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**Nevada's 2010 Budget:
Dependency, Denial, and Disaster**

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Abstract

January 2010 arrived with the realization that Nevada's budget crisis had become worse. Sales and gaming tax revenues were again lower than anticipated and the state economy continued to decline. Governor Jim Gibbons called a special session of the legislature in February to address an anticipated hole in the budget. But, driven by the politics of fiscal conservatism fueled by denial, Nevada faces a potential fiscal disaster in 2011.

Keywords: Nevada budget, Nevada politics, taxes, state budgets

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Nevada's 2010 Budget: Dependency, Denial, and Disaster

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Introduction

The 2009 Nevada Legislature faced an environment characterized by recession, a budget crisis, and a political budget fight. The 2007 Nevada Legislature enacted the 2007-2009 biennial budget in a no new tax/no tax increase political environment, and Republican Governor Jim Gibbons was committed to a balanced 2009-2011 biennial budget based on reduced spending, no tax increases, and no new taxes. January 2010 ushered in a new year with the realization that the state budget crisis had become worse. Nevada's dependence on sales tax revenue and gaming tax revenue drove the budget crisis to a more serious level as revenue continued to be lower than anticipated and the Nevada economy continued to get worse.

Governor Gibbons called a special session of the Nevada Legislature in February 2010 to address the anticipated hole in the Nevada budget. The revenue dependency problem led the Nevada Legislature and Governor Gibbons to be in denial as to the broken status of Nevada's revenue structure and sources. It is anticipated that dependency and denial will lead Nevada to fiscal disaster in 2011. Budgeting in Nevada is driven by the basic fiscal conservatism of the state's politics.

Nevada's budgetary politics have been highlighted since 1990, with one exception, by low levels of service provision, consistent under estimation of revenues, over reliance on two primary sources of revenue (sales and gaming taxes), and the potential for fiscal problems linked to the state's population growth (Herzik, 1991; Herzik, 1992; Herzik and Statham, 1993; Morin, 1994; Herzik and Morin, 1995; Morin, 1996; Morin, 1997; Morin, 1998).

Nevada faced a recession, an unemployment rate that continued to climb and bleak revenue projections that served as the basis of the 2009-2011 biennial budget.

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This article examines the Nevada political environment, the state biennial process, and the social and fiscal environment. This article will also examine the 2008 and 2009 Nevada economic environment, the 2007 and 2008 budget cuts, the 2008 General Election, the 2009 Nevada Legislature and the 2010 Special Session of the Nevada Legislature.

The Nevada Political Environment

The Nevada political environment is a composite of Nevada's political culture, government structure, and tax structure. The health of the national and state economies directly impacts the operation of state government. The Nevada Legislature and government are sensitive to public opinion, and Nevada's biennial budget usually conforms to public opinion and the results of the preceding general election (Herzik and Morin, 1995; Morin, 2000).

Political Culture

Nevada's political culture is individualistic. An individualistic political culture creates an environment where politics is an open market place where individuals and interest groups pursue social and economic goals (Elazar, 1984; Dye, 1994; Bowman and Kearney, 1996). Nevada's political culture emphasizes limited government, fiscal conservatism, fragmentation of governmental power, and citizen control over government at the ballot box. In terms of partisan politics, Nevada is becoming more Democrat than Republican. Nevada's party competition classification in the 1970s was two-party Democratic dominant. In the 1980s this changed to two-party Republican leaning (Hrebenar and Benedict, 1991). In terms of party identification, a November-December 1996 poll revealed that southern Nevada leaned Democrat while northern and rural Nevada leaned Republican (Beal et al., 1997).

Whether Republican or Democrat, Nevadans are politically conservative. The same 1996 poll showed that 75 percent of Nevadans identified themselves as moderate or conservative on economic issues and 72 percent identified themselves as moderate or conservative on social issues (Beal et al., 1997). At the close of voter registration for the 2004 General Election, there were 429,808 registered Democrats, 434,239 registered Republicans and 161,620 registered as nonpartisan. Southern Nevada continues to lean Democrat while northern and rural Nevada continues to lean Republican (Secretary of State, 2004).

Nevada's political environment is conservative in budgeting and fiscal matters. Republican and Democrat legislators display fiscal conservatism in both the state Senate and the Assembly (Morin, 1996; Herzik and Morin, 1995; Morin, 1994;

Herzik and Statham, 1993). Nevada historically has provided a relatively low level of state services resulting in a low tax burden (Morin, 1996; Herzik and Morin, 1995; Morin, 1994; Herzik and Statham, 1993). In the past, Nevadans were not necessarily opposed to spending on state programs; however, Nevadans wanted others—visitors, tourists, gamblers and corporations—to bear much of the tax burden (Winter, Calder, and Carns, 1993).

