Analysis of Fiscal Policy in Nevada

Section 5: A State-to-State Comparison

Governor's Task Force on Tax Policy in Nevada

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A State-to-State Comparison

Introduction

As part of its background review, the Task Force prepared an interstate fiscal comparison. This study compares and contrasts state and local revenues and expenditures among the 50 states. The Task Force's objective in developing this analysis was not to determine whether Nevada's fiscal policies are "good" or "bad" or whether the State's taxes are "too high" or "too low." Each state's fiscal system is unique, reflecting its industrial, economic, social, and demographic make up. There is no better example of this than the State of Nevada itself. The objective of this analysis, rather, is merely to provide a perspective on Nevada's fiscal system.

Revenue and expenditure data utilized were obtained from the Governments Division of the United States Bureau of the Census (the "Census Bureau"). The Census Bureau conducts an Annual Survey of Government Finances,[1] which covers all state and local governments in the United States. Its survey includes the entire range of government finance activities -- revenues, expenditures, debts, and assets.[2] These data provide a comprehensive look at state and local governments, as well as information for individual states. They also contain a detail of revenue by type, expenditure by object and function, indebtedness by term, and assets by purpose. Pursuant to the mandates set forth in Assembly Concurrent Resolution 1, the Task Force primarily focused on revenues and expenditures.

A meaningful comparison can only be facilitated where consistent definitions and measurements exist for all states.[3] The Census Bureau data is gathered, analyzed and reported specifically to meet that end. They do, however, have two primary limitations. First, data compiled by the Census Bureau are not all released simultaneously. State-level tax collection data, for example, are current through FY 2000-01, while total State revenue and expenditure totals are only available through FY 1999-2000. Additionally,

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[1] As authorized by law under Title 13, United States Code, Section 182; see *http://www.census.gov/govs/www/statetechdoc.html*.

[2] Id.

[3] *See* Urban Institute and Price Waterhouse, *Fiscal Affairs of State and Local Governments in Nevada*, Chapter 4: Nevada's Place Among the 50 States. 1988.

the most recent data issued on combined state and local revenues is FY 1998-99. The second limitation is that revenue and expenditure definitions and categories differ from those traditionally used in Nevada.[4] Levies imposed on gaming win, for example, are classified by the Census Bureau as selective sales and gross receipts taxes.[5] In the section that follows, we provide general definitions of the major revenue and expenditure categories used. The read should beware, however, that many of these definitions differ from those traditionally used in Nevada governmental accounting.

A number of bases for comparison are used in this analysis. They include comparisons of revenues and expenditures per capita, per employee, and as a percentage of personal income. The latter is generally expressed as revenues or expenditures per $1,000 of personal income. Population, employment and income data were obtained from the United States Bureau of Economic Analysis and are specific to the year in which the particular set of revenues or expenditures are being reported. Also included are percentage distributions and ordinal state rankings. This analysis compares Nevada to the 50 states as well as a subset of "western states." In addition to Nevada, the western states include Arizona, California, Colorado, Idaho, Montana, New Mexico, Oregon, Utah, Washington and Wyoming.

As noted above, this analysis was intended to be a reference tool as opposed to a means of drawing substantive conclusions. As such, we provide a brief summary of salient trends and an extensive set of charts, tables, and maps in the appendices that follow. They include the following:

- **Appendix 5A** includes a comparison of state own-source revenues (i.e., taxes, fees, and charges). These data are derived from *The State Government Tax Collections* report and provide a summary of taxes collected by state for 25 tax categories.

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[4] *Compare Nevada Legislative Appropriations Report,* Legislative Analysis Division, Fiscal Analysis Division, FY 2001-02 and FY 2002-03 with U.S. Census Bureau, Federal, State, and Local Governments, Government Finance and Employment Classification Manual. http://www.census.gov/govs/www/class_ch7_tax.html

[5] *See* U.S. Census Bureau, Federal, State, and Local Governments, Government Finance and Employment Classification Manual. http://www.census.gov/govs/www/class_ch7_tax.html .

