

**MINUTES OF THE MEETING OF THE
ECONOMIC FORUM
(NRS 353.226 – NRS 353.229)**

June 3, 2014

The meeting of the Economic Forum (created by Senate Bill 23, 1993) was held at 9:00 a.m. on Tuesday, June 3, 2014, in room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with videoconference to room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada.

ECONOMIC FORUM MEMBERS PRESENT IN LAS VEGAS:

Ken Wiles, Chairman
Marvin Leavitt
Matthew Maddox
Linda Rosenthal

ECONOMIC FORUM MEMBERS PRESENT IN CARSON CITY:

None

ECONOMIC FORUM MEMBERS ABSENT:

None

STAFF:

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division
Judy Lyons, Committee Secretary, Fiscal Analysis Division

EXHIBITS:

[Exhibit A](#) Meeting Packet and Agenda
[Exhibit B](#) ACA Implementation Statistics – Department of Health and Human Services
[Exhibit C](#) Nevada Health Link – Silver State Health Insurance Exchange
[Exhibit D](#) State of the Health Insurance Marketplace – Division of Insurance
[Exhibit E](#) Tables 1, 2 and 3 Updated through May 2014 (preliminary) – Fiscal Analysis Division
[Exhibit F](#) Net Proceeds of Minerals Tax: General Overview – Department of Taxation
[Exhibit G](#) Net Proceeds of Minerals Actual versus Forecast Comparison
[Exhibit H](#) Personal Income and Wages in Relation to Population, Employment and Inflation on a National Level and The State of Nevada – Fiscal Analysis Division
[Exhibit I](#) DWSS Daily Pending Application Counts – Department of Health and Human Services (distributed but not discussed)
[Exhibit J](#) Table 4 – Preliminary – Fiscal Analysis Division (distributed but not discussed).

I. ROLL CALL

Chairman Ken Wiles called the meeting of the Economic Forum to order at 9:18 a.m. and the secretary called roll. The members were present at the meeting in Las Vegas. Chairman Wiles noted that Mr. Matthew Maddox would join the meeting in progress.

II. OPENING REMARKS AND OVERVIEW OF THE ECONOMIC FORUM.

Chairman Wiles stated that the Economic Forum has its duties and responsibilities that are governed by Chapter 353 of the *Nevada Revised Statutes* (NRS). He said additional meetings are held in December of odd-numbered years and in June of even-numbered years. These additional requirements were added to the Economic Forum by Assembly Bill 332 from the 2011 Legislative Session, in which the following meeting parameters were established:

- The Economic Forum is to consider current economic indicators, including, without limitation, employment, unemployment, personal income and any other indicators deemed appropriate by the Economic Forum.
- The Economic Forum is to update the status of actual State General Fund revenue compared to the most recent forecasts by the Economic Forum. These provisions are not intended to authorize the Economic Forum to make additional forecasts of State General Fund revenues.
- The Economic Forum is required to provide a report to the Interim Finance Committee (IFC) regarding matters discussed at the meetings held in June of even-numbered years and December of odd-numbered years.

The Economic Forum is required by statute to provide forecasts of State General Fund revenue in December of even-numbered years and May of odd-numbered years only.

Chairman Wiles said the committee will be provided an update on current fiscal year-to-date actual collections compared to the Forum's May 2013 forecast, adjusted for legislative actions approved during the 2013 Legislative Session. He said information pertaining to the Net Proceeds of Minerals Tax (NPMT) would also be heard; noting it had been causing considerable tension in the media.

Chairman Wiles stated that the Economic Forum would not be considering or approving revised forecasts at this meeting, nor would it provide recommendations or solutions for consideration by the Governor and the Legislature based on the status of actual collections compared to the forecasts. He emphasized that the intent of this meeting was to receive an update of the Forum's forecast in relation to current actual collections, and to recognize current economic conditions. He said the Forum would not be providing a newly revised forecast. He conveyed that the Economic Forum was not required to, or responsible for, providing solutions to any open items in the budget.

