



POLICY AND PROGRAM REPORT



Revenue and Budget

April 2016

EXECUTIVE BUDGET

The major fiscal document used by legislators is the *Executive Budget*, which is prepared by the Budget Division in the Governor’s Office of Finance. The *Executive Budget* contains appropriation and expenditure figures for past fiscal years, agency requests for the upcoming biennium, and gubernatorial recommendations to endorse or modify agency budget requests. Also included are program statements that preface the detailed fiscal information for the various departments, boards, commissions, and other State agencies. The *Executive Budget* is organized functionally, by agency, with summaries relating to personnel, operating expenses, travel, and requests for equipment.

Starting in 1993, each budget account was segregated into base and current services level budgets, and all requested program enhancements were separately identified. In addition, quantitative indicators of each program’s performance were added to the budget document in 1993.

In the 2011 Session, the Legislature enacted Assembly Bill 248 (Chapter 137, *Statutes of Nevada*) and made significant changes to the required budget components. The budgetary message portion of the *Executive Budget* was expanded to include: (1) a summary of the long-term performance goals for core and other governmental functions; (2) an explanation of how the budget will provide adequate funding and enable progress toward the goals; and (3) an outline of any other important budget features. A second budget component must spell out, for each long-term performance goal and for each intermediate goal, an explanation of how intermediate goals will be met and how progress will be made toward long-term goals. In the 2013 Session, A.B. 333 (Chapter 168, *Statutes of Nevada*) added a new budget component for analyses prepared by the Offices of Energy and Economic Development on the costs and benefits of each economic development incentive approved by the respective Offices in the immediately preceding two fiscal years.

TABLE OF CONTENTS

Executive Budget	1
Fiscal Analysis Division.....	2
State Revenue	2
Economic Forum	4
Budget Calendar	5
Interim Finance Committee	5
State General Fund	5
Budget Stabilization Account	6
Fiscal Measures	7
Additional References.....	7
Glossary of Terms	8

Government

In the 2015 Session, A.B. 469 (Chapter 343, *Statutes of Nevada*) moved the Budget Division in the Department of Administration to the newly created Office of Finance in the Office of the Governor.

The introductory materials located at the front of the *Executive Budget* have general data relating to taxation, revenue, and fiscal trends. This information is useful in understanding the factors involved in calculating budget projections, and it is also useful as a statistical reference on the State of Nevada.

FISCAL ANALYSIS DIVISION

The Fiscal Analysis Division of the Legislative Counsel Bureau (LCB) provides the Legislature with the capability for independent review and analysis of budgetary and fiscal matters. The Fiscal Analysis Division examines the *Executive Budget* and suggests possible changes, provides expenditure and revenue projections to aid the Senate Committee on Finance and the Assembly Committee on Ways and Means, and assists the Legislature in the interpretation of factual data related to the fiscal aspects of the operation of State and local government.

Other duties of the Fiscal Analysis Division, pursuant to *Nevada Revised Statutes* (NRS) 218F.600, include:

- Analyzing the history and probable future trends of the State's financial position in order that a sound fiscal policy may be developed and maintained;
- Analyzing appropriation and revenue bills and bills with a fiscal impact; and
- Examining State agencies with regard to their activities and duplication of efforts between them.

The Fiscal Analysis Division prepares a *Fiscal Report* each session, which summarizes the financial status of the State and the Governor's budget recommendations for the next biennium. The report contains general information, including highlights of the various governmental functions, and focuses on changes and the expansion of existing programs and recommended new programs.

After each legislative session, the Fiscal Division prepares and publishes the *Appropriations Report*, which describes in detail the fiscal actions of the Legislature, all appropriation and authorization acts, and changes to the State tax and revenue structure. This report highlights legislative budget actions and serves as a valuable reference document. The link to the *2015 Appropriation's Report* is: http://www.leg.state.nv.us/Division/fiscal/Appropriation%20Reports/2015AppropriationsReport/2015_78th_AppropriationsReport.pdf.