- **Appendix 5B** provides a comparative analysis of total state revenues and expenditures. This analysis is derived from the *State Government Finances* report and provides a comprehensive summary of the Census Bureau's annual survey findings for state governments. The tables and data files present the details of revenue, by type, expenditures, by object and function, indebtedness by term, and assets by purpose and type.

- **Appendix 5C** provides detailed information on combined state and local revenue and spending. These data are based on the Census Bureau's *Annual Survey of Government Finances*.[6] The annual survey is used to supplement the Census of Governments that is conducted every five years,[7] which encompasses the entire range of government finance activities -- revenue, expenditure, debt, and assets.

Not all of the state-to-state comparative information collected, analyzed, and considered by the Task Force is included in this section of our report. In fact, much of the rate, base, exemption and systematic comparative data are omitted.[8] To have included these data in their entirety would have added several hundred pages to an already voluminous document.

In closing, we reiterate the need for caution when evaluating the figures contained below and in the appendices that follow. While the Census Bureau goes to great lengths to refine these data, there are a number of discrepancies relating to how revenues and expenditures are reported. Expenditure levels directly reflect the cost and need for services, which varies from one state to another. For example, low spending on welfare programs may be the result of lower-than-average poverty levels as opposed to an affirmative policy decision by elected lawmakers to provide fewer services to needy families.

Finally, these data do not provide meaningful information for the calculation or assessment of relative tax burdens. Clearly, taxes paid by Nevada residents are lower than

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[6] Authorized by law under Title 13, United States Code, Section 182. Alternatively, every five years, in years ending in a `2` or `7`, a Census of Governments, including a Finance portion, is conducted under Title 13, Section 161

[7] Id. Note also that the last Census of Governments was conducted in 1997.

[8] These data are available upon request.

collections per capita, per employee, or per $1,000 of income would tend to suggest. Gaming, casino entertainment tax, and visitor contributions to sales tax collections have been shown to account for 50 percent or more of the state's general fund collections.[9] This effectively skews the tax burden away from residents and onto hospitality-related businesses and their patrons. This is further evidenced by the fact that most states derive 37 percent of their aggregate tax receipts from the imposition of a levy that does not exist in Nevada – personal income tax.

Fiscal Categorizations and Definitions

As noted above, the Census Bureau uses a unique set of categorizations in an effort to synthesize information reported from state and local governments nationwide. These differ from those reported in Nevada's *Comprehensive Annual Financial Reports* and *Legislative Appropriations Reports*.[10] Below, we briefly overview the revenue and expenditure categories used in this analysis.[11]

Revenue Categories

- **General revenue** comprises all revenues except those classified as liquor store, utility, or insurance trust revenues. Generally, the basis for this distinction is not the fund or administrative unit established to account for, and control, a particular activity, but rather, the nature of the revenue source involved. Within general revenue there are four main categories: taxes, intergovernmental revenue, current charges, and miscellaneous general revenue.

- **Taxes** are defined as compulsory contributions exacted by a government for public purposes, other than for employee and employer assessments and contributions to finance retirement and social insurance trust systems and for

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[9] Bybee, S. et. al. *The Hospitality Industries Impact on the State of Nevada*. UNLV International Gaming Institute 1998.

[10] Please see *Section 2: Fiscal System Overview*.

[11] Definitions pursuant to those provided by the United States Bureau of the Census, *Federal, State, and Local Governments Finance and Employment Classification Manual*; *see also* http://www.census.gov/govs/www/class.html. Note that not all definitions have been provided. A complete set is available for download at the website provided.

special assessments to pay for capital improvements. Tax revenue comprises gross amounts collected (including interest and penalties) minus amounts paid under protest and amounts refunded during the same period. It consists of all taxes imposed by a government, whether the government collects the taxes itself or relies on another government to act as its collection agent.