Government Structure

Nevada's Constitution structures government at the state level by apportioning power to the legislative, executive, and judicial branches (Driggs and Goodall, 1996). It provides for a weak, fragmented, and decentralized executive branch. The governor, who possesses package veto power, shares executive power and authority with other elected executive officials, boards, commissions, and councils (Morin, 1997a; Driggs and Goodall, 1996). Nevada's Constitution provides for a bicameral legislature. The state Senate is comprised of 20 members serving four-year terms. The state Assembly is comprised of 42 members serving two-year terms (Titus, 1997; Driggs and Goodall, 1996). The Nevada Legislature meets on a biennial basis, is a citizen or amateur legislature, and is one of a small number of state legislatures to employ a biennial budget system (Morin, 1996; Herzik and Morin, 1995; Morin, 1994; Herzik, 1992, Thomas, 1991). The Nevada Legislature's part-time status, low levels of staff support, and crowded agenda during a 120-day biennial session inadequately equips the legislature to address long-term budgeting and policy issues in any significant manner (Morin, 1996; Herzik and Morin, 1995; Morin, 1994; Herzik, 1992).

The Nevada judicial branch consists of a seven-member Supreme Court as well as district, family, justice, and municipal courts. Voters have repeatedly rejected proposed constitutional amendments to create an intermediate appellate court (Driggs and Goodall, 1996; Neilander, 1997). The Nevada Constitution provides for the various types of courts, but grants considerable authority to the Nevada Legislature to determine the structure and operation of the judicial system. Although elected officials of the legislative and executive branches run for office on a partisan ballot, all state and local judges are elected on a nonpartisan ballot by Nevada voters (Bushnell and Driggs, 1984).

Nevadans have a long tradition of taking matters into their own hands at the polls to shape the structure, operation, and direction of state and local government. The Nevada Constitution provides for the recall of public officers, the initiative, and the referendum (Driggs and Goodall, 1996; Bushnell and Driggs, 1984).

Nevada's governmental structure necessarily entails a lack of capacity to adequately respond to economic and budget problems. Heavy reliance on gaming and

sales tax revenue renders Nevada highly vulnerable to economic trends, which must be addressed by the legislature more than once every two years (Morin, 1996; Herzik and Morin, 1995; Morin, 1994). Annual sessions of the Nevada Legislature, whether a regular annual session or an additional annual budgeting session, were supported by 60 percent in a December 1994 public opinion poll (Winter and Calder, 1995). A November-December 1996 public opinion poll revealed that 60 percent of Nevadans support the legislature holding additional yearly sessions, with 23 percent supporting the existing biennial session arrangement (Beal et al., 1997). Presently, the legislature employs an interim finance committee to address fiscal and budget matters that may arise between regular sessions. The interim finance committee is comprised of members of the Senate Committee on Finance and the Assembly Committee on Ways and Means from the preceding legislative session (Legislative Counsel Bureau, 1997).

Tax and Fiscal Structure

In the late 1970s, Nevada moved from having a state and local revenue system characterized as more decentralized to having one more centralized than the average state and local revenue system in the United States (Ebel, 1990). In 1979, the legislature enacted a tax relief package and, in response, Nevada voters defeated a constitutional initiative to limit local property taxes similar to California's Proposition 13 (Ebel, 1990). As a result, control of local revenues shifted from local elected officials to the Nevada Legislature and its interim finance committee and to the Nevada Tax Commission (Ebel, 1990). Nevada presently possesses one of the most centralized fiscal systems in the United States. The state controls, in one way or another, approximately 80 percent of the total revenues of local governments (Atkinson and Oleson, 1993). Fiscal centralization refers to the degree to which the state restricts local governmental autonomy to determine the level and mix of revenues and expenditures (Gold, 1989). Prior to the reduction in local property taxes in 1979 and a tax shift in 1981, only school district revenue was highly centralized, and local governments primarily survived on their own tax base (Ebel, 1990).

The Nevada Constitution requires a balanced budget for the state (Driggs and Goodall, 1996). Although the Nevada Constitution previously limited the level of state general obligation debt to one percent of the state's assessed property value, Nevada voters approved a ballot question in 1996 that amended the constitution to increase the limit to two percent (Ebel, 1990; Driggs and Goodall, 1996). Debt issued for the purpose of protecting or preserving state property or natural resources is excepted from the two percent constitutional debt limit (Ebel, 1990).

