The 2011 Nevada Legislative Session
Review & Report Card

by Geoffrey Lawrence
Nevada Policy Research Institute
Introduction

The challenges that would face lawmakers during Nevada’s 76th Legislative Session were known well ahead of time. The Silver State had been impacted acutely by the Great Recession and remained mired in it.

At the outset of the session, Nevada’s unemployment rate had remained in double digits for two full years and was the highest in the United States – even though more than 33,000 workers had left the state’s labor force.¹ Personal income growth was slowest in the nation,² and Nevadans faced the nation’s highest home foreclosure rate,³ as the median housing price in the Las Vegas Valley had fallen 63 percent since its 2006 peak.⁴

Years of artificial abundance from expansive Federal Reserve monetary policy had come to a screeching halt, as market corrections deflated the “bubbles” in housing and tourism that federal politicians and the Fed had created. Sadly, Nevada had become a case-in-point for Friedrich Hayek’s Austrian Theory of the Business Cycle.⁵

Tied to the collapsing private economy, state government revenues had fallen precipitously. Between December 2005 and January 2010, inflation-adjusted average daily state sales tax receipts fell by 46.8 percent.⁶ Between November 2006 and June 2010, the inflation-adjusted average daily statewide gaming win fell by 38.1 percent – producing a comparable drop in state gaming tax collections.⁷

Thus, by the beginning of the 2011 session, state General Fund revenues had seen negative growth in two consecutive biennial budget cycles. From a high of $6.11 billion in the 2005-07 biennium, revenues fell to $5.81 in the 2007-09
biennium and then to an initial projection of $5.28 billion for the 2009-11 biennium.⁸

To address declining revenues, lawmakers during the 75th (2009) Session elected to increase the tax burden on Nevada families and businesses by more than $1 billion and to accept short-term stimulus money from the federal American Recovery and Reinvestment Act (ARRA).⁹ These devices allowed lawmakers to postpone the most difficult decisions and to continue increasing spending, despite negative revenue growth.

Heading into 2011, however, lawmakers knew that the bulk of the new moneys appropriated in 2009 would no longer be available. The majority of the 2009 “temporary” tax hikes were set to expire, as was ARRA stimulus money. Lawmakers in 2009 had used one-shot funds to finance ongoing expenditures, forcing a new crop of lawmakers in 2011 to reconcile the difference.

**Background**

The economic realities facing the state, however, were not the only factors sure to affect the outcome of the 76th Session. Long before the session began, a significant array of political and policy dynamics had been set in motion. At the forefront was an election in which voters demanded fiscal discipline from candidates. That election changed both the composition of the Legislature and the occupant of the governor’s mansion. But behind that election were other factors, such as the final arrival, in full, of term limits – passed by Nevada voters in the mid-1990s and in 2010 rendering many veteran lawmakers ineligible. Now, those seats would be occupied by a number of freshmen.

Also seen in Nevada’s 2010 legislative elections was the nationwide impact of the burgeoning, fiscally conservative Tea Party movement, although not to the extent seen in other states. While two Assembly seats and one Senate seat changed
from Democrat to Republican, primary voters in each party placed greater emphasis on tax and spending issues.

This development was of particular significance for Assembly Republicans, largely irrelevant to the 2009 tax debate because Democrats had held a super-majority. Under a 1996 amendment to the state constitution, a two-thirds super-majority vote in each chamber of the Legislature is required for all tax increases. Thus, by adding two additional votes in 2011, Assembly Republicans gained the power to block new taxes – giving them a stronger negotiating position.

Fiscal policy had also been at the center of Nevada’s 2010 gubernatorial race, with both major candidates – Rory Reid for the Democrats and Brian Sandoval for the Republicans – emphatically declaring their opposition to any new taxes during the 2011 legislative session. Increasing the tax burden on Nevada families and businesses would only exacerbate the impact of recession, said each candidate.

