

# **OVERVIEW OF NEVADA'S BUDGET PROCESS AND REVENUE FORECAST**

## **Overview**

The division is headed by the Senate Fiscal Analyst and the Assembly Fiscal Analyst, who are appointed by the Director with the approval of the Legislative Commission. In addition to the Senate and Assembly Fiscal Analysts, the Division consist of 23 other professional positions and 6 clerical positions. Each House of the Legislature is assigned a Principal Deputy Fiscal Analyst to assist the Fiscal Analyst. A third Principal Deputy Fiscal Analyst is assigned to supervise revenue matters.

The primary goal of the division is to provide the Legislature with the capability for independent review and analysis of budgetary and fiscal matters as set forth in NRS 218F.600. The division achieves this goal by providing the following services to the members of the Legislature:

1. Analysis of The Executive Budget and Proposed Legislation
2. Forecasting and Monitoring State Revenues
3. Providing Information About State Operations from a Fiscal Perspective

The flow of work through the Fiscal Analysis Division coincides mainly with the state budget cycle. That is, it follows the planning and preparation stage of budgeting, legislative review and approval, and budget execution. The following is a brief outline of the activities associated with the budget process:

## **Budget Development Process and Timing for the Next Biennium**

The Executive Budget is the Governor's recommended fiscal plan and priorities for the coming biennium expressed in dollar terms. It is an overall plan of recommended expenditures necessary to execute the proposed fiscal plan, together with an estimate of revenue expected to be available to support the expenditures.

- Agencies develop budgets beginning in the spring of even-numbered years for the next biennium.
- State agency biennial budget requests must be submitted to the Governor's Office of Finance, Budget Division (Budget Division) and the Fiscal Analysis Division on or before September 1 of even-numbered years (NRS 353.210).
- The Budget Division conducts budget conferences with agencies in September and October and constructs The Executive Budget in November and December of even numbered years for delivery to the Legislature in mid-January of odd numbered years. The delivery of The Executive Budget to the Legislature coincides with the Governor's State of the State address.

- The Budget Division is required to provide actual revenue and expenditure data for the previous fiscal year; budgeted amounts for the current fiscal year; and each agency's requested budget for the upcoming biennium, which is commonly referred to as the Agency Request budget. Agency Request budget information is available to the public on October 15 of the even number year (NRS 353.211). Agency Request budget information is also published in The Executive Budget for comparison against the budget recommended by the Governor.
- By December 31 of even-numbered years, the Budget Division is required to provide information to the Fiscal Analysis Division on each agency's adjusted base budget by budget account for each of the next two fiscal years, which is the estimated costs for continuing the operation of state government, including K-12 and higher education, at the current level of service. This information, viewed with the Economic Forum's revenue projection, determines the amount of General Funds available for enhancements to agency programs/budgets within The Executive Budget.
- The Executive Budget is due to the Legislature not later than 14 calendar days in advance of the legislative session (NRS 353.230). For the 2017 Legislature the Governor is scheduled to deliver the State of the State address on January 17, and the Fiscal Analysis Division anticipates receipt of the Governor's budget on that date.
- By day 19 of the legislative session, the Governor must submit to the Legislative Counsel detailed information for each bill that will be necessary to implement the funding recommendations contained in The Executive Budget (NRS 353.230).

The Executive Budget is divided into the following functional areas:

- **Elected Officials** – Elected Officials, Judicial and Legislature, and Western Interstate Commission on Higher Education (WICHE)
- **Finance and Administration** – Department of Administration (including the State Public Works Division, Enterprise Information Technology Services and Human Resource Management) and Department of Taxation
- **Education** – Department of Education (includes Distributive School Account), State Public Charter School Authority, Nevada System of Higher Education (NSHE), and Commission on Postsecondary Education
- **Commerce and Industry** – Department of Business and Industry, Gaming Control Board, Public Utilities Commission, Department of Agriculture, Commission on Minerals, Governor's Office of Economic Development, and Department of Tourism and Cultural Affairs
- **Human Services** – Department of Health and Human Services, and Department of Employment, Training and Rehabilitation
- **Public Safety** – Department of Corrections, Department of Public Safety, Department of Motor Vehicles, and Peace Officers' Standards and Training Commission (POST)