Nevada relies on seven main types of taxes as sources of revenue for the state's General Fund. The taxes include sales, gaming, casino entertainment, business li-

cense, mining, cigarette, and insurance premiums. Gaming and sales taxes accounted for 72.5 percent of all state General Fund revenue for fiscal year 1995-1996 (Legislative Counsel Bureau, 1997a). Gaming and sales taxes accounted for 62.6 percent of all state General Fund revenue for fiscal year 2003-2004 (Legislative Counsel Bureau, 2005).

Earmarking, the dedication of certain tax revenues to specific programs, is popular in Nevada with politicians and the public. Nevada is one of the most earmarked states in the United States (Ebel, 1990). It ranks fifth among the 50 states, earmarking 52 percent of state tax revenues, almost two and a half times the earmarking rate of 21 percent for the average state (Gold, Erickson and Kissell, 1987). Earmarking presents three main disadvantages for state government. First, the legislature lacks systematic review in the regular appropriation process. Second, earmarking reduces legislative flexibility in tailoring the budget to address economic changes. Third, once a revenue source has been earmarked, legislators may feel that they are absolved from further responsibility to appropriate additional General Fund revenues to the program (Winter, 1993; Thomas, 1991; Ebel, 1990).

Nevada does not have a personal income tax, and the legislature lacks the authority to enact a personal income tax because Nevada voters passed a state constitutional prohibition on personal income taxation (Herzik, 1991). Nevada state law requires a five percent minimum balance of the General Fund at the end of each fiscal year that cannot be touched (O'Driscoll, 1994). Nevada lacks a unified budgeting and accounting system, which makes it difficult to examine the state's finances in a comprehensive manner (Dobra, 1993). Over the course of the past seven years, gaming and sales taxes have represented approximately 75 to 62 percent of all state revenue (Legislative Counsel Bureau, 2005; Morin, 1998; Morin, 1997; Morin, 1996; Herzik and Morin, 1995; Morin, 1994; Herzik, 1992). The only viable tax policy options available to the legislature entail increased tax burdens on business, increasing the sales tax rate from 7.0 percent to a higher percentage rate, and increasing property taxes (Advisory Commission on Intergovernmental Relations, 1994; Dobra, 1993). The legislature does have the option of increasing nontax revenues, such as charges for services, licenses, fees and fines (Legislative Counsel Bureau, 1997a).

The Nevada Budgeting Process

The Nevada budgeting process is driven by the condition of the national economy and the state economy. Nevada's heavy reliance on gaming and sales taxes for state revenue makes it vulnerable to economic fluctuations. The fate of Nevada's economy is contingent on the state of the national economy (State of Nevada Economic Forum, 1994; Morin, 1996). Nevada experienced the effects of

the 1981-1982 national recession, resulting in a budget crisis during the 1981-1983 biennium (State of Nevada Economic Forum, 1994; Herzik and Statham, 1993). Nevada again experienced the effects of the 1990- 1991 national recession, resulting in a budget crisis during the 1991-1993 biennium (State of Nevada Economic Forum, 1994; Morin, 1994). The fortunes of Nevada's economy in the 1990s and 2000s have paralleled the national economy. Over the past 30 years Nevada has prospered as long as the national economy has remained healthy (State of Nevada Economic Forum, 1996).

State Budgeting Process

The budget process in Nevada consists of four stages: (1) executive preparation and presentation, (2) legislative review and adoption, (3) implementation, and (4) review. The four stages are not discrete; they overlap with some activities occurring simultaneously (Driggs and Goodall, 1996). Stage one, executive preparation and presentation, begins in the spring of even-numbered years, which was the spring of 2008 for the 2009-2011 biennial budget. The state budget director, a gubernatorial appointee, requests that state agencies prepare their budget requests. Agencies are required to estimate their needs three and one-half years ahead of the end of the biennial budget. The budget director may provide guidelines for agencies to follow in the agency budget request formulation process (Driggs and Goodall, 1996; Reno Gazette-Journal, 1996). The guidelines may limit agency requests, such as to a maximum increase of four percent over the existing biennial budget of the agency, and can incorporate the governor's priorities for the upcoming biennium. The state budget director may convey to state agencies a governor's directive that agencies are to hold the line or that there will be no new taxes (Driggs and Goodall, 1996).

