

# analysis

## Better Budgeting for Better Results

*Performance-based budgeting reforms  
can save Nevada taxpayers billions*

by Geoffrey Lawrence

### Executive Summary

A difficult path lies ahead for Nevada lawmakers in the 2011 Legislative Session. State agencies have requested \$8.35 billion in state General Fund spending to continue operations into the 2011-13 budget cycle.

At the request of the state budget director, agency directors have identified strategies for reducing costs by 10 percent, bringing total requests down to \$7.53 billion. Yet, this amount still far exceeds available revenues, which are projected at \$5.34 billion.

Reconciling state finances will require Nevada lawmakers to embrace an entirely new approach toward budgeting. The baseline budgeting methodology currently followed by the state is fundamentally flawed. It assumes perpetual spending increases, irrespective of revenues, and exacts no accountability for how taxpayer dollars are spent.

Nevada needs a new approach. In other states, performance-based budgeting has regularly produced significant savings — while also making it much more likely that the real priorities of lawmakers are met. Legislators can ensure that state agencies pursue savings and efficiencies in behalf of taxpayers by giving agency directors — in exchange for increased personal accountability — the incentives and autonomy to actually do so.

The system-wide accountability born of performance-based budgeting will increase the efficiency with which Nevada lawmakers' priorities are met. When legislators allocate funding toward accomplishment of some particular policy objective, they want assurances that any funding increase will translate into a proportional increase in performance. However, this has rarely been the case.

Legislative intent has often been sabotaged by the very policy designs lawmakers themselves have imposed — designs inadequate to accomplish the results intended. So, from a performance-based budgeting perspective, this analysis offers specific policy reforms. They would greatly increase government efficiency in the high-priority areas of K-12 and higher education, health care and public safety.

Finally, the analysis recognizes that government labor costs in Nevada, particularly at the local level, greatly exceed those of other states. Significant savings are available if Nevada's collective bargaining law is reformed to allow local governments greater flexibility with regard to personnel compensation. If local government employees in Nevada were merely compensated at the national median, lawmakers could extract approximately \$2.3 billion in biennial savings — an amount directly fungible to the state General Fund.





## Introduction

As Nevada lawmakers prepare for the 76<sup>th</sup> Legislative Session, they do so knowing they will face extremely difficult challenges.

Lawmakers from previous sessions have bequeathed to them a state budget plagued with a gaping structural deficit. Unprecedented growth in tax revenues between 2003 and 2007 fueled an unsustainable spending binge over the same period.<sup>1</sup> In the time since, revenue growth has leveled off and even turned negative. Yet, state spending levels have yet to be properly adjusted to reflect the new economic environment.

During the 75<sup>th</sup> Legislative Session (2009), lawmakers used a combination of one-time “stimulus” funds made available through the federal American Recovery and Reinvestment Act (ARRA), temporary tax hikes and a variety of accounting gimmicks to comb over the structural deficit as most spending practices remained unchanged.

Even after downward adjustments enacted during the 26<sup>th</sup> Special Session (2010), inflation-adjusted, per capita General Fund spending remains 23 percent higher than the level that was passed by the 72<sup>nd</sup> Legislature (2003).<sup>2</sup> This rate of expenditure growth has rapidly outpaced revenue growth and has inevitably resulted in the current structural deficit.<sup>3</sup>

Nevada needs a new way of thinking.

If lawmakers in 2011 are to meet the fiscal challenges resulting from their predecessors’ procrastination, they will need to rethink the structure of state government, its culture, its objectives and how it aims to realize those objectives.

This report presents a roadmap for how to accomplish that task and outlines more than \$3.5 billion in potential savings.<sup>4</sup>

## The Nevada Budget Process

Every two years, Nevada lawmakers are tasked with creating a budget to fund the state’s operations. The *biennial* budget crafted by lawmakers takes effect on the July 1 that follows the regular biennial legislative session, and expires on the final day of the next odd-numbered fiscal year (June 30).

For example, FY 2012 will begin on July 1, 2011 and conclude on June 30, 2012. Nevada’s next budget cycle will encompass FY 2012 and FY 2013. Yet, because the cycle actually begins in the middle of calendar year 2011, it is commonly referred to as the 2011-13 biennium.

The process of creating the budget, however, begins long before it takes effect on July 1, 2011. The first step along the budget process is to develop an initial revenue projection. Nevada statute requires an “Economic Forum” to be assembled for this process. The Economic Forum is composed of five civilians, knowledgeable in the areas of business and finance, who are appointed by the governor and legislators.

The Economic Forum reviews data analysis provided by state agencies and economic indicators evaluated by a private forecasting firm to estimate how much tax revenue will be generated by each state tax instrument over the course of an upcoming biennium. The Forum's initial revenue projection is required to be delivered to the governor by Dec. 1, in the year prior to the new biennium (2010, in this case).

The governor is constrained by law to use the Economic Forum's initial revenue projection when assembling the Executive Budget proposal. The Executive Budget can total to a higher spending amount *only* if it includes new revenue sources, such as new taxes or fees. The Executive Budget also cannot exceed the per capita state spending level that occurred in the 1975-77 biennium, indexed for inflation.

However, once the Executive Budget has been submitted to the Nevada Legislature, which convenes beginning in February of odd-numbered years, lawmakers are under no obligation to adhere to the governor's recommendations, nor is any form of spending constraint imposed on the final budget that becomes law.

Regular legislative sessions last no more than 120 days, concluding in early June. During this time, lawmakers deliberate with each other and with the governor about what the final budget will look like. Legislative deliberations have repeatedly drawn criticism, as the most significant are conducted by a so-called "core group" of highly influential lawmakers that negotiates outside of public view.<sup>5</sup>

A second and final revenue projection from the Economic Forum is due by May 1, as lawmakers begin the final month of the legislative session. This second projection is required because economic modeling analyses are typically more accurate when they are made closer to the timeline being examined. The second projection is binding on the final, legislatively approved budget.

Any proposal for a tax increase must garner a two-thirds super-majority vote in *both* legislative chambers to be enacted. Technically, the governor has authority to veto any bill, including one for tax increases. However, since the two-thirds supermajority required to pass tax bills is the same as for a legislative override, the veto threat over tax increases is, practically speaking, moot.

### ***The Baseline***

Further, Nevada statutes prescribe a specific method the state budget director must use for calculating the Executive Budget proposal. The budget director is required to calculate the cost of continuing all state programs into the next biennium, regardless of whether the program is meeting its objectives or whether it even remains relevant to the needs of the state.

This is called the "baseline" budgeting method. It reports what was spent in every state office in the last budget cycle and then adds to this amount so-called "roll-up" costs. These are the additional costs of continuing the program that are projected to accrue through annual employee pay raises, inflation and caseload growth. Finally, if an agency requests an expansion in the

scope of a program it administers, then an amount to fund that expansion is factored into the baseline budget as well.<sup>6</sup>

Hence, an inherent flaw in the baseline budgeting method is that it incorporates an implicit assumption of perpetual spending increases for all programs, even if they're obsolescent, and even during years when revenue growth is insufficient to fund those assumed increases.

Not only has this budgeting method driven spending increases during times of positive revenue growth, it has also provided the central impetus for tax-rate increases during periods of flat or negative revenue growth.

The baseline calculation for the 2011-13 budget cycle amounts to \$8.35 billion,<sup>7</sup> even though the Economic Forum's initial revenue projection is only \$5.34 billion.<sup>8</sup> During the 2009-11 budget cycle, lawmakers spent only \$6.42 billion, meaning that the new baseline calculation implicitly assumes that General Fund appropriations should increase by 30.0 percent from one budget cycle to the next — irrespective of whether revenue growth is sufficient to finance such a large increase.\*

## **Performance-Based Budgeting**

This makes it clear that the method of formulating budget proposals required of the Executive Branch is entirely inadequate for the task of budgeting during periods of negative revenue growth. This is among the foremost obstacles faced by Nevada policymakers.

The baseline budgeting method effectively excuses the governor and lawmakers from critically evaluating current spending programs — whether from the standpoint of need or effectiveness. Absent an honest evaluation along these lines, it is impossible for lawmakers to effectively prioritize policy objectives and to target spending in ways that strategically maximize the impact of available funds.

By simply continuing all spending on current programs, the baseline methodology fails to exact meaningful accountability and fails to ensure that programs meet legislative objectives. This lack of accountability does more than breed inefficiency in terms of performance, however. Even worse, the reflexive spending increases that are implicit in the baseline process frequently are used to justify destructive tax increases — pushing governmental inefficiencies out onto ever-larger sectors of the state's economy, in an increasingly vicious circle.

### ***Identify, Prioritize and Evaluate***

Lawmakers across the political spectrum want to have confidence that any increase in funding will lead to a proportional increase in performance. Without such confidence, it becomes impossible to allocate the state's scarce resources in a way that lawmakers believe will provide meaningful benefit to citizens. A successful budgeting process should foster this confidence and ensure accountability in the use of public funds.

---

\* At the behest of the state budget director, state agencies have additionally prepared budget plans for 2011-13 that are 10 percent below the baseline calculation, meaning that agency requests now total to \$7.53 billion.

Thus, a successful budgeting procedure should follow three logical steps. Lawmakers should begin by identifying an exhaustive list of policy objectives they would like to achieve. Undoubtedly, lawmakers can easily identify an unending list of potential objectives were the state endowed with unlimited resources.

However, being constrained by limited resources, lawmakers necessarily must continue by establishing a clear-cut hierarchy of policy objectives, with each individually enumerated in terms of priority. Such a list of prioritized *objectives* is critical if lawmakers are ever to develop *policies* capable of delivering the outcomes most strongly desired.

Even when lawmakers have reached agreement on specific policy *objectives*, the actual spending programs established to realize those objectives have, in many cases, failed dramatically. Nevada, for example, has nearly tripled per-student K-12 education spending, in inflation-adjusted terms, over the past 50 years, according to data from the U.S. Department of Education.<sup>9</sup> Yet, this spending increase has not translated into comparable gains in educational achievement. In fact, by most metrics the quality of K-12 education in Nevada has declined significantly over this period. Instances such as this demonstrate that even worthwhile objectives can be sabotaged by poor policy design or ineffective implementation.

For this reason, it is necessary to constantly monitor whether state resources are being spent in ways that effectively realize legislative intent. If this is not the case, it becomes incumbent upon policymakers to reevaluate the policy design so as to maximize the impact of tax dollars.

It is impossible, however, to know which spending programs are successful unless tax-dollar performance is quantified in meaningful ways. This means that performance should be evaluated using truly appropriate metrics that measure what matters and not, merely, what can easily be measured.

When it comes to improving the quality of K-12 education, for example, the metrics that truly matter might include graduation rates and scores on standardized tests like the National Assessment of Educational Progress (NAEP). Measures such as per-pupil funding levels, student-teacher ratios, or even the degree of local control or school reform are all tangential to the central objective — they are alternative means to an end. When evidence clearly demonstrates that one approach fails to efficiently achieve the objective, it should be discarded in favor of more proven approaches.

Once lawmakers have identified a prioritized list of broad policy *objectives* and have agreed on the proper *metrics* for evaluating progress toward those objectives, funding allocations should be directly tied to successful achievement of those objectives. That is, lawmakers should use state resources to *contract for the delivery* of stated policy objectives, as measured through meaningful performance metrics. The merely automatic re-funding of ongoing programs must end.

## ***Progress to Date***

This alternative method of budgeting — known alternatively as “performance-based budgeting” and “budgeting for outcomes” — has been adopted, in recent years, by several states across the country. Correctly employed, it demonstrably increases the efficiency with which legislative priorities are met.

