



# What are the Neighbors Doing?

A comparative look at how Nevada and Utah are investing to grow their economies.

For several years, tax cuts have been the tool of choice that many states have used to try to make themselves more competitive and to attract new businesses and jobs to their state. However, many of those same states are now focusing their attention on investing in K-12 public education, higher education and infrastructure. Nevada and Utah are examples of low-tax states that are seeking to find the right balance between low taxes and ensuring the state has the revenues needed to properly invest in those priorities that will make the state economically competitive. They provide a model of fiscally conservative states building broad bipartisan coalitions fueled by Governors, legislative leaders, and the business community to make strategic investments that boost long term economic strength.

It makes sense that states are taking this approach. Productivity and innovation are key drivers of economic growth and a strong public education system that results in greater post-secondary attainment is one of the most important ways to make a state's economy more productive.



# Nevada

## WHAT THE LEGISLATURE AND GOVERNOR DID TO INCREASE INVESTMENTS FOR ECONOMIC DEVELOPMENT:

In 2015, the Nevada Assembly passed and the Governor signed a bill that by July 1, 2017 is expected to add \$1.5 billion in new revenues to the state general fund. The increase will come from an increase in the corporation annual business fee, an expanded payroll tax, a higher cigarette tax, and a new Commerce Tax on the gross receipts of businesses with at least \$4 million in revenues in Nevada, along with making temporary payroll tax and sales tax increases permanent.

The new revenues will be invested in K-12 education, increasing spending in this area by 16%.

Partisan composition at the time:

- Republican Governor
- Assembly: 25 Republicans; 17 Democrats
- State Senate: 11 Republicans; 10 Democrats
- Like Arizona, Nevada law requires any tax increase to pass by at least two-thirds vote in each legislative body

Of the 25 Republicans in the Assembly, 13 joined the 17 Democrats in supporting the plan including Erv Nelson, R-Las Vegas, who told fellow Assembly members he came to the 2015 legislature a staunch tax opponent but changed his mind during session. "I was misinformed," he said. "I made mistakes. I sat and spouted the party line and I was wrong."

The tax increase was made palatable to some of the assembly members by eliminating restrictions on who was eligible for Education Savings Accounts.

## WHAT WERE TAXES LIKE BEFORE THEY WERE RAISED IN 2015?

- No tax increase since 2003
- No corporate income tax – business payroll tax instead
- No state individual income tax
- State sales tax rate (2017) – 6.85% (8<sup>th</sup> highest)<sup>1</sup>
- State property tax rate (2014) – 0.71% (13<sup>th</sup> lowest)<sup>2</sup>
- State and Local Tax Revenue as a Percent of Personal Income (2013-2014) – 9.9% (28<sup>th</sup> lowest)<sup>3</sup> – U.S. Average 10.4%

## WHO LED AND SUPPORTED THE EFFORT TO INCREASE INVESTMENTS:

- Republican Governor, Brian Sandoval, led the charge to increase resources for Nevada's public schools.
- There was strong bipartisan support in the state assembly, including from an Assemblyman who signed the Grover Norquist, No New Taxes, pledge.
- Key allies in the business community, including the Las Vegas Metro Chamber of Commerce and Casinos

## WHY THEY DID IT:

- Tied for 46<sup>th</sup> in 4<sup>th</sup> Grade reading Proficiency
- 49<sup>th</sup> in 4-year high school graduation rate
- 50<sup>th</sup> in 25-34-year old's with at least a bachelor's degree

Tom Skancke, executive director of the Las Vegas Global Economic Alliance, which endorsed the new investments, said education is the top issue that stops businesses from relocating to Nevada. "Of the 251 companies who came through my door last year, not one said I'm here because of your tax structure," Skancke said. But more than a third told him they wouldn't move because of the state's poor education system, he said. —*Brian Sandoval surprises party and proposes biggest tax hike in Nevada history*; Foxnews.com; April 29, 2015

## WHAT'S HAPPENED SINCE:

There was an effort to get an initiative on the ballot to rescind the tax increase but Wynn Resorts, MGM Resorts International, Caesars Entertainment, Station Casinos and Boyd Gaming each contributed money to keep the measure from getting on the ballot and defended the tax increase.

### Endnotes:

<sup>1</sup> State and local tax rates 2017, Tax Foundation, <https://taxfoundation.org/state-and-local-sales-tax-rates-in-2017/>

<sup>2</sup> Mean effective property tax rates on owner-occupied units, calendar year 2014, Tax Foundation, <https://taxfoundation.org/how-high-are-property-taxes-your-state-2016/>

<sup>3</sup> Center on Budget and Policy Priorities tabulations based on data from the Bureau of the Census and the Tax Policy Center.



## WHAT THE LEGISLATURE AND GOVERNOR DID TO INCREASE INVESTMENTS FOR ECONOMIC DEVELOPMENT:

Raised \$75 million for education by increasing property tax and raised \$100 million for transportation projects by increasing gas tax.

