

# Hobbs, Ong & Associates APPLIED ANALYSIS

# PUBLIC FINANCE

## R E P O R T

*This Public Finance Report offers observations on recent economic indicators, a retrospective on the closure of the 2011 Legislature, and a look at the remaining structural budget deficit.*

### CURRENT ECONOMIC INDICATORS

**C**onvincing signs of economic recovery have yet to visit Nevada. Although tourism counts are rising, April gaming win declined 0.6 percent; and, year-to-date gaming percent fees have increased only 1.9 percent over the same period last year. April Taxable sales grew 2.3 percent, and year-to-date sales tax receipts are 4.9 percent higher with just two months left in the fiscal year. Cigarette, liquor and other excise tax collections are mixed, with little evidence of a sustainable positive trend.

In May, Nevada's unemployment rate fell again to 12.1 percent, following the largest month-over-month decline in unemployment rate among all states in April. However, this good news is tempered by the fact that total employment and total workforce have each shrunk by over 40,000 in the past 12 months, and businesses remain cautious in their hiring decisions. Nevada's 12.1-percent rate remains the highest in the nation, followed by California's at 11.7 percent.

In May, the median closing price for existing single family homes tumbled to \$106,200, 13.7 percent less than last year, and 63.1 percent less than the peak level in 2007 -- again a return to 1990's pricing. New home closings now comprise only 5.7 percent of residential sales, and continuing builder caution is reflected in the fact that the number of permits issued so far this year barely exceeds the depressed number of new home closings. The commercial market awaits second quarter figures, as the previously reported vacancy rates for office, retail, and industrial space in the Las Vegas metropolitan area remained discouraging at 24.0 percent, 10.4 percent, and 17.9 percent, respectively.

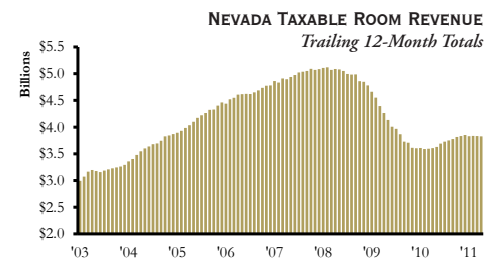
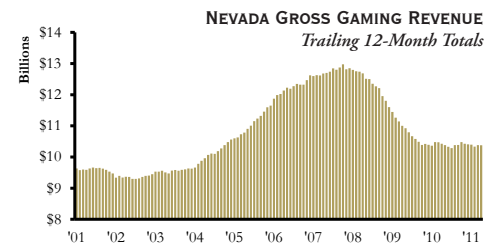
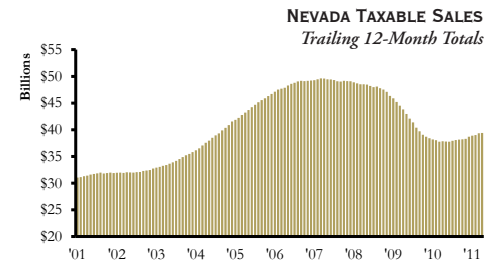
Las Vegas tourist visitation continues its gradual improvement, with a 5.0 percent year-to-date advance. McCarran International

Airport passenger counts have risen in the first five months of 2011, with the May count reflecting a 5.1-percent increase over last year. Concern over spending per visitor continues to linger.

### THE LEGISLATURE - TAXES AND THE BUDGET

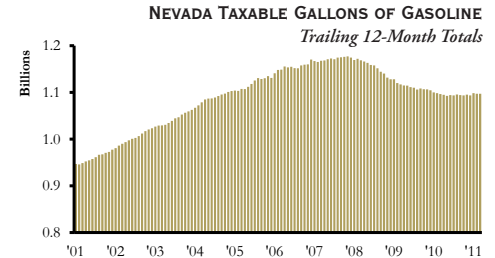
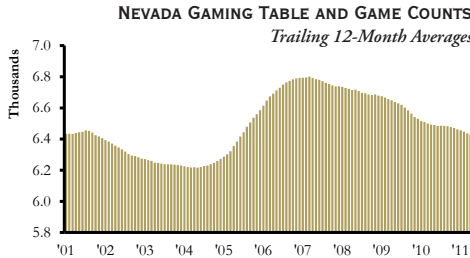
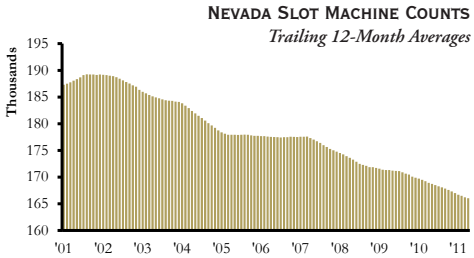
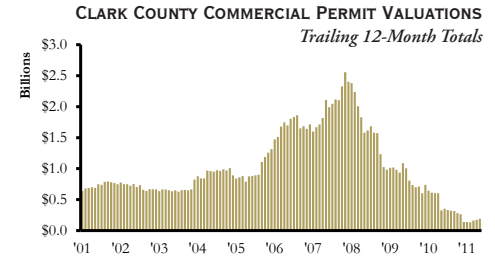
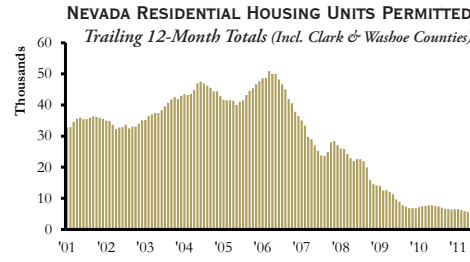
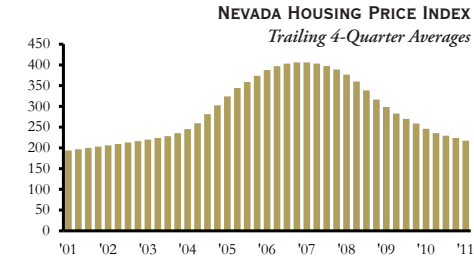
These observations on the last days of the session are chronological, starting on May 12, the 95th day of the 120-day session.