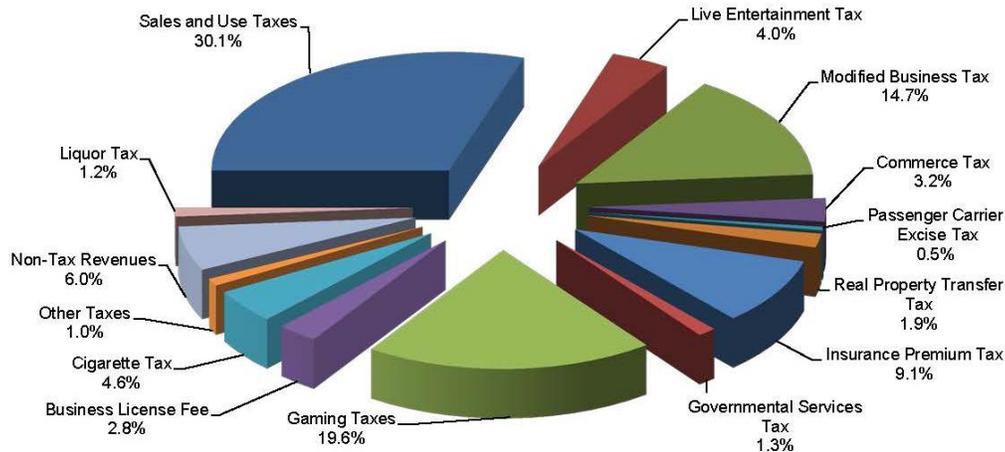
These reports, as well as other reports prepared by the Fiscal Analysis Division, are available through the Legislature's website at: <http://www.leg.state.nv.us/Division/Fiscal/>.

STATE REVENUE

General Fund revenue for the State of Nevada is made up primarily of taxes from various sources, along with non-tax sources such as licenses, fees, and fines.

The information below is on page 28 of the Fiscal Analysis Division’s *2015 Appropriations Report* and reflects the Economic Forum’s May 2015 forecast of State General Fund revenue for the 2015-2017 Biennium, as adjusted for actions of the 2015 Legislature.

**NEVADA GENERAL FUND REVENUE
ADJUSTED* ECONOMIC FORUM FORECAST, 2015-2017 BIENNIUM**



**ESTIMATED GENERAL FUND REVENUE: 2015-17 BIENNIUM
ADJUSTED ECONOMIC FORUM MAY 1, 2015, FORECAST***

	Millions \$'s	% of Total		Millions \$'s	% of Total
Taxes:			Other Taxes:		
State Gaming Taxes (2.)	\$1,471.4	19.6%	Mining Tax (1.)	\$39.0	0.5%
Sales and Use Taxes (1.)	\$2,256.4	30.1%	Annual Slot Tax Transfer	\$10.0	0.1%
Insurance Premium Taxes (2.)	\$681.2	9.1%	Other Tobacco Tax	\$25.4	0.3%
Cigarette Tax (1.)	\$348.0	4.6%	Branch Bank Excise Tax	\$6.0	0.1%
Live Entertainment Tax:			Subtotal Other Taxes	\$80.4	1.0%
Gaming Establishments (1.)	\$221.3	3.0%			
Non-Gaming Establishments (1.)	\$73.1	1.0%	Subtotal Taxes	\$7,047.8	94.0%
Modified Business Tax (MBT) (1.)(2.)(3.)	\$1,099.9	14.7%			
Commerce Tax (1.)	\$239.7	3.2%	Non-Tax Revenues		
Passenger Carrier Excise Tax (1.)	\$36.6	0.5%	Licenses (1.)	\$256.6	3.4%
Real Property Transfer Tax	\$146.5	1.9%	Fees and Fines	\$113.2	1.5%
Business License Fee (1.)	\$208.0	2.8%	Use of Money and Property	\$7.1	0.1%
Liquor Tax	\$89.8	1.2%	Miscellaneous Revenues (1.)	\$76.1	1.0%
Governmental Services Tax (GST) (1.)	\$95.5	1.3%	Subtotal Non-Tax Revenues	\$453.0	6.0%
Total General Fund - Before Tax Credit Programs	\$7,500.8	100.0%			
Tax Credit Programs	-\$156.0				
Total General Fund - After Tax Credit Programs	\$7,344.8				

