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BUDGET OVERVIEW

JANUARY 2003

The Executive Budget for the 2003-2005 biennium was prepared as Nevada and the nation emerge slowly from a serious fiscal crisis. The Chart on Page 5 of the Budget in Brief indicates that every measure of our economy's performance declined significantly in fiscal year 2002, compared to fiscal year 2001.

- Las Vegas Visitors volume grew in FY2001 roughly 2.5% over FY2000, but fell 4.1% in FY2002.
- Jobs were up approximately 4% in FY2001 but declined in each of the final three quarters of FY2002
- Personal Income growth averaged 6.5% during FY2001, and had been reduced by half in FY2002.
- Taxable Sales grew at a pace of 5.8% in FY2001 and actually declined about 0.1% in FY2002 with our largest sales category (eating and drinking establishments) showing a decline of 0.7%.
- Gaming conditions showed similar declines decreasing 2.8% from FY2001.

The same economic pressures that have brought about the declining revenues and economic growth have increased the need for certain human resource services like Medicaid and Temporary Assistance to Needy Families. In addition, increases in school enrollments, both K-12 and Post Secondary, continue to greatly exceed our general population growth. Our resources have been stretched to the breaking point.

This crisis is in addition to and magnifies the structural problem that you recognized in the Seventeenth Special Legislative Session in 2001, when you created the Governor's Task Force

on Tax Policy. The Chart on Page 19 of the Budget in Brief clearly demonstrates the nature of this structural problem. For the period 1999 – 2003, real per capita General Fund revenues will actually decline 5.3%. During that same period, per capita Medicaid caseloads will increase 43.1%, per capita TANF caseloads 28.5%, per capita University enrollments 6.2%, and per capita K-12 enrollments will increase 1.7%. This indicates that over time the State's General Fund revenue base has been unable to keep pace with growth, straining the State's ability to fund needed services.

A combination of the downturn in the economy and the structural deficit that I've just described, has produced our current situation. The Economic Forum forecast of existing revenues for the 2003-2005 biennium, totals \$3.89 billion. This represents an increase of \$323.6 million over fiscal 2002 actual collections and the current estimate for fiscal 2003. Relative to the revenue forecast upon which the current biennium's budget is based, this represents an increase of just \$167.8 million. In contrast, the cost to fund just the enrollment increase in K-12 including class size reduction is over \$330 million, Medicaid caseloads are projected to increase 30.06% in fiscal year 2004 and 10.4% in fiscal year 2005, at a cost of \$143.3 million in General Funds over the biennium. The increase in UCCSN enrollments is projected at over 6% per year, which will require an additional \$67 million. In total, all caseload growth reflected in the Executive Budget will cost over \$700 million. Our existing revenue base will simply not produce the resources necessary to fund these essential services.

As a result, the Executive Budget recommends funding in addition to that provided by the existing sources that are forecast by the Economic Forum. The Governor recommends a combination of increases in existing taxes and creation of new taxes. Since the implementation of new taxes will take time, the Governor recommends a phased plan that provides needed revenues now while implementation of new taxes to broaden our tax base is undertaken.

The recommendation includes early implementation (effective April 1, 2003) of several of the proposed increases in existing taxes. This is estimated to provide about \$84 million in additional revenue in fiscal 2003. In spite of this recommendation, the Governor also recommends a transfer to the unrestricted general fund from the fund to stabilize the operation of state government of \$100 million. It is also recommended that, if our forecasted revenues come in near target, and if we do not incur further expenses over those projected, that \$50 million of the additional revenues recommended be transferred to the Stabilization Fund as of June 30, 2003.

Now, I'd like to go through the Statement of Projected Unappropriated General Fund Balance for fiscal years 2003, 2004 and 2005. That statement is on page Intro-2 of the Executive Budget.

Review Fund Balance Statement

To appreciate the effect on the State's revenues of the Governor's proposal, I'd like to refer you to the pie charts on pages 50 of the Budget in Brief. These "before" and "after" charts indicate clearly the resultant reduction of our reliance on sales and gaming tax revenues. And if you look at the chart on page 48 of that document, you'll see graphically how that is proposed to be accomplished.

Go to Spending Summary - Page 27 of the Budget in Brief.

Highlights

- Funding of \$2 million is provided to the Attorney General's Office for legal costs associated with efforts to prevent the location of the federal nuclear waste repository at Yucca Mountain.
- The Executive Budget provides funding for payments for active participants in the Judicial Retirement System in accordance with actuarial standards. An additional \$3 million in General Fund resources are provided for initial payments designed to cover the previous system's unfunded actuarial liability.
- With the IFS development and rollout phase complete, the Department of Administration is provided with funding for two positions and associated costs for system oversight and coordination responsibilities. On-going system and maintenance costs, previously supported by the development budget, are being appropriated to the Department of Administration and Personnel and to the State Controller's Office.

Education

- The Executive Budget provides General Fund resources for several initiatives put forth in the *iN*Vest proposal.
 - Funding of \$37.8 million, or \$50 per student, is provided for the purchase of up-to-date textbooks, classroom supplies, and equipment necessary to provide an effective education for Nevada's students.
 - Over \$24 million in resources are provided to implement a full-day kindergarten program, beginning with "at-risk" schools.
 - Over \$33 million is budgeted to fund high-impact/special-needs pay enhancements for teachers. This recommendation is designed to enable Nevada

schools to offer a competitive wage package to teachers in disciplines where shortages currently exist, such as math, special education, ESL, and school psychologists. Resources are provided for \$3,000 stipend in those areas. Additionally, teachers at schools designated as “at-risk” would receive an annual \$2,000 stipend for remaining at such schools.

- In order to attract high-quality educational personnel to the State, funding is provided to continue a \$2,000 signing bonus for all new and qualified teachers hired in Nevada public schools. These resources total \$10 million.

- The 2003-2005 Executive Budget includes resources to provide for a 2% cost of living pay increase in FY 2004 for all public employees in local school districts.
- UCCSN enrollments, expressed on a full-time equivalent bases, will continue to expand in the next biennium. By FY 2005, enrollment is expected to total nearly 60,400. That represents a gain of more than 5,500, or 10%, from FY2003
- The Executive Budget recommends that funding formulas for the University System be funded at 86% up from the current level of 79%. That results in additional funding for the system of nearly \$80 million over the biennium.

Human Resources

- Funding is recommended to increase enrollment in the Senior RX program from 7,500 enrollees to 12,000 by the end of the biennium, at a cost of \$5 million.
- Also recommended is an increase in funding to allow for additional Nevada Checkup enrollments (32,650, up 8,500 from FY2002)

- General Funds totaling \$4.3 million, in combination with \$6.4 million in other resources, are being utilized to provide for caseload increases resulting from the recommended elimination of the CHAP asset tests. All told, 518 additional children will become Medicaid eligible in FY 2004 and another 2,139 in the following year as a result of the asset test elimination.