- **Infrastructure** – Department of Conservation and Natural Resources, Department of Wildlife, Department of Transportation, Colorado River Commission, and Tahoe Regional Planning Agency
- **Special Purpose Agencies** – Office of the Military, Office of Veterans' Services, Public Employees' Benefits Program, Public Employees' Retirement System, Silver State Health Insurance Exchange, and Deferred Compensation Committee

### **Legislative Review of *The Executive Budget***

- The Legislative Commission appoints a Budget Subcommittee (prospective members of the Senate Committee on Finance and the Assembly Committee on Ways and Means) to review The Executive Budget in the two weeks in advance of session (NRS 218E.255). These hearings provide a “big-picture” review of the entire state budget and include most major state agencies. Six days (one partial day and five full days) have been set aside this cycle, beginning on January 23 and ending on February 1, 2017.
- The Legislature meets for 120 days beginning February 6, 2017. Senate Finance and Assembly Ways and Means begin budget hearings on the second day of session.
- A select group of budgets, primarily those that support elected officials and some special purpose agencies, are reviewed separately by the Senate Committee on Finance and the Assembly Committee on Ways and Means.
- The money committees break into four joint subcommittees to review and make recommendations on the majority of the agency budgets. The four joint subcommittees review the following areas:
  - ✓ K-12 Education/Higher Education/Capital Improvements
  - ✓ Public Safety, Natural Resources, and Transportation
  - ✓ Human Services
  - ✓ General Government
- In addition to reviewing the Governor's funding recommendations for each budget account, the money committees review all bills that contain an appropriation or result in a fiscal impact on state government.
- The money committees close each budget account by voting on the funding level to be provided for over 400 individual budget accounts in each of the next two fiscal years. The budget closing process begins April 4 and typically lasts through mid-to-late May.

Most budget closing recommendations are made by one of the four joint subcommittees and forwarded to the full Senate Committee on Finance and the Assembly Committee on Ways and Means for their review. The full committees will meet jointly to close most budget accounts. If a budget account is closed in the same manner by both committees, the funding level for the budget account over each of the next two years is established as agreed upon by the committees. If the committees develop different funding recommendations, the committees must meet jointly to resolve all closing differences before the major budget bills can be developed.

The decisions of the money committees are drafted into the major funding bills that set the funding levels and other fiscal policy money direction for the upcoming biennium.

The major funding bills include the following five bills:

- **Education Funding Bill** – Provides appropriations for K-12 public education for basic support and other educational purposes in support of the operating costs and other expenditures of school districts.

The Nevada constitution requires that appropriations necessary to fund K-12 education be enacted before any other appropriations are enacted for the upcoming biennium. The funding bill to finance K-12 education is typically not approved until near the end of the session and appropriations to finance the other areas of state government cannot be approved until the K-12 funding bill has passed both houses of the Legislature.

