

The Proposed Budget Reserves Process for State Funding in Nevada

In December 2019, Nevada's economy was [humming](#): year-over-year growth in total non-farm employment was approximately 2.2 percent; the unemployment rate of about 4.1 percent was near the State's historical low; and tax policy changes implemented during the 80th (2019) Legislative Session collectively were expected to raise total State-generated revenue by roughly \$195.6 million over the biennium, or Fiscal Year (FY) 2020 and FY 2021.

The coronavirus pandemic appears likely to have altered that trajectory. While there is too much uncertainty to model potential economic impacts, the closure of non-essential businesses, reinforced by the stay-at-home order [declared](#) by Governor Steve Sisolak that is in effect through April 30, 2020, is expected to have wide-ranging consequences for Nevada's economy. Unemployment rates have not been released for March 2020 at the time of this writing, but initial unemployment insurance weekly claims serve as a useful proxy. Over 6,000 initial claims ([6,356](#)) were filed in the week ending March 14, 2020. The following week – that is, the week ending March 21, 2020, in which non-essential businesses first were closed – [92,298](#) initial claims were filed, representing a 1,352.1 percent increase.

Like families across Nevada, the State budget is not insulated from the economic shock. Dependence on sales/use and gaming taxes, which together, comprise nearly half ([47.7 percent](#)) of the State's major operating fund, the General Fund, has exposed vulnerabilities in our overall revenue structure. Depressed tourism dollars that typically bolster the sales tax, coupled with shuttered casinos, means that the two largest revenue sources in the General Fund likely will fall short of projections.

Governor Sisolak acknowledged as such, writing in a [memo to State agencies](#), "All Nevadans will be making cuts to their budgets, and we need to as well." The governor [stated](#) that actual revenue will not meet previous projected revenue projections and that he is examining the necessity of recommending budget reserves. In practice, these budget reserves are recommended budget cuts to General Fund appropriations for departments and operational costs within certain departments. Departments must meet [certain targets](#), though these are subject to change as the economy recovers.

The [budget reserves](#) that each department must meet are up to four percent for FY 2020 and from six percent to fourteen percent for FY 2021. The Governor's Finance Office prepared a [spreadsheet](#) that itemizes, by agency, division, and/or budget account (e.g., programs, salaries), General Fund appropriations for each fiscal year and budget cut amounts at each potential budget cut point. In considering their budget reserves, agencies are directed to use certain [decision units](#), which means areas for potential cuts, which include, amongst others: staffing reductions, elimination/reduction of new programs, reductions to services, and elimination of capital improvement projects.

Using data contained in the [spreadsheet](#), we evaluate the budget reserve targets and the implications for State funding in the current biennium (FY 2020-FY 2021). We note the following in advance:

- (1) we assess funding in the context of deepest cuts – though the data makes possible consideration of other scenarios;
- (2) General Fund appropriations for certain departments, divisions, and budget accounts in the spreadsheet are displayed without an accompanying budget cut amount (or an amount set to zero),

and in those cases, we excluded them from the data; this means that total General Fund appropriations for the biennium in the original data do not match the totals reported here; and

(3) agencies rely on a diverse mix of funding sources, including federal revenue and restricted money, and, as such, these are cuts only to General Fund appropriations, the [basis](#) of which is State collection of taxes, certain licenses/fees, and use of money and property.

Categorization of Budget Reserve Targets

Examination of budget reserve targets requires a closer look at the institutional organization of the cuts, as they are differentially distributed across departments. Table 1 categorizes the departments by institutional impact and is organized by the major functional areas of State government. There are four categories: (1) departmental-level cuts only, which means that budget reserve targets are recommended solely for the department as a whole; (2) departmental- and sub-departmental level cuts, whereby budget reserve targets are recommended both for the department as a whole *and* for divisions and/or budget accounts within agencies (e.g., programs, salaries); (3) sub-departmental level cuts, which are cuts to divisions or budget accounts within a department but not for the department itself; and (4) departments for which no budget reserve targets were recommended.

Of the 41 State-level departments, more than half, or 22, have recommended budget reserve targets at the departmental level only. These tend to be either midsize departments, as defined by budget size, and/or those that receive a relatively small General Fund contribution. For example, the Treasurer's Office has a budget of [\\$838.6 million](#) for the biennium, making it the sixth largest department by budget size. However, it receives just under \$1.3 million from the General Fund appropriation, or roughly 0.1 percent of its total budget. The exception is the Nevada System of Higher Education (NSHE), which is the third largest department in the current biennium at over [\\$2.1 billion](#); at nearly \$1.4 billion, the General Fund appropriation constitutes a 65.2 percent share of NSHE's total biennial budget.

