

# **The 2023 Nevada Budget: Record Surpluses, Cautious Optimism, and Bipartisan Support for K-12 Education and State Employees**

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## **Abstract**

In June of 2023, the Nevada Legislature passed the state's 2023-2025 budget. Buoyed by continued increases in the state's share of the sales taxes and revenue tied to gaming, entertainment, and tourism as well as business activity, the \$10.9 billion general fund budget was the largest in Nevada's history. After four years of unified Democratic control of state government, the 2023 session was the first budget passed under divided government since 2017. While partisan and interbranch tensions were ever present as evidenced by a record 75 vetoed bills, Nevada's Republican governor and Democratic-controlled legislature supported substantial investments in K-12 education and state employees. Enthusiasm for long-term spending obligations, however, was tempered by the fact that the general fund budget's two largest revenue drivers—sales and gaming taxes—fluctuate with macroeconomic conditions. The continued reliance on these revenue sources perpetuates Nevada's history of booms and busts and undermines the state's ability to make long-term investments in its human capital and physical infrastructure. Consequently, the budget choices adopted by the governor and legislature reflected broad compromises and investments, while other areas, including costly but much needed reforms to state government, went unaddressed.

## **Introduction**

Nevada adopted its budget for the 2023-2025 biennium in June of 2023. Composed of five separate funding bills,<sup>1</sup> most of the attention during the session and in the analysis that follows focuses on the state general fund, the bulk of which is unrestricted in its use. Due to record gaming wins, increased tourism, and tax revenue generated from large-scale entertainment events, the state's revenues exceeded expectations. The total projected general fund budget for the biennium of \$10.9 billion represents an 18% increase compared to the 2021-2023 biennium. Still, legislators and the governor remained wary of committing the state to long-term expenditures given historical fluctuations in state revenue and the recent economic downturns during the Great Recession and the COVID-19 pandemic. Both events hit Nevada's narrow economic base disproportionately hard and necessitated special legislative sessions to cut appropriations that had been previously authorized.

Underlying the budget process were partisan tensions. After the election of Governor Joe Lombardo in November 2022, the state was operating under divided government for the first time since the 2017 legislative session. Even as Lombardo became the only challenger to defeat an incumbent governor during the 2022 electoral cycle, the Democrats increased their majority in both chambers of the state house including securing a two-thirds majority in the assembly. The result was increased funding in areas where there was bipartisan agreement including record funding for K-12 education, large raises for state employees, and replenishing the state's rainy day fund that had been drained to plug budget holes during the COVID-19 pandemic. Other policy priorities, however, fell by the wayside over partisan differences. Most notably, Governor Lombardo exercised his veto pen a record 75 times to frustrate the Democratic-led legislature while the governor's efforts to modernize the organization of the executive branch, increase state investments in economic development, and expand school choice options were stymied.

In what follows, we provide a brief overview of Nevada's demography and economy. This is followed by a discussion of the political and institutional context in which the 2023 legislative session occurred and a summary of the general fund appropriations and revenue for the 2023-2025 biennium. We conclude by considering how the state's constitutional limitations and antiquated governance constrain policymakers and limit opportunities for innovation.

## **Nevada's Demographic and Economic Context**

Between 1960 and 2010, Nevada was the fastest growing state in the country with most of this growth occurring in the Las Vegas metro. Over the course of these five decades the state's population increased from 285,278 residents to 2.7 million. Clark County, where Las Vegas is located, grew from 127,016 people in 1960 (44.5% of state population) to 1.95 million (72.3% of state population) fifty years later. While population growth ebbed as the Great Recession lingered in the Silver State, the decade between 2010 and 2020 still saw Nevada's population increase by 15% to 3.104 million. Between 2020 and 2023, Nevada's population grew by another ninety thousand to 3.194 million with just over 73% of all Nevadans living in Clark County.