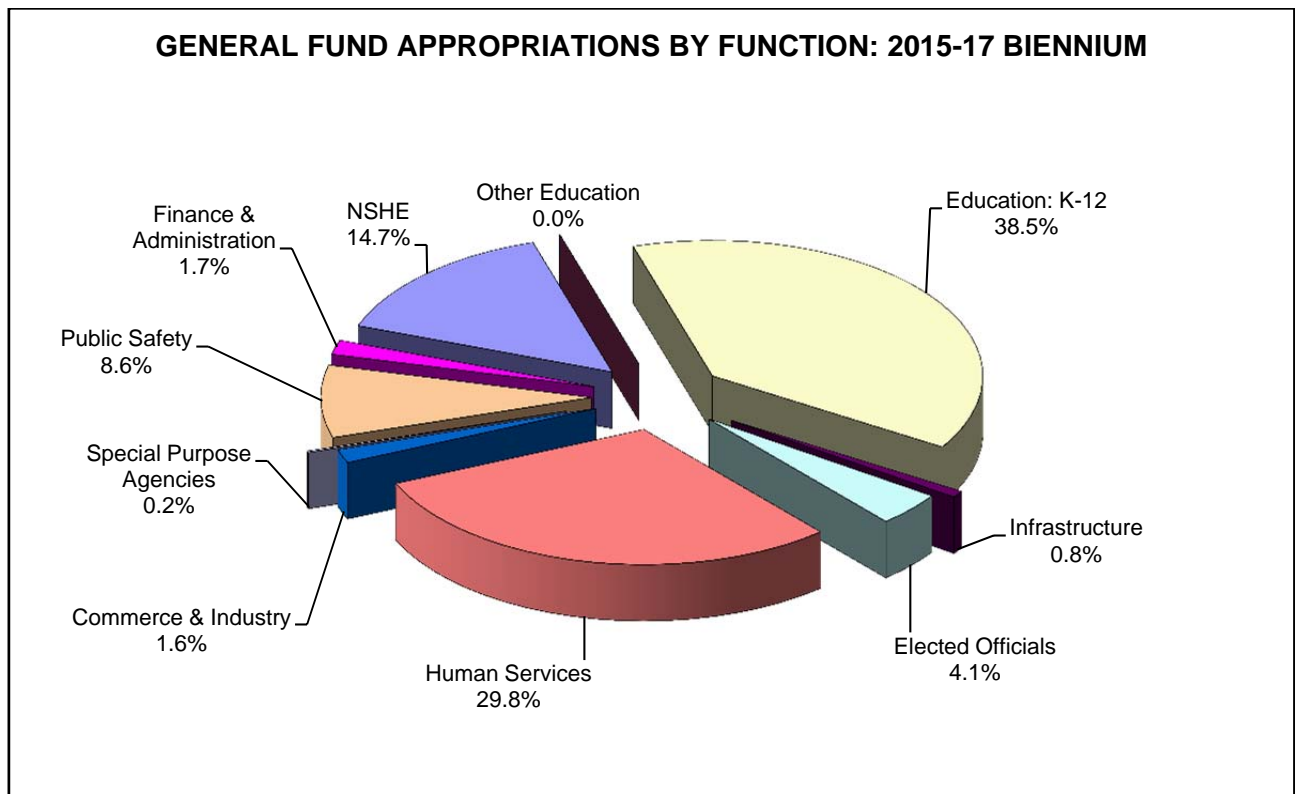
- **Appropriations Act** – Appropriates from the State General Fund and from the State Highway Fund for the support of government of the State of Nevada.
- **Authorizations Act** – Authorizes the receipt and expenditure of non-General Fund revenue by various departments, boards, agencies, commissions and institutions of state government.
- **Capital Improvement Bill** – Provides an appropriation from the State General Fund and the State Highway Fund, and authority to the State Board of Finance for the issuance of general obligation bonds for a program of capital improvement projects. The bill also permits the expenditure of other authorized revenues in support of a program for capital improvements, and levies a property tax to support the Consolidated Bond Interest and Redemption Fund.
- **Pay Bill** – Establishes the maximum salary for unclassified employees and certain classified employees of the state and establishes other pay policies for state employees.

The budget as approved by the 2015 Legislature provided \$20.9 billion for the operation of state government for the 2015-17 biennium, as noted in the following schedule:

	2015 Legislature Approved	
	Amount	% of Total
General Fund	\$7,296,769,113	34.8%
Balance Forward	\$1,011,057,509	4.8%
Federal Fund	\$7,954,752,641	38.0%
Highway Fund	\$930,774,774	4.4%
Interagency Transfer	\$2,834,242,028	13.5%
Other Fund	\$3,746,304,344	17.9%
Subtotal	\$23,773,900,409	113.5%
Less Interagency Transfer	\$2,834,242,028	13.5%
Total Budget	\$20,939,658,381	100.0%

Source: Nevada Legislative Appropriations Report, Seventy-Eighth Legislature

General Fund appropriations of \$7.3 billion, as approved by the 2015 Legislature for the 2015-17 biennium, were allocated among the following functional areas as follows:



## **Budget Execution**

Once the budget is approved by the Legislature, a responsibility remains to see that legislative intent is carried out. One of the tools used for this purpose is the agency work programs, which are projections of expenditure patterns by category and time period in accordance with the approved budgets. The amounts approved in the work program for a budget reflect the decisions by the Legislature pertaining to revenue and expenditure authority for each fiscal year. Revisions to the work programs are reviewed by the Fiscal Analysis Division as they occur. Revisions meeting certain thresholds are reviewed by the Interim Finance Committee.