Six departments have budget reserve targets for the department itself and divisions and/or budget accounts within those departments. The Nevada Department of Health and Human Services (DHHS), the largest department in the State, falls into this category. While there is budget reserve target for the department as a whole, in accordance with Governor Sisolak's [commitment](#) that the State "will not cut the budgets of any agency that provides 'necessary resources for those on the front lines of the COVID-19 response,'" sub-departmental level cuts are not specific to public health. However, recommended budget reserve targets at the sub-departmental level center on child welfare programs, which [include](#) "child protective and child welfare service delivery in rural Nevada and oversight of urban county-operated child protective and child welfare services programs." Some [advocates](#) have raised concerns that stay-at-home orders have put more children at greater risk of abuse. But it should be noted that these programs do receive considerable federal funding, which may lessen the impact.

The second largest department in the State, the Nevada Department of Education (NDE) has budget reserve targets both at the departmental- and sub-departmental level, as well. The Distributive School Account (DSA), the School Remediation Trust Account, Other Education Programs, New Nevada Education Funding, and School Safety were identified for budget reserve targets. The DSA provides direct State financial aid to school districts and charter schools for K-12 public education in Nevada. It is the primary mechanism through which State funding is [allocated](#) to schools.

Table 1. Categorization of Nevada Departments’ Budget Reserve Targets, by Functional Area and Organizational Level

Categorization of Nevada Departments’ Budget Reserve Targets, by Functional Area and Organizational Level				
Functional Area	Departmental-Level Cuts Only	Departmental- and Sub-Departmental Level Cuts	Sub-Departmental Level Cuts	No Cuts
Health and Human Services	<i>Dept. of Employment, Training and Rehabilitation (DETR)</i>	<i>Dept. of Health and Human Services (DHHS)</i> • Child Welfare Programs		
Education	<i>Nevada System of Higher Education (NSHE)</i>	<i>Dept. of Education (NDE)</i> • Distributive School Account (DSA) • School Remediation Trust Account • Other Education Programs • New Nevada Education Funding • School Safety		<i>State Public Charter School Authority</i>
Infrastructure	<i>Dept. of Conservation and Natural Resources</i> <i>Dept. of Wildlife</i> <i>Tahoe Regional Planning Agency</i>			<i>Colorado River Commission</i> <i>Dept. of Transportation (NDOT)</i>
Special Purpose Agencies	<i>Commission on Ethics</i> <i>Dept. of Indigent Defense Services</i> <i>Dept. of Sentencing Policy</i> <i>Dept. of Veterans Services</i>		<i>Office of the Military (Adjutant General)</i>	<i>Civil Air Patrol</i> <i>PEBS</i> <i>PERS</i> <i>Silver State Health Insurance Exchange</i>
Public Safety	<i>Dept. of Corrections</i> <i>Dept. of Motor Vehicles</i>	<i>Dept. of Public Safety</i> • Public Safety - Parole and Probation • Public Safety - Parole Board		<i>Commission on Peace Officer Standards and Training</i>
Elected Officials	<i>Attorney General’s Office</i> <i>Controller’s Office</i> <i>Judicial Discipline Commission</i> <i>Lieutenant Governor’s Office</i> <i>Secretary of State’s Office</i> <i>Treasurer’s Office</i>	<i>Governor’s Office</i> • Nuclear Waste Project Office • Office of Science, Innovation and Technology • Office of Workforce Innovation • Governor’s Mansion • Office for New Americans • Governor’s Finance Office - Budget Division • Governor’s Finance Office - Special Approps. • Governor’s Finance Office - Internal Audits • Governor’s Finance Office - Smart 21 • Nevada P20 Workforce Reporting • WICHE - Admin • WICHE - Loans and Stipends • General Fund Salary Adjustment	Supreme Court of Nevada, Court of Appeals, and Judicial Programs and Services (<i>Judicial Branch</i>) Legislative Fund (<i>Legislative Branch</i>)	
Commerce and Industry	<i>Dept. of Agriculture</i> <i>Dept. of Business and Industry</i> <i>Dept. of Tourism and Cultural Affairs</i> <i>Governor’s Office of Economic Development</i>	<i>Gaming Control Board</i> • Gaming Commission		<i>Commission on Mineral Resources</i> <i>Public Utilities Commission</i>
Finance and Administration	<i>Dept. of Taxation</i>	<i>Dept. of Administration</i> • Merit Award Board • Nat’l Judicial College & Nat’l College of Juvenile and Family Justice		

Source: [State of Nevada, Budget Reserve Targets, 2020-2021 Biennium \(as of March 2020\)](#)

The other four agencies with both departmental-level and sub-departmental budget reserve targets are the Department of Public Safety, the Governor’s Office, the Gaming Control Board, and the Department of Administration. In fact, the governor has not only set budget reserve targets for his office at the departmental level but for a substantial number of divisions and budget accounts at the sub-departmental level, as well.