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TRAILING 3-Months/Quarterly Series	Most Recent Data Available	INDICATOR VALUES			GROWTH RATES	
		Current 3-Month Period/Qtr.	Previous 3-Month Period/Qtr.	Same 3-Months/Quarter Prev. Yr.	VS. Previous Period	VS. Same Period Prev. Yr.
Nevada Taxable Sales (1)	Mar-11	\$9,581,109,568	\$9,996,045,613	\$8,955,551,435	-4.2% ▼	7.0% ▲
Nevada Gross Gaming Revenue (1)	Mar-11	\$2,717,758,186	\$2,597,543,238	\$2,741,936,567	4.6% ▲	-0.9% ▼
Taxable Rooms Revenue (1)	Mar-11	\$917,668,533	\$859,531,075	\$936,965,600	6.8% ▲	-2.1% ▼
Nevada Housing Price Index	Q1 2011	206.6	217.3	231.9	-4.9% ▼	-10.9% ▼
Nevada Residential Housing Units Permitted (1)	Mar-11	1,496	1,499	2,069	-0.2% ▼	-27.7% ▼
Clark County Commercial Permit Valuation (1)	Mar-11	\$37,664,756	\$31,342,629	\$13,405,330	20.2% ▲	181.0% ▲
Slot Machines in Nevada (2)	Mar-11	165,702	166,203	168,835	-0.3% ▼	-1.9% ▼
Gaming Tables and Games in Nevada (2)	Mar-11	6,373	6,403	6,476	-0.5% ▼	-1.6% ▼
NV Taxable Gasoline Gallons of Gasoline (1)	Mar-11	260,860,000	258,320,000	257,490,000	1.0% ▲	1.3% ▲
NV Private Sector Establishment-based Empl. (2)	Mar-11	952,333	954,067	949,333	-0.2% ▼	0.3% ▲
Quarterly Wage Payments	Q4 2010	\$10,673,696,075	\$9,767,582,914	\$10,669,371,341	9.3% ▲	0.0% ▲
Cigarette Packages (1)	Mar-11	29,025,000	27,997,800	29,908,800	3.7% ▲	-3.0% ▼
Gallons of Liquor (1)	Mar-11	20,084,033	19,590,115	20,937,868	2.5% ▲	-4.1% ▼
Estimated Value of Real Property Transferred (1)	Mar-11	\$4,937,337,473	\$4,909,120,927	\$4,385,145,391	0.6% ▲	12.6% ▼
Estimated Value of Vehicles (1)	Mar-11	\$2,092,639,656	\$2,027,543,004	\$2,173,395,191	3.2% ▲	-3.7% ▼

NOTES: (1) Trailing 3-month totals. (2) Trailing 3-month averages.



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**Tax Bills Lack Votes - Long Term Tax Policy Remains Unresolved**

The legislative committees that determine state spending began meeting in January, even before the legislative session began, with some legislative leaders immediately asserting that revenues were insufficient to fund needed public services. In contrast, debate on public revenue did not start in earnest until 95 days had already passed, and time was growing short. Senate Bill 491 would have imposed a business franchise or “margin” tax of 0.8 percent, and Assembly Bill 569, would have levied transaction tax on “services” at 1.0 percent. Public testimony underscored the fact that that, because businesses and their financial structures vary considerably, vetting tax measures is highly complex, requiring careful definition of taxable events, consideration of equity, attention to the mechanics of collection, and other critical factors. As always, in crafting tax policy, some key principles should be taken into account including:

- *Administrative feasibility - to avoid excessive cost of collection and inconvenience to the public;*
- *Economic neutrality – to avoid undue effect on taxpayers’ economic decisions;*
- *Equity - to assign responsibility in proportion to benefit or ability to pay and to place similar burden on similarly situated taxpayers;*
- *Transparency and simplicity - enabling taxpayers to understand what is being taxed and how their tax is determined; and,*
- *Productivity – to yield sufficient revenue.*

Although, hearings on these bills were substantive, and committee chairs were diligent in seeking as much public input as possible, it became clear there were no trades available for new tax measures; and the most that could be hoped for was some consideration of extending the sunsets of the temporary tax increases implemented in 2009. The last posted hearing on the tax bills was May 24, leaving only two weeks before the end of the session and only a week for the Legislature to retain its prerogative of overriding a gubernatorial veto of any fiscal measures it might pass.

**Supreme Court Decision**

On the 109th day of the 120-day Legislative

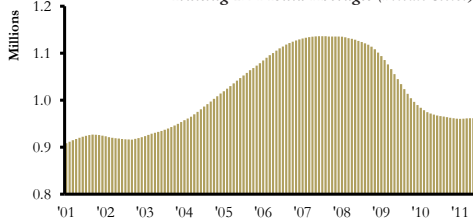
session, the Supreme Court decision regarding confiscation of local government money for state purposes turned the process on its head. Although the decision directly addressed only “special” laws which tax parts of the state and not others, the Court’s finding might extend to other measures having similar effect, including state diversion of Clark and Washoe county property taxes and taking school construction debt service reserves only from counties in which local voters had approved such reserves. In total, the Governor’s original Executive Budget included \$684.9 million in these “devices” for the next two years; which,

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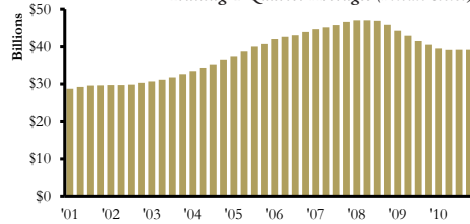
TRAILING 12-Months Series	Most Recent Data Available	INDICATOR VALUES			GROWTH RATES		
		Current 12-Month Period	Previous 12-Month Period	Same 12-Months Previous Year	VS. Previous Period	VS. Same Period Prev. Yr.	
Nevada Taxable Sales (3)	Mar-11	\$39,335,622,679	\$39,016,273,311	\$37,776,807,796	0.8% ▲	4.1% ▲	
Nevada Gross Gaming Revenue (3)	Mar-11	\$10,380,471,465	\$10,333,757,689	\$10,472,685,484	0.5% ▲	-0.9% ▼	
Taxable Rooms Revenue (3)	Mar-11	\$3,833,170,208	\$3,834,790,192	\$3,595,096,277	0.0% ▼	6.6% ▲	
Nevada Housing Price Index	Q1 2011	217.5	223.8	245.9	-2.8% ▼	-11.6% ▼	
Nevada Residential Housing Units Permitted (3)	Mar-11	5,884	6,207	7,540	-5.2% ▼	-22.0% ▼	
Clark County Commercial Permit Valuation (3)	Mar-11	\$161,694,598	\$134,340,698	\$604,121,062	20.4% ▲	-73.2% ▼	
Slot Machines (4)	Mar-11	166,227	166,491	169,234	-0.2% ▼	-1.8% ▼	
Gaming Tables and Games (4)	Mar-11	6,437	6,447	6,500	-0.2% ▼	-1.0% ▼	
NV Taxable Gasoline Gallons of Gasoline (3)	Mar-11	1,096,990,000	1,097,210,000	1,096,360,000	0.0% ▼	0.1% ▲	
NV Private Sector Establishment-based Empl. (4)	Mar-11	961,358	960,525	974,633	0.1% ▲	-1.4% ▼	
Quarterly Wage Payments	Q4 2010	\$39,180,710,368	\$39,176,385,634	\$40,524,723,790	0.0% ▲	-3.3% ▼	
Cigarette Packages (3)	Mar-11	124,379,400	124,389,600	126,572,400	0.0% ▼	-1.7% ▼	
Gallons of Liquor (3)	Mar-11	88,254,769	88,155,287	89,457,975	0.1% ▲	-1.3% ▼	
Estimated Value of Real Property Transferred (3)	Mar-11	\$20,158,283,400	\$19,709,526,864	\$20,675,370,373	2.3% ▲	-2.5% ▼	
Estimated Value of Vehicles (3)	Mar-11	\$8,705,501,499	\$8,711,532,784	\$9,283,829,517	-0.1% ▼	-6.2% ▼	

NOTES: (3) Trailing 12-month totals. (4) Trailing 12-month averages.