## **Interim Finance Committee (IFC)**

As established by NRS 218E.400, the IFC functions during the interim between legislative sessions to address fiscal issues that occur.

- All members of the Senate Committee on Finance and the Assembly Committee on Ways and Means are members of the IFC.
- The IFC provides a mechanism to allocate emergency funds to state agencies during the interim period between legislative sessions without having to call a special session. Funding for allocation by the IFC is available from the IFC Contingency Account and grants from the Disaster Relief Account.
- Approximately \$12 million is normally available in the IFC Contingency Account at the end of each legislative session to fund emergencies for state agencies.
- The IFC also approves:
  - ✓ Transfer of funds within state agency budgets if certain thresholds are exceeded.
  - ✓ Gifts over \$20,000 and grants over \$150,000. All grants that provide additional staff must receive IFC approval.
  - ✓ Certain position reclassifications.
- During the budget execution phase of the budget process, the Fiscal Analysis Division becomes directly involved with both the Legislative Commission and the Interim Finance Committee (IFC). Staff support is provided to the Legislative Commission and its activities associated with interim budgetary and fiscal affairs, such as subcommittee activities and special assignments. Staff support is also provided to the IFC regarding requests for emergency allocations from the IFC Contingency Account; approval of grants from the Disaster Relief Account; approval of agency work program revisions and augmentations; position reclassifications; and other projects as necessary or assigned.

## **Economic Forum (NRS 353.226 – 353.229)**

The Economic Forum is responsible for approving the official forecast of future revenues. The Governor is required to use the Economic Forum's December 2016 General Fund revenue forecast for the 2017-19 biennium for the General Fund portion of The Executive Budget. If the Governor chooses to develop a General Fund budget that is different from the Economic Forum forecast, then The Executive Budget must include recommendations for the revenue changes necessary to implement the proposed budget.

The Economic Forum consists of five members appointed by the Governor with three members selected by the Governor and one nominated by both the Speaker of the Assembly and the Majority Leader of the Senate. A seven-member Technical Advisory Committee, comprised of Executive and Legislative Branch staff members as well as a representative of local government, provides assistance and resources to the Economic Forum. As required by statute, the Economic Forum will review its December 2016, forecast on or before May 1, 2017, which will provide the General Fund revenue projections the Legislature uses during the 2017 Session to develop the legislatively approved budget for the 2017-19 biennium.