All state agencies must submit their biennial budget requests to the budget director by September 1 of the even-numbered years. The budget director spends September through December examining the budget requests, meeting with each agency head, estimating how much revenue will be available for the biennium, and trying to put together a set of budget recommendations that will be acceptable to the governor. The budget director informs each agency head in December of the office's preliminary budget for the agency. In the event an agency is unsatisfied with its preliminary budget, it can appeal to the governor. Agency budget requests are submitted to the Nevada Legislature by December 10 (Driggs and Goodall, 1996; Reno Gazette-Journal, 1996). State agency budgets are outside of the state's building program. The state public works manager receives construction requests and must present a list of projects to the governor by October 1 for ultimate inclusion in the governor's proposed executive budget (Reno Gazette- Journal, 1996).

Prior to 1993, the governor was responsible for submitting a budget proposal to the legislature containing his forecast of future state General Fund revenues and proposed expenditures (Morin, 1997a). The 1991-1993 budget broke ranks with past budgets and adopted an aggressive 30 percent increase in state spending based on a quite optimistic revenue estimate accepted by the legislature and the governor. Nevada's break with conservative budget practices could not have been more poorly timed (Herzik and Morin, 1995). "Almost immediately after the fiscal year commenced, the effect of the national recession began to show up in Nevada. State revenue collections plunged and a hiring freeze was invoked. Over the next 18 months, state agencies suffered through three budget revertments" (Herzik and Statham, 1993:59).

In response to the 1991-1993 biennial budget crisis, the legislature enacted legislation in 1993 that provided for the creation of an economic forum to estimate and forecast future state General Fund revenues. The forum, a panel of five economic and tax experts from the private sector, is required to adopt an official forecast of future state General Fund revenues for the biennial budget cycle. All agencies of the state, including the governor and legislature, are required to use the forum's forecast (State of Nevada Economic Forum, 1994). The forum must provide its first forecast no later than December 1 of the even numbered years, just shortly before the beginning of a new legislative session (State of Nevada Economic Forum, 1996). This 1993 enactment effectively serves to reduce the scope of the governor's formal powers in preparing the budget.

The second stage of the budget process is legislative review and adoption, which begins with the governor providing the Nevada Legislature with a general outline of priorities and the proposed executive budget in the state of the state address during the first week of the biennial legislative session. The proposed executive budget is delivered to the Nevada Legislature shortly after the governor's state of the state address (Driggs and Goodall, 1996). The 1995 Nevada Legislature attempted to directly challenge the executive branch's institutional powers by proposing the establishment of a state legislative budget office, similar to the Congressional Budget Office, which would have been responsible for drafting its own version of the state budget for review by the money committees of the Assembly and Senate (Morin, 1997a). The Nevada Legislature and Governor Miller ultimately reached a compromise when Governor Miller threatened to veto the proposed legislative budget office. The compromise entailed giving legislative budget analysts more say in the preparation of the executive budget drafted by the governor's office; however, the compromise legislation contained a sunset clause providing that the legislation would be void after two years (Morin, 1997a). In accordance with this 1995 legislative enactment, the Fiscal Analysis Division of the Legislative Counsel Bureau provided the 1997 Nevada Legislature with its first report that provided legislators

a summary of the financial status of the state and Governor Miller's budget recommendations for the 1997-1999 biennium (Legislative Counsel Bureau, 1997a).

The legislative review process is centered almost entirely in the Senate Finance Committee and the Assembly Ways and Means Committee. State budgeting issues and the governor's budget recommendations are considered by these committees in the context of public hearings and are the subject of interest group and lobbying activities and discussion and compromises by state legislators (Driggs and Goodall, 1996). The taxation committee in each house considers tax bills and must act before the Assembly Ways and Means and Senate Finance Committees can finalize the biennial budget. Although the economic forum must provide its first forecast no later than December 1 of the even numbered years, the forum is required to revise its forecast, if necessary, by May 1 during the legislative session. If either the governor or the Nevada Legislature want to appropriate more than what is available pursuant to the forum's official forecast, a revenue enhancement proposal must be made (State of Nevada Economic Forum, 1996; Legislative Counsel Bureau, 1997a).

A reconciliation process takes place between the two money committees prior to the budget going to the floors of the two houses for approval. Consideration of the budget by the full houses is almost always perfunctory (Driggs and Goodall, 1996). The second stage of the budget process concludes with legislative passage of the biennial budget and presentation to the governor for signature. The governor lacks effective power to resist legislative changes in the budget that he prepares and presents to the Nevada Legislature. Nevada's governor is the only governor in the 13 western states to lack line-item veto power; therefore, he must sign or veto the budget passed by the legislature as an entire package. Unlike the president, he lacks pocket veto power. Any bills vetoed by the governor after the legislature has adjourned its biennial session are subject to veto override attempts two years later when the legislature meets for its next regular session. A vetoed bill must receive a two-thirds vote of all members elected to each house in order to override a governor's veto and become law (Morin, 1997a; Driggs and Goodall, 1996).