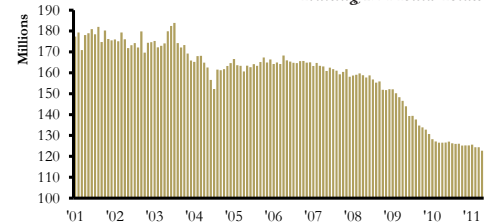
NEVADA ESTABLISHMENT EMPLOYMENT  
Trailing 12-Month Averages (Private Sector)



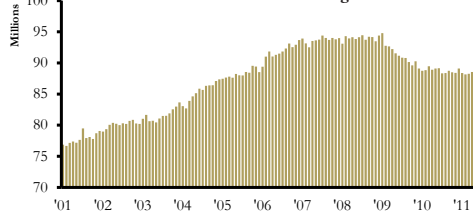
NEVADA WAGE PAYMENTS  
Trailing 4-Quarter Averages (Private Sector)



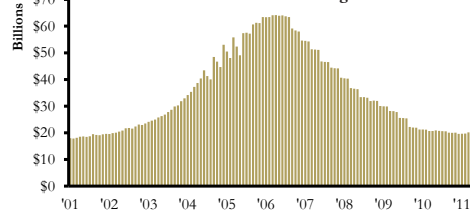
NEVADA CIGARETTE PACKAGES PURCHASED  
Trailing 12-Month Totals



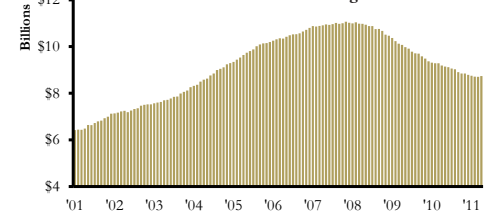
NEVADA GALLONS OF LIQUOR PURCHASED  
Trailing 12-Month Totals



NEVADA ESTIMATED VALUE OF REAL PROPERTY  
TRANSFERRED — Trailing 12-Month Totals



NEVADA ESTIMATED VALUE OF VEHICLES  
Trailing 12-Month Totals



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when added to similar actions undertaken during the previous administration, represented \$1.2 billion in funding at risk of loss to lawsuits.

With nearly one dollar of every five in the state general fund facing potential legal jeopardy, The Governor and a supermajority of legislators determined that the risk of passing a state budget later being found “illegal” called for previous lines in the sand to be redrawn. As a result, extension of \$582 million in temporary taxes scheduled to sunset was revisited and agreed to. The arithmetic was completed forthwith, and the session ended with congratulations shared across the partisan divide. That said, the only thing that was clarified this session is that raids of local money cannot be undertaken indiscriminately; a clarification with origins in the Nevada Supreme Court, not the Governor or Legislature, the latter of which have another significant fiscal gap to bridge in the future because of the nature of their budget compromise.

#### The Compromise Includes a Continued Structural Deficit.

Both those who supported new taxes with no sunsets, and those who supported neither new taxes nor extending the sunsets, rushed in sufficient numbers to embrace extension of the sunseting taxes following the Supreme Court decision. Among those directly engaged in the process, acrimony became collegiality, and even some on the losing end of votes paid respects to those who prevailed. That said, dodging a bullet is not exactly a business plan. To wit:

- *The budget again relies on extension of \$582 million in “temporary” taxes and diversion of \$38 million in indigent funds scheduled to expire June 30, 2013. If estimates hold true, there will again be a \$620-million “hole” in the state budget in 2013.*
- *The projected state general fund balance is only 5 percent of annual spending, or about 18 days of general fund expense. There is no Rainy Day Fund to back up the general fund. Current legislative estimates show the entire state general fund balance as being borrowed from local governments unless tax collections grow dramatically.*
- *Since the revenue estimates were last revised in May, there is as yet no perceptible gain against those projections, and no sign the state will “grow out” of its structural deficit.*

#### CONCLUSION

By recasting the options available to the Governor and Legislature in formulating the budget, the Supreme Court changed the political complexion of the session and gave substantial pause to future raids on local treasuries – at least partially limiting the opportunity to continue avoiding lasting solutions to Nevada’s fiscal imbalance. However, Nevada’s tendency to promise services without a long-standing commitment to pay for them, and the absence of a strong state policy regarding budget reserves will continue to haunt the process unless addressed.

While these concerns were not resolved in the 2011 Session, some encouraging signs did emerge. First, whether through statesmanship or mutually felt political pressure, there was

in the end agreement between the Governor and the Legislature. Second, the leadership in both branches showed a genuine desire to conclude the public business, and did so in professional fashion, without embarrassment. Finally, with the help of the Supreme Court, we are reminded that the Nevada Constitution, enacted in 1864 and amended since, provides that we must balance the state budget with taxes and assessments uniformly levied and administered. That is some progress. Now for 2013. ■

#### ABOUT THE AUTHORS



APPLIED ANALYSIS

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