Partisan composition at the time:

- Republican Governor
- House of Representatives: 63 Republicans; 12 Democrats
- State Senate: 24 Republicans; 5 Democrats

## WHAT WERE TAXES LIKE BEFORE THEY WERE RAISED IN 2015?

- Huge personal income tax cut passed in 2006
- No property tax increases since 1996
- No gas tax increases since 1997
- State sales tax rate (2017) – 5.95% (24<sup>th</sup> lowest)<sup>1</sup>
- State property tax rate (2014) – 0.63% (8<sup>th</sup> lowest)<sup>2</sup>
- State and Local Tax Revenue as a Percent of Personal Income (2013-2014)<sup>3</sup> – 9.6% (30<sup>th</sup> lowest)<sup>3</sup> – U.S. Average 10.4%

The average homeowner will see a \$50 a year increase in their property tax and pay 5 cents more per gallon for gas.

## WHO LED AND SUPPORTED THE EFFORT TO INCREASE INVESTMENTS:

Bipartisan support in the legislature including from Utah Taxpayers Association President – Senator Howard Stephenson.

## WHY THEY DID IT:

- Tied for 26<sup>th</sup> in Percent of High School Students Graduating in 4 years
- Lowest Per Pupil Education Expenditures in the Country
- Estimated cost of 2006 tax cuts is \$1.2 billion a year reduction in the education budget
- The state faced a more than \$11 billion deficit in transportation funding through 2040

In a conservative state like Utah, economic arguments convinced state legislators and the public that transportation is a worthwhile investment. Their argument was two-pronged: first, a state with a good transportation network can more easily attract businesses, which need solid transportation infrastructure to attract talent, get their employees to work, and ship their goods, and, second, that waiting to repair critical transportation infrastructure will make maintenance cost more in the long run.

## WHAT'S HAPPENED SINCE:

- Some prominent names in Utah business and others have formed a coalition called Our Schools Now to pursue a 2018 ballot initiative that proposes raising the state income tax by 7/8 of a percent to benefit the state's public schools which would raise approximately \$750 million annually or about \$1,000 per student. The coalition has vowed that if it is not successful in 2018 that they will try again in 2020.
- Governor Herbert's 65% approval rating is one of the highest in the country.



**"Today, we are poised to help Nevada grow up as a state and do the tough things the people of Nevada expect of us."** —*Nevada Senate passes Gov. Brian Sandoval's tax plan*; Las Vegas Sun; April 21, 2015 —Senate Majority Leader, Michael Roberson (R)

**"The Legislature faced many challenges this session but none greater than the task of changing our education system to ensure that every child is given the opportunity to receive a first-class education,"** (Nevada Governor, Brian) Sandoval said. **"The passage of this bill begins a new era of public education in Nevada, a time when our students and schools are a priority in our communities."** —*How Nevada's GOP Governor Got Tax Increases Through the Legislature*; Governing Magazine; June 3, 2015

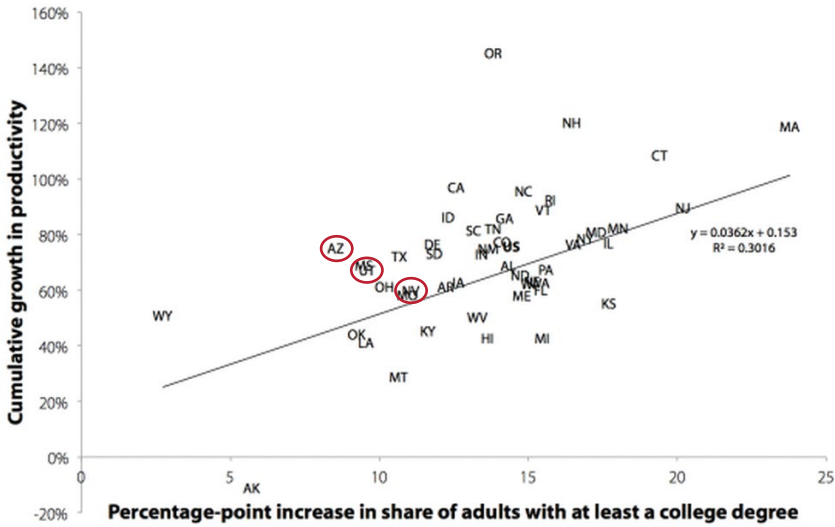
**Governor Sandoval has 62% approval rating – only 7 governors have higher approval ratings.** —*Nevada Governor Sandoval Among the Nation's Most Popular Governors, Polls Show*; Las Vegas Review Journal; September 20, 2016

**"Gov. Herbert understands the difference between spending money and investing money,"** said Marty Carpenter, the (Utah) governor's spokesman. **"And two areas where we need to invest so that we continue to have a strong economy in the years and decades to come are education and transportation."** —*Utah taxpayers will pay millions more in wake of 2015 Legislative session*; Deseret News; March 28, 2015 September 20, 2016

# Education Fuels Productivity

Productivity has grown more in states with greater growth in the educational attainment of their workforce

Relationship between state productivity growth and increase in college attainment from 1979 to 2012



Source: Economic Policy Institute / EPI analysis of unpublished total economy productivity data from the Bureau of Labor Statistics (BLS) Labor Productivity and Costs program, state employment data from BLS Local Area Unemployment Statistics, and college attainment data from the Current Population Survey basic monthly microdata



## Building a Future that Works for All Arizonans



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