III. PUBLIC COMMENT

Chairman Wiles asked for public comment from attendees in Carson City and Las Vegas. There was no public comment at either location.

IV. ELECTION OF CHAIRPERSON AND VICE CHAIRPERSON

MR. LEAVITT MOVED TO NOMINATE KEN WILES AS CHAIRPERSON AND MR. MATTHEW MADDOX AS VICE CHAIRPERSON. THE MOTION WAS SECONDED BY MS. ROSENTHAL.

THE MOTION CARRIED UNANIMOUSLY (Mr. Maddox was not present for the vote)

V. APPROVAL OF THE MINUTES OF THE MAY 1, 2013, MEETING.

MR. LEAVITT MOVED TO APPROVE THE MINUTES OF THE MAY 1, 2013, MEETING. THE MOTION WAS SECONDED BY CHAIRMAN WILES.

THE MOTION CARRIED UNANIMOUSLY.

VI. APPROVAL OF THE MINUTES OF THE DECEMBER 6, 2013, MEETING.

MS. ROSENTHAL MOVED TO APPROVE THE MINUTES OF THE DECEMBER 6, 2013, MEETING. THE MOTION WAS SECONDED BY MR. LEAVITT.

THE MOTION CARRIED UNANIMOUSLY.

VII. PRESENTATION ON THE STATE EMPLOYMENT AND UNEMPLOYMENT OUTLOOK.

Susanna Powers, Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation

Chairman Wiles noted that Mr. Maddox joined the meeting in progress at 9:24 a.m.

Before proceeding with this agenda item, Russell Guindon, Principal Deputy Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, pointed out that the materials presented at the meeting were either included in the meeting packet or provided as a hardcopy outside of the packet. He said the information was available electronically on the Economic Forum's webpage located on the Nevada Legislature's website.

Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation (DETR), informed the committee that he was presenting in the place of Susanna Powers, and accredited Ms. Powers for the presentation's content. Mr. Anderson said his intent was to focus on the U.S. and

Nevada labor markets as he launched his presentation with U.S. unemployment statistics; explaining that the national economy has great impact on what happens in Nevada (page 99, [Exhibit A](#)). The U.S. labor market reading for April 2014 showed an unemployment rate of 6.3%, down from the 10% recessionary peak. The decline had been consistent, showing minimal volatility and dropping barely more than one percentage point over the last year. In Nevada, the April unemployment rate was about 8%, down by .50% from the previous month, resulting in the largest month-to-month decline since the mid 1980's. Mr. Anderson pointed out that Nevada's unemployment rate peaked at just under 14% at the height of the recession, adding that during the peak Nevada's unemployment rate was about 4 percentage points higher than the nation's. That differential has since dropped to 1.7 percentage points higher than the nation's.

Mr. Anderson reported that the national economy regained 99% of the jobs lost during the recession. He indicated there was considerable volatility in job growth, but the overall trend showed that month-to-month job growth was consistent (page 102, [Exhibit A](#)). He said that prior to the recession, Nevada was the fastest growing state in the nation; however, it was the hardest hit state during the recession. Mr. Anderson conveyed that since 2013, the job growth rates in Nevada had been above average and were currently outpacing the nation. He said for all of 2014, Nevada ranked second or third in the nation for its positive monthly job growth numbers and essentially trailed North Dakota. Mr. Anderson clarified that those job gains were based upon monthly estimates; however, DETR was very confident that Nevada's job gains were well above the national average.

Mr. Anderson referred to Nevada's unemployment rate, stating that Nevada was able to make up lost ground due to its consistent month-to-month job gains. He said Nevada had the highest unemployment rate in the nation for several months, but surpassed Rhode Island in April of 2014 (page 104, [Exhibit A](#)). Mr. Anderson felt Nevada was poised to catch up with a few other states as it continued to add job growth.

