

Sandoval Short Term Deficit Plan

January 2010

Overview:

Currently, the state of Nevada is in the midst of an unprecedented budget and cash flow crisis, which is creating substantial short term budget challenges. Nevada's financial experts are predicting the budget deficit will grow to between \$200 and \$500 million in 2010.

Nevada's current budget includes a built-in \$160 million line of credit, which can be drawn from on an as-needed basis. Without the use of the state credit facility, the estimated deficit range expands to \$330-\$630 million. The Governor's Executive Budget as submitted to the Legislature, as well as the final state budget, assumed use of the credit facility.

Because of the substantial range of the estimated deficit, it should be assumed that each of the proposed items would be authorized in a special session of the Legislature, but enacted in appropriate sequence based on need.

The purpose of this plan is to address these issues and offer comprehensive solutions.

To begin, it is important to understand the foundation for this plan and the reasoned manner in which it was created. Accordingly, the issues set forth in the plan below are done so against a backdrop of Brian Sandoval's core economic principles.

- Raising taxes is irresponsible.
- Unemployment is the single greatest negative influence on Nevada's economy.

This plan does not raise taxes. Instead, it focuses on salary and benefit reductions, programmatic budget cuts, and privatization.

This plan also assumes the single biggest problem facing Nevada's economy today is unemployment and that, logically, job retention and job creation are paramount to Nevada's recovery. As such, each idea in this plan attempts to avoid layoffs and stimulate job growth.

Many of the potential budget cuts listed present extremely difficult decisions. Given the depth and duration of the problems Nevada is facing, this is not surprising. That said, when dealing with budget reductions, this plan looks to programs that do not disproportionately target the disabled, the disadvantaged or the elderly.

It is important to note that no existing program was held sacrosanct nor any existing expenditure assumed. Therefore, this plan offers a number of new and innovative ideas to cut spending, shift costs where appropriate, and privatize where possible.

The short-term proposals account for more than \$500 million in savings. If the budget hole grows beyond that amount, salary reductions will need to be greater than those proposed here.

While this plan addresses Nevada's short term deficit, it is critical that our state institute spending caps moving forward to avoid this situation in the future. The notion of government spending based on boom times and credit lines to avoid tough decisions must be stopped. It's time for state government to live within its means.

Short Term Deficit Strategy

1. Temporary 4% salary reduction for all state employees

Savings: \$212 million

The first proposal is an across the board temporary 4% salary reduction for all state employees, including K-12 personnel. Although K-12 personnel and their compensation are protected by contract, this proposal asks that those contracts be amended to allow for a temporary 4% salary reduction. Fully enacted, this proposal aims to realize a savings of \$212 million.

As background, the 2009 Legislature allocated funds to the distributive school account (DSA) with an assumption of a 4% decrease in teacher salaries. In most cases, due to collective bargaining, these decreases were never realized, and in fact, in many cases salaries actually increased.

2. Public Employee Benefits Program (PEBS) reform

Savings: \$110 million

Subtotal: \$322 million

The second proposal would implement the four proposed SAGE Commission recommended 2009 PEBS reforms:

- 1) Immediately change employer contribution to 75% from 95%,
- 2) Eliminate subsidy for Medicare retirees beginning July 1, 2010,
- 3) Eliminate the entire subsidy for anyone who retires after July 1, 2010,
- 4) Reduce subsidy for non-Medicare retirees by 25% on July 1, 2010, and by 25% more on July 1, 2011.

As the state is six months into the fiscal year, this proposal assumes to save only 70% of an originally estimated \$158 million, for a total of \$110 million in savings.

3. Privatize selected state services

Savings: \$ 20.5 million

Subtotal: \$342.5 million

There are a number of state services that have the potential to be privatized. The third proposal assumes each of the services listed below would be put out to public bid and realize an average savings of 10 percent:

- 1) Prison Medical Services: \$8.7 million
- 2) Building and Grounds Maintenance: \$3.8 million
- 3) State Motor Pool: \$3.2 million

- a. This action will also eliminate the purchase account and generate one-time revenue from the sale of the fleet.
- 4) Mail Services: \$1.8 million
- 5) State Personnel Department: \$2.3 million
- 6) State Purchasing Department: \$0.63 million

Taken as a package, privatizing the above services aims to realize a savings of \$20.5 million.

4. Eliminate payments on credit line

Savings: \$30 million

Subtotal: \$372.5 million

The fourth proposal eliminates the payments on the \$160 million credit facility. As noted previously, the Governor's Executive Budget as submitted to the Legislature, as well as the final state budget, assumed use of the credit facility.

Although the state's authorized credit facility is built into the current budget, this proposal does not access the credit facility. By not accessing the facility, this proposal aims to save \$30 million, the amount which the state would have had to make as payments towards the debt.

