‘Fiscal cliff’ less of a concern in Nevada than other states

By Sean Whaley, Nevada News Bureau

CARSON CITY – The impacts of the so-called “fiscal cliff” on Nevada’s state budget would likely be less significant than for many other states because of its lower dependence on federal spending, according to an analysis by the Pew Center on the States.

The impact on state tax revenues do not apply because Nevada does not have a personal or corporate income tax, according to the report The Impact of the Fiscal Cliff on the States. The report examines the potential effects on each of the states.

On the federal spending cut side of the equation, Nevada’s share of federal grants subject to sequester, looked at as a percentage of state revenue, is slightly higher at 6.7 percent than the national average of 6.6 percent, and so could mean financial impacts.

But Nevada ranks well below the national average for federal spending on procurement, salaries and wages as a percentage of the state’s gross domestic product at 3 percent compared to the national average of 5.3 percent.

Nevada is also below the federal average for federal defense spending on procurement, salaries and wages as a percentage of the state GDP at 1.8 percent compared to the national average of 3.5 percent.

Federal non-defense spending on procurement, salaries and wages as a percentage of state GDP is 1.2 percent in Nevada compared to 1.8 percent nationally.

These numbers cited in the Pew report are all based on 2010 information.

And federal non-defense workforce as a percentage of total employment in the state is 0.9 percent in Nevada compared to 1 percent nationally, based on 2012 data.

But the Pew analysis notes: “The general economic slowdown that could result if the full fiscal cliff were allowed to take effect would likely overwhelm any of the separate impacts.”

The report, released Nov. 15, comes as Nevada Gov. Brian Sandoval is finalizing his 2013-15 state spending plan, which will take effect on July 1, 2013.

The impact of the federal fiscal cliff is just one more variable that could affect Nevada’s general fund budget. Another is expanding Medicaid to a new group of eligible state residents. Sandoval has not yet announced his decision on whether to support the expansion, which would be paid for nearly entirely with federal funds in the first few years.

“The Budget Division is currently evaluating the impacts of sequestration on federal funding to the state of Nevada,” said Director Jeff Mohlenkamp in a statement. “Specifically, we are researching reductions that would have direct impact on services to citizens. Some federal reductions may eliminate the resources to provide services but not eliminate requirements to maintain service levels. The potential for this type of unfunded mandate is of particular interest to the Budget Division as we prepare the budget for FY 2013–2015.

“There is a great deal of uncertainty surrounding other elements of the ‘fiscal cliff,’” he added. “We understand the possible implications on the larger economy. At this point, we cannot speculate further as most of the critical decisions have not been made.”

The Pew report on the fiscal cliff says that federal grants to the states constitute about one-third of total state revenues, and federal spending affects states' economic activity and thus their amount of tax revenues.

Roughly 18 percent of federal grant dollars flowing to the states would be subject to the fiscal year 2013 across-the-board cuts under the sequester, according to the Federal Funds Information for States, including funding for education programs, nutrition for low-income women and children, public housing, and other programs.

Because states differ in the type and amount of federal grants they receive, their exposure to the grant cuts would vary. In all, the federal grants subject to sequester make up more than 10 percent of South Dakota's revenue, compared with less than 5 percent of Delaware's revenue.

Federal spending on defense accounts for more than 3.5 percent of the total gross domestic product (GDP) of the states, but there is wide variation across the states. Federal defense spending makes up almost 15 percent of Hawaii's GDP, compared with just 1 percent of state GDP in Oregon.

The fiscal cliff, a series of expiring federal tax provisions and scheduled spending cuts, are set to take effect in January unless Congress reaches agreement on a deficit-reduction plan.

Scheduled tax changes account for roughly four-fifths – or $393 billion – of the total amount of the fiscal cliff. The scheduled spending cuts account for $98 billion – or about one-fifth – of the federal budget impact of the fiscal cliff. Over half of this amount is due to sequestration required under the Budget Control Act of 2011.

"To understand the full cost and benefits of proposals to address the fiscal cliff, policy makers need to know how federal and state policies are linked," said Pew Project Director Anne Stauffer. "The implications for states should be part of the discussion so that problems are not simply shifted from one level of government to another.”

If the full force of the fiscal cliff is realized, the federal deficit would be reduced by $491 billion, the Pew Center analysis says. However, the Congressional Budget Office has projected that the entirety of the fiscal cliff would be a major driver of a general economic slowdown in 2013. Such an outcome would likely negate the more specific, separate impacts described in the analysis.

“Given the uncertainty about whether any or all of the policies in the fiscal cliff will be addressed temporarily or permanently, it is important to understand that the effects of the different components will vary across states,” Stauffer said.