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NPRI's Recommendations for Cost-Cutting and Reform

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PRIVATIZATION AND REFORM

Nevada state government is now experiencing the doldrums from long-misguided policy measures. These overly casual approaches to governance have left taxpayers unnecessarily exposed to the possibility of tax increases at a time when they are least able to afford them. It is time for state policymakers to abandon the idea of increasing taxes to continue funding these failed policy measures. Rather, they should undertake the more difficult task of implementing meaningful structural reforms that will safeguard Nevada's taxpayers from crises similar to the current budget shortfall in the future.

To do so, policymakers would need to enact sweeping reforms that transform how state government conducts its business. These reforms should force government to operate more in the way that private enterprise operates. Reforms should expose state government agencies and their workers to market forces and incentives. The major ideas for reform that ought to be examined in depth are, in order of priority:

1. *Fund outputs, not inputs*. In the private sector, when a firm writes a contract, the contract specifies a given price for the delivery of a good or service. For example, a retailer might pay a given amount to a private contractor for the re-paving of a parking lot. State government in Nevada takes a different approach. It allocates money to purchase labor hours, construction materials, etc. This method of funding is a top-down approach that provides little room for ingenuity and few incentives for performance. In fact, it often creates an incentive structure that *encourages* inefficiency because government generally responds to workforce inefficiency by allocating even more money for specific inputs such as labor hours.[1]

2. *Competitive contracting*. A corollary to funding outputs is to make greater use of competitive contracting – allowing the most efficient producer to provide specific services. This approach, often called "managed competition," would allow government worker unions to submit bids for government contracts in competition with private entities. The contract would be for the delivery of a respective *output* and would grant the winning bidder leeway in determining what is the best mix of inputs to achieve that output. Managed competition encourages government workers to identify and eliminate inefficiencies that have previously existed in their respective agencies. As a result, government worker unions have won a majority of the contracts in locales where managed competition has been implemented while reducing the cost to taxpayers. Florida state government has saved $5.5 billion since 1995 on 289 projects that have been competitively bid through managed competition.

3. *Share in savings*. State government can provide a carrot to state workers by allowing them to share in the savings if they are able to complete a contract under-budget.

4. *Reform pay structure*. Government employee pay should be reworked to reward those workers who perform their jobs efficiently and effectively. This approach envisions pay raises that are based on merit and not simply seniority. Again, pay raise reform should grant greater leeway to individual agencies to determine the best mix of resources for accomplishing a specific output. It should enable management to allocate more money to hire highly efficient workers.

   According to the Statistical Abstract of the United States, Nevada state government spent a little more than $1.3 billion on employee salaries in 2006. This was only for those workers in the direct employ of the state and did not include local government workers who also receive a portion of their salary from state funds (such as school district workers). This cost increases every year as the state often gives across-the-board COLAs of up to 4 percent annually – even in years for which the cost of living in Nevada has been in decline – in addition to an annual 4.5 percent step increase for many state workers. In fact, since FY2002 state workers may have received as much as a 74.9 percent pay increase, and none of this increase has been based on performance.[2]

5. *Performance auditing*. Private sector entities often pay consultants to advise them on how to improve the efficiency of operations. State government in Washington has recently applied this idea to government by creating an independent state auditor's office with the power and funding to conduct performance audits on all state agencies. If a similar approach were employed in Nevada, state agencies would be better equipped to streamline procedures and eliminate inefficiencies.

Reform of Special Purpose Agencies

In addition, state employee benefits should be restructured to more closely resemble private sector benefits packages. This would include shifting the defined-benefits PERS program to a defined-contribution retirement program such as 401K. Defined benefits programs leave taxpayers on the hook for supporting government workers who often retire at relatively early ages while taxpayers themselves face uncertainty over their own well-being. Thus taxpayers may well face tax increases during periods of economic downturn as the value of PERS assets declines. Because the personal income of Nevada families should also be expected to decline during such periods, any tax increases due to the unfunded PERS liabilities threaten to harm taxpayers when they are most vulnerable.

Healthcare for state employees can also be switched to a defined-contribution program by using health savings accounts. Defined-benefits healthcare programs force taxpayers to pay for levels of coverage that government employees often neither need nor want. Moving to HSAs could lighten considerably the $1,307,556,449 burden of providing health benefits to state workers in 2007-2009 while allowing state workers to choose the level of coverage that is appropriate.