5. Strategic budget reduction/consolidation

Savings: \$60 million

Subtotal: \$432.5 million

The fifth proposal examines strategic budget reductions and consolidations, which are listed in the attached addendum. The proposal aims to realize a savings of \$60 million.

While focused on reductions and consolidations, this proposal also contemplates an increase in the budget of Nevada's economic development programs with the idea that job growth is essential to Nevada's recovery.

6. Class size reduction diversion/Clark County capital reserve account supplementation strategy

Savings: \$110 million

Subtotal: \$542.5 million

The sixth proposal diverts \$110 million from the Clark County School District portion of the state class size reduction program to the state general fund. The temporary diversion is offset by seeking statutory changes necessary to allow, on a temporary basis, the district to utilize its capital account reserves for operating expenses, salaries and program integrity.

The Clark County School District's portion of the state class size reduction program currently costs just over \$109 million per year and is slated to increase to \$110 million in

2010-11. This expenditure is primarily utilized for teacher salaries in order to comply with the state mandate on class size.

The Clark County School District reported an opening capital fund balance of \$1.1 billion and total resources of more than \$1.2 billion for the current fiscal year. This reserve was created from the accumulation of unspent funds collected from various school bond measures passed in Clark County as well as dedicated room and real property transfer tax payments. Given decreasing enrollment, the Clark County School District currently has no plans to build a single new school in the coming years. While there are bond covenants and certain maintenance issues that restrict the use of these funds, a portion could be diverted to sustain operations during the next two years.

This plan seeks to only divert a portion of the unencumbered funds estimated at \$110 million.

Summary of Potential Budget Actions | Phase I

Preliminary Draft

Potential Program Reduction

Program	General Fund Dollars			Other Funding			Total Program Funding			Estimated Savings	Notes
	2009-10	2010-11	Total	2009-10	2010-11	Total	2009-10	2010-11	Total		
Licensed Personnel Program	\$ -	\$ 24,777,056	\$ 24,777,056	\$ -	\$ -	\$ -	\$ -	\$ 24,777,056	\$ 24,777,056	\$ 24,777,056	[1]
Agricultural Experiment Station	\$ 8,030,255	\$ 8,030,255	\$ 16,060,510	\$ 1,389,398	\$ 1,389,398	\$ 2,778,796	\$ 9,419,653	\$ 9,419,653	\$ 18,839,306	\$ 12,045,383	[1]
Cooperative Extension	\$ 8,247,636	\$ 8,247,636	\$ 16,495,272	\$ 1,829,188	\$ 1,847,346	\$ 3,676,534	\$ 10,076,824	\$ 10,094,982	\$ 20,171,806	\$ 12,371,454	[1]
Freed Up Debt Payments by Not Accessing Credit Line	\$ 15,000,000	\$ 15,000,000	\$ 30,000,000	\$ -	\$ -	\$ -	\$ 15,000,000	\$ 15,000,000	\$ 30,000,000	\$ 15,000,000	[10]
Retirement Service Credit Reserve	\$ 23,882,673	\$ -	\$ 23,882,673	\$ -	\$ -	\$ -	\$ 23,882,673	\$ -	\$ 23,882,673	\$ 23,882,673	[13]
Subtotal - Program Reduction	\$ 55,160,564	\$ 56,054,947	\$ 111,215,511	\$ 3,218,586	\$ 3,236,744	\$ 6,455,330	\$ 58,379,150	\$ 59,291,691	\$ 117,670,841	\$ 88,076,566	