* Adjusted for legislative actions approved by the 2015 Legislature (78th Session).
 (1.) Denotes a revenue source affected by legislative actions approved by the 2015 Legislature. See Table 2 on page 18 for a description of the legislative action and the estimated impact for each revenue source.
 (2.) The Gaming Percentage Fee Tax, the Modified Business Tax, and the Insurance Premium Tax may be impacted by one or more tax credit programs approved by the Legislature during the 2013 and 2015 Regular Sessions and the 2014 Special Session. See Table 3 on page 24 and the General Fund Revenues Table on page 7 for information on the tax credit programs and their estimated impact.
 (3.) The amount shown for the Modified Business Tax (MBT) represents the estimates for the nonfinancial, financial, and mining portions of the MBT based on the legislative actions approved by the 2015 Legislature, including the credit of up to 50% of the Commerce Tax against the MBT.

Article 10 (“Taxation”) of the *Nevada Constitution* contains, among other things, a prohibition on an inheritance tax and a prohibition on a tax upon the “wages or personal income of natural persons.” The general constitutional rule is that the Legislature “shall provide by law for a uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, real, personal and possessory” However, the *Nevada Constitution* contains sections qualifying the general rule, including a specific provision on the taxation of minerals

and exemptions for certain types of property. Article 9 (“Finance and State Debt”) of the *Constitution* relates to the use of license and registration fees for motor vehicles and excise taxes on gasoline and other motor vehicle fuels for public highways, with certain qualifications.

Article 4 (“Legislative Department”) of the *Constitution* was amended in 1996 to require a two-thirds majority of each house for any bill or resolution that “creates, generates, or increases any public revenue in any form, including but not limited to taxes, fees, assessments and rates, or changes in the computation bases for taxes, fees, assessments and rates.”

Statutory provisions governing taxation are found primarily in Title 32 (“Revenue and Taxation”) of NRS. Prior to each legislative session, the Fiscal Analysis Division prepares an updated version of its biennial publication titled, *Revenue Reference Manual*. The *Manual* is available on the Division’s website at <http://www.leg.state.nv.us/Division/Fiscal/>, and it provides detailed information on the State’s major General Fund tax revenue sources, along with information on:

- Tax legislation history;
- Tax exemptions and abatements;
- Local government finance issues; and
- Education funding information.

ECONOMIC FORUM

The Economic Forum was created by the Legislature during the 1993 Legislative Session (NRS 353.226 through 353.229). The Economic Forum is responsible for providing forecasts of the State’s General Fund revenues for each biennium budget period. By statute, the Economic Forum is required to provide forecasts on or before December 3 of even-numbered years and on or before May 1 of odd-numbered years. The December 3 estimates are used by the Governor in preparing budget recommendations presented to the Legislature in January of odd-numbered years. The May 1 forecast is the final official revenue estimate that must be used by the Legislature in balancing General Fund appropriations with projected General Fund revenues for each biennial budget period.

The Economic Forum is a five-member committee whose members cannot be employees or officers of the State Government. The Governor appoints three members to the Forum, and the Majority Leader of the Senate and Speaker of the Assembly each appoint one member. The Forum is assisted in preparing the forecast by a seven-member Technical Advisory Committee on Future State Revenues made up of the Senate and Assembly Fiscal Analysts; the Chief of the Budget Division; the head of the Research Division of the Employment Security Division within the Department of Employment, Training and Rehabilitation; the State Demographer; the Vice Chancellor for Finance of the Nevada System of Higher Education (NSHE); and the Chair of the Committee on Local Government Finance.

By law, the Economic Forum also is required to meet on or before June 10 of each even-numbered year, and December 10 of each odd-numbered year, and to report to the Interim Finance Committee (IFC) on these meetings. At these meetings, the Economic Forum receives an update on the status of

actual State General Fund revenue collections compared to its most recent forecast and considers information on current economic indicators. These additional meetings are not used for making or modifying forecasts.

The reports of the Economic Forum are available on the Legislature's website under "Interim Info" at: <http://www.leg.state.nv.us/>. Additional information on the Economic Forum is available through the Fiscal Division's website at: <http://www.leg.state.nv.us/Division/Fiscal/Economic%20Forum/>.