- **Property taxes** include general property taxes, relating to property as a whole, taxed at a single rate or at classified rates according to the class of property. Property refers to real property (e.g., land and structures) as well as personal property; personal property can be either tangible (e.g., automobiles and boats) or intangible (e.g., bank accounts and stocks and bonds).

- **Sales and gross receipts taxes** are those taxes on goods and services, measured on the basis of the volume or value of their transfer, upon gross receipts or gross income derived therefrom, or as an amount per unit sold (gallon, package, etc.); and related taxes based upon use, storage, production, importation, or consumption of goods and services.[12]

- **Selective sales and gross receipts taxes** are those imposed on the sale of particular commodities or services or on gross receipts of particular businesses separately and apart from *General Sales* or *Gross Receipts Taxes*; and licenses measured by sales or gross receipts and producing more than minor amounts of revenue. Examples include those on insurance premiums, liquor, amusements, motor fuels, and public utilities.

- **License taxes** are levies exacted (either for revenue raising or for regulation) as a condition to the exercise of a business or nonbusiness privilege. They can be levied at a flat rate or by such bases as capital stock or surplus, number of business units, or capacity. Generally, includes taxes on property levied on some basis other than assessed value (e.g., on corporate stock or bank deposits). Also includes "fees" related to licensing activities as well as license taxes producing substantial revenues.

[12] Also included licenses levied at more than minor rates.

- **Income taxes** are those levied on the taxable gross income of individuals or on the net income of corporations and businesses (i.e., after allowable deductions). Reported figures deduct refunds of taxes from gross collections even if they were recorded as tax revenue in a previous fiscal year.

- **Intergovernmental revenue** comprises monies from other governments, including grants, shared taxes, and contingent loans and advances for support of particular functions or for general financial support; any significant and identifiable amounts received as reimbursement for performance of governmental services for other governments; and any other form of revenue representing the sharing by other governments in the financing of activities administered by the receiving government. All intergovernmental revenue is reported in the general government sector, even if it is used to support activities in other sectors (i.e., utilities).

- **Intergovernmental revenue from the federal government** includes federal grants and aid, payments-in-lieu-of-taxes on federal property, reimbursements for state activities, and revenue received but later transmitted through the state to local governments. For local governments, this category includes only direct aid from the federal government. (Reports federal grants channeled through the states as Intergovernmental Revenue from State Governments at the local government level.)[13]

- **Liquor store revenue** comprises only receipts from sales and associated services or products of liquor stores owned and operated by state and local governments. It excludes any application of general revenue for liquor store operations as well as receipts from licenses or other liquor taxes collected by liquor stores or systems (including general sales tax collections). All taxes collected through liquor store operations are classified as tax revenue.

[13] Excludes amounts received by state governments which are distributed to individuals without discretion as to how they are disbursed (e.g., certain veterans benefits); rental or sale of buildings, property, or commodities to the federal Government (report at appropriate General Charges or Miscellaneous General Revenue code); taxes on federal property (report at Property Taxes, code T01); and proceeds from sale, liquidation, or earnings of federal securities (nonrevenues except for earnings).

- **Utility revenue** comprises receipts from sales and directly related services and by-products of the four types of state and local government utilities recognized by the Census Bureau: water supply, electric power, gas supply, and public mass transit systems. Utility revenue is reported on a gross amount without deducting its related expenditures.

- **Insurance trust revenue** consists of contributions distinctively imposed for the support of public employee retirement and social insurance systems plus net earnings on their investment assets.

Expenditure Categories

- **General expenditures** comprise all expenditures except those classified as liquor store, utility or insurance trust expenditures. As noted above, it includes all such payments regardless of the source of revenue from which they were financed. General government expenditures are classified by function, character and object.

