Nevada
2016: Steady Economic Improvement

Robert Morin
Western Nevada College

Introduction

Nevada has experienced steady economic improvement and continues its slow recovery from the Great Recession of 2008. The state budget is resting on a solid foundation in terms of satisfying revenue projections contained in the 2015–2017 biennial budget (Nevada Department of Employment, Training and Rehabilitation 2015). The state successfully faced and responded to a state economic environment that has been characterized for the past few years by recession, a budget crisis and political budget fights. The budget in Nevada is currently stable, and Nevada has experienced slow, steady economic improvement during fiscal year 2015–2016. Nevada’s economic improvement, compared to many other areas of the United States, has been slow, and it will probably take a considerable amount of time before Nevada experiences a complete recovery from the Great Recession of 2008.

The Nevada Legislature meets once every two years during odd-numbered years, and 2016 represents an off year for the Nevada Legislature. The off legislative year, each even-numbered year, consists of monitoring economic indicators, preliminary construction of the new biennial budget, and previewing the fall general election.

Nevada’s budgetary politics have generally been highlighted by low levels of service provision and over-reliance on two primary sources of revenue: namely, sales and gaming taxes (Herzik 1991; Herzik 1992; Herzik and Statham 1993; Morin 1994; Herzik and Morin 1995; Morin 1996; Morin 1997; Morin 1998). This article shall examine the Nevada political environment, the state biennial process and the fiscal environment. This article shall also preview the 2016 general election.

The Nevada Political Environment

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

Political Culture

Nevada’s political culture is individualistic. An individualistic political culture possesses a political environment where politics is an open marketplace where individuals and interest
groups pursue social and economic goals (Elazar 1984; Dye 1994; Bowman and Kearney 1996). Nevada’s political culture emphasizes limited government, fiscal conservatism, fragmentation of state governmental power, and citizen control over government at the ballot box. In terms of partisan politics, Nevada is becoming more Democrat than Republican. Nevada’s party competition classification in the 1970s was two-party Democratic dominant; however, in the 1980s this classification changed to two-party Republican leaning (Hrebenar and Benedict 1991). In terms of party identification, a November-December 1996 poll revealed that southern Nevada leaned Democrat while northern and rural Nevada leaned Republican (Beal, Fairhurst, and Calder 1997). As of February 2016 there were 596,720 registered Democrats, 505,818 registered Republicans and 292,315 registered as nonpartisan. Clark County (southern Nevada) has become more Democrat, while Washoe County (northern Nevada) has become equally split between Republicans and Democrats, with rural Nevada continuing to be Republican (Secretary of State 2016).

Nevada’s political environment is conservative in budgeting and fiscal matters. Republican and Democrat legislators display fiscal conservatism in both the state Senate and the state Assembly (Morin 1996; Herzik and Morin 1995; Morin 1994; Herzik and Statham 1993). Nevada historically has provided a relatively low level of state services resulting in a low tax burden (Morin 1996; Herzik and Morin 1995; Morin 1994; Herzik and Statham 1993). In the past, Nevadans were not necessarily opposed to spending on state programs; however, Nevadans wanted others—visitors, tourists, gamblers and corporations—to bear much of the tax burden (Winter 1993).

Government Structure

Nevada’s Constitution structures government at the state level by apportioning power between the legislative, executive, and judicial branches (Driggs and Goodall 1996). It provides for a weak, fragmented, and decentralized executive branch. The governor, who possesses package veto power, shares executive power and authority with other elected executive officials, boards, commissions and councils (Morin 1997a; Driggs and Goodall 1996). Nevada’s Constitution provides for a bicameral legislature. The state Senate is comprised of 20 members serving 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 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, district, family, justice, and municipal courts. The state’s voters repeatedly rejected proposed constitutional amendments to create an intermediate appellate court (Driggs and Goodall 1996; Neilander 1997). In a reversal of position, the voters approved a proposed constitutional amendment at the ballot box during the 2014 General Election and authorized the creation of an intermediate appellate court. The Nevada Court of Appeals is a three-member appellate court that began operating in January of 2015 (Secretary of State 2014). The Nevada Constitution specifically provides for the various types of courts; however, it grants considerable authority to the Nevada Legislature to determine the structure and operation of the judicial system. Although elected officials of the
legislative and executive branches run for office on a partisan ballot, all state and local judges are elected on a nonpartisan ballot by Nevada voters (Bushnell and Driggs 1984).

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

Nevada’s governmental structure necessarily entails a lack of capacity to adequately respond to economic and budget problems. Heavy reliance upon gaming and sales tax revenue renders Nevada highly vulnerable to economic trends, which must be addressed by the legislature more than once every two years (Morin 1996; Herzik and Morin 1995; Morin 1994). Presently, the legislature employs an Interim Finance Committee in order to address fiscal and budget matters, which may arise between regular sessions. The Interim Finance Committee is comprised of members of the Senate Committee on Finance and the Assembly Committee on Ways and Means from the preceding legislative session (Legislative Counsel Bureau 1997).