The approach was developed under the leadership of Washington Governor Gary Locke in 2002. It allowed that state — by identifying strategies for spending money more effectively — to reduce General Fund spending some \$2 billion. Since that time, the approach has been successfully adopted in Iowa, Michigan, South Carolina and Louisiana amid support from governors and lawmakers across the political spectrum.<sup>10</sup>

Other states’ success with performance-based budgeting has not gone unnoticed in Nevada. Recognition of the need for fundamental reform in the state budgeting process has been widespread in recent years, with observers from across the political spectrum calling for a move toward performance-based budgeting.

In the 75th (2009) Legislative Session, then-Assembly speaker Barbara Buckley introduced Assembly Bill 446, which would have implemented performance-based budgeting.<sup>11</sup> Similarly, two key recommendations of the bipartisan Spending and Government Efficiency (SAGE) Commission suggested a move toward performance-based budgeting.<sup>12</sup> The Nevada Taxpayers’ Association<sup>13</sup> and the Nevada Policy Research Institute<sup>14</sup> have also repeatedly urged a shift to performance-based budgeting.

As recognition of the need for budget reform spread prior to the 76<sup>th</sup> (2011) Legislative Session, some policymakers began to take action. In April 2010, Gov. Jim Gibbons announced the formation of the Nevada Priorities of Government Working Group, with the task of prioritizing state expenditures.<sup>15</sup>

Additionally, lawmakers serving on the Legislative Committee for the Fundamental Review of the Base Budgets of State Agencies during the 2009-10 Interim have attempted to reconcile spending with performance levels at state agencies. As committee Chair Joyce Woodhouse has said, “All governmental agencies should be willing to account for the dollars spent if the 2011 budget [is] to be balanced responsibly.”<sup>16</sup>

What policymakers in each branch have regularly seen, however, is that bureaucratic professionals in most state agencies, as currently structured, focus primarily on strict adherence to deeply engrained procedural rules — and not necessarily to producing the policy outcomes envisioned by lawmakers. As such, most agencies are poorly equipped to evaluate and identify the most efficient means of policy implementation. At the same time, it is beyond the capacity of lawmakers to determine and clearly delineate the most efficient operating procedures to be followed in every state office. So what is to be done?

## **Structural Reform**

Efficient models of performance-based budgeting overcome these complications by altering the way policy is implemented: Bureaucratic professionals are incentivized to identify and use the best means available for accomplishing the Legislature's objectives.

The process must begin with the clear prioritization of legislative policy objectives and clear definitions of how performance will be evaluated. However, if performance-based budgeting is to be effectively utilized in the Silver State, its lawmakers must also recognize that failure is inherent in the bureaucratic model of rigid, legislatively prescribed procedures. An effective model for spending should take advantage of the specialized knowledge and expertise of state workers.

It follows that lawmakers must be willing to devolve decision-making power over specific expenditures to the agencies themselves, after having established the general policy direction.

### ***Charter Agencies***

Perhaps the best model nationwide for incorporating agency expertise into a cogent and responsive budget-making process is Iowa's "Charter Agency" model of governance. This model drastically realigns incentive structures within state government by charging agency directors with the task of meeting performance criteria while simultaneously granting them greater flexibility over the methods employed.

The role of a charter agency director is more akin to that of a corporate CEO than to the role of traditional agency directors, who are often constrained to carry out operations in accordance with very specific statutory requirements that make little sense. After receiving block funding for agency operations, charter agency directors have the freedom to add or reduce personnel, negotiate wages, and purchase new software programs, vehicles or other goods and services at will. Hence, broad discretion is granted for charter agency directors to develop a strategy for meeting legislative policy objectives at minimal cost and to determine, as a component of that strategy, how best to use available resources.

In exchange for this flexibility, charter agency directors agree to increased accountability, with new incentives for excellence. Annual contracts awarded to charter agency directors outline the list of performance metrics that the agency will be responsible for meeting. Failure to meet these basic goals can result in disciplinary action, including the director's dismissal. However, directors who meet or exceed stipulated performance metrics under budget can share in the cost-savings through bonus incentives. In Iowa, charter agencies retain one-half of all funds remaining in agency accounts at the end of a fiscal year, with the rest reverting to the state General Fund. Funds retained by the agency can be used to provide bonuses to highly productive workers and to purchase cost-saving capital equipment or computer software — yielding even higher savings in future years.

The charter agency approach has been so successful that it has been recognized with an "Innovations in American Government Award" from Harvard University's Kennedy School of



Government. Not only have Iowans reduced the cost of state government, but performance metrics have improved across the board — indicating that both the quality and availability of government services have increased. The Department of Natural Resources reduced the average turnaround time for permit applications from 187 days to 30 days. The Department of Corrections reduced the probation failure rate by 17 percent. The Veterans Home, a long-term care facility, reduced the fraction of patients experiencing moderate to severe pain by half. The Department of Revenue increased the number of personal income tax filings completed within 45 days from 75 percent to 94 percent.<sup>17</sup>

If Nevada were to adopt such an approach, lawmakers' limited time in legislative session would be freed from debates over specific budget line items, as they clearly establish priorities and metrics for evaluating performance. SAGE Commission Executive Director Frank Partlow has referred to this as “the proper business of legislators.”<sup>18</sup> Meanwhile, citizens would benefit from a more responsive and accountable state government that actually delivers the services their lawmakers intend.

### ***Competitive Sourcing***

Lawmakers should further recognize that the largest efficiency gains from performance-based budgeting have come in states that have also incorporated the concept of competitive sourcing into the budget process. This concept allows dynamic efficiency gains to emerge by permitting state agencies, public employee unions, non-profit organizations and for-profit enterprise to bid against each other for the provision of public services.

Charter agency directors, for instance, may discover that a private-sector payroll administration company can deliver superior services at lower cost than the state personnel department. When agency directors have the flexibility to outsource particular functions to lower-cost suppliers, they can achieve *additional* savings over those from prioritizing and streamlining agency tasks.

This was a key lesson learned in the State of Washington, where competitive sourcing became a central component of the performance-based budgeting process.<sup>19</sup>

### ***Performance Auditing***

Private-sector CEOs often find it useful to hire consultants to help streamline business operations. Likewise, charter agency directors would benefit from the assistance of outside experts who could offer professional advice for maximizing organizational efficiency.

Lawmakers could provide agency directors with this valuable resource by establishing an independent state auditors' office with the funding and authority to carry out performance audits on all state agencies or local governments. A performance audit is substantially different from a financial audit; performance audits provide recommendations explicitly for improving organizational efficiency.

The State of Washington expanded the powers of its independent state auditor to conduct performance audits on state and local governments in 2005 and the results have been remarkable. To date, the State Auditor's Office has conducted nearly 30 performance audits, identifying

potential savings and revenue of \$285 million over five years. These savings have been eagerly exploited, as 86 percent of the audits' recommendations have been enacted.<sup>20</sup>

Combining the charter agency approach to government with the creation of an independent state performance auditor position would be doubly positive for Nevada. Agency directors — strongly incentivized — would actively seek out the recommendations that would most efficiently accomplish legislative priorities.

### ***Changing the Culture***

Charter agencies, competitive sourcing and performance auditing are policy innovations that will naturally change the culture within state government, as they lay in place an incentive structure that encourages excellence while maintaining accountability. Policymakers' relationship to executive-branch professionals will also change, as the former will need to first ensure, and then rely upon, professional expertise in the Executive Branch, given the often-technical means through which these professionals will realize legislative priorities.

Lawmakers who want to ensure that the state's limited resources are utilized to their full potential will act quickly to incorporate all these components into a performance-based budgeting process.

### **Policy Objectives**

As state lawmakers begin the performance-based budgeting process by prioritizing policy objectives, each will undoubtedly articulate a unique perception of what are Nevada's highest needs and, hence, which policy objectives should take precedence over others. Some will perceive improving K-12 education to be the highest priority of state government, others will place higher importance on providing health care for the indigent and still others will prefer to offer superior job training skills to help diversify the Silver State's economy.

Many will be surprised to learn that, through better policy design and implementation, each of these objectives is feasible even in an environment of negative revenue growth.

The following analysis will help to guide the performance-based budgeting process by providing specific suggestions for how to realize greater performance in achieving the major policy objectives likely to be outlined by lawmakers. Many of the suggestions imply cost-savings over the current approach, yet are intended to increase performance toward the major objectives.

The analysis does not presume that all recommendations will necessarily be adopted. Instead, it aims to provide a list of options for lawmakers looking for specific ways in which to increase state government's cost-effectiveness.

### **K-12 Education**

With good reason, the Nevada Constitution proclaims that "The legislature shall encourage by all suitable means the promotion of intellectual, literary, scientific, mining, mechanical, agricultural,

and moral improvements.”<sup>21</sup> Each of these “improvements” contributes to the development of a skilled labor force capable of generating statewide wealth and prosperity — over and above the less tangible benefits and satisfactions.

If financial commitment is any indication, lawmakers have taken this charge very seriously. At 39.5 percent of General Fund appropriations for the 2009-11 budget cycle, K-12 education is, by far, the largest component of current state spending.<sup>22</sup>

Yet, concern understandably remains over the dismal performance of Nevada’s K-12 education system. Nevada boasted the lowest high school graduation rate in the country in 2008, according to U.S. Department of Education metrics, with a mere 51.3 percent of students reported as graduating. The national average was 74.9 percent.<sup>23</sup> A different methodology used by *Education Week* puts Nevada even lower — at 41.8 percent in 2007, a notable drop since the state posted a 65.7 percent graduation rate in the same survey a decade earlier.<sup>24</sup>

Student performance on nationally standardized tests also remains far below average. Statewide scores on the National Assessment of Educational Progress, a test administered by the U.S. Department of Education, indicate the relatively poor quality of Nevada’s K-12 education system:

**NAEP Reading Scores — Grade 4<sup>25</sup>**

	1998	2002	2003	2005	2007	Percentage of Students Below Basic Reading Level, 2007
Nevada	206	209	207	207	211	43
National Avg.	213	217	216	217	220	34

**NAEP Math Scores — Grade 8<sup>26</sup>**

	2000	2003	2005	2007	2007	Percentage of Students Below Basic Math Level, 2009
Nevada	265	268	270	271	274	37
National Avg.	272	276	278	280	282	29

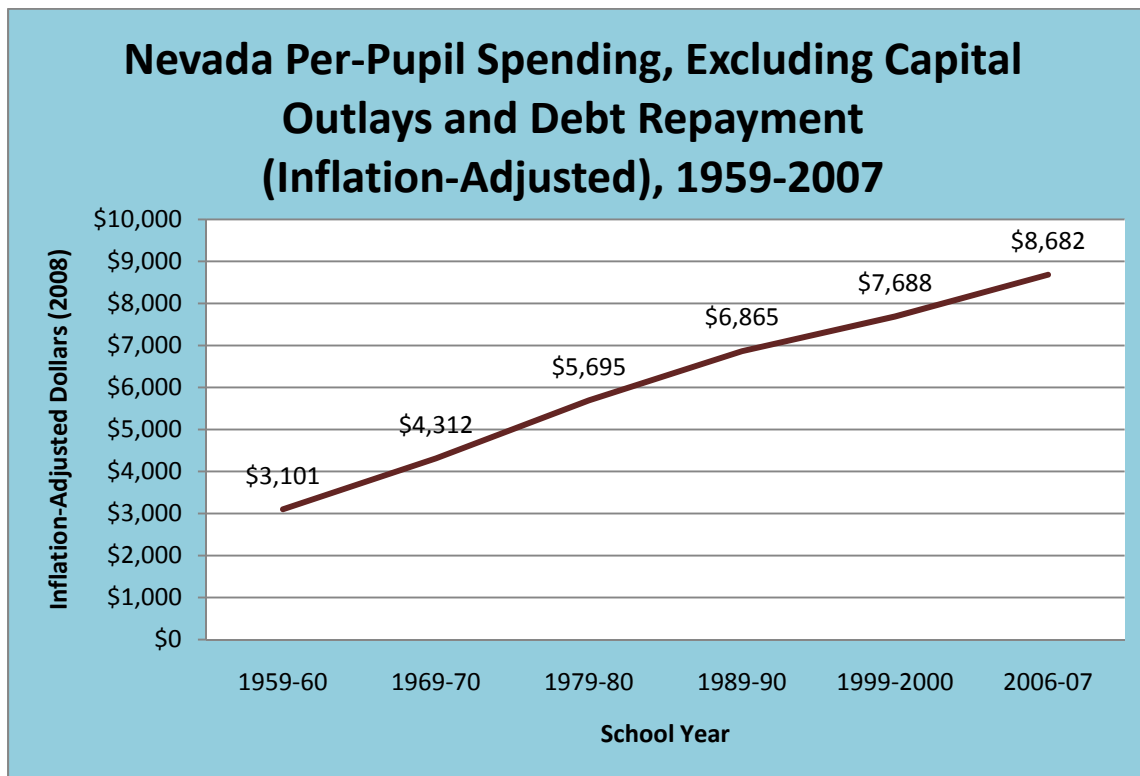
These metrics clearly demonstrate that, for whatever reason, the Silver State’s K-12 education system is failing to provide students with the quality of education envisioned by lawmakers. Further, the combination of declining graduation rates and low test scores suggests that the skill level — and earning potential — of the state’s labor force may be deteriorating.