The third stage of Nevada's budgeting process is implementation and is the responsibility of the executive branch. The Nevada Legislature employs an interim finance committee to address budget and fiscal matters that may arise between regular sessions. The interim finance committee is comprised of members of the Senate Finance Committee and the Assembly Ways and Means Committee from the preceding legislative session (Driggs and Goodall, 1996; Legislative Counsel Bureau, 1997). The fourth stage of Nevada's budgeting process is review, which entails reviewing the past budget activities of state government. The state controller audits claims against the state and the legislative auditor's office conducts periodic audits of the financial records of the various agencies. The state budget director and the legislative fiscal analysts review past budgets when they prepare recommenda-

tions for the future. Lastly, the legislative money committees review past budget actions as they are considering and formulating the next biennial budget (Driggs and Goodall, 1996).

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

The Nevada Social and Fiscal Environment

Social Environment

The Nevada social and fiscal environment has not changed very much over the course of the past decade. Nevada continues to experience rapid population growth and a relatively low level of state services (Herzik, 1991; Morin, 2001). Nevada is the country’s fastest growing state. The 2000 census showed that 1,998,257 people live in Nevada, a 66.3 percent increase since 1990 when Nevada had 1,201,833 residents. Nevada’s rapid growth is centered in the Las Vegas metropolitan area, which was the nation’s fastest growing metropolitan area in the 1990s (Cox, 2000; Armas, 2000). Henderson and North Las Vegas, two Las Vegas metropolitan suburbs, were the fastest growing cities of at least 100,000 population during the 1990s. The population explosion in Las Vegas is brought about by an expansion in the casino industry, which brings in small business (Cox, 2000; Armas, 2000).

Nevada has been one of the fastest growing states decade to decade since 1930 (Cox, 2000). The state demographer predicted that Nevada will add 644,000 residents by 2010, increasing Nevada’s population to approximately 2.6 million residents. As in the recent past, most of the new residents will settle in Clark County, the Las Vegas metropolitan area. By 2010, it is projected that Clark County will

have a population of 1.8 million (Smith, 2000). It appears the predictions of the Nevada State Demographer may be too conservative: 87.1 percent of Nevada's 2.4 million population live in two of the state's seventeen counties; 71.2 percent of the state's population, 1.7 million, live in Clark County; 15.9 percent of the state's population, 383,453, live in Washoe County (Nevada State Demographer, 2005).

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

K-12 education is unequally distributed. Seventy percent of the students are served by the Clark County School District, with 16 percent served by Washoe County School District and the remaining 14 percent served by the remaining 15 rural school districts (McRobbie and Makkonen, 2005). Nevada's school enrollment for K-12 grew 188 percent between 1970 and 2000. This represented the largest increase in school enrollment in the United States, and it is estimated that Nevada will continue to lead the nation in terms of enrollment growth over the course of the next decade. In Clark County, the rapidly increasing student population is changing ethnically, racially, and socio-economically. Fifty-one percent of the students are of color, and Hispanic students represent the fastest growing group. Many of the new students are immigrants, from poor families, and are English learners. In part attributable to student enrollment growth and increasing student diversity, student achievement in Nevada is low.

Nevada ranks near the bottom in state-by-state comparisons and significant achievement gaps persist among different racial, ethnic, and socio-economic groups (McRobbie and Makkonen, 2005). A recent study assigned low grades to the performance of the Nevada System of Higher Education on the basis of five indicators. Nevada earned a grade of D in terms of preparation, although the academic preparation of high school students has improved nationally over the past decade. Nevada earned a C in terms of participation. Smaller proportions of young and working age adults are enrolling in postsecondary education. Nevada earned an F in terms of affordability. College and universities have become less affordable for students and

families. Nevada also earned an F in terms of completion, which measures whether students make progress toward and complete certificates and degrees in a timely manner. Finally, Nevada earned a C- in terms of benefits. This indicator measures what benefits a state receives as a result of having a highly educated population (The National Center for Public Policy and Higher Education, 2004).