Moving to page 105 ([Exhibit A](#)), Mr. Anderson said initial claims for unemployment insurance had been trending consistently downward and were essentially back to pre-recession volume. The April 2014 readings showed that claims for unemployment insurance were down by 15% compared to a year ago. Continuing, Mr. Anderson addressed alternative measures of labor underutilization as it pertained to the jobless rate, and explained that unemployment rates could increase as the definition of "unemployed" broadened. He directed the members to page 106 ([Exhibit A](#)) and briefly defined the various measures of employment situations ranging from U-1 to U-6, with U-3 being the average measure. He explained as the measure jumped from U-3 to U-4, discouraged workers became an added characteristic to the official concept of unemployment. He defined discouraged workers as jobless persons who dropped out of the labor force because they believed there were no jobs available. That measure added 1.0% to the unemployment rate. As the measures broadened through U-6, the percentage level increased. Mr. Anderson explained that measures U-5 and U-6 encompassed discouraged workers and part-time workers who would rather be working full-time.

Mr. Anderson communicated that during the recession, a notable decline in full-time employment coincided with an increase in part-time employment. He said since the recovery took hold, a monthly survey revealed that part-time employment leveled off and nearly 90% of the new jobs were full-time. In regard to long-term unemployment, encompassing those who had been unemployed for at least 27 weeks, the peak comprised about 90,000 people during the height of the recession, but trended downward to about half those levels (page 108, [Exhibit A](#)). Mr. Anderson said some of the decline in the unemployment rate was because fewer people were actively participating in the labor market, or were not actively looking for a job; therefore, those people were not counted in the labor force and were excluded from DETR's estimate of unemployment. He said Nevada's labor force participation rate decreased from approximately 68% to about 63%. National studies suggest that about half of the national decline is referred to as structural and largely due to the aging of the baby boomers approaching retirement age and dropping out of the labor force. The other half is referred to as cyclical, and related to underlying economic fundamentals. He said this decline correlated to the discouraged workers that dropped out of the labor force and were not captured in that measure of unemployment.

Mr. Anderson said Nevada lost about 175,000 jobs over the course of the recession, but added back approximately 60,000 jobs between 2010 and 2013. He said in 2014, Nevada showed an upward trend of another 45,000 jobs compared to where it was between January 2013 and April of 2013; noting the largest gain since late 2006. He said records reflected job growth for 40 consecutive months since January 2011.

Mr. Anderson explained that his reportings were the net result of a number of different transactions, including the constant flow of people losing jobs and finding new jobs. He said approximately 120,000 labor market transactions took place in Nevada, with a little more than 60,000 people adding jobs and a little less than 60,000 people leaving jobs.

Moving on to page 112 ([Exhibit A](#)), Private Sector Gross Job Gains versus Gross Job Losses, Mr. Anderson pointed out that the level of job losses were below prerecession readings. He said it was taking a while for hiring to pick up to a normal level, but job losses appeared to have run its course as a result of the recession.

Mr. Anderson repeated that Nevada ranked in the top two or three states in terms of its positive monthly job growth estimate. He hinted that statistic might be a little too optimistic, and that the estimates might be slightly overestimated. He said every state reported complete counts of employment based off of unemployment insurance records, and in the first three quarters of 2013, Nevada outperformed 37 other states in terms of year-over-year job gains. He said the graph on page 113 ([Exhibit A](#)) might be the most important of his presentation because it showed the cyclical nature of Nevada's economy. Prior to the recession, Nevada outperformed the other states relative to employment growth; however, during the recession, Nevada was outperformed by every other state. He said Nevada was gradually making up for lost ground.

In terms of industry growth, Mr. Anderson said that Nevada's recent job gains had been broad-based; noting the only exception was in the mining industry when gold prices

topped out and dropped from historical highs. He said employment flattened out in mining, but other job sectors had grown, including the hardest hit construction sector. He noted that construction jobs increased by about 6,000 through the first four months of 2014 compared to a year ago.