Lawmakers who want to improve upon the dismal quality of the state’s K-12 education system should begin by considering what may be the best *means* available for doing so. Historically, lawmakers have naturally assumed that funding increases would equate to proportional increases in student performance.

Perhaps most symbolic of this line of thinking was SB2 in the 2009 Legislative Session.<sup>27</sup> SB2, proposed by Sen. Mike Schneider, would have permanently committed the state to per-pupil funding levels at or above the national average — with the implicit assumption that the policy would result in average to above-average performance.

While this conclusion might seem intuitive, history suggests that increased K-12 education spending in Nevada has not translated into improved student performance — meaning that the educational delivery system most likely suffers from flaws in policy design, implementation, or both.

Over the past 50 years, the Silver State’s per-pupil spending on K-12 education has nearly tripled in inflation-adjusted terms — increasing from \$3,101 in the 1959-60 school year to \$8,682 in 2006-07, excluding capital outlays and debt repayment. Yet, by any methodology, test scores have remained flat while graduation rates have deteriorated.



Source: U.S. Department of Education<sup>28</sup>

For lawmakers who are serious about getting results with tax dollars, identifying and correcting the educational system’s design or implementation flaws should be a foremost priority.

In fact, that topic is the subject of a 2010 study of educational performance in the states published by the American Legislative Exchange Council (ALEC).<sup>29</sup> The ALEC study notes that Nevada is not unique in this respect because there is almost no correlation nationwide between per-pupil spending levels and student performance.

However, the study highlights strong evidence that particular institutional reforms to the educational delivery system contribute to increases in student performance, regardless of funding levels. Specific reforms found to bolster student performance include: maintaining stringent academic standards, allowing private school choice, liberalizing charter-school laws, allowing open enrollment between schools and school districts, allowing “virtual” schools,<sup>30</sup> creating an

alternative teacher-certification process and identifying and retaining highly effective teachers while removing ineffective teachers.<sup>31</sup>

The Nevada Policy Research Institute has noted that, over the past decade, Florida has been the most aggressive state in pursuing these reforms. Furthermore, Florida provides an excellent comparison to Nevada because the composition of student populations is similar and students in both states performed at similar levels on standardized national tests prior to the reforms enacted in Florida.<sup>32</sup> In addition, both states increased per-pupil funding at the same rate (13 percent) between 1998 and 2007.<sup>33</sup> These conditions make Florida an ideal indicator for the impact that reform of the educational delivery system might have on student performance in Nevada.

The results in Florida have been an unambiguous improvement across the board. On the NAEP's fourth-grade reading and math tests, Florida's students have improved by more than two grade levels since 1998. The most marked improvement has been among low-income and minority students who, through a tuition tax credit program, now enjoy access to better-performing schools and teachers. In fact, *Hispanic* students in Florida now score higher than the average Nevada student on the *English* reading exam.<sup>34</sup>

This body of evidence makes it clear that the pathway to improving the quality of K-12 education in Nevada will entail substantial changes to the system's design. There is no evidence to suggest that increased spending levels will yield significant improvements in student performance absent the necessary structural reforms.

Lawmakers intent on correcting design faults in Nevada K-12 public schooling should recognize an additional benefit the state will reap: not only superior system performance, but also cost-savings.

An econometric study commissioned by NPRI that evaluates the fiscal impact of a tax credit program for private-school tuition on the state of Nevada concludes that such a program would save taxpayers about \$1 billion over its first 10 years in operation. The plan — modeled after Florida's Step Up for Students program<sup>35</sup> — would allow firms remitting state taxes such as the statewide sales tax or modified business tax to instead pay into a scholarship fund and receive a dollar-for-dollar tax credit. In turn, K-12 students could draw scholarships from the fund in the amount of \$8,576 to pay tuition at a school of their choosing.

Savings accrue because the scholarship amount is equal to the estimated marginal cost of a single K-12 student, which is lower than the average cost, including capital expenditures and debt repayment (\$10,019). However, because eligibility and awareness of the program would grow over time, taxpayers' annual cost-savings, though estimated to be relatively small at first, would increase exponentially in later years. Hence, if lawmakers — agreeing that educational improvement is a high priority in the 2011-13 budget — were to create such a program during the 76<sup>th</sup> Legislative Session, total savings over the first two years would be around \$31.2 million.

### **Financials**

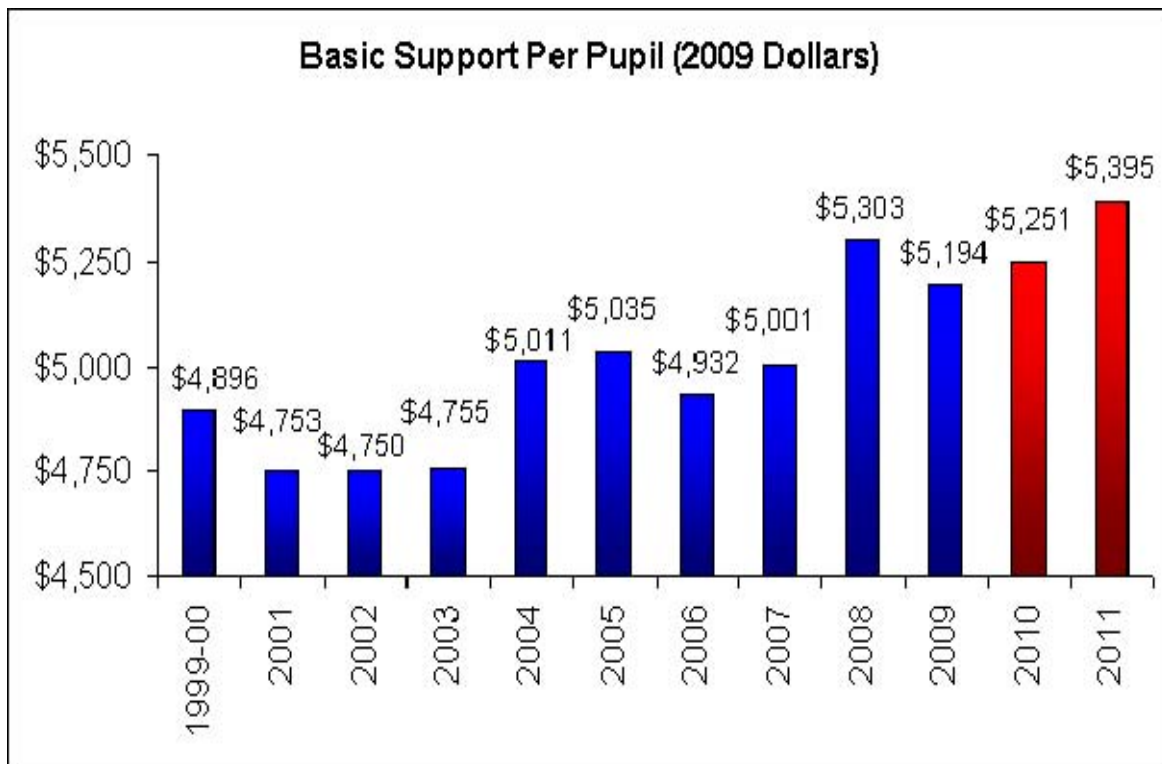
K-12 education in Nevada is currently financed through a complex mechanism known as the Nevada Plan. The Nevada Plan supplements funding from local sources, adding state grants via

the Distributive School Account, a component of the state General Fund. Nevada is unique in that local funding sources account for a larger share of K-12 financing than for any other state, at 62.6 percent.<sup>36</sup> However, most of these “local” revenues are collections from the Local School Support Tax within the geographic areas of school districts — a tax more accurately described as a state levy since it is a uniform statewide tax whose rate is controlled by the Legislature.

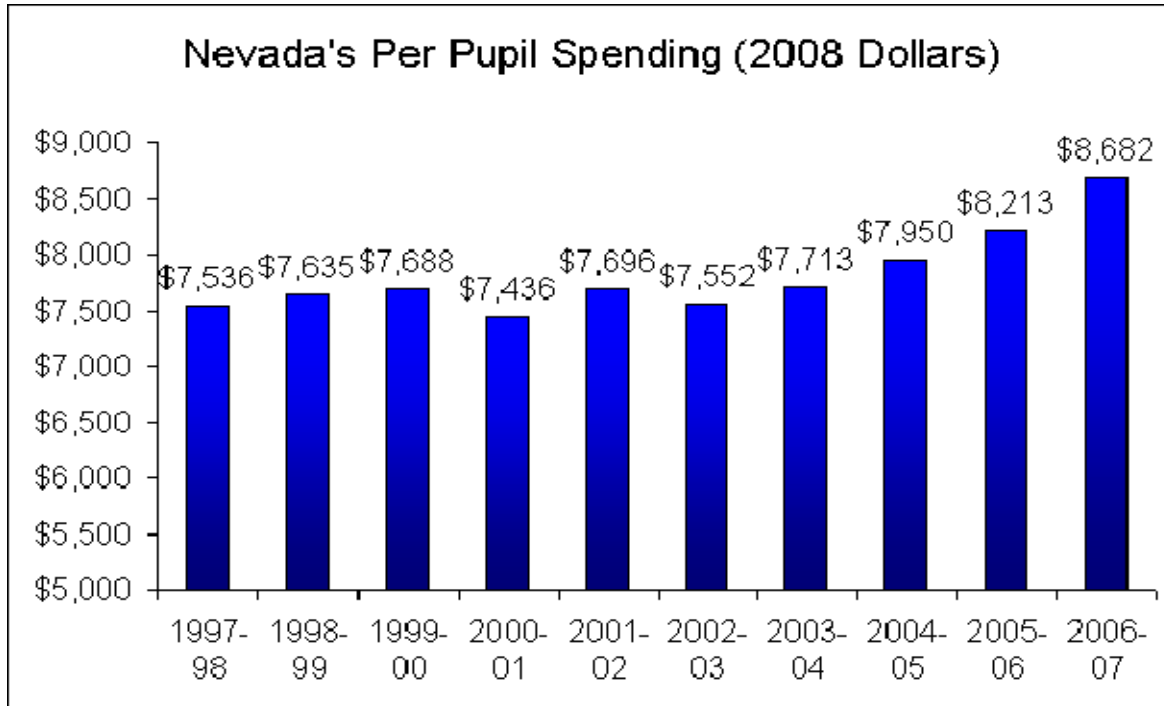
Because of this, lawmakers can choose to fund school districts through either the Local School Support Tax or the Distributive School Account. During each legislative session, lawmakers determine a Basic Support per Pupil amount that school districts are guaranteed to receive. This amount includes Local School Support Tax revenues, a 25-cent *ad valorem* tax and state General Fund appropriations through the Distributive School Account.