- **Elementary and secondary education expenditures** include operation, maintenance, and construction of public schools and facilities for elementary and secondary education (kindergarten through high school), vocational-technical education, and other educational institutions except those for higher education, whether operated by independent governments (school districts) or as integral agencies of state, county, municipal, or township governments; and financial support of public elementary and secondary schools.

- **Higher education expenditures** include provision or support of activities and facilities connected to all educational institutions beyond the high school level. Includes expenditures related to professional and technical schools beyond the high school level.

- **Health and hospitals expenditures** include all health services, public health research, clinics, nursing, immunizations, maternal child health, school health services, and establishment and operation of hospital and other care facilities. Health and hospital expenditures do not include payments or services provided under public welfare programs (*see Public welfare*).

- **Public welfare expenditures** include all support of, and assistance to, needy persons. Expenditures include cash assistance payments directly to needy

persons under state or local welfare programs; vendor payments made to providers of medical care; and welfare institutions.

- **Highways expenditures** include maintenance, operation, repair, and construction of toll and non-toll highways, streets, roads, alleys, sidewalks, bridges, tunnels, ferry boats, viaducts, and related structures.

- **Corrections expenditures** include residential institutions or facilities for the confinement, correction, and rehabilitation of convicted adults or juveniles adjudicated delinquent or in need of supervision, and for the detention of adults and juveniles charged with a crime and awaiting trial.

- **Liquor store expenditures** comprise only outlays related to the establishment and operation of liquor stores owned and operated by state and local governments, including amounts for purchase of liquor for resale. It excludes expenditures for enforcement and licensing under liquor laws, even if financed by liquor store sales (reported as general expenditure).

- **Utility expenditures** comprise outlays for the purchase or construction of utility facilities, interest on utility debt (including utility debt held by other funds of the same government), and production or acquisition and distribution of utility commodities and services for sale to the general public or to other governments by the four types of state and local government utilities recognized by the Census Bureau: water supply, electric power, gas supply, and public mass transit systems. Utility expenditures are reported on a gross amount without deducting its related revenue.

- **Insurance trust expenditures** consist of social insurance payments to beneficiaries, public employee retirement annuities and other benefits, and withdrawals of insurance or employee retirement contributions. In effect, it only includes amounts paid to beneficiaries or members of the systems.

Notable Trends

State Government Own-Source Revenues

Own-source revenues are generally defined as monies raised through a government's taxing powers or via imposed user fees and charges.[14] The Census Bureau reports the State of Nevada's own-source revenues totaled $3.8 billion in FY 2000-01, or roughly $1,820 per capita. This per capita total placed Nevada 30th nationally, and kept the State below the United States' median in levies per employee and per $1,000 of personal income. Please see Appendix 5A.

The unique and narrow nature of the State's fiscal system is clearly illustrated in Exhibits 5-1 through 5-3 on the following pages. General and selective sales and gross receipts taxes[15] make up 86 percent of Nevada's own-source revenue total. This is more than double the national and western states averages. The difference, however, is largely "made up" through the imposition of income taxes. Individual and corporate income tax levies account for 33 percent and 48 percent of total State collections nationwide and within the western states, respectively.

State Revenues and Expenditures

The second dataset reviewed is more inclusive than the one reviewed in the analysis above. It includes consideration of all State revenues and expenses for FY 1999-2000, as opposed to only own-source revenues. This analysis suggests that Nevada generated $5,700 per capita in total State revenues in FY 1999-2000, placing it 44th, or lower, among the 50 states in terms of total revenues per capita, per employee, and per $1,000 of personal income. Please see Appendix 5B.

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[14] Burchell, R. and Linstokin, D. *The Fiscal Impact Handbook: estimating local costs and revenues of land development. The Center for Urban Policy Research*. Piscataway, New Jersey. 1988.

[15] Includes gaming, casino entertainment, and excise taxes.