Mr. Anderson reported that personal income growth in Nevada rebounded from the recessionary declines and was growing in line with the nation over the past two years, and rising slightly above national averages in 2013. Personal incomes in Nevada were up 3% compared to where they were in 2012, and real personal income growth (adjusted for inflation) reflected similar results (pages 115 and 116, [Exhibit A](#)). He implied that inflation was eating away about half of overall personal income gains, causing slight gains in real personal income. Mr. Anderson stated that Nevada's average weekly wage growth rose 1.0% to 1.5% compared to a year ago; however, much of those nominal gains were eaten away by price gains.

Mr. Anderson said he typically focused on job sectors and industries, but periodically analyzed trends at the occupational level (page 118, [Exhibit A](#)). He said the largest occupations in Nevada were very similar to the nation's, and recognized that Nevada's average wage in most of those occupations was slightly above the nation's. He identified "Gaming Dealers" as making a lesser wage in Nevada, but indicated that high tip income, as opposed to a base wage, may have influenced that number. He said Nevada's "Maids and Housekeeping Cleaners" earned relatively high compared to the nation, and noted that unionization may have been an influence.

Looking forward, Mr. Anderson said that DETR expected employment growth through 2015; projecting an average of 30,000 to 35,000 new jobs annually. He reiterated that jobs in the mining industry rose during the recession, but as gold prices topped out employment leveled off. He drew attention to the gains in construction jobs, stating that an additional 5,000 to 6,000 jobs a year were expected, given the various ongoing projects throughout the state. Mr. Anderson thought it was important to put construction jobs into perspective, and reported that Nevada lost about 100,000 construction jobs as the recession unfolded. Although Nevada was picking itself up from those historical lows; there was still a long way to go to catch up.

Mr. Leavitt referenced the sales tax statistics that related to the construction industry. He observed a decline from a year ago, yet DETR showed a substantial increase in employment related to construction. He asked what was causing the differential.

Mr. Anderson replied that he was not a taxable sales expert, but taxable sales statistics tend to be volatile. He said if the monthly ups and downs in taxable sales were averaged, a slight upward trend would be revealed. He speculated that the highly publicized construction projects would add fuel to the construction taxable sales numbers, but the overall employment trend was moderately upward. However, the month-over-month taxable sales numbers reflected volatility.

Moving on to Nevada Retail Trade Jobs: History and Forecast (page 122, [Exhibit A](#)), Mr. Anderson said as tourism, gaming and entertainment diversified and moved beyond

the casino floor, noticeable gains were reported in the retail trade sector. He said DETR is projecting the retail sector to add 4,000 to 4,500 new jobs in both 2014 and 2015.

Mr. Anderson said the health care industry was recession-proof, and showed continued employment growth throughout the recession (page 123, [Exhibit A](#)). He said DETR expected the health care sector to add about 3,000 jobs per year throughout the forecast period.

Mr. Anderson explained that the accommodation and food service industry is Nevada's largest employer, and job levels are expected to surpass their prerecession readings by the end of their forecast period through 2015. He said that sector took a large hit as visitation and disposable incomes were affected by the recession, but steady gains were reported and expected to continue.

Continuing, Mr. Anderson said employment was the most important labor market indicator. He said DETR's April unemployment reading was down about two percentage points from a year ago, but continued job growth was expected to put downward pressure on the unemployment rate. He said the average unemployment rate in 2014 was 8.4% to 8.5%; however, he thought Nevada would average about 7.8% by the end of the year, and reach 6.5% in 2015 and 5.7% in 2016.

In closing, Mr. Anderson said that the latest unemployment numbers were encouraging, based on the broad-based and consistent job gains, and he expected those moderate gains to continue. He mentioned the boom-like conditions that preceded the last recession, noting how they could not be maintained. He felt the current growth was arguably more sustainable than Nevada's situation prior to the recession.