The Tax Advocates

Others, however – despite the worst recession since the 1930s – were actively working to increase Nevadans’ tax burden. Senate Majority Leader Steven Horsford, the central engineer of 2009’s record-breaking tax hike, had included in
his enabling legislation language requiring the convening of a “Nevada Vision Stakeholder Group.” Its purpose: to propose ideas during the legislative interim for new broad-based business taxes.

The clear intent was to provide an air of intellectual justification and popular support for punitive business taxes that would be used to finance a dramatic expansion of government. The group’s membership – hand-picked by the Horsford-led Interim Finance Committee – was dominated by public employees, their union leaders and other recipients of tax dollars. Indeed, it appears that a major criterion for selecting group members was their direct interest in expanding government through higher taxes.

Although the group produced a final report detailing billions in recommended new state spending, the state’s consultant, Moody’s Analytics, failed to complete the accompanying tax study that was clearly meant to provide political cover for a new state corporate income tax. That had become doubly difficult after the Nevada Policy Research Institute published its own tax study, showing that a corporate income tax would only exacerbate volatility within the state tax structure.

Horsford and other tax advocates, not dissuaded by this development, continued trying to build political support for higher taxes. After failing to achieve their objective with the Nevada Vision Stakeholder Group, Horsford and John Oceguera – who would soon be installed as the new Assembly speaker for 2011 – “met repeatedly” with a group of business leaders to discuss potential new business taxes. Those meetings featured prominent gaming executives who have long sought to diversify the state’s tax burden away from themselves. Included were Keith Smith, CEO of Boyd Gaming; Marybel Batjer, vice president of Caesar’s Entertainment; and Billy Vassiliadis, CEO of R&R Partners, which represents the Nevada Resort Association.
The meetings were later derided by Sandoval as “bat cave” meetings\(^1\) – suggesting they constituted a secret, tax-hiking conspiracy.\(^1\) The group reportedly coalesced around two major tax ideas that Democratic leaders would eventually propose to increase taxes a combined $1.2 billion: a sales tax on services and a Texas-style business-margins tax.\(^2\)

**Executive Budget**

On Jan. 24, newly installed Gov. Brian Sandoval presented to the Nevada Legislature a $5.8 billion Executive Budget proposal, saying, “When my staff and I first arrived at the state capitol, we were told that the State General Fund must spend $8.3 billion in the coming biennium instead of the $6.2 billion we are spending today. We rejected that premise. The population of Nevada has declined, yet the proposed budget would have increased state spending by 34 percent. That kind of math made no sense.”\(^2\)

Sandoval was attempting to part ways with the flawed method of constructing the Executive Budget known as “baseline budgeting.” The baseline approach automatically assumes a continuation of current spending on all state programs and then adds in additional “roll-up costs” to reflect across-the-board annual employee pay raises, projected caseload growth and inflation.

These roll-up costs are significant and regularly amount to $1 billion or more in new spending from one budget cycle to the next. Indeed, roll-up costs are a primary reason General Fund spending has grown from $3.90 billion in the 2003-05 budget cycle\(^2\) to a baseline calculation of $8.35 billion for the 2011-13 budget cycle\(^3\) – a 60.6 percent growth in just eight years. During that period, the state’s population grew only 18.2 percent while inflation destroyed 22.3 percent of the dollar’s value.\(^4\)

Equally problematic, the baseline approach fails to exact accountability over the use of tax dollars. That’s because it
exempts policymakers from the need to perform their fiduciary responsibility of evaluating state spending on the basis of either need or effectiveness. Hence, the baseline approach accumulates less effective or unnecessary spending over the years, since the mere existence of state offices is sufficient to justify their continued funding – whether or not each office is achieving its goals.

Recognizing these problems, Sandoval’s budget proposal established clear priorities on state spending, allowing funding to be scaled back in low-priority areas.\textsuperscript{25} Following through on a process begun within the Jim Gibbons administration, he also adopted a performance-based budgeting approach that ties funding directly to agency results.\textsuperscript{26}

However, state laws governing the budget-making process still require the state budget director to calculate projected spending by the baseline approach – whether or not the governor considers the approach valid.\textsuperscript{27} This requirement provides tax advocates a built-in justification for more taxes whenever revenue projections fall below the baseline spending figure. Consequently, it is regularly used to undermine any attempts at spending restraint.

