately over the previous biennium, particularly the largest agencies. 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.

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. For the 2017-2019 biennium, they are: 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 biennium are summarized to the core function level.

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—accounting for 43.9 percent of total revenue. Thus, a large portion of Nevada's resources service the core function of Health and Human Services.

Education 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).

Proposed Expenditures and Revenue Sources

No funding source is dedicated to one particular agency, though some agencies are funded entirely by a single source. (For example, the Controller's Office and the Lieutenant Governor's Office are financed solely through the Other Fund.) Most of the General Fund's resources are 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

Budgets act as constraints on spending priorities, with the upper bounds driven by total revenues available. Even with expected revenues of \$26.1 billion for the 2017-2019 biennium, not every financing demand can be met. Moreover, legislators will confront two major uncertainties: the status of the Medicaid expansion and the legalization of marijuana.

The implications for the Medicaid expansion in Nevada remain unclear, with several national elected officials having signaled their intent to dismantle the provisions of Affordable Care Act (ACA) of 2010, at least in part. For the 2017-2019 biennium, the Governor's Recommended Budget has proposed a total of roughly \$7.4 billion for Medicaid, with about \$1.4 billion from the General Fund and approximately \$5.6 billion from federal dollars. 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, passed by the voters in November 2016. From a purely financial standpoint, it is unclear how much money will be realized from the program. Some questions have been raised as to whether the expected revenue has been overestimated. A second concern is that national elected officials may not be supportive of marijuana legalization. While several states have legalized marijuana, the possession, distribution, and/or assistance therein remains a violation of federal law. Were a shutdown of states' recreational marijuana programs to be effectuated, the budgetary impact is clear: no proposed revenues from Nevada's recreational marijuana program would be realized, meaning less overall available resources to fund certain governmental activities.

For more about the Guinn Center, visit www.guinncenter.org, call 702-522-2178, or email: info@guinncenter.org.