BUDGET CALENDAR

Budget preparation typically begins in the spring of an even-numbered year when the Budget Division issues instructions to Executive Branch agencies. Agency budgets must be submitted for review to the Budget Division and the Fiscal Analysis Division by September 1. On or before December 3, the Economic Forum must prepare a written report of its projections of economic indicators and estimate of future State revenue and present the report to the Governor and the Legislature. This estimate of revenue must be used by the Budget Division in preparing a final version of the proposed *Executive Budget*, which must be submitted to the Legislature not later than 14 calendar days before the start of the regular legislative session. See the *State Budget Act* at NRS 353.150 through 353.246.

During the legislative session, the Senate Committee on Finance and the Assembly Committee on Ways and Means hold hearings to consider budget requests. Often, these committees meet jointly to hear testimony concerning agency budgets. On or before May 1 during the legislative session, the Economic Forum must prepare a written report confirming or revising its earlier projections of economic indicators and estimate of future State revenue.

INTERIM FINANCE COMMITTEE

In 1969, the Legislature created the IFC to function between sessions and to administer a contingency fund. This fund was set up to provide monies for State agencies to address unforeseen needs or emergencies when the Legislature is not in session. The IFC also reviews State agency requests to accept certain gifts and grants, to modify legislatively approved budgets, and to reclassify State merit system positions in certain circumstances. The IFC is composed of the members of the Senate Committee on Finance and the Assembly Committee on Ways and Means.

STATE GENERAL FUND

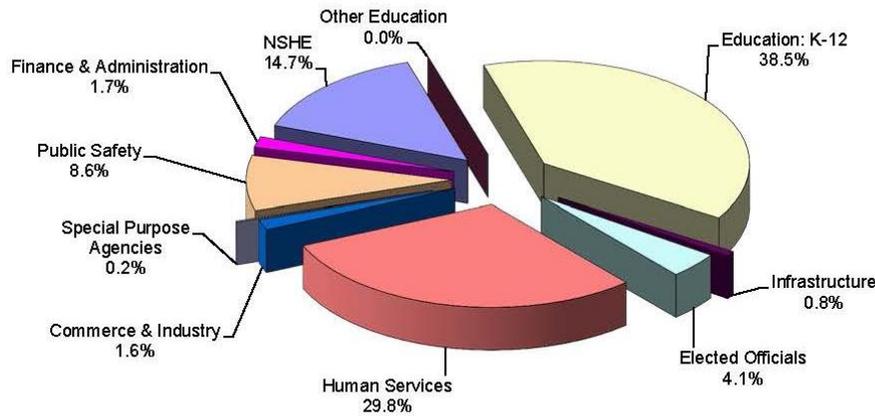
The 2015 Legislature appropriated \$7.3 billion from the State General Fund over the 2015-2017 Biennium. Following is information from page 34 of the Fiscal Analysis Division's *2015 Appropriations Report* detailing the percentages appropriated to the different areas of State government, including:

- K through 12 education;
- The NSHE;
- Public safety;

Government

- Commerce and industry; and
- Human services.

**NEVADA GENERAL FUND APPROPRIATIONS
LEGISLATURE APPROVED — 2015-2017 BIENNIUM**



LEGISLATURE APPROVED APPROPRIATIONS - 2015-17 BIENNIUM

	FY 2016	FY 2017	TOTAL	% of Total
Elected Officials ^{a, b}	\$ 133,758,451	\$ 161,825,363	\$ 295,583,814	4.1%
Finance & Administration ^{a, c}	\$ 56,288,357	\$ 68,631,669	\$ 124,920,026	1.7%
Education:				
Kindergarten to 12th Grade	\$ 1,379,528,179	\$ 1,431,807,725	\$ 2,811,335,904	38.5%
Nevada System of Higher Education	\$ 530,862,990	\$ 541,622,619	\$ 1,072,485,609	14.7%
Other Education ^b	\$ 303,003	\$ 309,445	\$ 612,448	0.0%
Subtotal Education	\$ 1,910,694,172	\$ 1,973,739,789	\$ 3,884,433,961	53.2%
Commerce & Industry	\$ 64,383,766	\$ 53,832,342	\$ 118,216,108	1.6%
Human Services	\$ 1,044,884,014	\$ 1,126,661,087	\$ 2,171,545,101	29.8%
Public Safety	\$ 311,926,105	\$ 316,902,043	\$ 628,828,148	8.6%
Infrastructure	\$ 30,645,160	\$ 31,411,513	\$ 62,056,673	0.8%
Special Purpose Agencies	\$ 5,477,591	\$ 5,707,691	\$ 11,185,282	0.2%
Total	\$ 3,558,057,616	\$ 3,738,711,497	\$ 7,296,769,113	100.0%