Exhibit 5-1: State Own-Source Revenues Comparison
Nevada Own-Source Revenues Composition By Source
2001

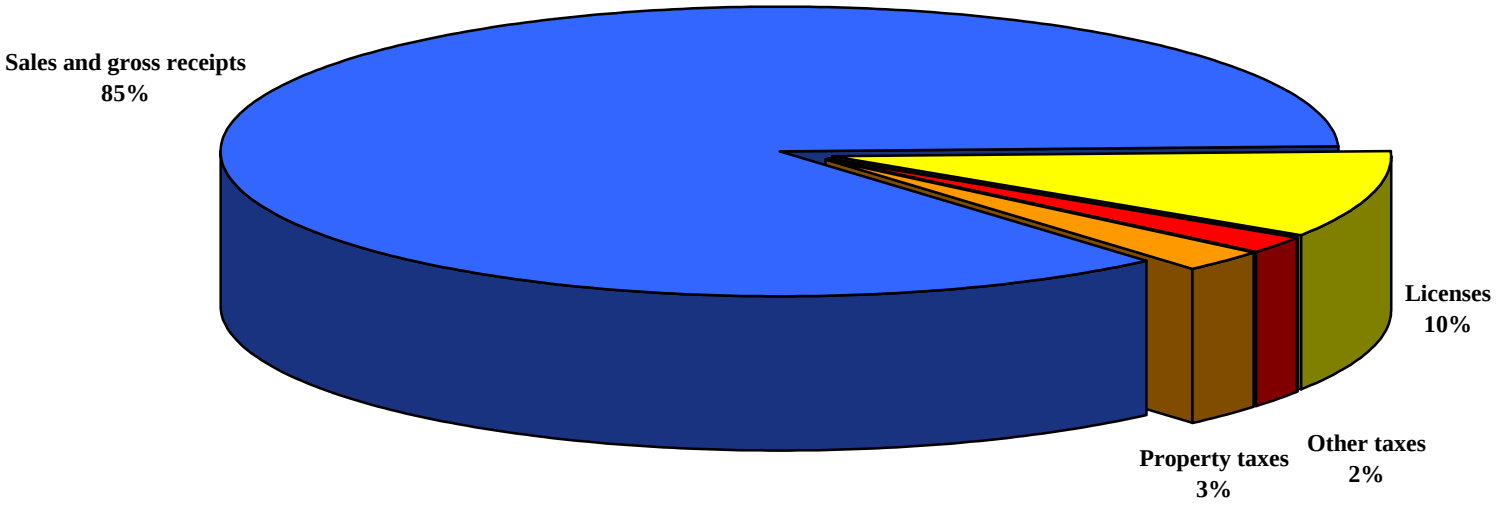


Exhibit 5-2: State Own-Source Revenues Comparison
National Average State Own-Source Revenues Composition By Source
2001