This was again the case in 2011, as the Economic Forum – a panel of five appointees tasked with developing official revenue projections for the state – decided at its December 2010 meeting that only $5.33 billion would be available in the 2011-13 budget cycle.\textsuperscript{28} Tax advocates jumped at the chance to compare that amount with the arbitrary baseline spending target of $8.35 billion and claim that Nevada had a General Fund “shortfall” of $3 billion that could only be resolved with new and higher taxes.\textsuperscript{29}

These claims were made even though the $8.35 billion
The figure was essentially imaginary—Nevada had never spent more than $6.8 billion in any budget cycle.

While critics on the political Left attacked the Sandoval budget for what they saw as insufficient spending, the plan drew a combination of praise and criticism from the Right. In addition to being performance-based, the proposed budget sought to consolidate many state offices and included long-needed reforms to K-12 education.30

Nevertheless, Sandoval’s budget still sought to outspend available revenues by about $500 million. The governor proposed to take a loan out against future insurance-premium tax earnings, to continue local property tax diversions begun in the preceding budget cycle and to use school-district debt-reserve funds for operating costs. The natural question, since multiple opportunities for savings had not yet been exploited, was: Why should additional spending be necessary? After all, before the unveiling of the Executive Budget31—cost-saving proposals had been developed by the bipartisan Spending and Government Efficiency (SAGE) Commission,32 the Nevada Taxpayers Association33 and NPRI— the latter having found as much as $3.5 billion in potential biennial savings.34

**Impasse Ensues**

As lawmakers arrived in Carson City, it became clear immediately that legislative deliberations would devolve into stalemate. Most lawmakers in the Democratic majority favored new taxes to finance a dramatic expansion of government. Sandoval, however, had made it clear he would oppose all new taxes and veto legislation implementing a tax increase.

Republican lawmakers in the Senate pledged their unanimous support for the governor’s stance in February, saying they would “reject calls for new taxes that punish small businesses for hiring and keeping employees, and that punish Nevada families for living and working here.”35 With Senate Republicans unanimously backing the governor, it became immediately evident that Democrats would not be able to
achieve the two-thirds super-majority required to pass a tax increase in that chamber.

This laid the foundations for impasse, as Democrats controlled simple majorities that would allow them to pass spending bills in excess of the governor’s recommendations, but would not be able to pass the taxes necessary to finance that additional spending. When Democrats did approve additional spending – beginning with AB568, which increased K-12 education spending by $660 million above Sandoval’s recommendations\(^{36}\) – they were met with a gubernatorial veto they could not override.\(^{37}\)

**More Money Becomes Available**

Given the frustration this caused legislative Democrats, they were likely pleased in early May when the Economic Forum revised its revenue projections upward\(^{38}\) to show that an additional $270 million would be available in growing revenues from existing tax instruments. Also, over preceding weeks, federal authorities had announced a higher match rate for Nevada Medicaid programs, infusing another $170 million into the state budget. In total, $440 million in new revenues became available that Sandoval immediately used to increase his budget’s proposed spending.\(^{39}\)

However, even Sandoval’s amended $6.2 billion budget proposal fell far short of the spending levels envisioned by Democrat leaders Horsford and Oceguera. On May 5, they held a press conference introducing the tax ideas developed in the “bat cave” meetings: a business margins tax and a revenue-enhancing expansion of the sales tax base to include some services. The business margins tax – modeled after a Texas tax instrument that has been fraught with problems since its inception\(^{40}\) – was to be assessed against the least of: (a) 70 percent of total revenue, (b) total revenue minus wages or (c) total revenue minus the cost of goods sold. According to their plans, the tax would eventually replace the state’s current tax on private-sector payroll.\(^{41}\)
In total, the Democratic tax plan would have generated an additional $1.2 billion in revenue for the 2011-13 budget cycle. However, due to the firm opposition of Sandoval and Senate Republicans, as well as widespread rumblings that Democrat leaders would not have the full support of their own caucus, the proposals were considered, in the words of high-ranking Sandoval advisor Dale Erquiaga, “dead on arrival.”