Nevada's current model of unemployment insurance is a further source of unnecessary exposure for taxpayers. Because rising unemployment also means less income for Nevada taxpayers, an increase in demand for unemployment benefits can lead to tax increases at a time when taxpayers are least able to afford them. Privatizing the unemployment insurance system with individual unemployment accounts will shift this liability away from taxpayers and create, between employers and employees, a partnership to provide unemployment benefits. Individual unemployment accounts are accounts through which each worker can acquire a portfolio of assets over the time period he or she has worked that can be easily liquidated to provide unemployment benefits when needed.[3]

State government should further consider elimination of the entire Department of Business and Industry. This department exists for the sole purposes of subsidizing specific industries and protecting favored producers from competition. Additionally, the Commission on Economic Development and the Commission on Tourism are unnecessary expenditures that could be eliminated. Doing so would have resulted in a savings of $384,716,821 in the 2007-2009 biennium. The best way to promote private-investment economic development is through low tax rates and a favorable regulatory environment. Government-run "economic development" agencies typically punish the bulk of private industry through higher taxes while arbitrarily picking a few "winners" to receive the benefits of those tax dollars.

Section Notes:

1. See NPRI commentary: http://npri.org/publications/is-the-tax-structure-broken.
2. For an explanation of the pay raise structure for Nevada state employees, see http://npri.org/blog/the-untenable-nature-of-nv-state-employee-pay-raises.

3. A review of unemployment insurance reform efforts, including individual unemployment accounts, is conducted by William Conerly, Ph.D. and is available at http://www.ncpa.org/pub/st/st274/. Conerly also provides a brief review of the individual unemployment account system used in Chile at http://cascadepolicy.org/pdf/labor/2003_14.pdf.

Additional References:

"Getting Plucked in Nevada," a study on how Nevada's politicians have been covertly increasing citizens' tax burden over the past several decades: http://npri.org/publications/getting-plucked-in-nevada.

"The Nevada Piglet Book 2008," a report on some of the most egregious cases of wasteful government spending in Nevada: http://npri.org/publications/the-nevada-piglet-book-2008.

Additional NPRI commentaries:
http://www.npri.org/publications/why-nevadas-cost-of-government-is-high
http://www.npri.org/publications/calls-for-tax-hikes-rely-on-faulty-data
http://www.npri.org/publications/nevadas-budget-mysteries
http://www.npri.org/publications/legislature-addresses-imaginary-shortfall

EDUCATION REFORMS

Most agree that Nevada's education system needs improvement, but there is little consensus on exactly what changes are needed. If Nevada does not take a new approach, taxpayers will be left to pick up an increasingly expensive tab, and large numbers of students will face futures limited by poor education.

According to the National Assessment of Educational Progress (NAEP) reading exam, only 57 percent of Nevada's fourth graders can read at basic level or above. This means 43 percent of Nevada's fourth graders are functionally illiterate.

Research shows that students who cannot read by the fourth grade are on track to become high school dropouts, and are thus at high risk of becoming addicted to drugs, ending up in poverty or in trouble with the law.

Nevada's educational problems must be addressed – and quickly.

Elementary and Secondary Education

Spending more money on education is not the solution to Nevada's educational challenges. In fact, forcing taxpayers to spend more on education than they currently do is likely to have only a negligible impact on student achievement.[1] Nevada's education spending per pupil has tripled since 1960, but student achievement has not seen any significant gains. Students in Nevada have actually experienced declining performance in some areas. For example, only 63 percent of Nevada's eighth graders could read at grade level in 2006, compared to 70 percent in 1996. Today, Nevada's per-pupil spending ranks 31st in the nation (including capital outlays and debt payments). When looking at education from the taxpayer's perspective, Nevada's education funding per resident ranks 26th in the nation. More spending is not the answer. To improve educational performance, Nevada needs meaningful reform.[2]

Nevada's education difficulties are not unique. All states face challenges with parental involvement, poverty, special education, and students who speak a different language. Dr. Jay P. Greene, an education professor at the University of Arkansas, has noted that each excuse for educational failure is grounded in false assumptions that can be disproven.[3] Essentially, these excuses simply rationalize avoiding genuine education reforms. For example, both Florida and Nevada face the challenge of teaching Hispanic students whose first language is not English. Yet Florida was able to overcome this difficulty and improve educational quality for those students through a series of reforms. The improvement has been so great that today, low-income Hispanic students in Florida beat the average of all Nevada students (regardless of race or income) on the fourth-grade NAEP reading exam.[4]

According to Dr. Matthew Ladner, vice president of research at the Goldwater Institute and a policy fellow of the Nevada Policy Research Institute, Florida's reforms included merit pay for teachers, the termination of social promotion, the implementation of real consequences for schools that failed to teach, tracking of teacher and student performance, and the creation of several choice-oriented scholarships, including scholarships for children with disabilities.