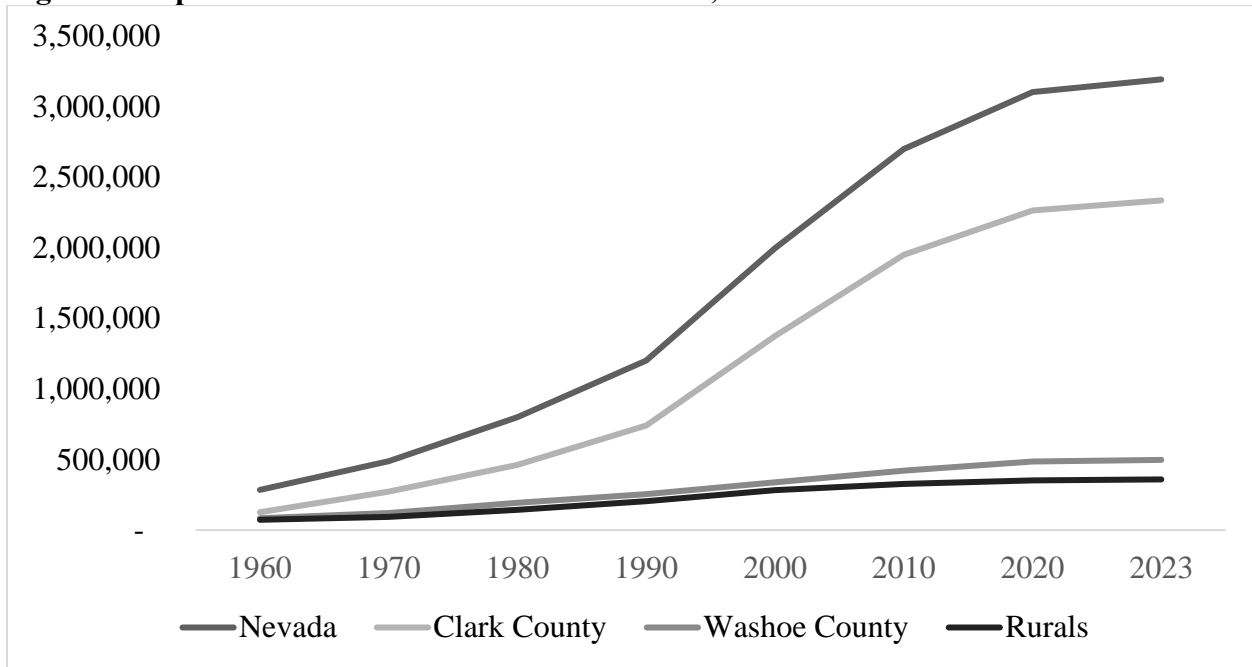
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<sup>1</sup> Separate bills fund K-12 education, pay for state workers, capital projects, and the state general fund. A fifth bill authorizes state agencies to expend revenue from federal and non-general fund sources. The total appropriations from these bills for the biennium are close to \$50 billion with federal revenue sources accounting for roughly a third of this total.

Combined, the state’s two population centers, anchored by Las Vegas in the south and Reno in the north, are home to about 89% of all Nevadans.

Figure 1 uses the Three Nevadas framework to illustrate intrastate differences in population growth since 1960. Three Nevadas is shorthand for the demographic, political, sociocultural, and economic differences between Clark County in Southern Nevada, Washoe County in the northwest corner of the state, and the state’s rural counties referred to collectively as the Rurals. The figure demonstrates both Nevada’s unprecedented growth and the increased concentration of the state’s population in the Las Vegas metro.

**Figure 1: Population Growth in the Three Nevada’s, 1960-2023**



*Sources:* U.S Census Bureau, Decennial Censuses and Vintage 2023 estimates.

Today, Nevada is majority-minority with a diversity index of 68.8%, ranking third in the United States in total racial and ethnic diversity (U.S. Census Bureau, 2021). As Table 1 summarizing the racial and ethnic variations in the Three Nevadas details, most of the state’s diversity is concentrated in Clark County. In all of Nevada’s other 16 counties, whites remain the majority. In contrast, Clark County features double digit portions of African Americans (11.7%), Asian Americans (10.7%), and Latinos (32.6%). Non-Hispanic whites constitute 37.5% of Clark County’s population compared to 58.7% in Washoe County and more than 68% in the Rurals. These demographic differences shape intrastate political competition such that the overwhelming Republican vote in the Rurals approaches the Democratic margins in Clark County. In recent elections, Washoe County has moved in favor of the Democrats continuing Nevada’s Democratic tilt even as Republicans have cut into Democratic margins in Clark County.

**Table 1: Demographic and Economic Profile of the Three Nevadas, 2022**

	<b>Statewide</b>	<b>Clark County</b>	<b>Washoe County</b>	<b>Rurals</b>
Population Share	3,177,772	73.1%	15.6%	11.3%
White	44.4%	37.6%	58.7%	68.2%
Black	9.0%	11.7%	2.2%	1.3%
American Indian and Alaska Native	0.6%	0.3%	0.7%	2.1%
Asian	8.8%	10.7%	5.3%	2.0%
Native Hawaiian and Other Pacific Islander	0.6%	0.7%	0.7%	0.2%
Other Race	11.8%	0.6%	0.8%	0.5%
Two or more races	12.0%	5.9%	5.5%	0.5%
Hispanic	30.3%	32.6%	26.2%	20.40%
Real GDP *	\$187,226,240	72.60%	16.70%	10.60%

\* Thousands of chained (2017) dollars.

*Sources:* U.S. Census Bureau, American Community Survey 2022 1-Year Estimates and Bureau of Economic Analysis, Gross Domestic Product by County and Metropolitan Area, 2022.

Nevada has long been a magnet for domestic and foreign migrants with only about a quarter of those living in the state having been born there (Aisch, Gebeloff, and Quealy). The foreign-born population of the state is 18.9%, which ranks fifth nationally (U.S. Census Bureau, 2024). Given the state’s proximity to California, particularly its population centers in the north (Reno) and south (Las Vegas), exchanges with California underlie the state’s growth and economy. For instance, an analysis of Nevada’s 2010 census data found that there were more eligible voters who were born in California than in Nevada (Frey and Teixeira, 2012).