Only three departments have sub-departmental level budget reserve targets without corresponding departmental-level recommended cuts: (1) the Adjutant General; (2) the Judicial Branch; and (3) the Legislative Branch.

Ten departments have no budget reserve targets, as itemized in the “No Cuts” column. The reason for these exclusions is that none receive General Fund appropriations, which means that no reductions are possible. Consider, for example, the Nevada Department of Transportation (NDOT). It is the fourth largest department in the current biennium with a budget of more than [\\$2.0 billion](#). NDOT [receives](#) 47.6 percent of its funding from the State Highway Fund, 36.0 percent from the Federal Fund, 16.0 percent from the Other Fund, and 0.4 percent from Interagency Transfer.

Department-Level Budget Reserve Targets

In this section, we examine the recommended cuts by functional area and State-level department. For sub-departmental level cuts, we aggregated to the departmental level to assess the effects on departments in their entirety. An example is the Nevada Department of Health and Human Services (DHHS), which includes both the department-level cut as a whole *and* the sub-departmental level cut to child welfare programs. This will allow us to determine whether some departments or functional areas are more affected than others. The data is compiled in Table 2.

With the exception of Education, total percent decreases across functional areas are fairly uniform, ranging from 8.8 percent for Elected Officials and Commerce and Industry to 9.2 percent for Special Purpose Agencies. Education is the outlier with a functional area decrease of 6.7 percent. The pattern at the departmental level, when aggregated with their sub-departmental divisions and/or budget accounts, parallels that of the functional areas. Most departments have recommended budget reserve targets that amount to approximately 9.1 percent.

Although DHHS’s overall budget cuts amount to 9.0 percent of its original General Fund appropriation, its budget reserve target of roughly \$265.3 million is substantially higher than any other department in the State. The Nevada Department of Education (NDE) has the second-highest budget reserve target at about \$173.7 million, making DHHS’s recommended budget reserve target 41.7 percent higher than NDE’s. In part, the comparatively steep recommended General Fund cut may be a consequence of DHHS’s reliance on federal funding, which makes up approximately 61.0 percent of the department’s total budget in the current biennium. As such, State-directed budget cuts may be offset by existing and new federal funds, such as the \$340 billion [emergency supplemental appropriations package](#) for state and local governments provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which may mean additional federal dollars to support public health in Nevada.

Of the 41 departments, the anomaly is NDE. As discussed above, its recommended budget reserve target amounts to around \$173.7 million, which is comparatively large. This total includes a departmental-level cut of approximately \$11.7 million, plus sub-departmental level cuts to the Distributive School Account (DSA), the School Remediation Trust Account, Other Education Programs, New Nevada Education Funding, and School Safety. NDE’s recommended budget reserve target, in the aggregate, decreases from about \$3.1 billion to \$2.9 billion, or 5.6 percent, which is the smallest percent decrease amongst departments. It is skewed by the reduction to the DSA, which, at over \$104.8 million, is considerable. And though this amount represents just a 4.5 percent decrease over its General Fund appropriation, pursuant to Nevada law, there is little flexibility in adjusting the General Fund contribution to the DSA.

Table 2. Budget Reserve Targets, by Functional Area and Nevada State-Level Departments