Hence, when local revenues are high, the proportional significance of supplemental appropriations through the Distributive School Account decreases.<sup>37</sup> When faced with insufficient revenue to fund the Basic Support per Pupil level promised by lawmakers in the 2009 Legislative Session, for instance, lawmakers elected to temporarily increase the Local School Support Tax rate in lieu of increasing General Fund appropriations.<sup>38</sup>

In FY 2009, the guaranteed Basic Support per Pupil accounted for 77.3 percent of K-12 spending in Nevada. Additional spending is financed through local revenues outside of the Nevada Plan, including a 50-cent *ad valorem* tax and the Basic Government Services Tax assessed on vehicular registration.



**Note:** Does not include a 6.9 percent reduction for the 2009-11 biennium enacted during the 26<sup>th</sup> Special Session.



Source: U.S. Department of Education<sup>39</sup>

In addition to providing for the Basic Support per Student, the Distributive School Account is used to finance Nevada's class-size reduction program. The class-size reduction program was created with the legislative intent to boost student performance by limiting student-teacher ratios in kindergarten through third grade.

To date, the class-size reduction program has been emblematic of policy design that fails to realize legislative intent. Repeated analyses of the program's effectiveness performed by the Nevada Department of Education have shown that the program has not bolstered student performance. Even more damning, some of the department's analyses show that students in smaller classrooms have performed at lower levels than students in larger classrooms.<sup>40</sup> The likely explanation is that class-size reduction programs dilute the teacher talent pool and expose more students to less effective teachers.

During the 2009-11 budget cycle, Nevada taxpayers dedicated \$304 million to this program. Given Nevada's limited General Fund resources and the complete failure of the program to achieve its purported objectives, lawmakers concerned with the effective use of tax dollars should seriously consider its elimination.

Also to be considered for elimination is the full-day kindergarten program in Clark County. The prevailing research on full-day kindergarten programs indicates that there are no conclusive long-term benefits to student performance or academic achievement. Any short-term benefit in student performance tends to dissipate by the end of the third grade.<sup>41</sup>

Given the nationwide failure of this program to produce lasting gains in student performance, and given that much more cost-effective methods of improving student performance are known

to be available, lawmakers should consider saving the \$52 million that has been requested to fund full-day kindergarten in the 2011-13 budget cycle.

The total request from the Nevada Department of Education to continue funding the state’s K-12 educational system as currently structured for the 2011-13 budget cycle amounts to \$3.13 billion in General Fund resources. The bulk of this (\$3.02 billion) is intended to be spent through the Distributive School Account, financing the Basic Support per Pupil and class-size reduction program. Also included in this amount is a request for \$203 million to compensate school districts for lower-than-expected Local School Support tax revenues during the 2009-11 budget cycle.

**DEPARTMENT OF EDUCATION**

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Establish Public Education Tax Credit	(\$9,398,565)		(\$9,398,565)	(\$21,839,268)		(\$21,839,268)
Eliminate Class-Size Reduction	(\$153,537,719)		(\$153,809,467)	(\$153,537,719)		(\$153,537,719)
Eliminate Full-Day Kindergarten	(\$26,221,025)		(\$26,221,025)	(\$26,221,025)		(\$26,221,025)
Allow Open Enrollment	N/A		N/A	N/A		N/A
Establish Alternative Teacher Cert. Program	Impact not quantified		Impact not quantified	Impact not quantified		Impact not quantified
Grade Performance of Schools and Teachers	Impact not quantified		Impact not quantified	Impact not quantified		Impact not quantified

**Higher Education**

Over the years, lawmakers have recognized the value that a vibrant system of higher education can provide by facilitating the development of a skilled labor force within the state. As such, many lawmakers have established, as a premier policy goal of state government, the fostering of job training and workforce development through the Nevada System of Higher Education.

In pursuit of this goal, lawmakers have attempted to make higher education more accessible to the public by annually dedicating hundreds of millions of dollars in public funds to lower in-state tuition at the state’s major universities. During the 75<sup>th</sup> Legislative Session, lawmakers devoted \$441.5 million in General Fund dollars to subsidize the cost of attendance at the University of Nevada, Reno and the University of Nevada, Las Vegas. In addition, federal funds made available through the American Recovery and Reinvestment Act of 2009 (ARRA) were used by lawmakers to provide an additional \$184.8 million.<sup>42</sup>



Such large investments of tax dollars have been repeatedly undertaken with little meaningful debate over whether such a high degree of subsidization is the most efficient means of achieving a labor force with the skills to compete in a dynamic economy. Indeed, there is reason to suggest that this is not the case.

According to data maintained by the National Center for Educational Statistics, in-state tuition rates in Nevada are among the lowest in the nation.<sup>43</sup> NCES data shows that for 2008-09, the last year for which data is available, the cost of tuition and mandatory fees at Nevada's public four-year universities was nearly *half* of the national average. In other words, students at UNR and UNLV pay only half of what the average American student pays to go to a publicly subsidized university.

Moreover, a comparison with contiguous states reveals that the cost of attendance at Nevada's public universities is substantially below even its regional neighbors:

<b>Average undergraduate tuition and fees charged for full-time students in degree-granting institutions.</b> <sup>44</sup>				
<b>State</b>	<b>Public 4-year</b>		<b>Public 2-year</b>	
	<b>2007-2008</b>	<b>2008-2009</b>	<b>2007-2008</b>	<b>2008-2009</b>
Arizona	\$4,951	\$5,580	\$1,475	\$1,612
California	\$4,870	\$5,254	\$588	\$586
Idaho	\$4,380	\$4,612	\$2,110	\$2,242
<b>Nevada</b>	<b>\$3,034</b>	<b>\$3,348</b>	<b>\$1,763</b>	<b>\$1,920</b>
Oregon	\$5,926	\$6,286	\$2,893	\$2,937
Utah	\$4,025	\$4,262	\$2,439	\$2,553
<i>United States</i>	<i>\$5,943</i>	<i>\$6,319</i>	<i>\$2,061</i>	<i>\$2,137</i>

The exceptionally low rates charged by UNR and UNLV most likely impose several adverse impacts overlooked by lawmakers.

First, exceptionally low tuition rates alter the incentive structure for state residents in a potentially perverse way. Students who do not directly bear most of the cost of their education do not have to fully justify the investment by a gain in earning potential. This distorted incentive structure can lead many individuals to pursue degrees for which there is little demand on the labor market — producing an educated, yet unemployed, labor force. This benefits neither the student nor the community.

For a higher-education system to most efficiently equip individuals with job skills appropriate to the needs of the community, students should be fully sensitive to price signals given by the labor market, weighing the cost of study against the potential return in future wages. High-wage jobs are characterized as such precisely because the need within society for individuals with particular, specialized skill sets (e.g. medical doctors) outstrips the supply of individuals possessing those skills. When price signals direct students' course of study, both the student and the community benefit.

Second, the artificially low tuition rates charged by UNR and UNLV discourage private universities from coming to the state. Given the exceptionally low tuition rates charged by the state’s flagship public universities, it is unsurprising that no major private university exists in Nevada. Artificially low tuition rates crowd out the market for private competition. Furthermore, this dynamic is likely to negatively impact the quality of education offered at the flagship public universities because there is no local competitive pressure to ensure that quality.

Finally, a heavily subsidized university is, statistically, a mechanism for a regressive wealth transfer. As noted in a 2010 NPRI policy study, many of the tax instruments from which public revenue is drawn in Nevada are statistically regressive.<sup>45</sup> Consumption taxes, including general and selective sales taxes, tend to have a regressive impact because individuals at the lower end of the income scale consume a higher proportion of their income. At the same time, children from higher-income families are statistically more likely to attend college than children from lower-income families — meaning that the individuals likely to finance higher education in Nevada are unlikely to be those who benefit from it.<sup>46</sup>

Indeed, if lawmakers’ intent in providing a subsidized higher-education system is to make higher education more accessible to lower-income families, then the current policy design is entirely inadequate to achieve that end. A far superior approach to subsidizing entire institutions would be for the state to allow those institutions to operate on a market basis, setting and keeping tuition rates in accordance with demand. Then, lawmakers could offer tuition tax credit scholarships or vouchers to students whose family income falls below a given threshold, such as 200 percent of the Federal Poverty Level.

If lawmakers are unwilling to take this needed step, then lowering the degree of subsidization would at least mitigate the negative consequences of maintaining a universally subsidized higher-education system. Moreover, given the state’s limited financial resources, such a move would have the additional benefit of realizing a cost-savings.

Lowering the degree of subsidization would, of course, imply a rise in the in-state tuition rate. As currently structured, in-state tuition revenues received by UNR and UNLV first pass through the state General Fund and then are remitted back to the institutions. As such, any General Fund savings derived from a lessened degree of subsidization would be immediately fungible within the General Fund. This means that the General Fund savings can be approximated by multiplying the difference between current and prospective future tuition rates times the number of full-time equivalent students:

<b>Choice of Tuition</b>	<b>In-State Tuition and Fees</b>	<b>Difference from Current NV Rate</b>	<b>Potential GF Savings (2-year)</b>
Avg. of Contiguous States	\$5,199	\$1,851	\$250,766,076
U.S. Average	\$6,319	\$2,971	\$402,499,196

(Number of FTE Students in NV Public 4-year Universities = 67,738)<sup>47</sup>

If UNR and UNLV were to raise the price of tuition and fees paid by students to the national average, this would yield an estimated General Fund savings of \$201.2 million in each year of the two-year budget cycle—coming to \$402.5 million for the biennium. Alternatively, tuition

rates could merely be raised to the average of Nevada’s five contiguous states, yielding a biennial General Fund savings of \$250.8 million.

**Financials**

The total request from the Nevada System of Higher Education to continue subsidizing higher education at current levels for the 2011-13 budget cycle amounts to \$1.20 billion in General Fund resources. More than half of this amount (\$679 million) is intended to be routed to UNR and UNLV.

If, in transitioning to a performance-based budgeting process, lawmakers place a high priority on improving the quality of the state’s flagship public universities, as well as their accessibility to low-income students, then the recommendations made here should guide their policy design.

**NSHE**

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
End Universal Tuition Subsidy and Provide Voucher up to 200% FPL	Not quantified		Not quantified	Not quantified		Not quantified

OR

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Lower Subsidy so In-State Tuition Level Reflects U.S. avg.	(\$201,249,598)		(\$201,249,598)	(\$201,249,598)		(\$201,249,598)

OR

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Lower Subsidy so In-State Tuition Level Reflects avg. of Contiguous States	(\$125,383,038)		(\$125,383,038)	(\$125,383,038)		(\$125,383,038)

**Millennium Scholarship**

The Millennium Scholarship program was established by the 70<sup>th</sup> Legislature (1999) as a merit-based scholarship opportunity that would provide high-achieving Nevada high school students with as much as \$10,000 to attend one of the state’s public universities.<sup>48</sup> The program, as initially conceived, was intended to be funded entirely through revenues from the state’s

Tobacco Settlement Asset. In advocating for its passage, then-governor Kenny Guinn and lawmakers promised that General Fund money would never be diverted to support the program.