Chairman Wiles thanked Mr. Anderson for including the analysis regarding the discouraged workers and the employment rates.

Mr. Guindon addressed Mr. Leavitt's question about taxable sales relative to construction, and its comparison to construction employment. Mr. Guindon agreed that there was a lot of volatility in taxable sales that was linked to the purchase of construction materials, using the North American Industry Classification System (NAICS) as his statistical data resource. He explained that although the purchase of construction materials was important to taxable sales, construction employment was equally important because it kept the flow of spending consistent; whereas once construction materials were bought and recorded there was no more sales tax generated from those goods. He further explained that jobs generate wages and personal income that create purchasing power, and when co-monitored with other NAICS categories, such as food, furnishings, housing, electronics, appliances, etc., a consistent flow of tax revenue was generated versus periodic taxable bulk sales. Mr. Guindon said that was how he and staff monitored taxable sales numbers from month-to-month versus looking at some of the other economic indicators.

Mr. Leavitt said past observations revealed that a few large projects prompted sales tax numbers to jump all over the place, whereas a consistent flow of projects, such as the huge amount of residential building that went on prior to the recession, tend to reflect an

even flow of sales tax revenue. He said the current statistics appeared to signify a situation where employment and sales tax were going opposite each other. He explained there could be large commercial projects going on now, of which procurement was completed a year ago; therefore, reflecting the decline in sales tax revenue.

Mr. Guindon concurred, stating that historical numbers showed a cycle of commercial construction activity occurred while residential construction followed soon thereafter, or simultaneously. He said although the variance in the month-to-month numbers was prominent in the sales tax revenue numbers, the trend was the major indicator. The trend during the boom was significantly up, but suffered sudden declines during the recession. He said currently the variance in sales tax revenue still exists; however, he indicated that scheduled construction projects would probably start to pull the moving average trend upward as both the residential and nonresidential sides of the construction start to steadily come up off that bottom, instead of bouncing up and down around the bottom.

VIII. PRESENTATION ON STATE MEDICAID ENROLLMENT, STATE HEALTH INSURANCE PLAN ENROLLMENT THROUGH THE SILVER STATE HEALTH INSURANCE EXCHANGE RELATED TO THE FEDERAL AFFORDABLE CARE ACT, AND THE STATE HEALTH INSURANCE MARKET.

Mike Willden, Director, Department of Health and Human Services

Christopher (CJ) Bawden, Communications Officer, Silver State Health Insurance Exchange

Adam Plain, Insurance Regulation Liaison, Division of Insurance, Department of Business and Industry

Mike Willden, Director of Health and Human Services (DHHS), intended to provide an overview of the last six months of insurance activity, including the implementation of the Affordable Care Act (ACA) and the impact on Nevada Medicaid and Nevada Check Up (NCU).

Referring the members to page 2 ([Exhibit B](#)), Mr. Willden reviewed the pie chart illustration that represented the insured and uninsured status of Nevadans before the ACA expanded health insurance coverage was implemented. He explained that the red portion of the chart represented the uninsured population of approximately 640,000 people, and that the goal of DHHS was to have more lives covered by health insurance. Continuing on page 3 ([Exhibit B](#)), Mr. Willden reviewed a chart that grouped the uninsured population below age 65 by income poverty level. He felt this chart was an important tool to help identify the targeted populations for the different insurance coverage options, including Medicaid, Nevada Check Up, and people who qualified for health plans through the Silver State Health Insurance Exchange (Exchange). He said Medicaid's primary target groups were people whose income fell below 150% of the federal poverty level (FPL), providing coverage for both children and adults. Medicaid also targeted people whose income fell between 150% to below 200% FPL, with coverage leaning more toward children as the income level went up. He said other groups identified had income ranging between 200% to below 300% FPL, 300% to below 400% FPL, and lastly, 400% FPL and above. He said the people who were not

Medicaid eligible were the primary target groups of the Silver State Health Insurance Exchange, including people with an income up to 400% FPL.