**Tax and Fiscal Structure**

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

The Nevada Constitution requires a balanced budget for the state (Driggs and Goodall 1996). Although the Nevada Constitution previously limited the level of state general obligation debt to 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 the state’s 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 seven types of taxes include sales, gaming, casino entertainment, business license, mining, cigarette, and insurance premiums. Gaming and sales taxes were to constitute approximately 50 percent of the General Fund revenue for the 2009–2011 biennium (Legislative Counsel Bureau 2010). Earmarking, the dedication of certain tax revenues to specific programs, is popular in Nevada with both politicians and the public. Nevada is one of the most earmarked states in the United States (Ebel 1990). Nevada ranks fifth among the 50 states, earmarking 52 percent of its total state tax revenues, which is almost two-and-a-half times the earmarking rate of 21 percent of the average state (Gold, Erickson, and Kissell 1987). Earmarking presents three main disadvantages for state government. First, the legislature lacks systematic review in the regular appro-
priation process. Second, earmarking reduces legislative flexibility in tailoring the budget to address economic changes. Third, once a revenue source has been earmarked, legislators may feel that they are absolved from further responsibility to appropriate additional General Fund revenues to the program (Winter 1993; Thomas 1991; Ebel 1990).

Nevada does not have a personal income tax, and the legislature lacks any real ability to enact a personal income tax because Nevada voters passed a state constitutional prohibition on personal income taxation (Herzik 1991). Nevada state law requires a 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 renders it quite difficult to examine the state’s finances in a comprehensive manner (Dobra 1993). Over the course of the past many years, gaming and sales taxes have represented approximately 75 to 50 percent of all state revenue (Legislative Counsel Bureau 2010; 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, 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


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 2012 for the 2013–2015 biennial budget. The state budget director, a gubernatorial appointee, requests that state agencies prepare their budget requests. Agencies are required to estimate their needs three and one-half years ahead of the end of the biennial budget. The state budget director may also provide guidelines for agencies to follow in the agency budget request formulation process (Driggs and Goodall 1996; Reno Gazette-Journal 1996). The guidelines may limit agency requests, such as to a maximum increase of four percent over the existing biennial budget of the agency, and can also incorporate the governor’s priorities for the upcoming biennium. The state budget director may convey to state agencies a governor’s di-
irective that agencies are to hold the line or that there will be no new taxes (Driggs and Goodall 1996).

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

Prior to 1993, the governor was responsible for submitting a budget proposal to the Nevada Legislature containing his estimated forecast of future state General Fund revenues and proposed expenditures (Morin 1997a). The 1991–1993 budget broke ranks with past budgets and adopted an aggressive 30 percent increase in state spending based upon a quite optimistic revenue estimate accepted by the Nevada Legislature and the governor. Nevada’s break with conservative budget practices could not have been more poorly timed (Herzik and Morin 1995). “Almost immediately after the fiscal year commenced, the effect of the national recession began to show up in Nevada. State revenue collections plunged and a hiring freeze was invoked. Over the next 18 months, state agencies suffered through three budget revertments” (Herzik and Statham 1993, 59). In response to the 1991–1993 biennial budget crisis, the Nevada 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 taxation experts from the private sector, is required to adopt an official forecast of future state General Fund revenues for the biennial budget cycle. All agencies of the state, including the governor and Nevada Legislature, are required to use the forum’s forecast (State of Nevada Economic Forum 1994). The forum must provide its first forecast no later than December 1 of the even-numbered years, just shortly before the beginning of a new legislative session (State of Nevada Economic Forum 1996). This 1993 enactment effectively serves to reduce the scope of the governor’s formal powers in preparing the budget.

The second stage of the budget process is legislative review and adoption, which begins with the governor providing the Nevada Legislature with a general outline of priorities and the proposed executive budget in the State of the State address during the first week of the biennial legislative session. The proposed executive budget is delivered to the Nevada Legislature shortly after the governor’s State of the State address (Driggs and Goodall 1996). The 1995 Nevada Legislature attempted to directly challenge the executive branch’s institutional powers by proposing the establishment of a state legislative budget office, similar to the Congressional Budget Office, which would have been responsible for drafting its own version of the state budget for review by the money committees of the Assembly and Senate (Morin 1997a). The Nevada Legislature and Governor Miller ultimately reached a compromise when Governor Miller threatened to veto the proposed legislative budget office. The compromise entailed giving legislative budget analysts more say in the preparation of the executive budget drafted by the governor’s office; however, the compromise legislation contained a sunset clause providing that the legislation would be void
after two years (Morin 1997a). In accordance with this 1995 legislative enactment, the Fiscal Analysis Division of the Legislative Counsel Bureau provided the 1997 Nevada Legislature with its first report that provided legislators a summary of the financial status of the state and Governor Miller’s budget recommendations for the 1997–1999 biennium (Legislative Counsel Bureau 1997a).