Nevada’s rapid population growth, which has been driven by increased racial and ethnic diversification in its urban centers, has challenged the state’s antiquated governing institutions. Adding to these tensions is the fact that Nevada’s capital, Carson City, is located hundreds of miles from Las Vegas, separating the upper-level administrative regime from the state’s population and economic engine. Thus, while the overwhelmingly Democratic Clark County delegation holds nearly three-quarters of the seats in both chambers of the Nevada Legislature and the current and previous governor are former Clark County elected officials, state government is culturally, demographically, and geographically a creature of northern Nevada.

Economically, Nevada owes its existence to the mining industry. Miners settled the state, wrote its constitution, including a provision that caps the taxation of mining proceeds, and dominated its political class throughout Nevada’s early history. While Nevada’s gold mines are still some of

the most productive in the world, the industry's workforce is relatively small and is concentrated in the sparsely populated counties in the northeastern part of the state. Since the 1950s hospitality, tourism, and gaming, augmented by construction, have supplanted mining as the state's primary sources of employment and general fund revenue. The effects of this transition on the state's economic productivity can be gleaned from the bottom line of Table 1. Despite the profitability of Nevada's mines, the share of Nevada's real GDP generated in the Rurals is less than those counties' population share. Washoe County's economic output exceeds its share of the population, while Clark County's economic output is just below its population share. The relative difference between Washoe and Clark counties reflects the higher concentration in lower wage, lower productivity jobs in Las Vegas as well as the larger college educated population in Washoe County.

Coming out of the Great Recession, Nevada prioritized economic diversification in hopes of assuaging the state's long history of economic booms and busts. These efforts have been most successful in the metro Reno area. The opening of the Tahoe Regional Industrial Center in Storey County, adjacent to Washoe County, houses the Telsa Gigafactory. The massive facility, supported by millions of dollars in tax abatements, opened in 2014 to produce Panasonic batteries for electric vehicles and has spurred regional growth in manufacturing, logistics and warehousing, and tech. The region is also poised to play a major role in the emerging lithium economy. The Reno area is home to several firms in that space and the Biden Administration recently announced \$2.26 billion in loan guarantees for Lithium Americas to develop the company's Thacker Pass lithium project located north of Winnemucca near the Oregon Border.

Las Vegas has experienced some economic diversification since the Great Recession due to growth in business services, including the locating of several massive data centers, healthcare, and logistics and warehousing. However, the region has had the most success diversifying within its core through sports and large-scale events to become the self-proclaimed sports and entertainment capital of the world.<sup>2</sup> While the state's rural counties remain dependent upon mining and some agriculture production, the counties proximate to Washoe County have seen growth in logistics and warehousing.

Despite Nevada's efforts to grow and diversify its economy, Nevada's unemployment rate continues to lag the rest of the country, and at 6.7% in July 2024, the Las Vegas metro has the highest unemployment rate of any metro with two million people or more. Some of the state's weak labor force participation is a consequence of structural changes in the hospitality sector that have increased profits with minimal employment growth. More generally, Nevada's overconcentration in low skill occupations not only reduces labor productivity and wages for existing workers but creates barriers to attracting companies in higher paying sectors.

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<sup>2</sup> Las Vegas is now home to three professional top-league franchises: the NFL's Las Vegas Raiders, the NHL's Vegas Golden Knights, and the WNBA's Las Vegas Aces. As is discussed below, Major League Baseball's Oakland Athletics are considering relocating to the city. Opened in 2020, Allegiant Stadium, home of the Las Vegas Raiders, provided Las Vegas with a major facility adjacent to the Strip that in 2022 was the top-grossing stadium in the world. Among arenas, T-Mobile Arena, where the Vegas Golden Knights play, was ranked fourth (Billboard, 2024).

## The 2023 Legislative Political and Institutional Context

After four years of unified Democratic control of state government the 2023 legislative session was the first session under divided government since 2017. Prior to the 2022 elections, the Democrats used their trifecta to implement a partisan gerrymandering in hopes of locking in their majorities for the decade. Thus, while in 2022 Republican candidates won three of the seven statewide elections, the Democrats increased the size of their majorities in both chambers.<sup>3</sup> For the 2023 session, the Democratic advantage in the assembly was 28 to 14 and 13 to 8 in the senate. With their increased representation, the Democrats were one seat shy in the senate of a supermajority in both chambers; an arrangement that would have allowed the party, assuming party line voting, to override gubernatorial vetoes. This also would have allowed the party to overcome gubernatorial opposition to new taxes that require two-thirds support in each chamber. However, with record setting revenue to work with, there was little interest in increasing taxes during the 2023 legislative session.

At the same time there was significant membership churn in the legislature, a consistent pattern since term limits for state legislators went into effect in 2010.<sup>4</sup> In the assembly, a third of the members, seven Democrats and seven Republicans, were in their first session. The senate was constituted with six new members, but three of the four new Democrats and one of the two new Republicans had served previously in the assembly.