## **Total General Fund Revenues**

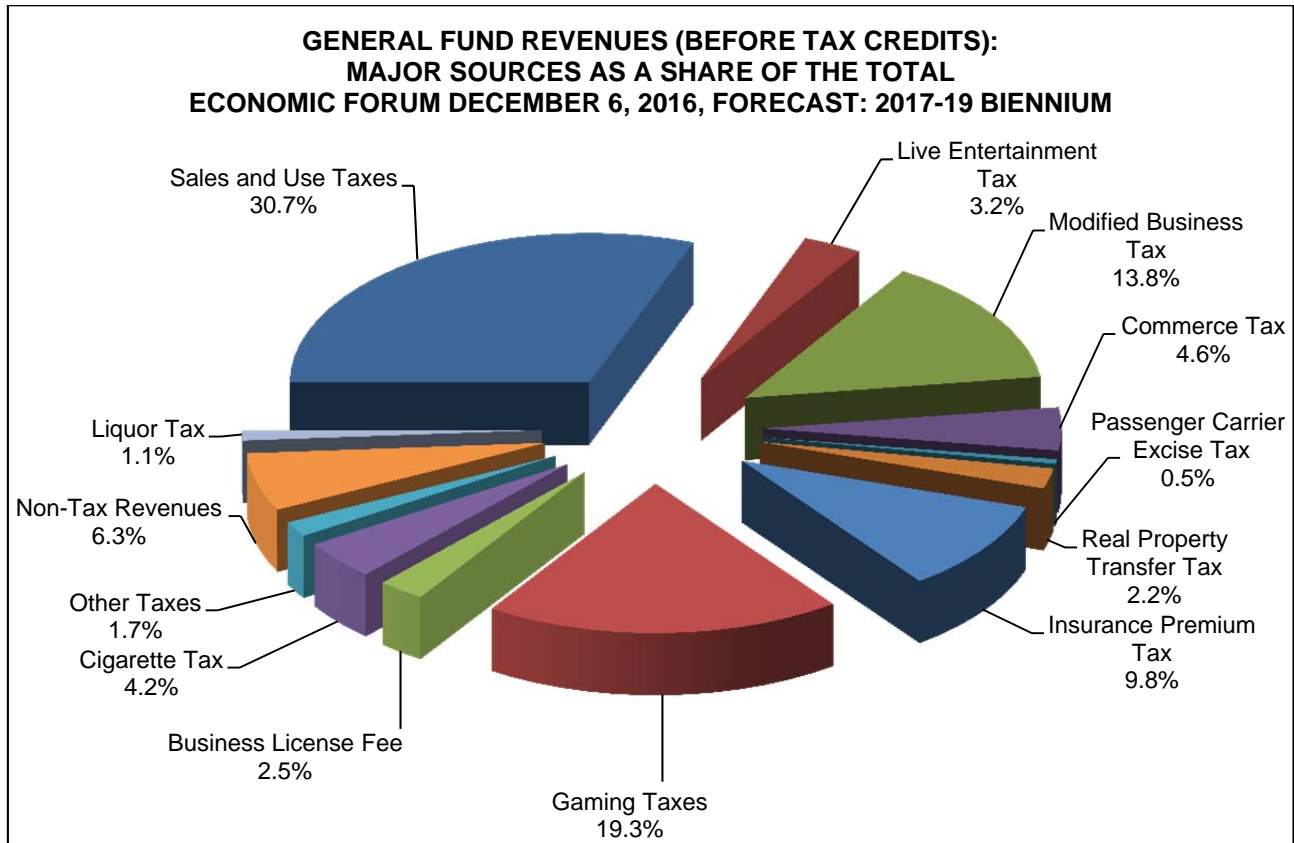
The following table provides a comparison of the Economic Forum's December 6, 2016, General Fund revenue forecast for the 2017-19 biennium and 2015-17 biennium and the actual collections for the 2013-15 biennium on both a before and after tax credits basis. The forecasts for FY 2017 of the 2015-17 biennium and FY 2018 and FY 2019 of the 2017-19 biennium are based on current statute and reflect the actions approved by the Legislature in the 78<sup>th</sup> Regular Session (2015).

- The General Fund revenue forecast (before any tax credits) for the 2017-19 biennium of \$8.207 billion is approximately \$531 million above the current forecast for the 2015-17 biennium of \$7.676 billion.
- After accounting for the various tax credits, the total General Fund revenue forecast for the 2017-19 biennium is \$7.887 billion, \$424 million above the current forecast for the 2015-17 biennium of \$7.463 billion.
- The total net General Fund revenue forecast (after tax credits) for the 2017-19 biennium of \$7.887 billion is \$320 million less than the total gross General Fund revenue forecast (before tax credits) of \$8.207 billion due to the Commerce Tax credit against the Modified Business Tax and the other six tax credit programs.