Nevada should refocus its energy from classroom-size reduction to hiring and retaining high-quality teachers. In 2007, the Nevada Legislature approved $295 million for classroom-size reduction, a program that has been in place since 1989. Unfortunately, Nevada does not have an effective method for attracting and retaining high-quality teachers. Thus, classroom-size reduction has the effect of increasing the likelihood that students will be exposed to ineffective teachers. Classroom-size reduction should cease and Nevada should focus instead on hiring and retaining high-quality teachers.[5]

Note: High-quality teachers can be obtained by giving direct control over hiring and firing to principals, creating a merit-pay system and tracking progress of students (to determine which teachers are effective and which are not), while eliminating the requirement for traditional teacher certification (which has no discernable effect on student achievement whatsoever).[6]

Nevada has the third-highest capital-outlays-per-student costs in the nation, which means that an abnormally high portion of the education budget goes toward building and renovating schools.[7] Part of the problem is the fact that Nevada has been the fastest-growing state in the country. Arizona, however, has been the second-fastest-growing state, and its capital outlays per student are significantly lower. Part of the reason

Arizona is able to save so much money is that it has close to 500 charter schools, whose construction costs and maintenance are not paid for by the state (charter schools are essentially public schools that are privately run). If Nevada had as many charter schools as Arizona, taxpayers could have saved up to $320 million in 2006.

Contrary to popular myth, tuition at the average private school in America is actually lower than the cost of educating a student publicly.[8] In fact, in the 2003-04 school year, the average tuition at a private school was $6,600, while the average cost of educating a student in a public school (excluding capital outlays and debt payment) was $8,899 (both in 2004 dollar values). A parental-choice scholarship program (or even tuition tax credits) in Nevada could save up to $800 million a year.[9] Many model "socialist" countries like France, Canada, Denmark and Sweden have tuition-scholarship and/or tax-credit parental-choice programs. It is bizarre that some "liberal" Americans illiberally oppose parental choice, despite the fact that most Nevada parents would prefer to send their children to private schools.[10] Although parental-choice programs within the United States are currently of only modest size, such programs have saved taxpayers more than $500 million since the school choice movement began just over a decade ago.

Higher Education

The University of Nevada, Las Vegas and the University of Nevada, Reno spend $21,500 and $32,000 annually per student, respectively. They should be in no position to say they are strapped for cash, but unfortunately, most universities across the country have been using students as a source of funds for other pet projects. The fact that the university has a responsibility to educate students has been treated as a cost. Nevada's system of higher education needs to reexamine priorities and focus on the students, not high-priced projects or $780-per-square-foot palatial campus buildings (see Greenspun Hall at UNLV).[11]

Virginia Tech has created computer learning labs for lower-level courses, freeing up high-salaried professors for higher-level coursework.[12] Some math classes at Virginia Tech have seen cost reductions upwards of 75 percent. Nevada needs to come up with innovative solutions and then pass the savings on to the students and the taxpayers.

Section Notes:

1. NPRI website: http://npri.org/blog/what-if-we-increased-education-spending.
2. NPRI commentary: http://npri.org/publications/no-magic-beans.
3. Jay P. Greene, Greg Forster, Marcus A. Winters. Education Myths: What Special Interest Groups Want You to Believe about Our Schools – And Why It Isn't So. Rowman & Littlefield. New York, 2005.
4. Dan Lips and Mathew Ladner, "Demography Defeated: Florida's K-12 Reforms and Their Lessons for the Nation," Goldwater Institute, September 2008: http://goldwaterinstitute.org/AboutUs/ArticleView.aspx?id=2363. See also, NPRI commentary: http://npri.org/publications/how-much-for-a-gallon-of-education and "The Nation's Report Card": http://nces.ed.gov/NATIONSREPORTCARD/.

5. NPRI website: http://npri.org/blog/high-quality-teachers-needed.
6. Robert Gordon, Thomas J. Kane, Douglas O Staiger, "Identifying Effective Teachers Using Performance on the Job," Brookings Institution, April 2006: http://www.brookings.edu/papers/2006/~/media/Files/rc/papers/2006/04education_gordon/200604hamilton_1.pdf.
7. NPRI website: http://npri.org/blog/education-palace.
8. See data maintained by the National Center for Education Statistics at http://nces.ed.gov/programs/digest/d06/tables/dt06_056.asp and http://nces.ed.gov/programs/digest/d06/tables/dt06_171.asp.
9. The Friedman Foundation for Educational Choice: http://www.friedmanfoundation.org/friedman/schoolchoice/.
10. NPRI website: http://npri.org/blog/the-friedman-survey.
11. NPRI website: http://npri.org/blog/higher-priced-education.
12. NPRI commentary: http://npri.org/publications/real-solutions-for-higher-education.

Additional Reference:

"Quality & Quantity," a study on how Nevada can duplicate the success of neighboring Arizona in meeting the states' common educational challenges: http://www.npri.org/publications/quality--quantity.

TRANSPORTATION REFORMS

Improving and increasing transportation capacity is important not merely for reducing traffic congestion and air pollution, but also for commuter safety. Nevada, like many states, faces difficulties meeting road-capacity demand. A primary reason is that neither revenue sources nor road-building capacity is linked to incentive systems that would ensure infrastructure keeps up with demand.