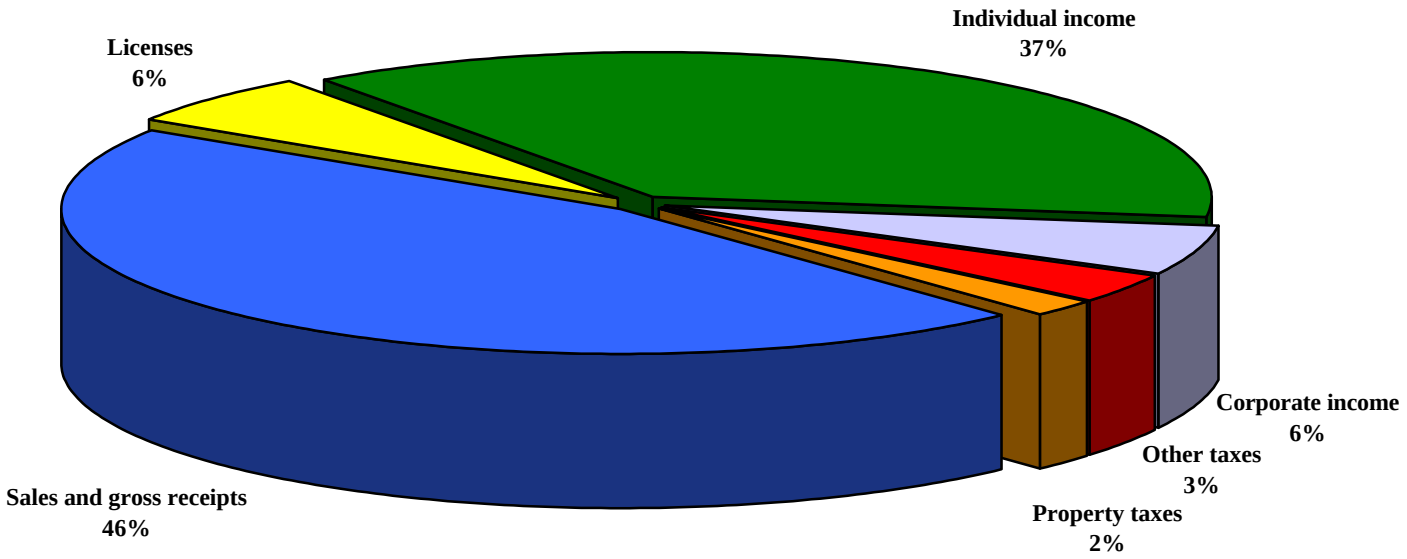
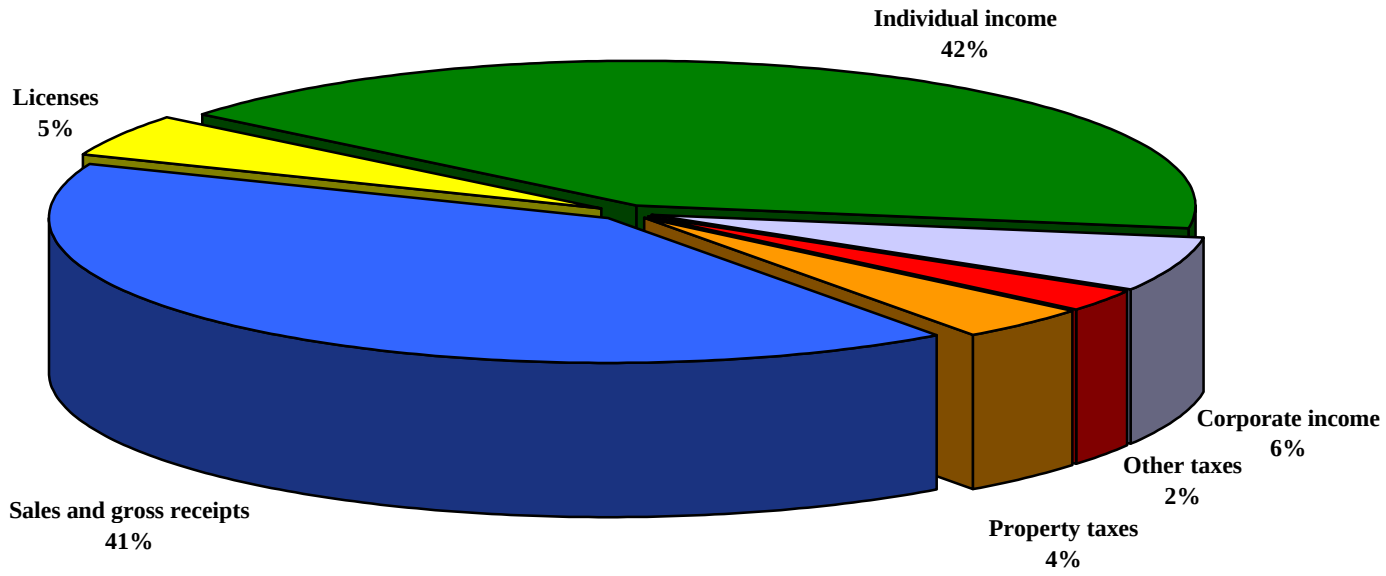