Fiscal Environment

The 2008, 2009 and 2010 Nevada Economic Environment

Nevada experienced in 2007 and 2008 as a result of a housing slowdown, stagnant retail sales, stagnant gaming revenue, and slowing job growth. The poor Nevada economy resulted in a state budget shortfall (Nevada Department of Employment, Training and Rehabilitation, 2007a). By the end of 2008, Nevada was officially in recession (Nevada Department of employment, Training and Rehabilitation, 2008d). Unemployment, which had reached a low of 4.1 percent in early 2006, climbed to 4.6 percent by the middle of 2007 and increased to 5.8 percent in December of 2007, higher than the national rate of 5.0 percent.

Job growth of 1.0 percent in 2007 was the second weakest in 15 years. Population growth slowed, but the economy was unable to absorb many of the new workers. The housing market correction resulted in a steep decline in new construction, high rates of foreclosure, a decline in jobs in the construction industry, and an increase in unemployment. The financial industry, temporary employment services, and even retail sales also lost jobs (Nevada Department of Employment, Training and Rehabilitation, 2008; Nevada Department of Employment, Training and Rehabilitation, 2007a).

The economy continued to weaken and decline during the first half of 2008. Unemployment rates continued to rise during 2008. In May 2008, gaming revenue experienced a huge decline, down 15.7 percent from May 2007, the steepest drop in a decade. The economy continued to decline in the second half of 2008 as unemployment increased from 6.6 percent in September to 9.1 percent in December 2008. Job growth declined and taxable sales were down 5.2 percent from September 2007 to September 2008. Gaming revenue declined 22.3 percent in October 2008 from October 2007.

The decline continued in 2009 as unemployment rose to 9.4 percent in January 2009 and 12.0 percent in June 2009, an all time high. In January 2009, gaming revenues were down 26.22 percent from January 2008, and they continued to fall in the first half of 2009. Taxable sales were down 17.9 percent from April 2008 to April 2009 (Department of Employment, Training and Rehabilitation, 2008d; De-

partment of Employment, Training and Rehabilitation, 2009; Department of Employment, Training and Rehabilitation, 2009a).

The economy continued its slide in the second half of 2009. Unemployment rose to 13.0 percent in December 2009, and the second highest unemployment rate in the nation. Gaming revenue rose 4.4 percent in November 2009 over November 2008, the first positive reading in gaming revenue in almost two years. Taxable sales were down 10.9 percent from November 2008 to November 2009.

The economy showed no sign of improvement in January 2010. Unemployment remained at 13.0 percent, gaming revenue slipped 3.2 percent in December 2009 from December 2008, and taxable sales continued to decline. (Department of Employment, Training and Rehabilitation, 2009b; Department of Employment, Training and Rehabilitation, 2010). Nevada was stuck in recession, suffering from the effects of a long-term housing slowdown, increasing fuel prices, reduced tourist traffic, lack of available credit for commercial construction projects, increasing unemployment, reduced consumer confidence and increasing consumer prices (Nevada Department of Employment, Training and Rehabilitation, 2008a; Nevada Department of Employment, Training and Rehabilitation, 2008b; Nevada Department of Employment, Training and Rehabilitation, 2008c; O'Driscoll, 2008; Department of Employment, Training and Rehabilitation, 2009a).

The 2007 And 2008 Budget Cuts

During the last quarter of 2007 it became apparent that Nevada was going to experience a budget shortfall due to stagnant sales tax and gaming tax revenue. The 2007-2009 biennial budget was based on the May 2007 revenue forecast of the Economic Forum. In late 2007, Governor Gibbons anticipated a \$440 million tax revenue shortfall over the course of two years. The governor originally took the position that all state agencies, except Nevada school districts and public safety agencies, would have to cut their budgets by five percent. The governor increased his proposed cuts from five percent to eight percent in December of 2007 as the economy softened more than originally anticipated. In December of 2007, Governor Gibbons reversed his initial position of exempting school districts and public safety agencies from budget cuts and ordered an across-the-board 4.5 percent cut on all state agencies (Damon, 2007; Damon, 2008).

Nevada's economic slowdown continued through the first half of 2008, resulting in a much more serious state budget shortfall. In December of 2007 the projected shortfall was \$440 million. It increased to \$500 million in February 2008 and \$900 million in April of 2008. In June of 2008 Governor Gibbons faced a \$1.16 billion shortfall for the 2007-2009 biennium and called a special session of the legislature. Prior to the start of the special session, the governor had imposed cuts of

more than \$900 million, including \$228 million with 4.5 percent cuts of state agencies across the board, \$185.6 million in postponed capital projects, \$267 million from emptying Nevada's rainy day fund and \$45 million by postponing one-shot funding grants approved by the 2007 legislature.