However, a design flaw in the program saw expenditures outstripping Tobacco Settlement revenues by 2005. In lieu of allowing the state’s best high school students to compete for the money that was available, scholarships were initially guaranteed to any high school student who met or exceeded the threshold of a 2.8 high school GPA. The program became almost immediately underfunded, prompting progressive raising of the threshold requirement to 3.1 in 2005 and to 3.25 in 2009.<sup>49</sup>

In spite of this change, the number of students meeting the minimum threshold requirement has continued to outpace funding for the program. Therefore, lawmakers in the 75<sup>th</sup> Legislative Session supplemented the program with an annual restricted transfer out of the General Fund in the amount of \$7.6 million. Despite the ratcheting of eligibility requirements and the additional funding, the number of students meeting the eligibility requirements continues to outstrip the program’s assets.<sup>50</sup>

If lawmakers want to encourage Nevada’s high school students to strive for excellence, they should eliminate the simple threshold requirement and encourage competition for the Millennium Scholarship award. This change would also allow lawmakers to uphold the original intent of the Millennium Scholarship program by limiting scholarship awards to the revenues provided for by the Tobacco Settlement Asset and would free General Fund resources.

**MILLENNIUM SCHOLARSHIP**

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Encourage students to compete for scholarship awards <sup>51</sup>	(\$7,600,000)		(\$7,600,000)	(\$7,600,000)		(\$7,600,000)

**Health Care**

Many Nevadans value the security they believe is offered by a social safety net intended to provide for health care needs of the sick and indigent. Nevada lawmakers have chosen to provide for this need through state participation in federal health care programs such as Medicaid and the State Children’s Health Insurance Program.

***Medicaid***

Medicaid was established in 1965 as an optional program for states to join that would provide a mechanism for financing needed health care services for impoverished families, the disabled and the impoverished elderly. The program offered an obvious incentive for states to participate, since every state dollar spent through the program would be matched by at least an equivalent amount from the federal government. As a result, most states eventually opted into the program.

The rate at which the federal government contributes to state Medicaid programs varies by state and is based on the state's median per capita income level. The rate — called the Federal Medical Assistance Percentage (FMAP) — is adjusted on an annual basis but never falls below 50 percent for any state.

In 2009, additional Medicaid funding was made available through passage of ARRA, which temporarily increased the federal contribution rate to state Medicaid programs. In Nevada, ARRA provided an FMAP increase from 52.64 percent to 63.93 percent.<sup>52</sup>

With the temporary FMAP increase made available through ARRA set to expire at the close of FY11, the FMAP rate for Nevada is scheduled to revert to 53.15 percent beginning in FY12. During FY13, the FMAP will increase only slightly, to 53.66 percent. If the Silver State continues to participate in the Medicaid program as currently structured, this will entail an additional state financial commitment of \$300.4 million for the 2011-13 budget cycle.<sup>53</sup>

Additionally, state officials anticipate the Medicaid caseload will increase as more individuals begin to meet the program's eligibility requirements due to the economic recession's impact. The state's share of the additional caseload's cost is estimated to be \$101.7 million.<sup>54</sup>

Furthermore, state Medicaid costs are projected to continue rising sharply even beyond the 2011-13 budget cycle. Under the Patient Protection and Affordable Care Act (PPACA), state Medicaid programs would be used as a primary means for expanding health insurance coverage. The Congressional Budget Office has estimated that this new health care legislation will expand Medicaid coverage to 16 million new individuals nationwide by 2019, primarily by loosening eligibility requirements.<sup>55</sup>

Estimates developed by the Heritage Foundation indicate that Nevada will see the largest proportional growth in Medicaid enrollment as a result of PPACA, with the Medicaid-eligible population increasing by 82.1 percent.<sup>56</sup>

Ordinarily, this would increase the state's financial obligation to Medicaid by a proportional amount. However, PPACA also pledges higher federal contribution rates to care for the newly eligible Medicaid population until at least 2019. FMAP rates for the newly eligible population are scheduled to be 100 percent for all states in 2014 and will decline gradually to 92.8 percent by 2019 — offsetting, in part, what would be a dramatic new liability for states over the next decade.

Beyond 2019, there is uncertainty regarding the higher FMAP for the newly eligible Medicaid population. Theoretically, these rates could continue indefinitely. Given the magnitude of current federal deficits and debt, however, it is likely that these rates will expire — meaning that states will be obligated to contribute at the standard rate (about 47 percent) for the entire, expanded population of Medicaid recipients.

In addition, there currently exists a large contingent of Medicaid-eligible individuals who, for whatever reason, have elected not to enroll in the program. It is anticipated that the “individual mandate” provision included in PPACA — which requires all individuals to purchase health

insurance or face federal penalties beginning in 2014 — will spur new Medicaid enrollment among those who are currently eligible but have elected not to enroll.

For these “old-eligibles” who are new to the program, states will be liable for *all* of the costs associated with their care. An analysis commissioned by the Texas Public Policy Foundation shows that state Medicaid costs for “old-eligibles” in Texas will far outpace those of the newly eligible, at least during the period of enhanced FMAP rates.<sup>57</sup> For Nevada, likewise, this is an extremely large potential liability that lawmakers should not overlook.

### ***Nevada Check Up***

A second federal health care financing program in which Nevada participates is the State Children’s Health Insurance Program (SCHIP) — locally known as “Nevada Check Up.”

The purpose of Nevada Check Up is to expand health insurance coverage to children who are not eligible to receive coverage under Medicaid. This usually occurs because the children’s family income exceeds Medicaid-eligibility requirements. Income-eligibility to participate in Nevada Check Up is capped at 200 percent of the federal poverty level, which is \$44,100 for a family of four.<sup>58</sup>

Enrollment in Nevada Check Up offers comprehensive medical, dental and vision coverage for children and requires parents to pay only a low quarterly premium between \$25 and \$80, depending on income. This amount covers *every* child in the family.<sup>59</sup>

As with Medicaid, state dollars allocated to Nevada Check Up receive a federal match, but at a higher rate. For the 2011-13 budget cycle, Nevada Check Up, as currently structured, is estimated to cost \$20.7 million in state General Fund resources. In addition, the program will receive \$49.1 million in federal grants.<sup>60</sup>

### ***Problems***

While Medicaid was originally intended to provide critical medical services for the chronically sick and indigent population, it has developed into a state-run health organization that, on paper, offers greater benefits than the most generous corporate health plan in America.<sup>61</sup> The generosity of coverage provides a disincentive for low-wage earners to gain employment, since any private health insurance plan that might be provided through their employer would offer inferior coverage to the benefits promised under Medicaid. For these breadwinners, the financial costs of accepting many forms of employment may be significant.<sup>62</sup>

Medicaid and SCHIP programs like Nevada Check Up have come under scrutiny nationally for a number of reasons. Evidence suggests they are fraught with fraudulent enrollment. Eligibility is commonly determined based on the parents’ income the previous month, supported by a pay stub. Due to the program’s low enrollment fees, parents who hold more than one job or receive some other form of income have an obvious incentive to not report additional income. States like Nevada that do not impose a personal income tax have no way of checking income statements against tax records.

Even when parents fully report their income, the income definitions are extremely generous. Income received through transfer payments — such as food stamps or housing subsidies — are not accounted for. Neither are tax subsidies such as the Earned Income Tax Credit. There are also deductions available for child-care costs, medical and dental expenses, child-support and alimony payments.

In fact, substantial evidence exists to suggest that *the majority* of SCHIP participants could afford to purchase health insurance on their own. Federal longitudinal surveys have been used to estimate that six out of 10 new SCHIP enrollees held private insurance policies prior to enrollment.<sup>63</sup> If the intent of SCHIP programs like Nevada Check Up is to assist families who really need help caring for their children, then the program has done a very poor job at targeting those families.

Perhaps the most problematic aspect of Medicaid and SCHIP, from the standpoint of state budgets, is that the programs impose a lack of price-sensitivity for care on behalf of beneficiaries. Individuals facing no direct personal cost for care are likely to receive more care than they require — driving up costs. Indeed, this is a problem facing the health insurance industry generally, and is not unique to state programs.<sup>64</sup>

### **Alternatives**

One method used extensively within the private-insurance industry to render health consumers more price-conscious regarding their own care is the imposition of co-pays for treatment. In the most ambitious study ever undertaken on health insurance policy, the Rand Corporation examined the impact of co-pays on health and health care utilization over a 15-year period. The study found that co-pays significantly reduce utilization of treatment without measurably impacting consumers' health.<sup>65</sup> The lesson is that price-sensitivity discourages the use of unnecessary care.

Although federal regulations limit Nevada lawmakers' flexibility regarding the structure of Medicaid, it should be noted that the majority of Medicaid treatments require no co-pay. For those treatments that do require co-pays, the rates are typically around five dollars. The Medicaid program's lack of price-sensitivity likely leads to significant over-usage of care — costing taxpayers millions of dollars in unnecessary expenditures.

Within the Nevada Check Up program, state lawmakers have considerably more leeway with regard to imposing co-pays. A simple five-dollar co-pay imposed on all office visits could be expected to significantly lower the program's cost without impacting the health of most children — because 1) the state would be sharing the cost, and 2) utilization rates for unnecessary treatment would decline.

In fact, the most effective health insurance design for maximizing consumers' price-sensitivity is the combination of a high-deductible insurance policy with a health savings account to pay for out-of-pocket expenses.<sup>66</sup> One alternative to the current model of state-run health insurance that could significantly reduce costs without measurably impacting public health would be to model care-delivery for enrollees in the state's Medicaid and SCHIP programs around a health savings account.

Analyses conducted in other states have demonstrated that, for the average cost of insurance through Medicaid or SCHIP, the state could purchase high-deductible insurance policies for enrollees and make sizable donations into a health savings account on their behalf.<sup>67</sup>

The American Academy of Actuaries estimates that insurance models built around health savings accounts reduce total health expenditures by 4 to 15 percent in the first year of implementation and reduce the growth rate of expenditures by 3 to 5 percent thereafter.<sup>68</sup> If Nevada lawmakers were to restructure the state’s programs around health savings accounts, using the most conservative of these estimates, they could realize \$47.7 million in savings from the state’s share of Medicaid expenses and over \$800,000 in savings from Nevada Check Up — all while maintaining the quality of care.

Lawmakers who believe that the federal government would not allow such a change to Medicaid administration might be surprised at federal authorities’ willingness to consider waiver requests that save them money.

In fact, on another Medicaid front, the State of Rhode Island received, in 2009, federal approval on a waiver proposal in which the state agreed to a five-year cap on the federal government’s share of the state’s Medicaid expenses. The state gave up the unlimited federal funding available through FMAP but, in return, gained increased flexibility regarding the administration of long-term care financing.<sup>69</sup>

Financing of long-term care for the elderly comprises a significant share of state Medicaid spending. While Medicaid is a means-tested program for children and young adults, the elderly almost universally qualify for Medicaid to cover at least a portion of long-term care costs. In 2009, state Medicaid programs together spent \$45 billion financing nursing-home care.<sup>70</sup>

Traditional Medicaid rules establish a bias toward institutional care for the elderly even though home-based care tends to be both less costly and of greater benefit to recipients. Rhode Island’s innovative waiver allows the state’s Medicaid program to by-pass the traditional rules and focus more resources on home-based care. If Nevada were to receive a similar waiver, the state would see \$15.5 million in annual savings from its portion of Medicaid costs.<sup>71</sup>

Model legislation for lawmakers to shift Medicaid and Nevada Check Up beneficiaries into consumer-directed plans such as health savings accounts and to pursue Rhode Island-style waivers is available from the American Legislative Exchange Council.<sup>72</sup>

**MEDICAID**

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Shift Beneficiaries into HSAs	(\$23,991,573)	(\$38,754,601)	(\$62,746,174)	(\$23,659,958)	(\$42,152,751)	(\$65,812,709)
Enact Rhode Island-Style LTC Reform	(\$15,500,000)	Agree to 5-year cap on federal contributions	Not quantified	(\$15,500,000)	Agree to 5-year cap on federal contributions	Not quantified



NEVADA CHECK UP

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Shift Beneficiaries into HSAs	(\$403,421)	(\$915,005)	(\$1,318,426)	(\$421,591)	(\$1,008,970)	(\$1,430,561)

**Public Safety**

Most lawmakers recognize that the rule of law and protection of persons and property are necessary conditions for the flourishing of a market economy. Without the assurance that property and contract rights will be upheld, there is little incentive for engaging in productive labor or attempting to carry out business transactions. In addition, individuals who fear the malicious intents of others want to have assurance of protection.