The confluence of high rates of turnover and the relatively small size of the Nevada Legislature weakens the body's institutional knowledge and capacity.<sup>5</sup> For instance, in 2023, the assembly speaker was in the first term in that position. The previous speaker served two terms in the position before leaving the legislature. In 2023, there were new chairs of the “money committees”—the Assembly Ways and Means Committee and the Senate Finance Committee—and some of the chairs of policy committees were serving in either their first or second sessions in their respective chambers.

The election of a new governor in 2022 also meant changes in the leadership of the executive branch. The new governor inherited a budget process that had begun under his predecessor and in the short transition period between the election and taking the oath of office in early January 2023, Governor Lombardo had to hire senior staff, appoint new heads of a number of executive branch agencies, and quickly put his stamp on the budget prior to its release ahead of the start of the 82nd Session of the Nevada Legislature in early February 2023.

Institutionally, the governor is well positioned to drive the budget process relative to the legislature. Nevada uses an executive budget process that begins in August of the year prior to the legislative session with the submission of agency budget requests to the Governor's Finance Office. This is followed in December by a meeting of the Economic Forum to determine revenue

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<sup>3</sup> Democratic incumbents won reelection for U.S. senate, attorney general, and treasurer, and the Democrat won the open secretary of state race. Republican challengers defeated the incumbent Democratic governor, controller, and appointed lieutenant governor.

<sup>4</sup> A popularly initiated constitutional amendment limits legislators to serving 12 years in each chamber of the legislature.

<sup>5</sup> The 63-member Nevada Legislature is the fourth smallest in the country with its membership only exceeding the legislatures in Alaska (60 members), Delaware (62 members), and Nebraska (49 members).

forecasts for the coming biennium.<sup>6</sup> By statute, the Economic Forum's December estimates are used by the governor to prepare budget recommendations. Absent new taxes, these estimates cap the total general fund budget that the governor can put forth. The Economic Forum meets again in May prior to the legislature closing the budget to revise its estimates. The May estimates determine the amount of general fund revenue that the legislature may legally appropriate.

The governor has priority when setting the budgetary agenda. Once he has set his fiscal priorities prior to the session, any legislation that is proposed in the ensuing legislative session that creates a fiscal deviation to the governor's proposed budget is tagged with a fiscal note. If these bills are passed out of their policy committee to either the assembly or senate floor, they are then referred to the respective chamber's money committee for consideration. While most of these bills are never processed by the money committees, those that are successfully reported out to the chamber floors must be revenue neutral relative to the May Economic Forum revenue estimates.

The governor also is institutionally advantaged by the fact that Nevada has a strict 120-calendar day biennial legislative session that runs from early February through early June, with all budget bills required to be passed by the end of the session. The money committees' joint subcommittees spend much of the first third of the legislative session holding budget hearings and taking testimony from executive branch heads about their budget priorities. As bills receiving fiscal notes are processed by the policy committees, they will eventually make their way to the money committees where they may wait until the final days of the legislative session to be heard and processed depending upon the amount of available funding.

It is not until the waning days of the legislative session, after the money committees' subcommittees have reported out their parts of the budget, that the five budget bills are introduced. After being reported out by the money committees, the bills are voted on in the assembly and senate often on the last day of the session, if not the last hours of the session. The compressed timeframe between the introduction of the budget bills and their passage provides little opportunity for legislators who are not on the money committees to debate the state's funding priorities or alter these bills via floor amendments.

Due to a 2006 popularly initiated constitutional amendment, the K-12 education bill must be funded first. The budget bills, except for the bill funding the state's capital improvement program, require a majority vote for passage. Because the capital improvement program bill reauthorizes a tax, it requires two-thirds support in each chamber for passage.

During the last moments of the 2023 session senate Republicans held the bill hostage in hopes of extending pay raises for K-12 public school teachers to include charter school teachers. Having already reached an agreement with the governor to sign all the budget bills, the Democrats were unwilling to acquiesce. The session ended at midnight on June 6 without passage of the bill. The next day the governor called a special session to pass the capital improvement program budget. After one of the senate Republican holdouts voted for passage the special session adjourned less than two hours after it began. The partisan standoff to extend pay raises to charter school

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<sup>6</sup> The Economic Forum consists of five gubernatorially appointed members who serve a two-year term. The senate majority leader and speaker of the assembly each nominate one member for appointment.

teachers was a fitting ending to a session where efforts led by the Governor’s Office and legislative Republicans to expand school choice were thwarted by majority Democrats.

### **The 2023-2025 Nevada State Budget**

The release of the governor’s recommended budget for the coming biennium in late January occurs at the same time as the state of the state address delivered in the assembly chambers to legislators, state officials, and invited guests. The speech and budget release provide the governor with a platform to lay out his priorities and vision for the state. In 2023, Governor Lombardo highlighted 29 funding priorities in the foreword of the more than 3,000-page executive budget (State of Nevada, 2023).