The June 2008 special session of the legislature produced a plan to cover the last \$275 million in the budget shortfall with \$106 million in cuts to state agency operating budgets, resulting in another 3.3 percent cut to agencies' operating budgets over previous operating cuts. The plan included cuts in funding for grade school textbooks and the delay or cancellation of transportation projects (Hager, 2008; Damon, 2008a). In December of 2008 Governor Gibbons faced an additional shortfall in General Fund revenue of approximately \$340 million and called another Special Session of the legislature to address the additional shortfall (Legislative Counsel Bureau, 2009).

The 2008 General Election

2008 was a year of partisan political change in Nevada with the Democrats enjoying great electoral success. Democrat Barack Obama won Nevada's Electoral College votes in the November General Election. Obama won 55.15 percent of the vote to John McCain's 42.65 percent. Voter turnout was 80.27 percent. Democrat Congresswoman Shelley Berkley was reelected in District 1 with 67.65 percent. Republican Dean Heller was reelected in District 2 with 51.82 percent of the vote. Three-term Republican Congressman Jon Porter was defeated in his reelection bid in District 3. Porter received 42.29 percent and Dina Titus 47.43. Congresswoman Titus, former State Senate Minority Leader, was the Democrat candidate for governor in 2006, losing to Republican Jim Gibbons. No statewide constitutional offices were on the 2008 General Election ballot (Nevada Secretary of State, 2008; Nevada Secretary of State, 2008a).

The Democrats enjoyed success during the 2008 General Election regarding the partisan composition of the 2009 Nevada Legislature. All 42 State Assembly seats and half of the 21 State Senate seats were up in 2008. The Clark County delegation continued to control almost 70 percent of both houses of the 2009 legislature. The 2006 General Election had produced a divided state government. Republican Governor Jim Gibbons faced a State Assembly controlled by the Democrats by a margin of 27 to 15 and a Senate controlled by Republicans 11 to 10 (Legislative Counsel Bureau, 2007). The 2008 General Election once again produced a divided government; the Democrats increased their majority in the 2009 Assembly and captured the majority in the Senate. Republican Gibbons faced a 2009 Assembly controlled by the Democrats 28 to 14 and a Senate controlled by the Democrats 12 to 9 (Legislative Counsel Bureau, 2009).

The 2009 Nevada Legislature

The economy and biennial budget were the dominant issues in the 2009 Nevada Legislature. Governor Gibbons presented the legislature with his 2009-2011 Executive Budget in Brief on January 15, 2009 that was approximately \$2.2 billion smaller than his 2007-2009 proposed budget. Gibbons' approach to the budget was relatively simple and clear. He opposed new taxes and tax increases and proposed to cut state expenditures, maintain a balanced budget and provide essential government services. He employed the revenue projections of the Nevada Economic Forum in its December 2008 report in the formulation of the proposed biennial budget. The forum projected General Fund revenues to be \$2.8 billion for fiscal year 2009-2010 and \$2.9 billion for 2010-2011.

The 2009-2011 biennial total of \$5.7 billion is 3.0 percent lower than the revised revenue estimate of \$5.8 billion for the 2007-2009 biennium. Gaming taxes were projected to constitute 26.6 percent of the total General Fund revenue for the 2009-2011 biennium and sales and use taxes another 32.5 percent. Governor Gibbons recommended an executive budget that reduced General Fund appropriations for all functional appropriation categories except for Human Services where he recommended a slight increase. He recommended a 36 percent cut for the Nevada System of Higher Education and a 6 percent pay cut for all state employees. Democratic leaders in the Legislature contended that Gibbons' recommended budget and cuts were unacceptable (Department of Administration, 2009; State of Nevada Economic Forum, 2008).

The 2009 legislature faced an environment characterized by recession, a budget crisis and a political budget battle. Republican Governor Gibbons engaged in a political battle with Assembly Speaker Barbara Buckley and Senate Majority Leader Steven Horsford, both Democrats, regarding the federal stimulus package and state taxation and spending. Gibbons' was unsure whether Nevada should accept all, a portion or none of the federal stimulus money. Speaker Buckley wanted to accept federal stimulus money. Buckley and Horsford were not pleased with Governor Gibbons' proposed 2009-2011 Executive Budget. Buckley wanted to review Nevada's tax and revenue system, stating that perhaps some revenue enhancements were necessary. Gibbons was steadfast in his position of no new taxes and no tax increases. Legislators worked all through the 2009 session of the Nevada Legislature drafting an alternative to Gibbons' proposed \$6.2 billion biennial budget (Damon, 2009).