Mr. Willden directed the committee to page 4 ([Exhibit B](#)), a snapshot of the proposed strategy to move the 640,000 uninsured into insured status. He said DHHS projected to move approximately 320,000 Medicaid enrollees and 20,000 Nevada Check Up enrollees into Nevada Medicaid, with anticipation that the enrollment would grow to about 500,000 by the end of FY 2015. He said the Exchange anticipated enrollment of 118,000 lives; however, that number was modified to around 50,000 lives because of the slower enrollment that occurred. He said the employer-sponsored, direct purchase, Medicare and military groups would remain somewhat stable, but the overall goal was to drop the uninsured rate from 23% to approximately 10% or 11%.

Moving to Medicaid eligibility and financing (page 5, [Exhibit B](#)), Mr. Willden said the bar chart exhibited the five basic groups of Medicaid eligibility, along with a table identifying the 2014 federal poverty guidelines. The first two bars showed that children in age groups 0-5 and 6-18 were eligible for Medicaid or Nevada Check Up if the household income did not exceed 205% FPL. He said that pregnant women qualified with income below 165% FPL; parent/caretakers of children qualified with income below 138% FPL; and childless adults qualified with income below 138% FPL. He explained that the color coded chart identified the federal mix of financing. For example, the yellow bar meant coverage was 100% federally financed for up to three calendar years; 2014, 2015 and 2016; however, a 10% state contribution would be required beyond the initial three years, with federal dollars totaling 90%. The color red meant financing was enhanced through the Nevada Check Up program for children in age groups 0-5 and 0-18. The blue shading represented traditional Medicaid financing comprised of approximately 65% federal funds and 37% State General Funds.

Mr. Willden said the Medicaid and Nevada Check Up electronic application processes started out slowly on October 1, 2013. He said prior to October 1, 2013, paper or electronic applications were the available methods used to apply for Medicaid. The intent was to have most people file electronically after October 1, 2013; however, there was a struggle in October and November to get electronic applications through Nevada Health Link. He said the process picked up, peaked in February 2014 with about 3,800 electronic applications, and returned to a normal flow thereafter. Mr. Willden referred to page 9 ([Exhibit B](#)), a summary of the total monthly Medicaid and Nevada Check Up applications that were sent to the State Welfare Division for processing from Nevada Health Link. He explained that applications were sent nightly, and because of the large number of applications that came in rapidly there was a high volume of pending applications. To address the inventory of pending applications, Mr. Willden referred to the table on page 11 ([Exhibit B](#)). He explained that the far left column, BOS Unregistered Applications, represented applications that were submitted multiple times or were incomplete. He said a reconciliation process was required to identify the applications that included current information, but still needed to be processed. Mr. Willden reported that as of May 27, 2014, all of the BOS pending applications were resolved and processed; however, there were just over 40,000 Medicaid pending applications that still needed to be processed. He noted the number of pending Medicaid applications peaked in April 2014 totaling about 68,000. He said

DHHS has a goal to lower the inventory to between 15,000 and 20,000 applications by the first week of July 2014. To assist in the application process, the Legislature approved the hiring of 410 new workers, doubling their processing capacity, and the Interim Finance Committee (IFC) approved the opening of two new offices in Reno and three offices in Las Vegas; with two more pending in Las Vegas to handle the high volume. He said DHHS hoped to process at least 80% of the applications in less than 15 days, with a strategic goal to process within 5 days (page 16, [Exhibit B](#)). He believed once DHHS caught up they would focus efforts to process the Family Medical Cases (FMC) within 5 days. He noted that the Medical Aid for the Aged, Blind and Disabled (MAABD) applications took longer to process.