Among the priorities highlighted by the Governor’s Office were: lowering taxes on businesses; increasing the amount of money in the state’s rainy day fund from 20% to 30% of unrestricted general fund revenue; establishing the “Nevada Way” account coupled with funding to the state infrastructure bank and other programs to support economic development; extensive modernization and maintenance of state government infrastructure including substantial investments in state government offices in Las Vegas and employee compensation; broadband expansion (supported with federal dollars); a near 23% increase in K-12 education funding; and increases in social services including funding for Medicaid, medical education expansion at the Kirk Kerkorian School of Medicine at University of Nevada, Las Vegas, and support for veterans.

Beyond the executive budget, the governor is allocated five bill draft requests for his legislative priorities. The Governor’s Office of Finance is allocated unlimited bill draft requests to implement the budget (State of Nevada, 2023).

Table 2 adapts the post-session analysis conducted by the Fiscal Division of the Nevada Legislature’s Legislative Counsel Bureau (LCB) summarizing the distribution of general fund revenue across the major budget categories. Within the table are two comparisons; a comparison between the governor’s recommended budget and what was approved by the legislature and a comparison between what the legislature approved for the previous biennium and for the 2023-2025 biennium. Note that these data only capture the state’s general fund and do not consider other funding that is statutorily required to support specific programs including the bulk of the K-12 budget, which is funded by more than 80 state and local funding sources.

As Table 2 details, while the legislature made some changes within the broad budget categories used in the LCB’s analysis and decreased overall proposed general fund spending by less than half a percentage point, the legislature largely accepted the governor’s recommendations. The legislature’s decision to increase funding for the Special Purpose Agencies category reflects increases to the contribution rates for the Public Employee Retirement System as well as additional funding for the Department of Indigent Defense Services that reimburses counties for the costs to provide indigent legal defense service. Compared to the 2021-2023 biennium, the more than doubling of funding for the Elected Officials category reflects substantial raises that were provided for state employees as well as the shift of some agency accounts. Also note the substantial increase in funding for Health and Human Services relative to 2021-2023 levels. Much of that funding is to support the state’s increased Medicaid case load.

**Table 2: Comparison of 2021-2023 and 2023-2025 General Fund Budget Appropriations**

	Legislature Approved 2021-2023		Governor Recommended 2023-2025	Legislature Approved 2023-2025		Legislature Approved Versus Governor Recommended 2023- 2025		Legislature Approved 2021-2023 Versus 2023- 2025	
	Amount	Share	Amount	Amount	Share	Amount	Percent Change	Amount	Percent Change
Elected Officials	\$312,396,916	3.4%	\$927,223,893	\$973,268,277	8.9%	\$46,044,364	5.0%	\$660,871,361	211.5%
Finance and Administration	\$88,711,491	1.0%	\$89,750,421	\$89,338,526	0.8%	-\$411,895	-0.5%	\$627,035	0.7%
K-12 Education	\$3,262,674,301	35.1%	\$3,351,788,589	\$3,353,853,423	30.6%	\$2,064,834	0.1%	\$91,179,122	2.8%
Higher Education	\$1,281,693,722	13.8%	\$1,471,791,624	\$1,470,469,075	44.0%	-\$1,322,549	-0.1%	\$188,775,353	14.7%
Commerce and Industry	\$110,006,772	1.2%	\$146,459,739	\$121,543,355	1.1%	-\$24,916,404	-17.0%	\$11,536,563	10.5%
Health and Human Services	\$3,342,819,114	35.9%	\$4,038,533,696	\$4,008,343,515	36.5%	-\$30,210,181	-0.7%	\$665,524,401	19.9%
Public Safety	\$769,728,485	8.3%	\$865,022,460	\$799,832,793	7.3%	-\$65,189,667	-7.5%	\$30,104,308	3.9%
Infrastructure	\$97,026,609	1.0%	\$91,390,341	\$96,980,053	0.9%	\$5,589,712	6.1%	-\$46,556	0.0%
Special Purpose Agencies	\$38,869,489	0.4%	\$30,962,809	\$58,188,703	0.5%	\$27,225,894	87.9%	\$19,319,214	49.7%
Total	\$9,303,926,899		\$11,012,923,572	\$10,971,817,720		-\$41,125,892	-0.4%	\$1,667,890,801	17.9%

Source: Nevada Legislative Appropriations Report, Fiscal Years 2023-2024 and 2024-2025.

## Major State Expenditures

The following discussion details the major spending areas and highlights some of the areas of interbranch dispute.

### *K-12 Education*

Like many of his predecessors, Governor Lombardo pledged to be the “education governor.” The higher-than-expected state revenues allowed the governor to seek common ground with Democratic legislators to address one of the lowest per pupil spending rates in the country. In 2019 Nevada replaced the decades old formula used to allocate state and local support for K-12 education. However, in neither the 2019 nor 2021 legislative session was the new formula, dubbed the “Pupil-Centered Funding Plan,” fully funded. The updated formula aligns funding to support demographic differences by providing a per student base level adjusted for differences in the economies of scale between the urban and rural school districts and adds weighted funding for English learners, talented and gifted students, students living in poverty, and special needs students.