The economic forum issued revised final revenue projections on May 1, 2009, allowing the legislature to work on the biennial budget during May of 2009. The forum revised its December 1, 2008 projection of state tax revenue over the 2009-2011 biennium downward by \$380 million (Vogel, 2009; Legislative Counsel Bureau, 2009a). The political battle lines were clearly drawn after the release of the

forum's revised forecast because the legislature and the governor were bound by statute to the revised and final revenue projections when formulating the 2009-2011 budget. The battle lines were drawn on an institutional basis with the governor on one side and the legislature on the other. Gibbons' position continued to be no new taxes, no tax increases and cut spending to a level where spending equaled the revenue projections. The legislature wanted a budget that combined tax increases and reductions in spending along with accepting federal stimulus money.

In the end, the legislature won. It passed taxation bills that collectively constituted a \$781 million tax increase over the course of the biennium. The package increased the sales and use tax, room tax, modified business tax, governmental services tax, and short-term car rental tax. The legislature agreed to accept more than \$500 million in federal stimulus money and borrowed \$160 million and authorized a study of long-term revenue needs during the 2009-2010 interim. The governor vetoed all of the tax increase measures, and all of his vetoes were overridden (Vogel, 2009; Damon, 2009; Damon, 2009a; Damon, 2009b; Damon, 2009c; Legislative Counsel Bureau, 2009a).

The 2009 legislature passed a budget of approximately \$6.9 billion for the 2009- 2011 biennium, some \$312 million more than the amount recommended by Governor Gibbons. K-12 and higher education will receive 54.9 percent of the total general fund appropriations, Human Services 29.4 percent, and Public Safety 8.5 percent. The governor vetoed the budget and his veto was overridden (Legislative Counsel Bureau, 2009a; Damon, 2009; Damon, 2009a; Damon, 2009b; Damon, 2009c).

The 2010 Special Session of the Nevada Legislature

The Nevada economy became worse as 2010 began and the governor called a special session of the legislature in February to address a \$880 million budget hole. In January 2010 the governor issued his proposal to address the budget crisis and shortfall by eliminating funding for full-day kindergarten and reducing class size. He called for a school voucher program, elimination of collective bargaining rights for school district employees, giving local school districts more control over spending state money, and cuts in spending for higher education and state agencies (Damon, 2010; Damon, 2010a).

During the special session, Gibbons reversed his no tax/no fee stance and decided to negotiate with the legislature. The governor and legislative leaders compromised on a negotiated budget bill that was passed on March 1, 2010. The \$880 million budget hole was addressed through a variety of short-term band-aid measures. Operating budget cuts for state agencies and education amounted to a little more than \$300 million. Another \$129 million was discovered from money from

Clark County, the Millennium Scholarship, uncollected taxes and a tax amnesty program. Another \$197 million was transferred to the state biennial budget from various reserve accounts, and \$114 million will be obtained in federal funding. Fee increases on mining, banking and services provided by the Nevada Secretary of State will produce the final \$53 million.

The governor and the legislature failed to address the structural problems associated with Nevada's revenue sources and its dependency on sales tax and gaming tax revenue, resulting in a state of denial. Senate Majority Leader Steven Horsford made an impassioned speech on the floor of the Senate, calling for corporations in Nevada to pay their fair share for government and government services. The governor and the legislature ignored Horsford's plea, and their state of denial may well result in budgetary disaster for 2011, when, it is estimated, there will be a \$3 billion revenue shortfall for a \$7 billion 2011-2013 biennial budget (Damon, 2010b; Damon, 2010c).

Conclusion

The legislature certainly won the bitter, hard fought political and institutional budget battle, and Governor Gibbons lost. The governor ended the 2009 legislative session by vetoing a total of 48 bills. The number of bills vetoed and the number of vetoes overridden were the most in Nevada's history (Legislative Counsel Bureau, 2009a). Gibbons may have lost the battle, but the war is far from over. Even in a deep recession, there were many citizens and business concerns that supported Governor Gibbons' position during the budget battle. Which institution ultimately wins the war may well be decided during the 2010 General Election in Nevada when all of the state constitutional offices are up for election along with all of the Assembly seats and half of the Senate seats. The future looks bleak in Nevada. The 2010 Special Session of the Nevada Legislature did not really address the state's budgetary problems. Dependency and denial may well result in disaster for the 2011 legislature.

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