According to the Urban Mobility Report, the average commuter in Las Vegas will face 30 hours of traffic delays over the course of a year – almost an entire work week wasted in traffic. As Nevada continues to grow, congestion and pollution problems will mount unless demand for road capacity is met.[1]

Nevada's transportation funding system has been and will always be inadequate as currently structured.[2] Not only does a portion of the gas tax fund things unrelated to transportation (like education), but cars are becoming more fuel-efficient, meaning they generate less tax revenue. Furthermore, in Southern Nevada, individuals can pass through the state without paying a single penny in taxes for the use of state roads. This needs to change.

Indiana generated $3.8 billion by leasing an existing highway to a private company, while the city of Chicago made $1.8 billion by leasing an 18-mile toll road to a private company.[3] Nevada could lease existing state roads to private companies to manage as toll roads and collect payment up front. Nevada could also sell or lease the rights to a future highway between Reno and Las Vegas or Las Vegas and Phoenix. Leasing existing and future highway infrastructure to private companies creates an immediate infusion of capital to the state and helps meet our transportation needs. Private management and construction should also create efficiencies that would generate future savings in construction and maintenance costs.

Additionally, vehicle taxes should be based on a vehicle's weight, not its age. Basing the tax on age punishes low-income people by creating another costly barrier to newer, safer, less pollutant and more fuel-efficient automobiles. Basing the tax on weight better reflects the damage a vehicle causes to our roads, as heavier vehicles do more damage than lighter vehicles.

Section Notes:

1. David Schrank and Tim Lomax, "The 2005 Urban Mobility Report": http://tti.tamu.edu/documents/ums/mobility_report_2005_wappx.pdf.
2. Adrian Moore, "Funding System for Roads and Bridges is Broken," Reason Foundation, January 9, 2009: http://www.reason.org/commentaries/moore_20090105.shtml.
3. Amy Goldstein, "Strapped States Try New Route, Lease Toll Roads to Foreign Firms," *Washington Post*: http://www.washingtonpost.com/wp-dyn/content/article/2006/06/09/AR2006060901775.html.

TRANSPARENCY

Previous efforts by state and local policymakers in Nevada to increase governmental efficiency have often been hampered by a limited knowledge or understanding of the full costs associated with government programs. Elected officials and constituents both are often unaware of many ways in which state and local governments spend tax dollars.[1] As a result, areas of possible waste and possibilities for innovative efficiencies often go unnoticed. This handicap is a structural flaw in state policymaking that can be corrected at minimal cost. In order to facilitate better policymaking in the future and to empower Nevada's citizenry with knowledge over the specifics of government finances, state policymakers should bridge the knowledge gap by enacting reforms that increase government transparency.

NPRI has made a concerted effort to assist policymakers as well as private individuals in closing this information gap with the launch of the TransparentNevada.com website[2] and the publication of "The Nevada Piglet Book 2008."[3] Nevertheless, much confusion remains over the size of state government's "budget shortfall," and state officials have been unable to provide clear analysis and reporting on what the state's needs actually are.[4] Additionally, many local governments in Nevada have reported that they are unable to comply with public requests for information on spending simply because they do not keep useful, common-sense accountings of their spending.[5]

Logistical complications such as these can be solved by simply requiring the Nevada Department of Administration to compile searchable spreadsheets of state government spending and making those files available to legislators and the public. State policymakers can also assist their counterparts at the local level by implementing uniform reporting standards with regard to spending on contracts, employee pay and benefits, etc. NPRI is seeking county suggestions for a tentative common template for this reporting.

State and local governments will remain far from optimal levels of efficiency so long as the "knowledge gap" is allowed to persist. Nevada taxpayers will remain exposed to potential tax increases that may be completely unnecessary. In addition to the other reforms recommended here, closing the knowledge gap should be among the top priorities for state policymakers in the upcoming Legislative Session.

Section Notes:

1. NPRI commentaries: http://npri.org/publications/nevadas-budget-mysteries, http://www.npri.org/publications/calls-for-tax-hikes-rely-on-faulty-data, http://www.npri.org/publications/legislature-addresses-imaginary-shortfall; NPRI website: http://npri.org/blog/the-untenable-nature-of-nv-state-employee-pay-raises.
2. See TransparentNevada.com website at: http://www.transparentnevada.com/.
3. "The Nevada Piglet Book 2008," a report on some of the most egregious cases of wasteful government spending in Nevada: http://www.npri.org/publications/the-nevada-piglet-book-2008.
4. NPRI website: http://npri.org/blog/how-do-you-do-math.
5. While some of Nevada's largest jurisdictions have been able to provide a thorough accounting of spending, many smaller local governments have responded to NPRI's requests by reporting that they do not produce any documents which detail information on major sources of county or city spending such as contract spending or the cost of employee pay and benefits.

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