



The Nevada Policy Research Institute

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NPRI analyst: Taxpayers the big losers in budget agreement

LAS VEGAS — In response to the announcement that Gov. Brian Sandoval and Democratic legislative leaders have reached an agreement on the state's budget that includes over \$600 million in tax increases, Geoffrey Lawrence, the deputy director of policy at the Nevada Policy Research Institute, released the following comments:

Taxpayers are the biggest losers in the deal announced today by Gov. Brian Sandoval, Speaker John Oceguera and Sen. Majority Leader Steven Horsford. As a result of this agreement and Sandoval's breaking of his no-new-tax pledge, Nevada's businesses and families will see their sales and business taxes increase.

At a time when Nevada's effective unemployment rate lingers near 24 percent, this tax increase will lead to lower wages, more unemployment and higher consumer prices. Lifting the sunsets also underscores the dangers of a "temporary tax hike" — when government agencies use one-time revenues to fund ongoing operations, they become dependent on those revenues and the "temporary" taxes rarely expire.

With the sunset date being pushed to 2013, Nevada's citizens will now have to wait at least two more years for their politicians to keep their word.

Lawrence acknowledged that eliminating the Modified Business Tax on the first \$250,000 of salaries will benefit businesses, but also noted that the very need for that change highlights the inherent problems with the MBT, which penalizes employers for hiring workers.

Beyond its immediate and detrimental impact on taxpaying Nevada families, today's agreement is strange from a policy standpoint. As recently as one month ago, Gov. Sandoval was advocating for a spending plan of \$5.8 billion. After \$440 million in new money became available in early May — following the Economic Forum's meeting and the announcement of higher federal Medicaid match rates — Governor Sandoval used that new money to increase his proposed spending to around \$6.3 billion. After the Supreme Court's ruling called into

question \$657 million of his funding, the governor became unwilling to consider a spending plan similar to the one he was trumpeting just last month.

Ironically, Democratic leaders in the legislature said today that the agreement “responsibly funds education” even though the spending plan remains virtually unchanged from the plan they were condemning a week ago. Prior to the Supreme Court ruling, Democratic leaders called the governor’s funding proposals “unacceptable.” The only thing that has changed is the funding source — not the total level of funding. This suggests that levying tax increases was an end in itself for the majority party — and not increasing funding for education or health and human services.

As part of the budget deal, Democrats in the Legislature agreed to pass several reforms, including education changes. Lawrence said the reforms are beneficial, but they represent only a small step forward.

The reforms — especially those to revise teacher tenure policies and make it easier to identify and retain highly effective teachers, while dismissing those who perform poorly — are meritorious on their own and should not have had to be conditioned on \$600 million in higher taxes. It’s as if lawmakers are saying they only care about decent education for children if they can be paid for it.

Also, the package of education reforms included in this agreement falls far short of the aggressive agenda of proven reforms announced by Sandoval in January. There is no movement toward school choice, it will take at least three years to remove ineffective teachers and social promotion will remain in place. Nor does this package include any reforms that would bring long-term cost-savings to even approach the additional taxes that will be imposed.

Lawrence also noted that before the session began, NPRI [identified](#) billions in potential savings through specific reforms in the areas of K-12 and higher education, Medicaid, public safety and labor reform. These recommendations would have provided more than enough savings to offset any impacts from the court’s ruling, said Lawrence.

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