Exhibit 5-3: State Own-Source Revenues Comparison
Western States Average Own-Source Revenues Composition By Source
2001



Perhaps the most troubling trend identified in this dataset relates to Nevada's level of federal funding. Consistent with information cited in our previous analysis of own-source revenues, Nevada ranked 30th in total tax collection per capita; however, the State ranked 50th in intergovernmental transfers. The Census Bureau's reports suggest that the State received only 14.5 percent of its funding total from intergovernmental sources, where the national and western states average exceeded 20 percent. While this may appear to be a somewhat marginal difference, had Nevada obtained its pro-rata share of intergovernmental transfers, it would have reported hundreds of millions in additional funding.

Nevada also ranks relatively low in total spending. In FY 1999-2000, total State expenditures were estimated at $3,000 per capita, ranking Nevada 47th among the 50 states. Nevada ranked relatively low in all major spending categories barring highways, in which the State placed 25th nationally. Per capita spending on education, public welfare, hospitals, health, parks and administration placed Nevada among the 10 lowest states nationwide. The same trends were reported in terms of employment and personal income.

Nevada's overall allocation of revenues to these areas is relatively similar to those in other states, with the exception of the public welfare category, which accounts for 14 percent of the State's spending total in Nevada as opposed to 22 percent nationally and among the western states.

State and Local Revenues and Expenditures

The final dataset reviewed was the most detailed, but also the most dated. It provides information on combined state and local revenues and expenditures for FY 1998-99. Please see Appendix 5C. These data are important because they supply a more level comparison relative to each state's tax burden and spending level. The previous state-level analyses have the potential to skew one's perceptions because they considered only "state" revenues and expenditures. Each state distributes its public service and tax burdens between state and local governments differently.[16]

[16] This is sometimes referred to as the level of centralization.

Nevada's state and local revenue collections were reportedly $11.7 billion in FY 1998-99, ranking the State 24th in terms of per capita revenues. The federal funding trend alluded to in the previous analysis also is present in this analysis. Nevada ranked 43rd in total federal funds received, placing it last in per capita, per employee, and percentage of income terms. The narrowness of the State's revenue base did appear less pronounced when both State and local revenues were considered. Please see Exhibits 5-4 through 5-6 on the pages that follow.

In terms of overall expenditure levels, Nevada fared somewhat better when state and local spending were analyzed collectively. That having been said, State spending on education and public welfare programs remained less than national and western states averages, while transportation, public safety and government administrations outpaced the average rates. This may tend to suggest that some additional parity between state and local revenues would potentially increase the stability of the overall tax system.

Exhibit 5-4: State Revenue Comparison: Nevada
State and Local Total Revenue Composition By Source
FY 1998-99