Through the infusion of \$2.6 billion in new money, the legislature fully funded the new formula including appropriating full funding for the student specific weights. This funding is expected to increase the average per pupil funding by approximately \$2,500. In 2020, Nevada’s per pupil funding was \$9,814, the fourth lowest in the country and roughly \$3,600 below the national average (U.S. Census Bureau, 2022). By fiscal year 2025, Nevada should be in the top 40 for per pupil spending. Part of the state’s investments in K-12 education included 20% raises for public school teachers, excluding charter school teachers. Nevada has long been plagued by teacher shortages and high rates of attrition. Increasing the compensation for teachers may help to grow and maintain the teacher pipeline.

The bipartisan agreement and subsequent credit claiming to increase funding for K-12 education obscures what was the source of much of the session’s partisan acrimony: Democratic opposition to Republican efforts to reshape Nevada’s K-12 educational landscape by implementing the governor’s school choice agenda. Included in Governor Lombardo’s education bill, one of five policy bills the governor carried, were provisions to allow for open zoning, funding for transportation for charter schools, and the creation of an Office of School Choice. Also included in the legislation was a substantial increase in tax credits that allow businesses to offset some of their tax liability in exchange for funding the “Nevada Educational Choice Scholarship Program” that can be accessed by families to attend private schools and a provision to raise the eligibility threshold for the program from 300% to 500% of the poverty line. Since its creation in 2015 under unified Republican control of state government, the program has been the subject of legal challenges and intensive partisan wrangling. By the time the bill reached the governor’s desk in June, Democratic legislators had amended out all the school choice provisions except \$14 million in onetime funding for charter school transportation.

### *Higher Education*

The pandemic’s impact on state revenue led to severe cuts to the higher education system, disproportionately greater than for all other state agencies. In 2023, the legislature restored those

cuts, added funding for additional graduate research positions, and invested in several key capital priorities of the state system. At the same time, the higher education system continues to be underfunded compared to peers in the west in large part because of lingering distrust between Nevada’s constitutionally created Board of Regents that govern all of Nevada’s colleges and universities and legislative appropriators. During the 2021 session, legislators passed a bill requiring an audit of the higher education system. The audit revealed lax fiscal control, the use of state appropriated operating funds for building projects, and inconsistent contracting procedures.

The legislature, acting on a priority articulated by the governor in his state of the state speech, funded a committee on higher education funding that will revisit the funding formula for the state’s higher education institutions—potentially opening a black box to reshape how higher education is supported in the state. Also passed was a bill reducing the popularly elected Board of Regents from 13 to 9 members and reducing their terms from six to four years. The legislature also qualified a legislatively referred constitutional amendment that proposes to remove the regents as constitutional officers and require a regular audit of higher education institutions. The legislature qualified a similar measure for the 2020 ballot, but it was defeated statewide by fewer than 4,000 votes despite garnering 56.4% in Clark County.

### *Investments in State Employees*

Coming out of the COVID-19 pandemic, Nevada’s state employee vacancy rate was 24% with the vacancy rates in some agencies such as the Nevada Department of Corrections approaching 40% (Solis, 2024). Heading into the session the governor and the legislature agreed that increasing state employee pay was necessary to stem attrition and attract applicants. The governor initially proposed increases between 10% and 13% in the first year of the biennium followed by a 4% increase in the second year of the biennium. The raises in the second year increased to 11% after the governor vetoed a bill that would have reduced state employees’ retirement contributions. The veto triggered a provision in the pay bill that automatically increased raises by an additional 7% in the second year of the biennium.

### *Upgrading State Government Infrastructure*

The capital improvement budget, passed in a special session the day following the adjournment of the regular session, invested in substantial new office facilities in Las Vegas and Carson City. The state had been leasing space in both areas and it was a priority of the new governor for the state to own its buildings. The state also began the process of upgrading technology and software across several agencies.

### *Increasing the Rainy Day Fund*

As part of a broad effort to increase the capacity of state government, Governor Lombardo initially asked the legislature to increase the size of the rainy day fund to 30% of total general fund revenues. Legislators ultimately capped the rainy day fund at 26% by appropriating \$851.7 million in 2024 and \$878.9 million in 2025 to the fund. By reducing the appropriations from 30% to 26% of expected general fund revenues, legislators freed up an additional \$784 million to fund programs for the 2023-2025 biennium.

### *Government Modernization*

The governor used another of his five bill drafts to propose an extensive modernization of the executive branch. The proposal created a cabinet structure to minimize the dozens of agency heads who directly report to the governor, increased the staff for the Office of the Governor, consolidated the state's myriad agencies and offices involved with workforce development, and centralized the administration of boards and commissions that are charged with overseeing broad swaths of the state's economy and workforce.

The legislation also proposed to limit some of the actions including increasing the monetary thresholds on budget adjustments that require approval by the Interim Finance Committee (IFC). Among the duties of the IFC is to modify legislatively approved budgets during the interim between regular sessions of the legislature. Also included in the legislation was a provision to create the "Nevada Way" fund of up to 5% of total general fund revenues for projects approved to transform the state through executive action between legislative sessions.