These reasons should rank the state’s policing power among its highest priorities. Indeed, the state’s ability to safeguard the natural rights of individuals through its policing power is the primary rationale for civil government to exist, according to John Locke.<sup>73</sup>

Nevada lawmakers appropriated \$556.8 million to provide for the public safety in 2009, over 80 percent of which — \$446.5 million — was dedicated to the Department of Corrections for the housing of state prisoners.<sup>74</sup>

Lawmakers in the 2011 Legislative Session may want to consider whether housing such a large inmate population is the highest-priority use of limited General Fund resources. There is some question whether non-violent offenders, in particular, require full-time housing at one of the state’s correctional facilities.

According to the SAGE Commission’s Final Report:

“The cost of incarceration in Nevada prisons is approximately \$22,000 per year per inmate. Alternative sentencing programs and specialty courts in Nevada communities have proven to be most successful in keeping certain non-violent offenders out of its expensive prison system.”<sup>75</sup>

Based on this observation, the SAGE Commission offers the following recommendation, noting that the proposal could save \$51.2 million in General Fund resources within the first year and \$280 million over five years:

“This recommendation, initially proposed as Senate Bill 398 in the 2009 Legislative Session, would establish intermediate sanction and detention facilities to provide treatment for substance abuse issues under court order. It would be used for alternative sentenced offenders, probation and selected parole violators. Substance abuse treatment would be provided by HHS, while offenders were under DOC control. Treatment and detention costs would be borne by the offenders to the extent they are able to pay. Courts could order community service for those determined to be unable to pay. Upon successful completion of mandated treatment and other court orders, courts could set aside the

conviction of an offender or return a probation or parole violator to probation or parole.”<sup>76</sup>

Lawmakers should recognize that non-violent offenders, including those arrested for illicit substances, represent a kind of threat fundamentally different from offenders of violent and sex-crimes. In many cases, these offenders’ only victims are themselves and, as such, isolating these offenders from society in state prisons may not be the most cost-effective means of ensuring public safety.

According to a state-by-state analysis from the Cato Institute, state and local governments in Nevada spend about \$258.3 million every year enforcing drug prohibition laws within the state. This includes \$51 million in policing expenditures, \$62 million in court costs, and \$150 million in corrections. Officers arrested 14,660 individuals on drug violation charges in 2007, 7,118 of whom were arrested for possession of small amounts of marijuana.<sup>77</sup>

Cato scholars, as many others, argue that drug prohibition laws *increase* the rate of violence within society because when a product for which there is substantial public demand is made illegal, the result is the emergence of black markets. Buyers and sellers within black markets have no recourse to the legal system to solve disputes or protect property rights and, hence, do so using violent means.

Regardless of one’s outlook on the relative virtues or drawbacks of drug prohibition, lawmakers should question whether such high spending on the prosecution and incarceration of its offenders is the highest-value use of tax dollars.

DEPARTMENT OF CORRECTIONS

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
SAGE Commission Recommendation #31	(\$51,200,000)		(\$51,200,000)	(\$51,200,000)		(\$51,200,000)

**Labor Costs**

While there appears to be an emerging consensus on the need for immediate reform of the state’s budgeting process, recent economic trends have made equally clear the need for increased labor flexibility — particularly at the local-government level.

Government in Nevada must be considered as a single, uniform entity and not as an array of independent jurisdictions with differing levels of authority, as is the case with federal and state governments. Nevada is a Dillon’s Rule state, which means that the administration of state and local governments is necessarily intertwined because the collection and distribution of all tax revenue is controlled by the state legislature. As such, state lawmakers have default control over fiscal policy at the local level.

While local government administrators face a fixed revenue structure — one that has resulted in revenue decreases that, in many cases, proportionally exceed those from state revenue streams — they have also been constrained by more stringent spending requirements than have their counterparts at the state level. This is primarily due to the fixed wage schedules set forth in collective bargaining agreements at the local-government level.

Chapter 288 of the Nevada Revised Statutes (NRS) requires local governments in Nevada to recognize collective bargaining units and establishes the labor relations laws that local governments must follow.<sup>78</sup> State government is not subject to the same restraints imposed on local governments in this respect as the state is not forced to recognize collective bargaining units.

Collective bargaining contracts in Nevada typically endure three to four years and cannot be revised by local government administrators without agreement from the bargaining unit. Moreover, even when a contract expires, exerting downward pressure on wages can be politically difficult.

Downwardly inflexible wages undermine local governments' ability to respond to negative revenue growth. In fact, local governments can actually become *less efficient* during economic recession, because wage rigidity exacerbates the difference between market wages and those paid to local government employees.

A 2008 analysis of state employment data commissioned by the Las Vegas Chamber of Commerce showed that public employees in Nevada are paid 28.1 percent more, on average, than private-sector workers in similar job classifications.<sup>79</sup>

Similarly, the Silver State's public employees are compensated more generously than their peers in other states. A 2010 analysis of public employee compensation published by the Cato Institute shows that, at \$80,094, the Silver State has the third highest average annual employee compensation in the nation, behind only California and Connecticut.<sup>80</sup>

What these analyses overlook, however, is the significant divide between compensation levels for state and local workers. A 2010 analysis of U.S. Census data commissioned by the Las Vegas Chamber of Commerce notes that state workers, in 2008, were paid 7 percent above the national average for state workers in 2008 but local government workers were paid 31 percent above the national average.<sup>81</sup>

Newly released U.S. Census data for 2009 reveals a similar trend. In that year, earnings of state workers in Nevada were 15 percent higher than the national median, while those of local government workers were 31 percent higher than the national median.<sup>82</sup>

In spite of this glaring inequity, when state lawmakers have attempted to rein in labor costs in the past, as they did in the 75<sup>th</sup> Legislative Session,<sup>83</sup> their efforts have focused exclusively on state workers. Given that local governments in Nevada employ nearly three times as many workers as the state, and that above-market wages are significantly more pronounced at the local

government level, lawmakers should include in their effort to save tax dollars granting local government administrators greater control over labor costs.

Several solutions are available to accomplish this task. A repeal of NRS 288 in its entirety would allow local governments to hire at market wages —significantly reducing labor costs. If the Silver State’s local governments were able to reduce wages (without impacting benefits) by 5 percent, on average, taxpayers could realize savings of \$489 million over the course of two years. If those workers received wages at the national median for local government employees, taxpayers would save \$2.3 billion over two years.

Alternatively, lawmakers could pursue an amendment to NRS 288, allowing local government administrators to unilaterally void standing collective bargaining agreements and re-open negotiations when negative revenue growth reaches a certain threshold — such as a 10 percent year-over-year decline. This would at least grant local governments some flexibility with which to keep costs in line with revenues.

State lawmakers should view labor reform along these lines as a high priority. In the context of a Dillon’s Rule state, any potential savings generated from such reform would represent fungible resources that could either remain at the local-government level or be redirected toward the state General Fund. Certainly, if legislators intend to redirect local government funds to state coffers, then such a move should be accompanied by significant reform or repeal of NRS 288.

**LABOR COST**

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Reset State Government Employee Wages to U.S. Median and Redirect Savings to State GF <sup>84</sup>	(\$221,356,731)		(\$221,356,731)	(\$221,356,731)		(\$221,356,731)

**REDIRECT REVENUE**

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Reset Local Government Employee Wages to U.S. Median and Redirect Savings to State GF <sup>85</sup>	\$1,149,632,702 (REVENUE)		\$1,149,632,702 (REVENUE)	\$1,149,632,702 (REVENUE)		\$1,149,632,702 (REVENUE)

OR

**LABOR COST**

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Reduce State Gov’t Employee Wages by 5 Percent <sup>86</sup>	(\$83,671,733)		(\$83,671,733)	(\$83,671,733)		(\$83,671,733)

## REDIRECT REVENUE

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
Reduce Local Government Employee Wages by 5 Percent and Redirect Savings to State GF <sup>87</sup>	\$244,365,171 (REVENUE)		\$244,365,171 (REVENUE)	\$244,365,171 (REVENUE)		\$244,365,171 (REVENUE)

## Budget Decisions

Lawmakers' ultimate responsibility is to decide what constitutes the state's highest priorities. However, the appropriate policy design for achieving objectives reflecting those priorities is not readily apparent in all cases. The policy design recommendations provided here should facilitate that process.

If lawmakers see fit to enact the most aggressive policy changes outlined in this analysis, they can achieve more than \$3.5 billion in biennial savings over the current approach, all of which can be fungible within the state General Fund.

<i>Recommended Changes</i>	<i>GF FY12</i>	<i>Other FY12</i>	<i>Total FY12</i>	<i>GF FY13</i>	<i>Other FY13</i>	<i>Total FY13</i>
K-12 Education	(\$189,157,309)		(\$189,157,309)	(\$201,598,012)		(\$201,598,012)
Higher Education	(\$125,383,038-201,249,598)		(\$125,383,038-201,249,598)	(\$125,383,038-201,249,598)		(\$125,383,038-201,249,598)
Millennium Scholarship	(\$7,600,000)		(\$7,600,000)	(\$7,600,000)		(\$7,600,000)
Health Care	(\$39,894,994)	(\$39,669,606)	(\$79,564,600)	(\$39,581,549)	(\$43,161,721)	(\$82,743,270)
Labor	(\$328,036,904-1,370,989,433)		(\$328,036,904-1,370,989,433)	(\$328,036,904-1,370,989,433)		(\$328,036,904-1,370,989,433)
<b>Total</b>	<b>(\$690,072,245-1,808,891,334)</b>	<b>(\$39,669,606)</b>	<b>(\$729,741,851-1,848,560,940)</b>	<b>(\$702,199,503 - 1,821, 018,592)</b>	<b>(\$43,161,721)</b>	<b>(\$745,361,224-1,864,180,313)</b>

Each of these recommendations should be considered as complementary to the necessary structural reforms highlighted at the outset of this analysis. The greatest benefit to citizens of the Silver State will arise through a state government that is structured to deliver the highest priorities of lawmakers in the most efficient manner possible. Performance-based budgeting combined with a charter agency initiative are the tools that will fuel that change.

## Conclusion

It should be equally clear, given the breadth and depth of the recommendations available, that lawmakers can both deliver and improve upon their highest-priority policy objectives with current revenue levels.

Nevada lawmakers should approach the 76<sup>th</sup> Legislative Session knowing that a wide range of options are available that would allow them to improve the efficiency with which state services are delivered. In addition to those outlined here, many others have been identified by the SAGE Commission as well as the Nevada Taxpayers' Association.<sup>88</sup>

If lawmakers adopt the more aggressive reform proposals offered here, they will realize more than \$3.5 billion in potential savings through simple changes in policy design or implementation measures — and do so *without* negatively impacting the quality of government services. Indeed, many of the reforms proposed here will improve the quality of, or access to, the most vital services.