Privatization (Outsourcing) Listing

Program	General Fund Dollars			Other Funding			Total Program Funding			Estimated Savings	Notes
	2009-10	2010-11	Total	2009-10	2010-11	Total	2009-10	2010-11	Total		
Motor Pool	\$ -	\$ -	\$ -	\$ 5,803,534	\$ 5,838,850	\$ 11,642,384	\$ 5,803,534	\$ 5,838,850	\$ 11,642,384	\$ 1,164,238	[2]
Motor Vehicle Purchase Account	\$ -	\$ -	\$ -	\$ 2,088,028	\$ 2,127,854	\$ 4,215,882	\$ 2,088,028	\$ 2,127,854	\$ 4,215,882	\$ 2,107,941	[3]
Building and Grounds Maintenance	\$ -	\$ -	\$ -	\$ 18,763,909	\$ 19,229,428	\$ 37,993,337	\$ 18,763,909	\$ 19,229,428	\$ 37,993,337	\$ 3,799,334	[2]
Prison Medical Services	\$ 41,964,445	\$ 23,106,763	\$ 65,071,208	\$ 1,087,219	\$ 21,186,979	\$ 22,274,198	\$ 43,051,664	\$ 44,293,742	\$ 87,345,406	\$ 8,734,541	[2]
Mail Services	\$ -	\$ -	\$ -	\$ 7,778,518	\$ 7,914,594	\$ 15,693,112	\$ 7,778,518	\$ 7,914,594	\$ 15,693,112	\$ 1,569,311	[2]
Mail Services Equipment Outlay	\$ -	\$ -	\$ -	\$ 232,112	\$ 286,277	\$ 518,389	\$ 232,112	\$ 286,277	\$ 518,389	\$ 259,195	[3]
Purchasing Department	\$ -	\$ -	\$ -	\$ 3,208,152	\$ 3,111,377	\$ 6,319,529	\$ 3,208,152	\$ 3,111,377	\$ 6,319,529	\$ 631,953	[2]
Personnel Department	\$ -	\$ -	\$ -	\$ 11,807,745	\$ 11,451,250	\$ 23,258,995	\$ 11,807,745	\$ 11,451,250	\$ 23,258,995	\$ 2,325,900	[2]
Subtotal - Privatization (Outsourcing)	\$ 41,964,445	\$ 23,106,763	\$ 65,071,208	\$ 50,769,217	\$ 71,146,609	\$ 121,915,826	\$ 92,733,662	\$ 94,253,372	\$ 186,987,034	\$ 20,592,412	

Local Government Consolidation to Avoid Duplication

Program	General Fund Dollars			Other Funding			Total Program Funding			Estimated Savings	Notes
	2009-10	2010-11	Total	2009-10	2010-11	Total	2009-10	2010-11	Total		
Narcotics Control	\$ 2,548,058	\$ 2,573,558	\$ 5,121,616	\$ 15,000	\$ 15,000	\$ 30,000	\$ 2,563,058	\$ 2,588,558	\$ 5,151,616	\$ 2,575,808	[8]
Fire Marshall	\$ 1,267,923	\$ 1,191,665	\$ 2,459,588	\$ 1,981,707	\$ 1,973,049	\$ 3,954,756	\$ 3,249,630	\$ 3,164,714	\$ 6,414,344	\$ 3,207,172	[8]
Subtotal - State-Local Government Consolidation	\$ 3,815,981	\$ 3,765,223	\$ 7,581,204	\$ 1,996,707	\$ 1,988,049	\$ 3,984,756	\$ 5,812,688	\$ 5,753,272	\$ 11,565,960	\$ 5,782,980	

Programs That Require Increases in Funding

Program	General Fund Dollars			Other Funding			Total Program Funding			Estimated Savings	Notes
	2009-10	2010-11	Total	2009-10	2010-11	Total	2009-10	2010-11	Total		
Nevada Commission on Economic Development	\$ 4,685,251	\$ 4,676,247	\$ 9,361,498	\$ 82,195	\$ 82,195	\$ 164,390	\$ 4,767,446	\$ 4,758,442	\$ 9,525,888	\$ (4,680,749)	[6]
Rural Community Development	\$ 265,433	\$ 258,796	\$ 524,229	\$ 2,939,194	\$ 2,939,194	\$ 5,878,388	\$ 3,204,627	\$ 3,197,990	\$ 6,402,617	\$ (262,115)	[6]
Subtotal - Programs That Require Additional Funding	\$ 4,950,684	\$ 4,935,043	\$ 9,885,727	\$ 3,021,389	\$ 3,021,389	\$ 6,042,778	\$ 7,972,073	\$ 7,956,432	\$ 15,928,505	\$ (4,942,864)	
Total From All Categories	\$ 105,891,674	\$ 87,861,976	\$ 193,753,650	\$ 59,005,899	\$ 79,392,791	\$ 138,398,690	\$ 164,897,573	\$ 167,254,767	\$ 332,152,340	\$ 109,509,094	

Notes:

- [1] Assumes a 50 percent general fund savings in year one and a 100 percent general fund savings in year 2.
- [2] Assumes a 10 percent savings resulting from privatization.
- [3] Assumes a 50 percent savings resulting from halting of the motor vehicle purchases for the state motor pool.
- [6] Assumes general fund programming is increased by 50 percent.
- [8] Assumes that 50 percent of funds are shifted to local governments to offset the cost of providing the service.
- [10] Savings would depend on when the funds are accessed from the Local Government Investment Pool. The 2009 Legislature approved a general fund appropriation of \$15 million per year and reserved funds in the Bond Interest and Redemption Account of \$15 million per year. Total of \$30 million is available.
- [13] For the purpose of meeting salary deficiencies, which may be created due to the actual net salary requirements of unpaid furlough leave and to hold personnel harmless in the accumulation of retirement and service credit. Estimates are preliminary.

Paid for by Sandoval for Governor