The legislative review process is centered almost entirely in the Senate Finance Committee and the Assembly Ways and Means Committee. State budgeting issues and the governor’s budget recommendations are considered by these committees in the context of public hearings and are the subject of interest group and lobbying activities and the subject of discussion and compromises by state legislators (Driggs and Goodall 1996). The Taxation Committee in each house considers tax bills and must act before the Assembly Ways and Means and Senate Finance Committees can finalize the biennial budget. Although the Economic Forum must provide its first forecast no later than December 1 of the even-numbered years, the forum is required to revise its forecast, if necessary, by May 1 during the legislative session. If either the governor or the Nevada Legislature want to appropriate more than what is available pursuant to the forum’s official forecast, a revenue enhancement proposal must be made (State of Nevada Economic Forum 1996; Legislative Counsel Bureau 1997a). A reconciliation process takes place between the two money committees prior to the budget going to the floors of the two houses for approval. Consideration of the budget by the full houses is almost always perfunctory (Driggs and Goodall 1996). The second stage of the budget process concludes with legislative passage of the biennial budget and presentation to the governor for signature. The governor lacks effective power to resist legislative changes in the budget that he prepares and presents to the Nevada Legislature. Nevada’s governor is the only governor in the 13 western states to lack line-item veto power; therefore, he must sign or veto the budget passed by the Nevada Legislature as an entire package. Unlike the president, he lacks pocket veto power. Any bills vetoed by the governor after the Nevada Legislature has adjourned its biennial session are subject to veto override attempts two years later when the Nevada Legislature meets again for its next regular session. A vetoed bill must receive a two-thirds vote of all members elected to each house in order to override a governor’s veto and become law (Morin 1997a; Driggs and Goodall 1996).

The third stage of Nevada’s budgeting process is implementation and is the responsibility of the executive branch. The Nevada Legislature employs an Interim Finance Committee to address budget and fiscal matters 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 also conducts periodic audits of the financial records of the various agencies. The state budget director and the legislative fiscal analysts review past budgets when they prepare recommendations for the future. Lastly, the legislative money committees review past budget actions as they are considering and formulating the next, new biennial budget (Driggs and Goodall 1996).

In 1991, the Nevada Legislature created a “rainy day” fund to help stabilize the state budget. This enactment created a state trust fund that would be built up during good times and would be accessed in the case of a fiscal emergency. When the state General Fund surplus reaches a certain threshold at the end of a fiscal year, a portion of the excess is held in the “rainy day” trust fund to help the state through fiscal emergencies (Herzik and Morin 1995; Morin 1996; Legisla-
The Nevada Fiscal Environment

Nevada’s heavy reliance upon gaming and sales taxes for state revenue places Nevada in a position of being quite vulnerable to economic fluctuations. The fate of Nevada’s economy is contingent upon the state of the national economy (Morin 2001). The nation’s economy began its tenth year of economic expansion in the spring of 2000, and through November 2000 the nation’s economy had continued to grow. The nation’s economy had been growing for 116 consecutive months, representing the longest expansion of the nation’s economy in the history of the United States (State of Nevada Economic Forum 2000). As we entered early 2007, the Nevada economy remained strong and it was anticipated that the current decade would be characterized by impressive growth (Nevada Department of Employment, Training and Rehabilitation 2007). The Nevada economy, although strong, was beginning to cool down as the Nevada Legislature began to debate the final components of the 2007–2009 biennial budget. The Economic Forum’s forecast was for a slower rate of growth in the Nevada economy than what was originally forecasted by the Economic Forum in December of 2006 (State of Nevada Economic Forum 2007). There was an economic slowdown throughout 2007 and the economic slowdown continued during 2008. The poor Nevada economy was attributable to a housing slowdown, stagnant retail sales, stagnant gaming revenue, and slowing job growth. The poor Nevada economy had resulted in a state budget shortfall (Nevada Department of Employment, Training and Rehabilitation 2007a). By the end of 2008, Nevada’s economy was officially in recession (Nevada Department of Employment, Training and Rehabilitation 2008d).