An opportunity for even greater dynamic savings is available through reform of the state budgeting process to grant greater autonomy, flexibility and accountability to state agencies. A performance-based budgeting approach that embraces competitive sourcing, performance auditing and the Charter Agency concept will deliver better results to Nevada taxpayers at lower cost.

As Nevada lawmakers overcome current fears generated by poor budgeting practices and demonstrate to market participants that the state's government is fiscally sound and competent, they will pave a path of investor confidence within and beyond the state that will lead to renewed Silver State job growth and prosperity.

Now is the time for bold action.

*Geoffrey Lawrence is the deputy director of policy for the Nevada Policy Research Institute.*

## **Appendix: Recommended Legislative Changes (Projected Savings)**

### ***Structural***

1. Eliminate current requirement for state budget director to calculate base budget.
2. Adopt performance-based budgeting approach.
3. Restructure state agencies using the “Charter Agency” model, incorporating the concept of competitive sourcing.
4. Create a state performance auditor.

### ***K-12 Education***

1. Establish a Public Education Tax Credit and scholarship program. (\$31.2 million)
2. Eliminate the Class-Size Reduction program. (\$305 million)
3. Eliminate full-day kindergarten. (\$52 million)
4. Allow Open Enrollment across schools and school districts.
5. Establish an alternative teacher-certification program.
6. Grade the performance of individual schools and teachers.

### ***Higher Education***

1. End universal tuition subsidies at UNR and UNLV and provide tuition vouchers to students whose family income falls below 200 percent of the Federal Poverty Level. (Not quantified)

OR

2. Lower the degree of subsidization for UNR and UNLV so that in-state tuition rates reflect the national average for public, four-year universities. (\$402 million)

OR

3. Lower the degree of subsidization for UNR and UNLV so that in-state tuition rates reflect the average for public, four-year universities in contiguous states. (\$251 million)

### ***Millennium Scholarship***

1. End transfers from the state General Fund into the Millennium Scholarship fund. Encourage high-achieving high school students to compete for the funds available through the Tobacco Settlement Asset. (\$15 million)

### ***Health Care***

1. Apply for global Medicaid waiver and restructure long-term care finance as Rhode Island has done. (\$31 million)
2. Restructure Medicaid and Nevada Check Up benefits around health savings accounts. (\$48 million)

## **Public Safety**

1. Implement SAGE Commission recommendation #31 and reconsider the enforcement of drug prohibition laws. (\$102 million)

## **Labor**

1. Repeal NRS 288 in its entirety and allow local governments, along with the state, to negotiate wages downward toward the national median for local and state government employees. (\$656 million - \$2.742 billion)

OR

2. Amend NRS 288, allowing local governments to unilaterally void standing collective bargaining agreements when negative revenue growth exceeds a certain threshold, such as a 10 percent year-over-year decline.

---

## **Endnotes**

<sup>1</sup> Geoffrey Lawrence, "One Sound State, Once Again," Nevada Policy Research Institute policy study, <http://npri.org/publications/one-sound-state-once-again>.

<sup>2</sup> Geoffrey Lawrence, "The Magical Language of Special Session," Nevada Policy Research Institute commentary, <http://npri.org/publications/the-magical-language-of-special-session>.

<sup>3</sup> Geoffrey Lawrence, "Well, Duh...," Nevada Policy Research Institute commentary, <http://www.npri.org/publications/well-duh>.

<sup>4</sup> Note: The savings identified in this analysis refer to savings from state agencies' requested budgets totaling \$7.53 billion (baseline calculation of \$8.35 billion minus the 10 percent cut requested by Budget Director Andrew Clinger). While this analysis recommends abandoning the baseline budgeting approach, savings estimates were necessarily based upon agency requests because program-based budget estimates were not available.

<sup>5</sup> Geoffrey Lawrence, "The 2009 Nevada Legislative Review & Report Card," Nevada Policy Research Institute policy study, [http://npri.org/docLib/20090924\\_2009LedgeReportCard-Web.pdf](http://npri.org/docLib/20090924_2009LedgeReportCard-Web.pdf).

<sup>6</sup> Within the Executive Budget, these three categories are referred to as "Base," "Maintenance" and "Enhancements." See, e.g., the 2009-11 Executive Budget at: [http://budget.state.nv.us/budget\\_2009\\_11/](http://budget.state.nv.us/budget_2009_11/).

<sup>7</sup> State of Nevada, Department of Administration, Budget Division, "General Fund Appropriations Fiscal Years 2010 & 2011 Legislatively Approved Plus 26<sup>th</sup> Special Session Adjustments Compared to FY 2012 & 2013 Agency Request, As of October 15, 2010," [http://budget.state.nv.us/AgencyRequestBudgetFY2010\\_11vsFY2012\\_1310-14-10.pdf](http://budget.state.nv.us/AgencyRequestBudgetFY2010_11vsFY2012_1310-14-10.pdf).

<sup>8</sup> State of Nevada Economic Forum, "Forecast of Future State Revenues," Dec. 1, 2010, [http://www.leg.state.nv.us/Division/fiscal/Economic%20Forum/Forecast\\_of\\_Future\\_State\\_Revenues\\_12-1-10.pdf](http://www.leg.state.nv.us/Division/fiscal/Economic%20Forum/Forecast_of_Future_State_Revenues_12-1-10.pdf).

<sup>9</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, "Digest of Education Statistics 2009, Table 186," [http://nces.ed.gov/programs/digest/d09/tables/dt09\\_186.asp](http://nces.ed.gov/programs/digest/d09/tables/dt09_186.asp).

<sup>10</sup> Geoffrey Lawrence, "A How-To Guide for Budget Reform: Part II" Nevada Policy Research Institute commentary, <http://npri.org/publications/a-howto-guide-for-budget-reform-part-ii>.

<sup>11</sup> Nevada Legislature, 75<sup>th</sup> Session, Assembly Bill No. 446, <http://www.leg.state.nv.us/Session/75th2009/Reports/history.cfm?ID=835>.

<sup>12</sup> Nevada Spending and Government Efficiency Commission, Final Report to Governor Jim Gibbons, Recommendations 42 and 43, <http://www.leg.state.nv.us/Session/75th2009/Reports/history.cfm?ID=835>.

<sup>13</sup> Nevada Taxpayers' Association, "Spending Reforms for Nevada," June 2010. Available on organization's website at <http://www.nevadataxpayers.org/>.

<sup>14</sup> Geoffrey Lawrence, "A How-to Guide for Budget Reform: Part I," Nevada Policy Research Institute commentary, <http://npri.org/publications/a-howto-guide-for-budget-reform-part-1>. *Op cit.*, note 1.



- 
- <sup>15</sup> David McGrath Schwartz, "With Another Budget Crisis Looming, Group Prioritizing State Services," *Las Vegas Sun*, 23 April 2010, <http://www.lasvegassun.com/news/2010/apr/23/time-nevada-take-inventory/>.
- <sup>16</sup> Nevada Legislature, Legislative Counsel Bureau, "Minutes of the Meeting of the Legislative Committee for the Fundamental Review of the Base Budgets of State Agencies, Sept. 15, 2010," <http://www.leg.state.nv.us/Interim/75th2009/Minutes/Budgets//IM-Budgets-091510-10426.pdf>.
- <sup>17</sup> Jim Chrisinger, "Iowa Charter Agencies: Streamlining State Government," May 2006, [http://www.manhattan-institute.org/html/cb\\_41.htm](http://www.manhattan-institute.org/html/cb_41.htm).
- <sup>18</sup> Frank Partlow, *SAGE NEVADA: Bipartisan Directions for Nevada's Future*, University of Nevada Press (2010).
- <sup>19</sup> For a review of the process followed in Washington, see David Osborne, "The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay," Reason Foundation, March 2010, [http://reason.org/files/california\\_budget\\_david\\_osborne.pdf](http://reason.org/files/california_budget_david_osborne.pdf).
- <sup>20</sup> Washington State Auditor's Office, "About Performance Audit," <http://www.sao.wa.gov/EN/Audits/PerformanceAudit/Pages/PerformanceAudit.aspx>. See also: Evergreen Freedom Foundation, "Performance Audits" webpage at <http://www.ewfa.org/main/page.php?number=19>.
- <sup>21</sup> Nevada Constitution, Article 11, Section 1, <http://www.leg.state.nv.us/const/nvconst.html#Art11>.
- <sup>22</sup> Nevada Legislature, Legislative Counsel Bureau, Fiscal Analysis Division, "Nevada Legislative Appropriations Report, Seventy-Fifth Legislature," <http://www.leg.state.nv.us/Division/fiscal/Appropriation%20Reports/2009AppropriationsReports/2009AppropriationsReport.cfm>.
- <sup>23</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, "Public School Graduates and Dropouts from the Common Core of Data: School Year 2007-08," <http://nces.ed.gov/pubs2010/2010341.pdf>.
- <sup>24</sup> *Education Week*, Editorial Projects in Education Research Center, "Diplomas Count 2010: Graduation in the United States," Available at: <http://media.lasvegassun.com/media/pdfs/2010/06/17/Graduationrates.pdf>.
- <sup>25</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, "Digest of Education Statistics 2009, Table 120," [http://nces.ed.gov/programs/digest/d09/tables/dt09\\_120.asp](http://nces.ed.gov/programs/digest/d09/tables/dt09_120.asp).
- <sup>26</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, "Digest of Education Statistics 2009, Table 136," [http://nces.ed.gov/programs/digest/d09/tables/dt09\\_136.asp](http://nces.ed.gov/programs/digest/d09/tables/dt09_136.asp).
- <sup>27</sup> Nevada Legislature, 75<sup>th</sup> Session, Senate Bill No. 2, <http://www.leg.state.nv.us/Session/75th2009/Reports/history.cfm?billname=SB2>.
- <sup>28</sup> *Op cit.*, note 9.
- <sup>29</sup> Matthew Ladner, Ph.D. et al., "Report Card on American Education: Ranking State K-12 Performance, Progress and Reform, 16<sup>th</sup> Edition," American Legislative Exchange Council, [http://www.alec.org/AM/pdf/education/2010\\_reportcard/finalcopycondensed.pdf](http://www.alec.org/AM/pdf/education/2010_reportcard/finalcopycondensed.pdf).
- <sup>30</sup> For an analysis on the potential for "virtual" schools in Nevada, see Patrick Gibbons, "Bit by Bit: Virtual Schools Can Transform Nevada Public Education," Nevada Policy Research Institute policy study, [http://npri.org/docLib/20100517\\_NevadaVirtualSchools.pdf](http://npri.org/docLib/20100517_NevadaVirtualSchools.pdf).
- <sup>31</sup> *Op cit.*, note 29.
- <sup>32</sup> Matthew Ladner, Ph.D. and Patrick Gibbons, "Failure is No Longer an Option," Nevada Policy Research Institute policy study, [http://npri.org/docLib/20090318\\_Failure\\_Is\\_No\\_Longer\\_an\\_Option.pdf](http://npri.org/docLib/20090318_Failure_Is_No_Longer_an_Option.pdf).
- <sup>33</sup> *Op cit.*, note 9.
- <sup>34</sup> *Op cit.*, note 32.
- <sup>35</sup> See Florida's "Step Up for Students" website at: <http://www.stepupforstudents.org/>.
- <sup>36</sup> Nevada Legislature, Legislative Counsel Bureau, Fiscal Analysis Division, "The Nevada Plan for School Finance: An Overview," [http://www.leg.state.nv.us/Division/Fiscal/NevadaPlan/Nevada\\_Plan\\_2011\\_JW.pdf](http://www.leg.state.nv.us/Division/Fiscal/NevadaPlan/Nevada_Plan_2011_JW.pdf).
- <sup>37</sup> *Ibid.* See also, Hobbs, Ong & Associates and Applied Analysis, 2009, "Education Funding in Nevada," Prepared for the Las Vegas Chamber of Commerce, Education Briefing Series, Volume 2 Issue 3, <http://www.lvchamber.com/files/pdf/lvcc-edbrief-appendix-2-3.pdf>.
- <sup>38</sup> Nevada Legislature, 75<sup>th</sup> Session, Senate Bill No. 429, <http://www.leg.state.nv.us/Session/75th2009/Reports/history.cfm?ID=1151>.
- <sup>39</sup> *Op cit.*, note 9.