Budget Reserve Targets, by Functional Area and Nevada State-Level Departments					
Functional Area	Department	General Fund Appropriations	Budget Cuts	Biennium Total After Budget Cuts	Percent Decrease
Health and Human Services	Dept. of Health and Human Services	\$2,961,200,371	\$265,260,454	\$2,695,939,917	-9.0%
	Dept. of Employment, Training and Rehabilitation	\$10,292,615	\$935,166	\$9,357,449	-9.1%
	Total Health and Human Services	\$2,971,492,986	\$266,195,620	\$2,705,297,366	-9.0%
Education	Dept. of Education	\$3,093,824,075	\$173,715,043	\$2,920,109,032	-5.6%
	Nevada System of Higher Education (NSHE)	\$1,379,563,069	\$124,668,069	\$1,254,895,000	-9.0%
	State Public Charter School Authority	\$0	\$0	\$0	-
	Total Education	\$4,473,387,144	\$298,383,112	\$4,175,004,032	-6.7%
Infrastructure	Dept. of Conservation and Natural Resources	\$80,655,652	\$7,342,870	\$73,312,782	-9.1%
	Tahoe Regional Planning Agency	\$3,740,430	\$331,639	\$3,408,791	-8.9%
	Dept. of Wildlife	\$2,608,369	\$235,755	\$2,372,614	-9.0%
	Colorado River Commission	\$0	\$0	\$0	-
	Dept. of Transportation	\$0	\$0	\$0	-
	Total Infrastructure	\$87,004,451	\$7,910,264	\$79,094,187	-9.1%
Special Purpose Agencies	Adjutant General	\$10,231,324	\$939,009	\$9,292,315	-9.2%
	Dept. of Indigent Defense Services	\$5,535,388	\$507,715	\$5,027,673	-9.2%
	Dept. of Veterans Services	\$4,981,478	\$452,976	\$4,528,502	-9.1%
	Dept. of Sentencing Policy	\$892,803	\$84,543	\$808,260	-9.5%
	Commission on Ethics	\$490,649	\$44,121	\$446,528	-9.0%
	Civil Air Patrol	\$0	\$0	\$0	-
	Public Employees Benefits Program	\$0	\$0	\$0	-
	Public Employees' Retirement System	\$0	\$0	\$0	-
	Silver State Health Insurance Exchange	\$0	\$0	\$0	-
Total Special Purpose Agencies	\$22,131,642	\$2,028,364	\$20,103,278	-9.2%	
Public Safety	Dept. of Corrections	\$632,492,544	\$57,358,628	\$575,133,916	-9.1%
	Dept. of Public Safety	\$142,131,933	\$12,892,726	\$129,239,207	-9.1%
	Dept. of Motor Vehicles	\$68,202	\$6,161	\$62,041	-9.0%
	Commission on Peace Officer Standards and Training	\$0	\$0	\$0	-
	Total Public Safety	\$774,692,679	\$70,257,515	\$704,435,164	-9.1%
Elected Officials	Governor's Office	\$109,922,006	\$9,948,844	\$99,973,162	-9.1%
	Legislative Branch	\$76,083,085	\$6,757,742	\$69,325,343	-8.9%
	Secretary of State's Office	\$3,821,781	\$3,452,963	\$34,368,818	-9.1%
	Judicial Branch	\$24,399,199	\$1,764,939	\$22,634,260	-7.2%
	Attorney General's Office	\$12,025,741	\$1,010,268	\$11,015,473	-8.4%
	Controller's Office	\$10,840,907	\$984,219	\$9,856,688	-9.1%
	Judicial Discipline Commission	\$1,924,218	\$173,380	\$1,750,838	-9.0%
	Lieutenant Governor's Office	\$1,460,818	\$133,209	\$1,327,609	-9.1%
	Treasurer's Office	\$1,250,674	\$112,949	\$1,137,725	-9.0%
	Total Elected Officials	\$275,728,429	\$24,338,513	\$251,389,916	-8.8%
Commerce and Industry	Gaming Control Board	\$64,208,658	\$5,785,195	\$58,423,463	-9.0%
	Governor's Office of Economic Development	\$24,502,503	\$1,978,991	\$22,523,512	-8.1%
	Dept. of Business and Industry	\$8,714,099	\$803,131	\$7,910,968	-9.2%
	Dept. of Tourism and Cultural Affairs	\$7,748,966	\$689,288	\$7,059,678	-8.9%
	Dept. of Agriculture	\$6,913,406	\$630,429	\$6,282,977	-9.1%
	Commission on Mineral Resources	\$0	\$0	\$0	-
	Public Utilities Commission	\$0	\$0	\$0	-
Total Commerce and Industry	\$112,087,632	\$9,887,034	\$102,200,598	-8.8%	
Finance and Administration	Dept. of Administration	\$12,294,353	\$1,107,898	\$11,186,455	-9.0%
	Dept. of Taxation	\$76,090,828	\$6,923,294	\$69,167,534	-9.1%
	Total Finance and Administration	\$88,385,181	\$8,031,192	\$80,353,989	-9.1%
TOTAL		\$8,804,910,144	\$687,031,614	\$8,117,878,530	-7.8%

Source: [State of Nevada, Budget Reserve Targets, 2020-2021 Biennium \(as of March 2020\)](#)

In total, the recommended budget reserve targets for the biennium amount to \$687,031,614, which represents a 7.8 percent decrease in General Fund appropriations from the original \$8.8 billion to \$8.1 billion. The proposed \$687 million in cuts more than erases the \$195.6 million additional General Fund revenue – noted in the introduction to this post – that was realized from tax policy changes enacted during the 80th (2019) Legislative Session.