The Nevada economy continued to weaken and decline during 2009. The unemployment rate increased to 13 percent in December 2009. Nevada ended 2009 with the second-highest unemployment rate in the United States. Taxable sales were down, and Nevada gaming revenue slipped in December 2009 (Department of Employment, Training and Rehabilitation 2009b; Department of Employment, Training and Rehabilitation 2010). Nevada’s economy continued to be in recession through 2010 and in to the beginning of 2011. The unemployment rate in January of 2011 was 13.6 percent and Nevada had one of the highest or the highest unemployment rate in the United States. Gaming revenue and sales tax revenue were essentially flat. Nevada suffered from the effects of a long-term housing slowdown, foreclosures, increasing fuel prices, reduced tourist traffic, lack of available credit for commercial construction projects, high levels of 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; Nevada Department of Employment, Training, and Rehabilitation 2011).

The Nevada economy hit bottom and essentially was flat during 2010 and 2011. The Nevada economy began to recover and grow in 2012 and continued to grow in 2013. In 2014 the Nevada economy continued to grow and recover. Tourism and consumer spending have been increasing. Housing and construction have rebounded. Automobile manufacturing company Tesla announced that it would build its giga factory in Storey County, and it is anticipated that the Tesla business enterprise will bring at least 6,000 manufacturing jobs to Storey County. It is also anticipated that major casino projects will be opened on the Las Vegas strip in the next several years.
Nevada has experienced growth in jobs and a reduction in unemployment rates. The unemployment rate for October 2014 was 7.1 percent and was 7.1 percent for February of 2015 (Nevada Department of Employment, Training, and Rehabilitation 2013; State of Nevada Economic Forum 2014; Nevada Department of Employment, Training, and Rehabilitation 2015).

In 2015, the Nevada economy continued to recover from the impact of the Great Recession of 2008. Nevada employment declined by 175,000 jobs during the Great Recession. By the end of 2015, it was estimated that Nevada had added back approximately 135,000 of those jobs. For 2015, Nevada’s unemployment rate averaged 6.8 percent, down one full percentage point from 2014. In December 2014 Nevada’s unemployment rate was 7 percent compared to 6.4 tenth percent in December 2015, the lowest rate since June 2008. Through the first half of 2015, Nevada’s private sector grew four percent when compared to the same period in 2014. Construction and leisure and hospitality were the sectors experiencing the largest employment growth. More job growth in Nevada has been driven from expansions of existing businesses than from business openings. The gross gaming win in November 2015 was $944.3 million. The gross gaming win was up 7.8 percent in November 2015 when compared to November 2014 and was up .6 percent year-to-date over 2014. Taxable sales in October 2015 were $4.31 billion, up 5.5 percent when compared to October 2014. Las Vegas visitor volume was up 2.8 percent year-to-date over 2014 (Nevada Department of Employment, Training, and Rehabilitation 2015a).

The 2016 General Election Preview

Election year 2014 represented a great success for Republicans in Nevada. The Red Wave resulted in Republicans winning all six statewide constitutional offices, a majority in the Nevada Assembly and a majority in the Nevada Senate. It is the first time since 1929 that the Republicans in Nevada have had this across-the-board control of state government. Neither of the U.S. Senate seats were up for election during the 2014 general election. Republicans captured three of the four seats in the U.S. House of Representatives. Democrat Dina Titus was reelected in District 1, Republican Mark Amodei was reelected in District 2, and Republican Joe Heck was reelected in District 3. Democrat Congressman Steven Horford was defeated for reelection by Republican Nevada Assemblyman Cresent Hardy in the District 4 race (Nevada Secretary of State 2014).

The 2016 general election will determine whether the 2014 Red Wave in Nevada was transitory or permanent. None of the six statewide constitutional offices are on the ballot in 2016. U.S. Senator Harry Reid announced his retirement and this open U.S. Senate seat race will be a top priority for Democrats and Republicans in the Nevada. All four of the seats in U.S. House of Representatives will be on the ballot for election in 2016. All of the 42 state Assembly seats and half of the 21 state Senate seats will up for election in the 2016 general election. In accordance with historical precedent, the presidential election should result in larger voter turnout in 2016 than the voter turnout in 2014.

Conclusion

The year 2016 represents an opportunity for Nevada to experience continued economic improvement. The current stable economic foundation allows Nevada politicians an opportunity to act in a proactive fashion in the policymaking process and budgeting process as opposed to being reactive, which has been the standard fare since the Great Recession began in 2008. Economic
improvement has been slow and steady and the goal is to return the Nevada economy to its pre-Great Recession status. The 2016 general election will determine whether the 2014 Red Wave in Nevada was transitory or permanent and will provide the partisan, political and economic context for the governor and the 2017 Nevada Legislature to decide the future direction of Nevada and the formulation of the 2017–2019 biennial budget. Economic recovery, economic growth and incremental tax revenue growth appear to constitute the basic approach that will be taken to budgeting in Nevada.


———. 2008c. Nevada Economy in Brief: June 2008. Carson City, NV: Nevada Department of