Keeping with long-standing practice, tax-hiking lawmakers had kept their tax proposals secret until just weeks before the session was scheduled to adjourn, hoping to keep taxpayers from mobilizing in opposition. As a tactic for creating tax policy, said Erquiaga, this was unacceptable: It allowed no time for a thorough vetting of the proposals.

Assembly Republicans Come to Play

As their dreams of more punitive business taxes began to fade, Horsford and Oceguera knew they would have to coax out Republican support in order to levy any additional taxes upon Nevadans. While Senate Republicans stood firmly behind the governor, refusing to negotiate for new taxes, Republicans in the Assembly were publicly offering votes to extend about $700 million in expiring “temporary” taxes from 2009. Their quid-pro-quo? Policy reform in five key areas: K-12 education, collective bargaining, the Public Employee Retirement System, prevailing wage and construction defect laws.

Yet, no matter how desperate for more revenue Democratic leaders may have been, they remained unwilling to accede to the conditions offered by Assembly Minority Leader Pete Goicoechea – especially without the assurance that Senate Republicans would follow suit. Because the reforms sought by Goicoechea would have threatened the unions that regularly help get Democrats elected, it was a price most Democrats were not willing to pay. So the impasse continued.
The Twist

As Democratic leaders publicly decried the expected lack of higher spending and tried to fracture Republican anti-tax resolve, they were also secretly in contact with the Nevada Supreme Court. There they had requested an expedited opinion on a case they thought could break the budget gridlock.\(^{45}\)

The M Resort was suing the state for taking $62 million in sewer connection fees from Clark County’s Clean Water Coalition during the Legislature’s 26th Special Session in 2010. If the decision went against the state, legislative leaders knew that the implications could be much bigger – blowing a hole into Sandoval’s Executive Budget and potentially fueling a willingness on behalf of Republicans to accept a higher tax burden on the people.

On May 26, less than two weeks before the Legislature was scheduled to adjourn, the Supreme Court delivered that opinion. The Court declared that, in taking $62 million from the water coalition for broad state purposes, the state had violated the state constitution’s requirement that “all laws should be general and operate uniformly throughout the state.”\(^{46}\) Not only did the decision directly invalidate $62 million upon which Sandoval had relied in constructing his Executive Budget, but it further implied that all state takings of local revenue sources would be found unconstitutional.

Meeting through the night, the governor’s staff studied to determine which revenues would be affected by the Court opinion. They eventually decided that the property tax diversions begun in 2009 and the use of school district bond reserve funds would be illegal as well – leaving a $481 million hole in Sandoval’s amended budget.\(^{47}\)

The timing of the opinion created an imperative to act quickly, as constitutional restrictions limiting the legislative session to 120 days meant that lawmakers would need to adjourn by June 6. Within hours, sources within the Sandoval administration were saying that the governor would reverse his
position and support extension of the 2009 “temporary” tax hikes.\textsuperscript{48} His staff made that pronouncement official the next day, but with the caveat that Sandoval would seek reforms in exchange for tax hikes – reforms that coincidentally matched the list already articulated by Goicoechea and the Assembly Republicans.\textsuperscript{49}

### The Deal

The agreement that the Court opinion eventually facilitated between Sandoval, legislative Democrats and some legislative Republicans, provided for $6.24 billion in General Fund