Revenue Source (Millions of Dollars)	2013-15 Biennium		2015-17 Biennium				2017-19 Biennium			
					\$				\$	
	2013-15 Biennium Actual	% of Total	2015-17 Biennium Forecast	% of Total	Difference from 2013-15	Change from 2013-15	2017-19 Biennium Forecast	% of Total	Difference from 2015-17	Change from 2015-17
Sales Tax	\$2,001.2	31.4%	\$2,217.0	28.9%	\$215.9	10.8%	\$2,463.7	30.0%	\$246.7	11.1%
Gaming Taxes	\$1,441.4	22.6%	\$1,489.7	19.4%	\$48.4	3.4%	\$1,553.5	18.9%	\$63.7	4.3%
Modified Business Tax	\$796.8	12.5%	\$1,163.7	15.2%	\$366.9	46.0%	\$1,289.8	15.7%	\$126.1	10.8%
Insurance Premium Taxes	\$570.9	9.0%	\$711.2	9.3%	\$140.4	24.6%	\$790.4	9.6%	\$79.2	11.1%
Live Entertainment Tax	\$300.0	4.7%	\$252.4	3.3%	-\$47.6	-15.9%	\$258.9	3.2%	\$6.6	2.6%
Commerce Tax		0.0%	\$337.9	4.4%	\$337.9		\$371.1	4.5%	\$33.2	9.8%
Cigarette Tax	\$172.4	2.7%	\$326.3	4.3%	\$153.9	89.3%	\$337.9	4.1%	\$11.6	3.6%
Real Property Transfer Tax	\$124.3	2.0%	\$156.8	2.0%	\$32.5	26.2%	\$172.4	2.1%	\$15.7	10.0%
Business License Fee	\$147.5	2.3%	\$204.5	2.7%	\$57.0	38.6%	\$204.3	2.5%	-\$0.2	-0.1%
Governmental Services Tax	\$125.1	2.0%	\$104.6	1.4%	-\$20.5	-16.4%	\$0.0	0.0%	-\$104.6	-100.0%
Mining Taxes/Fees	\$78.0	1.2%	\$48.4	0.6%	-\$29.6	-38.0%	\$89.0	1.1%	\$40.6	84.0%
Liquor Taxes	\$84.5	1.3%	\$87.8	1.1%	\$3.3	3.9%	\$89.5	1.0%	\$1.7	1.9%
Transportation Connection Tax			\$32.9	0.4%	\$32.9		\$39.0	0.4%	\$6.1	18.4%
Other Tobacco Tax	\$23.1	0.4%	\$26.6	0.3%	\$3.5	15.3%	\$28.2	0.3%	\$1.5	5.8%
Other Taxes	\$15.9	0.3%	\$15.6	0.2%	-\$0.4	-2.3%	\$15.6	0.2%	\$0.0	0.2%
All Other Revenue Sources	\$482.9	7.6%	\$500.6	6.5%	\$17.7	3.7%	\$503.4	6.1%	\$2.9	0.6%
Total General Fund Revenue - Before Tax Credits	\$6,363.8		\$7,676.1		\$1,312.2	20.6%	\$8,206.9		\$530.8	6.9%
Commerce Tax Credits Against the Modified Business Tax			-\$82.5		-\$82.5		-\$177.1		-\$94.6	114.6%
Total General Fund Revenue - After Commerce Tax Credits	\$6,363.8		\$7,593.6		\$1,229.7	19.3%	\$8,029.8		\$436.3	5.7%
Tax Credit Programs	-\$12.4		-\$130.5		-\$118.1	951.6%	-\$142.5		-\$12.0	9.2%
Total General Fund Revenue - After Tax Credit Programs	\$6,351.4		\$7,463.0		\$1,111.6	17.5%	\$7,887.3		\$424.2	5.7%

Note: The sum of the individual components of the % of Total column may not equal 100% due to rounding.

As shown in the chart below, collections from the sales tax are projected to account for 30.7 percent, while gaming taxes are estimated to account for 19.3 percent of total General Fund revenue (before tax credits) for the 2017-19 biennium. These two major General Fund revenue sources are expected to account for 50.0 percent of total revenue for the 2017-19 biennium, compared to 48.8 percent for the 2015-17 biennium. The Modified Business Tax is estimated to account for 13.8 percent of total revenue while the Insurance Premium Tax is estimated to account for 9.8 percent. The Commerce Tax, which was approved by the Legislature in the 2015 Regular Session, is estimated to account for 4.6 percent of total General Fund revenue.



The following chart displays actual historical total General Fund revenues from the 1991-93 biennium to the 2013-15 biennium for comparison to the Economic Forum's December 6, 2016, forecast for the 2015-17 and 2017-19 biennia. The forecast of \$7.887 billion in total General Fund revenue (after tax credits) for the 2017-19 biennium is approximately \$1.44 billion above the actual 2005-07 biennium General Fund revenues of \$6.204 billion, which was the peak amount of General Fund revenue prior to the Great Recession. Adjusting for the impact of inflation, the projected total General Fund revenues (after tax credits) for the 2017-19 biennium of \$4.429 billion in 1991-93 inflation-adjusted dollars are approximately \$710 million below the 2005-07 biennium actual inflation-adjusted level of \$4.320 billion.