Even though drafting of the modernization bill began under the preceding Democratic governor, it was viewed as a partisan power grab by legislators. Also undermining the bill's prospects were eight fiscal notes from effected agencies totaling more than \$8 million for the biennium. Legislators stripped from the bill the "Nevada Way" fund, the consolidation of workforce agencies, and the cabinet structure. Left in the bill was the consolidation of boards and commissions, expansion of the staff for the Office of the Governor, and a slight tweaking of the authority of the IFC.

### *A Major League Baseball Stadium*

Perhaps the most controversial investment by the state in the biennium was the use of \$380 million in public funding to support the construction of a Major League Baseball stadium on the Las Vegas Strip to accommodate the Oakland Athletics' relocation to Las Vegas.

The legislation had initially been introduced during the last month of the regular session where it received a cool reception from lawmakers. To move the bill required the governor to call a second special session in early June. To gain passage required the inclusion of a detailed community benefits agreement worth potentially \$2 million annually. Majority Democrats also added a bill from the regular session the governor had vetoed requiring any new businesses with 50 or more employees awarded a tax abatement by the Nevada Governor's Office of Economic Development to provide family medical leave benefits.

### **General Fund Revenue**

Nevada has one of the more constrained revenue environments in the United States. The state caps property tax increases, that by western standards are relatively low, has no personal or corporate income tax, and assesses no taxes on services despite having a highly service-based economy. Instead, as is detailed in Table 3 summarizing estimated general fund budget revenue for the previous and 2023-2025 biennium, Nevada seeks to extract as much tax revenue as possible from tourists. Thus, the Gaming Percentage Fee Tax and other taxes and fees assessed on gaming activity generate roughly 17% of general fund revenue while a tax imposed on some live entrainment events generates another 2-3%. The estimated amount of revenue generated by

that specific tax more than doubled across the biennium reflecting the surge in large-scale entertainment and sports events in Las Vegas. Bolstered by four consecutive years of record setting gaming revenue, the Gaming Percentage Fee Tax is expected to increase by \$443.6 million in the 2023-2025 biennium.

However, far and away the biggest driver of general fund revenue in the state's share of the sales tax that captures revenue from both tourists and residents. Because of the high level of inflation Nevada has experienced since the COVID-19 pandemic, sales tax revenue increased by more than an estimated \$1 billion dollars for the 2023-2025 biennium compared to the 2021-2023 biennium.

**Table 3: Comparison of Estimated 2021-2023 and 2023-2025 General Fund Budget Revenue**

	2021-2023 Biennium		2023-2025 Biennium		Difference	
	Amount	Share	Amount	Share	Amount	Share
Gaming Percentage Fee Tax	\$1,475.6	16.1%	\$1,919.2	16.5%	\$443.6	0.4%
State Sales Tax	\$2,687.0	29.4%	\$3,768.7	32.5%	\$1,081.7	3.1%
Insurance Premium Taxes	\$1,027.1	11.2%	\$1,248.8	10.8%	\$221.7	-0.4%
Cigarette Tax	\$287.3	3.1%	\$257.8	2.2%	-\$29.5	-0.9%
Live Entertainment Tax	\$180.0	1.9%	\$395.8	3.4%	\$215.8	1.5%
Modified Business Tax	\$1,366.9	15.0%	\$1,478.2	12.7%	\$111.3	-2.3%
Commerce Tax	\$470.8	5.2%	\$660.6	5.7%	\$189.8	0.5%
Transportation Connection Excise Tax	\$46.9	0.5%	\$77.7	0.7%	\$30.8	0.2%
Real Property Transfer Tax	\$248.3	2.7%	\$224.9	1.9%	-\$23.4	-0.8%
Business License Fee	\$220.7	2.4%	\$238.1	2.1%	\$17.4	-0.3%
Liquor Tax	\$86.8	1.0%	\$99.9	0.9%	\$13.1	-0.1%
Mining Taxes*	\$311.9	3.4%	\$0.0	0.0%	-\$311.9	-3.4%
Governmental Services Tax	\$51.7	0.6%	\$0.0	0.0%	-\$51.7	-0.6%
Sales Tax Commissions	\$110.0	1.2%	\$156.5	1.4%	\$46.5	0.2%
Other Gaming Taxes and Fees	\$57.1	0.6%	\$62.3	0.5%	\$5.2	-0.1%
Other Tobacco Tax	\$66.7	0.7%	\$68.1	0.6%	\$1.4	-0.1%
Annual Slot Tax	\$10.0	0.1%	\$10.0	0.1%	\$0.0	0.0%
Branch Bank Excise Tax	\$5.0	0.1%	\$4.3	0.0%	-\$0.7	-0.1%
Licenses	\$290.8	3.2%	\$333.7	2.9%	\$42.9	-0.3%
Fees and Fines	\$117.3	1.3%	\$192.5	1.7%	\$75.2	0.4%
Use of Money and Property	\$24.8	0.3%	\$334.3	2.9%	\$309.5	2.6%
Miscellaneous Revenues	\$97.4	1.0%	\$171.8	1.4%	\$74.4	0.4%
Tax Credits	-\$94.8	-1.0%	-\$99.5	-0.9%	-\$4.7	0.1%
Total	\$9,145.3	100.0%	\$11,603.7	100.0%	\$2,458.4	0.0%

\* Legislation in 2021 required Mining Taxes to be prepaid for the biennium and because these taxes are estimated based upon the prior fiscal years, there was no basis to estimate their value for the 2023-2025 biennium.