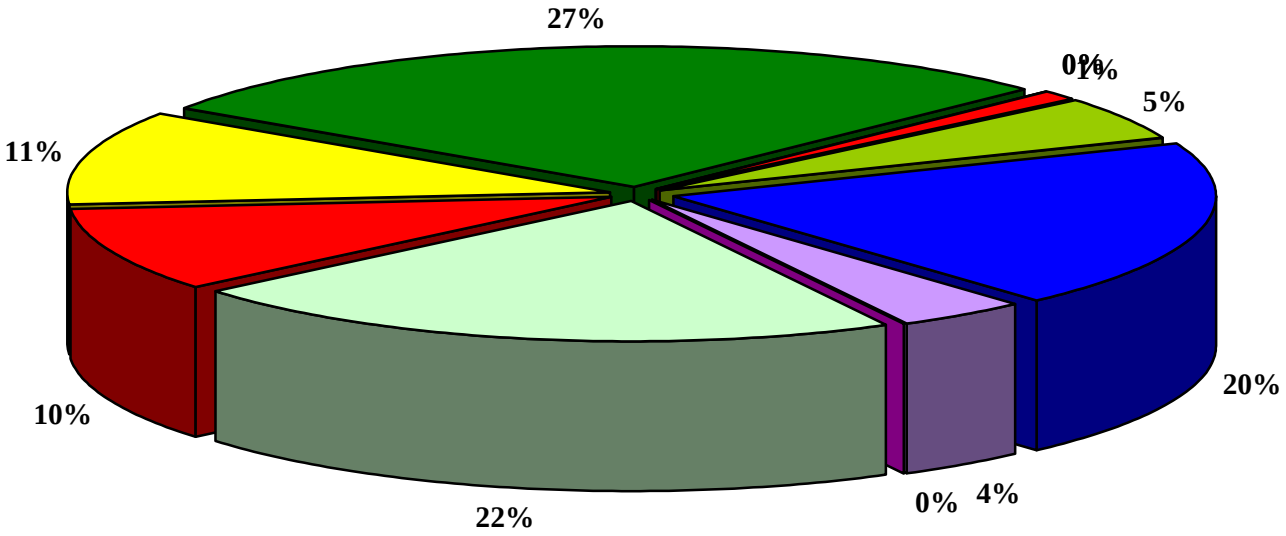


Exhibit 5-5: State Revenue Comparison: United States Averages
State and Local Total Revenue Composition By Source
FY 1998-99

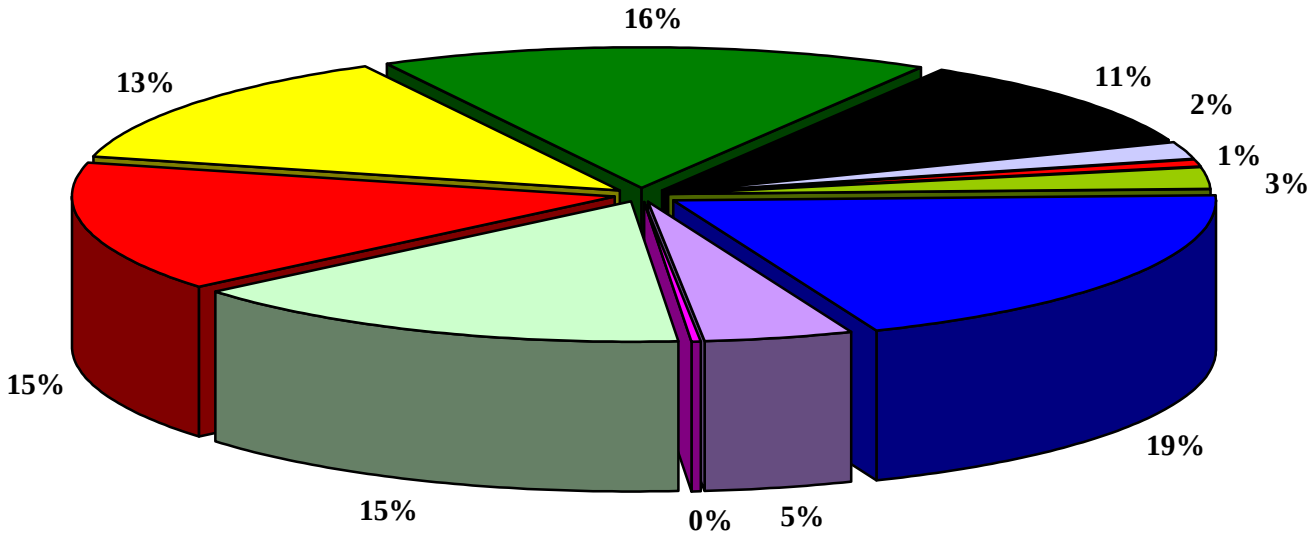


Exhibit 5-6: State Revenue Comparison: Western States
State and Local Total Revenue Composition By Source
FY 1998-99