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<th>Extention of Tax Increases</th>
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<tr>
<td>• $237 million in payroll taxes (MBT)</td>
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<td>• $265 million in sales taxes (LSST)</td>
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<td>• $2 million GF commission on LSST</td>
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<th>Education Reform</th>
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<tr>
<td>1. Probationary time before teachers are granted tenure extended from 1 to 3 years.</td>
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<td>2. School administrators must consider teacher performance when making layoff decisions.</td>
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<td>3. Governor will appoint a statewide superintendent of public instruction</td>
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<th>Collective Bargaining</th>
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<td>1. Local governments’ labor contracts become subject to renegotiation when year-over-year revenues decline by 5 percent or more.</td>
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<td>2. Certain management employees can no longer collectively bargain.</td>
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<th>Other Labor Reform</th>
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<tr>
<td>1. Public employee retiree health care subsidies eliminated for new hires — a $275 million savings over 30 years.</td>
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<tr>
<td>2. A study will be commissioned to examine ways of reducing the $10 billion unfunded liability within the Public Employees’ Retirement System.</td>
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spending. Sandoval and a cadre of legislative Republicans agreed to extend $625 million in 2009’s temporary sales tax and payroll tax increases through the 2011-13 budget cycle. In addition, a $155 million line of credit was taken from the local government pooled investment fund in order to prop up spending.

In spite of increasing the overall state tax burden by $625 million (11.5 percent) Sandoval and legislative Republicans declared victory for taxpayers because they negotiated to exempt from the state payroll tax the first $250,000 of a firm’s annual payroll. As such, they claim that 70 percent of businesses will see a tax cut, despite the fact that workers in those businesses will face higher consumer prices because of the tax increases levied elsewhere.

However, some meaningful labor and education reforms were included within the final deal that will benefit children and taxpayers in the long run. These are detailed in Table 1.

**Impact on Education**

At the outset of the 2011 Session, Gov. Sandoval proposed to drastically change the way K-12 education is delivered in the Silver State through a package of aggressive reforms modeled after those implemented in Florida under the leadership of former governor Jeb Bush. Sandoval proposed to:

1. end teacher tenure,
2. evaluate teachers and administrators based on student performance and offer a performance pay incentive,
3. end social promotion,
4. provide parents with a simple ABCDF grading system for schools, and
5. expand school choice options with a universal voucher program.

Sandoval’s reform package finally offered hope to Silver State children who have languished under a state educational
system that has been failing for decades. Nevada’s high school graduation rates were worst in the nation at 51.3 percent in 2008, well below the national average of 74.9 percent. Likewise, Nevada’s students have performed poorly on standardized national tests such as the National Assessment of Educational Progress, ranking among the 10 worst states for reading and math scores. Even as lawmakers have nearly tripled inflation-adjusted, per-pupil expenditures over the past 50 years, student performance has continually deteriorated – indicating that, since increased funding fails to yield better results, the problem is structural.

The mountain of evidence showing the success of Florida’s structural K-12 reforms is undeniable. Since 1998, the state’s student performance on the fourth grade NAEP reading and math tests has improved by more than two grade levels. The most marked improvement has been among low-income and minority students who are no longer trapped in failing, inner-city schools and can use the state’s school choice program to seek better opportunities. Indeed, even Florida’s Hispanic students now outperform Nevada’s average student on the English reading exam.

Nevada has long needed to better prepare its students for success in life and Sandoval’s education reform package was based upon a model proven for the task. Unfortunately for Nevada’s children, the most substantive aspects of Sandoval’s reform package failed to win legislative approval, having met stony resistance from the state teacher union, its allies in the Legislature and other defenders of Nevada’s monolithic status quo.

However, some meaningful reforms were achieved. With
legislation that requires student performance to constitute a part of teacher evaluations and layoff decisions, as well as a new performance pay program, it will now be easier to spot, retain and reward the best teachers. Authorization for the highly successful empowerment school model was renewed and the statewide cap on empowerment schools was removed. A State Public Charter School Authority will be established to sponsor and promote charter schools within the state. Finally, a limited program of alternative teacher certification will be established to make teaching a more broadly accessible field for highly qualified professionals.

Sandoval’s flip

Perhaps the most curious aspect of the 76th Session was the speed with which Gov. Sandoval abandoned his stance against higher taxes. Although the opinion delivered by the Supreme Court dealt an obvious blow to his budget proposal – eliminating $481 million in funding sources – Sandoval had, in the weeks leading up to the Court’s decision, amended his budget to add $440 million in additional spending.