- a. The 2015 Legislature approved moving the Department of Administration, Budget Division and Division of Internal Audits to the newly created Office of Finance in the Office of the Governor. The operating appropriations for the Office of Finance were transferred from the Finance and Administration function to the Elected Officials function for Legislature Approved Appropriations 2015-17 Biennium.
- b. The 2015 Legislature transferred Western Interstate Commission for Higher Education (WICHE) from Other Education in the Education functional area to Elected Officials and the operating appropriation included in the new functional area in Legislature Approved Appropriations 2015-17 Biennium.
- c. The Finance and Administration function for Legislature Approved Appropriations 2015-17 Biennium includes \$4,231,214 pursuant to Section 4 of A.B. 489, \$13,185,284 pursuant to Section 5 of A.B. 489, and \$19,184,816 pursuant to Section 7 of A.B. 489 appropriated to the Board of Examiners for salary adjustment allocations.

BUDGET STABILIZATION ACCOUNT

In 1991, the Legislature created the Fund to Stabilize the Operation of the State Government (NRS 353.288). The 2011 Legislature, through the enactment of Senate Bill 74 (Chapter 100, *Statutes of Nevada*), changed the name to the “Account to Stabilize the Operation of State Government.” This account—often referred to as the “Rainy Day Account”—is a source of money that can be used under certain circumstances to offset a budget shortfall or a fiscal emergency.

For more information on the Rainy Day Account, see page 52 of the *2015 Appropriations Report*, available on the Fiscal Analysis Division’s website at: http://www.leg.state.nv.us/Division/fiscal/Appropriation%20Reports/2015AppropriationsReport/2015_78th_AppropriationsReport.pdf.

FISCAL MEASURES

Article 11 (“Education”) of the *Nevada Constitution* was amended in 2006 through the “Education First” initiative, as approved by the voters, to require that, “before any other appropriation is enacted to fund a portion of the state budget for the next ensuing biennium, the Legislature shall enact one or more appropriations to provide the money the Legislature deems to be sufficient, when combined with the local money reasonably available for this purpose, to fund the operation of the public schools in the State for kindergarten through grade 12”

The General Appropriations Act is one of the most significant bills passed during a regular session. This act establishes the biennial spending plan and makes appropriations from the State General Fund and State Highway Fund for all State agencies and the NSHE. In addition, the Legislature enacts other fiscal bills, including bills to establish the maximum salaries for State employees in the unclassified service and to appropriate money to cover unanticipated shortfalls in budgets of various agencies and funds.

Following is a list of the five major fiscal measures from the 2015 Legislature that were necessary to implement the legislatively approved budget:

1. K–12 Public Education Funding Bill (S.B. 515 [Chapter 537, *Statutes of Nevada*]);
2. General Appropriations Act (S.B. 514 [Chapter 534, *Statutes of Nevada*]);
3. State Employee Salary Bill (A.B. 489 [Chapter 472, *Statutes of Nevada*]);
4. Authorized Expenditures Act (A.B. 490 [Chapter 484, *Statutes of Nevada*]); and
5. Capital Improvements Program Act (A.B. 491 [Chapter 549, *Statutes of Nevada*]).

Additional information on any measures referenced in this document is available on the Nevada Legislature’s website at: <http://www.leg.state.nv.us>.

ADDITIONAL REFERENCES

- Budget Division, Governor’s Office of Finance: <http://budget.nv.gov/>.
- Fiscal Analysis Division, LCB: <http://www.leg.state.nv.us/Division/Fiscal/>.
- Department of Taxation: <http://tax.nv.gov/>.

GLOSSARY OF TERMS

Biennium

A two-year period beginning on July 1 of an odd-numbered year and ending on June 30 of the next odd-numbered year (e.g., July 1, 2013, through June 30, 2015).

Fiscal Year

A period beginning on July 1 of a calendar year and ending on June 30 of the next calendar year.