Note: Values in millions of dollars.

Source: Nevada Legislative Appropriations Report, Fiscal Years 2023-2024 and 2024-2025.

Inspection of Table 3 also reveals why policymakers are hesitant to commit the state to long-term spending obligations. Hospitality and mining were able to provide sufficient revenue when the state's population was smaller. However, a growing population and diversifying economy have created a more volatile fiscal environment highly dependent on sales taxes. Nevada's narrow economic base and even narrower tax base leave the state highly vulnerable to macroeconomic downturns. While booms and busts have always been a feature of Nevada's economy, as the state has grown the effects of these downturns are deeper and longer lasting. Nevada was one of the last states to recover from the Great Recession and even a year or more after the COVID-19 recession, Nevada had the highest unemployment rate in the country.

Moreover, as is captured in the Tax Credits line of Table 3, the state uses tax credits to promote several policy goals including encouraging businesses to invest in economically distressed areas and develop affordable housing. Also included in the tax credits is the "Nevada Educational Choice Scholarship Program." Although Governor Lombardo was unsuccessful in increasing the scale of the program, the state continues to offer businesses a tax credit to fund scholarships for students whose families are at or below 300% of the federal poverty line to opt out of the public school system. Combined these tax credits are expected to cost the state general fund nearly \$100 million in the 2023-2025 biennium. Put differently, it is not until the state has collected the general fund tax revenue necessary to offset the costs of the tax credits that the state can begin to fund its general fund priorities. Moreover, because these tax credits are statutorily created, they must be funded even if general fund revenue comes in below expectations and necessitates cuts to other state programs.

## **Conclusion**

When Nevada's economy is booming due to high demand for the state's gaming, tourism, and hospitality offerings, it can support the provision of government services. At the same time, experiences highlighted by the budget crises caused by the Great Recession and the COVID-19 recession have instilled institutional skepticism about the sustainability of Nevada's general fund revenue streams. Because money that is available today might not be available tomorrow due to the uncertain future of the hospitality industry, the legislature treads carefully when considering longer term investments in the state and its people. During the 2023 legislative session this conservatism resulted in push back against some of the larger initiatives proposed by the governor.

The result is that Nevada funds in the short term what its narrow tax base allows instead of aligning its tax structure to support the services the state needs to build a resilient and robust public sector. This shortsighted approach to the state's finances undermines needed investments to equip the state and its people with the skills and resources to diversify the economy, weather economic downturns, and ensure fiscal stability. This dynamic is the primary reason why Nevada ranks poorly in funding and outcomes across a myriad of policy areas from education to social services to public health.

While Nevada has slowly begun to diversify its economy, the industries anchoring these efforts have not meaningfully affected the state's overall revenue structure. The northern part of the state has eased its dependence on hospitality over the course of the last decade, becoming a hub for manufacturing and increasing the range of ores and minerals that are mined. Yet, the scale of this

economic activity is limited given the relative size differences between Las Vegas and the rest of Nevada and the fact that the economic activity that generates revenue to support the state remains concentrated in a handful of sectors. Major developments such as investment into manufacturing and new mines garner headlines, they add little to the state's coffers. Moreover, the migration to Nevada that these initiatives induce increase demand for government services and stress existing infrastructure.

Over the coming legislative sessions, the state and its leadership will have to grapple with an antiquated institutional and fiscal system to better address the needs of its largely urban population. Reforms that have been discussed but that have not gained traction include resetting property depreciation on sale or increasing the legislatively imposed property tax cap. The addition and expansion of the modified business tax early in the last decade diversified the state's income mixture somewhat, but Nevada remains highly susceptible to broad economic downturns.

So long as the state's revenue is constrained by constitutional limits—especially the depreciation of real property that fund state capital budgets and the prohibition against an income tax—the continued dependence on gaming revenue and sales tax will continue to be a liability. Reforms to address this problem are elusive and are exacerbated by the two-thirds requirement for the legislature to either reauthorize existing taxes or to pass new taxes. Modest changes such as resetting real property value on sale seem to have political salience but then disappear once the legislative session begins.

The 2023 legislative session and budget reflects the state's continued skepticism about the sustainability of these ongoing revenue sources. The inability to diversify the revenues to shore up K-12 education and other government services highlight continued sensitivity to the potential shocks to the state's main industry. Despite this, the biennial budget represented a major step forward in Nevada's efforts to match its urban character and address gaps in spending that have lingered for decades. With many of these holes now at least partially addressed, legislators might be expected to start looking forward to considering the systemic reform opportunities on the horizon to improve the state's fiscal condition. As Nevada continues to navigate its economic, fiscal, and political challenges—both real and perceived—the biennial session set the stage for future growth in the Silver State.

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