On its face, the decision should merely have required the governor to revert to a spending level close to the one he initially submitted to the Legislature. However, with little more than a week before the session’s end, he became curiously unwilling to support a spending level that he had championed just one month prior.

It is arguable that Sandoval and legislative Republicans would not have been able to secure the education and labor reforms they received had they not reversed their position and embraced taxes. However, each of the reforms had merit on its own and should not have required an 11.5 percent increase in the overall state tax burden for lawmakers to consider its passage.

Time will tell if the deal was worth its price.
Report Card Methodology

In recognition of the fact that many Nevadans do not have the time to follow the individual performances of their representatives in the Nevada Legislature, NPRI has committed itself to grading these performances and has produced the following report card. It provides an objective measure of each lawmaker’s voting record on legislation impacting the degree of economic freedom and education reform.

The grading system is an adapted version of that used by the National Taxpayers Union to grade Congress. A key advantage of the NTU methodology is that it allows bills of greater significance to be weighted accordingly. Thus, each bill impacting Nevada tax rates, either directly or indirectly as the result of spending beyond available revenues, is assigned a weight of 1 through 100, depending on magnitude of impact. Also considered are bills that would create hidden taxes through costly regulation and bills that provide targeted tax subsidies to politically favored recipients.

It should be noted that some legislative proposals can reduce the tax burden – either by lowering tax rates directly or by curtailing spending. Lawmakers can gain points voting

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<th>Composite Scores</th>
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for such proposals. Lawmakers can also gain points by voting for bills that improve education through structural reform, increase government transparency and protect property rights.

Where substantial disagreement exists on how best to curtail spending, bills are not considered. Also excluded are
bills that have zero net impact on spending or simply reassign existing funds. When a legislator has been excused from or did not vote on a bill, its corresponding points are subtracted from the denominator to reflect his or her absence.

All scores are expressed as a percentage of the maximum
possible number of points. No congressman has ever received a perfect score using the NTU model and so perfect scores should not be expected. Generally, a legislator with a score above 50 is considered to be an ally of economic liberty.

A listing of the bills considered for this analysis is available on NPRI’s website, www.npri.org, along with the underlying spreadsheet calculations.

Endnotes


3 Ibid.


5 Friedrich Hayek won the 1974 Nobel Prize in Economics for his work relating monetary policy to the business cycle, a theory known in economics as the Austrian Theory of the Business Cycle. Hayek’s framework was most heavily influenced by the seminars conducted by his mentor, Ludwig von Mises, at the University of Vienna. For Hayek’s formulation of the Austrian theory, see: Prices and Production, 1931, London; The Pure Theory of Capital, 1940, London.

6 Op cit., note 2.

7 Ibid.


18. Ibid.


29. See, e.g. Erin Dostal, “Biggest Spending Cuts, Tax Increases in Nevada History


43 Ibid.


Coalition v. The M Resort LLC (57649).  
50 This amount includes $360 million within the General Fund, as detailed within note 46, above, and an additional $265 million resulting from an additional 0.35 percent assessment in the local school support tax – a sales tax that is distributed directly to school districts.  
51 Op cit., note 21.  

Geoffrey Lawrence  
is the deputy director of policy at the Nevada Policy Research Institute and author of the studies One Sound State, Once Again and Better Budgeting for Better Results.
The Nevada Policy Research Institute

is an independent research and educational organization dedicated to improving the quality of life for all residents of the Silver State through sound, free-market solutions to state and local policy questions. The Institute assists policymakers, scholars, business people, the media and the public by providing non-partisan analysis of Nevada issues and by broadening the debate on questions that for many years have been dominated by the belief that government intervention should be the default solution.

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The Nevada Policy Research Institute
Las Vegas, Nevada
(702) 222-0642 ♦ Fax (702) 227-0927
www.npri.org ♦ office@npri.org

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