- 
- <sup>40</sup> Nevada Legislature, Legislative Counsel Bureau, Senate Human Resources Committee, “Background Paper 01-2: Nevada’s Class-Size Reduction Program: Program Data and Summary of Evaluation Reports,” February 2001, <http://www.leg.state.nv.us/Division/Research/Publications/Bkground/BP01-02.pdf>.
- <sup>41</sup> See, e.g., Thomas Stinard, *Synopsis of Research on Kindergarten Scheduling: Half-day, Everyday; Full Day, Everyday*. Cedar Rapids, IA: Grant Wood Area Education Agency (1982).
- <sup>42</sup> *Op cit.*, note 22.
- <sup>43</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, “Digest of Education Statistics 2009, Table 335,” [http://nces.ed.gov/programs/digest/d09/tables/dt09\\_335.asp](http://nces.ed.gov/programs/digest/d09/tables/dt09_335.asp).
- <sup>44</sup> *Ibid.*
- <sup>45</sup> *Op cit.*, note 1.
- <sup>46</sup> See, e.g., Amy Watts, “Trends in Postsecondary School Attendance, Kentucky and the United States, 1993-97 to 2003-07,” Kentucky Long-Term Policy Research Center, [http://www.kltprc.net/policynotes/pn0028\\_college\\_affordability.pdf](http://www.kltprc.net/policynotes/pn0028_college_affordability.pdf).
- <sup>47</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, “Digest of Education Statistics 2009, Table 220,” [http://nces.ed.gov/programs/digest/d09/tables/dt09\\_220.asp](http://nces.ed.gov/programs/digest/d09/tables/dt09_220.asp).
- <sup>48</sup> Gov. Brian Sandoval and State Treasurer Kate Marshall, “Governor Guinn Millennium Scholarship: Fact Sheet,” <http://nevadatreasurer.gov/documents/millennium/Doc-FactSheet.pdf>.
- <sup>49</sup> *Ibid.*
- <sup>50</sup> Ed Vogel, “Millennium Scholarship Will Fall \$1.3 Million Short,” *Las Vegas Review-Journal*, 27 April 2010, [http://www.lvrj.com/news/millennium-scholarship-fund-will-fall--1\\_3-million-short-92276039.html](http://www.lvrj.com/news/millennium-scholarship-fund-will-fall--1_3-million-short-92276039.html).
- <sup>51</sup> For the purpose of this analysis, it is assumed that the Millennium Scholarship program will request the same dollar amount in annual General Fund transfers as occurred in the 2009-11 budget cycle. Given the program’s current fiscal distress, however, it is likely that its administrators will request a greater amount – which will further increase the savings available from this recommendation.
- <sup>52</sup> *Op cit.*, note 22.
- <sup>53</sup> State of Nevada, Department of Administration, Budget Division, “Budget Highlight – 2011-13 Biennium Agency Request – All DU Type – Compact with DU Synopsis,” [http://budget.state.nv.us/FY2012\\_2013AgencyBudgetRequest.pdf](http://budget.state.nv.us/FY2012_2013AgencyBudgetRequest.pdf).
- <sup>54</sup> *Ibid.*
- <sup>55</sup> United States Congress, Congressional Budget Office, Director Douglas W. Elmendorf letter to House Speaker Nancy Pelosi, 18 March 2010, <http://www.cbo.gov/ftpdocs/113xx/doc11355/hr4872.pdf>.
- <sup>56</sup> The Heritage Foundation, “The End of Federalism: How Obamacare Will Impact the States,” <http://www.heritage.org/Research/Factsheets/The-End-of-Federalism-How-Obamacare-Will-Impact-States>.
- <sup>57</sup> Jagadeesh Gokhale, “Final Notice: Medicaid Crisis, A Forecast of Texas’ Medicaid Expenditures Growth,” Texas Public Policy Foundation, <http://www.texaspolicy.com/pdf/2010-12-RR12-FinalNoticeMedicaidCrisis-ForecastofTexasMedicaidExpendituresGrowth-CHCP.pdf>.
- <sup>58</sup> U.S. Department of Health and Human Services, Administration for Children & Families, “2009/2010 HHS Poverty Guidelines,” <http://liheap.ncat.org/profiles/povertytables/FY2010/popstate.htm>.
- <sup>59</sup> Nevada Department of Health and Human Services, Division of Health Care Financing & Policy, “Nevada Check Up Application,” <https://nevadacheckup.nv.gov/SecureOnlineAppEnglish.htm>.
- <sup>60</sup> *Op cit.*, note 53.
- <sup>61</sup> For a list of benefits, see: Nevada Department of Health and Human Services, Division of Health Care Financing & Policy, “Welcome to Nevada Medicaid and Nevada Check Up,” [http://dhcfp.state.nv.us/pdf%20forms/Info/Medicaid%20Guide%20 English\\_.pdf](http://dhcfp.state.nv.us/pdf%20forms/Info/Medicaid%20Guide%20English_.pdf).
- <sup>62</sup> For review of Medicaid’s role of trapping families in poverty, see: Michael F. Cannon, “Medicaid’s Unseen Costs,” Cato Institute Policy Analysis No. 548, <http://www.cato.org/pubs/pas/pa548.pdf>.
- <sup>63</sup> Jonathon Gruber and Kosali Simon, “Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Health Insurance?” National Bureau of Economic Research Working Paper No. 12858, January 2007.
- <sup>64</sup> Geoffrey Lawrence, “To Fix Healthcare Costs, Begin with Prices,” Nevada Policy Research Institute commentary, <http://npri.org/publications/to-fix-healthcare-costs-begin-with-prices>.

- 
- <sup>65</sup> The Rand Corporation, Health Insurance Experiment, at <http://www.rand.org/health/projects/hie.html>.
- <sup>66</sup> Michael F. Cannon and Michael D. Tanner, Healthy Competition: What's Holding Back Health Care and How to Free It, Cato Institute, Washington, D.C.
- <sup>67</sup> See, e.g., Penn Pfiffner et al., "Citizens' Budget: Road Map for Sustainable Government in Colorado," Independence Institute, pp. 71-92, <http://tax.i2i.org/citizens-budget/>.
- <sup>68</sup> American Academy of Actuaries, Consumer-Driven Health Plans Work Group, "Emerging Data on Consumer-Drive Health Plans," [http://www.actuary.org/pdf/health/cdhp\\_may09.pdf](http://www.actuary.org/pdf/health/cdhp_may09.pdf).
- <sup>69</sup> State of Rhode Island, Executive Office of Health & Human Services, "RI Consumer Choice Compact Waiver," <http://www.eohhs.ri.gov/medicaid/index.php>.
- <sup>70</sup> U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, National Health Expenditures Data, Table 9, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>.
- <sup>71</sup> Based on initial estimate from Stephen Moses, President of the Center for Long-Term Care Reform.
- <sup>72</sup> American Legislative Exchange Council, Model Legislation for the States, "Patients First Medicaid Reform Act," and "Resolution on Medicaid Funding Through a Federal Block Grant," available at: [http://www.alec.org/AM/Template.cfm?Section=ALEC\\_Model\\_Legislation](http://www.alec.org/AM/Template.cfm?Section=ALEC_Model_Legislation).
- <sup>73</sup> John Locke, The Second Treatise of Civil Government (1690), online at: <http://www.constitution.org/jl/2ndtreat.htm>.
- <sup>74</sup> *Op cit.*, note 22.
- <sup>75</sup> *Op cit.*, note 12, Recommendation #31.
- <sup>76</sup> *Ibid.*
- <sup>77</sup> Jeffrey A. Miron and Katherine Waldock, "The Budgetary Impact of Ending Drug Prohibition," Cato Institute, [http://www.cato.org/pub\\_display.php?pub\\_id=12169](http://www.cato.org/pub_display.php?pub_id=12169).
- <sup>78</sup> Nevada Revised Statutes, Chapter 288 – Relations Between Governments and Public Employees, <http://www.leg.state.nv.us/nrs/NRS-288.html>.
- <sup>79</sup> Hobbs, Ong & Associates and Applied Analysis, 2009, "Comparative Analysis of Public and Private Employee Compensation Levels," Prepared for the Las Vegas Chamber of Commerce, Fiscal Analysis Brief, Volume 1 Issue 1, <http://www.lvchamber.com/files/pdf/FAB-public-private-comp-analysis.pdf>.
- <sup>80</sup> Chris Edwards, "Public Sector Unions and the Rising Costs of Employee Compensation," Cato Journal, Volume 30, Number 1, pp. 87-115. Also online at: <http://www.cato.org/pubs/journal/cj30n1/cj30n1-5.pdf>.
- <sup>81</sup> Hobbs, Ong & Associates and Applied Analysis, 2009, "State-to-State Comparison of Public Employee Compensation Levels - 2008," Prepared for the Las Vegas Chamber of Commerce, Fiscal Analysis Brief, Volume 2 Issue 1, <http://www.lvchamber.com/files/pdf/FAB-public-employee-comp-update.pdf>.
- <sup>82</sup> Data available from U.S. Census Bureau, "Government Employment and Payroll," at <http://www.census.gov/govs/apes/>.
- <sup>83</sup> Nevada Legislature, 75<sup>th</sup> Session, Senate Bill No. 431, <http://www.leg.state.nv.us/Session/75th2009/Reports/history.cfm?ID=1155>.
- <sup>84</sup> *Op cit.*, note 82. Data provides total March payroll and number of FTE employees at both the state and local levels. March payroll can be annualized and then divided by the number of FTE employees to arrive at the estimated annual pay per employee (not including benefits). Average annual employee pay in 2009 amounted to \$56,935 in Nevada while the national median amounted to \$43,543 for local government employees. For state employees, the respective amounts were \$54,688 and \$49,189. If the difference between this amount is multiplied times the number of FTE employees – 85,846 (local) and 29,517 (state) – an estimate for potential savings can be obtained.
- <sup>85</sup> *Ibid.*
- <sup>86</sup> *Ibid.*
- <sup>87</sup> *Ibid.*
- <sup>88</sup> *Op cit.*, note 13.

## ***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 policy makers, 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.*

### ***We Welcome Your Support***

*The Nevada Policy Research Institute, committed to its independence, neither seeks nor accepts any government funding. A nonprofit, tax-exempt organization established under Section 501(c)(3) of the Internal Revenue Code, the Institute relies solely on the generous support of individuals, foundations and businesses who share a concern for Nevada's future.*

*For more information, or to make a tax-deductible contribution, please contact:*

*The Nevada Policy Research Institute  
3155 E. Patrick Lane  
Suite 10  
Las Vegas, Nevada 89120-3481*

*(702) 222-0642 ♦ Fax (702) 227-0927  
[www.npri.org](http://www.npri.org) ♦ [office@npri.org](mailto:office@npri.org)*



January 2011