Mr. Willden referred the committee to the table on page 18 ([Exhibit B](#)), Total Medicaid with Estimated Retro, relating to total Medicaid enrollment. He explained that the legislatively approved enrollment was charted in red and the actual enrollment was identified in blue. In April 2014, enrollment was legislatively approved at 416,049; however, the actual enrollment was about 50,000 enrollees more totaling 466,958 (page 19, [Exhibit B](#)). Mr. Willden announced that the actual enrollment for May 2014 came in at 495,275, noting there was an additional 21,000 to 22,000 enrollees in Nevada Check Up. Mr. Willden determined that by adding the almost 500,000 Medicaid enrollees to the Nevada Check Up enrollees, and dividing by Nevada's population of 2.7 million to 2.8 million, the result reflected that 18% to 19% of Nevada's citizens were on Medicaid. He said that he expected that number to grow.

Mr. Willden explained that reports are generated on the first of each month to identify the initial Medicaid caseload. However, many times during the application process it is determined that those cases are eligible for retroactive coverage (page 20, [Exhibit B](#)).

In regard to the June forecast, Mr. Maddox asked what the difference was between the 444,000 legislatively approved enrollees and the 495,000 to 500,000 actual enrollees. He asked Mr. Willden to define "legislative approved."

Mr. Willden explained that prior to a legislative session, DHHS prepares an agency forecasted caseload and a Governor's recommended forecasted caseload. He said when the Legislature closes the budget, usually around the month of April, the budget is based on a forecasted caseload for the next biennium. He said legislative approved referred to the forecast caseload that DHHS closed the budget on, as approved by the Legislature. During the 2013 Session, the budget was determined by a calculation based on the approved forecast caseload and the cost of eligible participants per month.

Mr. Maddox noted that DHHS enrolled 50,000 people over the forecast caseload.

Mr. Willden said there could potentially be a budget shortfall. He explained that if the cost per member per month was low, then the caseload could be over. If both the caseload and cost per member was high, then there would be budget problems.

Ms. Rosenthal asked if the budget funds were used to fund insurance benefits or to fund the staff to process applications.

In regard to Medicaid, Mr. Willden said there was a legislatively approved budget to fund the staff that received and processed applications; another budget to pay a claims processor; and a third budget was established to pay providers/claims, including hospitals, doctors, pharmacies, long-term care facilities, etc. He said claims were paid two ways: (1) fee-for-service, which is a scheduled fee for each individual service that the doctor bills to Medicaid, or (2) managed care organizations (MCO), which is a capitated rate paid to the MCO, per individual, to manage their care. Mr. Willden noted that the MCO pays for the individual's health care, and that there are two MCOs in Nevada that accommodate primarily everybody on Medicaid, except the aged, blind and disabled.

Chairman Wiles asked if the 410 new employees hired by the state to process applications was above what was forecast.

Mr. Willden clarified that the legislatively approved budget included the approval of 410 new workers in the Welfare Division to process the applications. In addition, 56 temporary staff were hired to get over the hump of processing applications. He said once DHHS was over the hump, the 56 temporary employees would be let go, but the 410 new workers would stay. He said the 410 employees were additional to the 1,200 employees that DHHS already had working for them.

Mr. Willden moved on to page 22 ([Exhibit B](#)), Managed Care Enrollment. He explained that once enrolled in Medicaid, the care was provided through two delivery systems, fee-for-service and managed care. He said the goal of the Legislature and the Governor was to have more lives in managed care enrollment, hence the goal of the DHHS. The graph showed that in October 2013 there were almost 200,000 enrollees in managed care, whereas in May 2014 the total enrollment in managed care was 320,571. Mr. Willden identified the two managed care organizations, Amerigroup and Health Plan of Nevada. He said currently 67% of the Medicaid population was covered through managed care, which positively increased the Insurance Premium Tax. He said after all eligible applications are processed, that percentage is expected to be closer to 85%. Mr. Willden explained that Amerigroup is a non-domiciled plan; therefore, they pay a 3.5% Insurance Premium Tax rate. Health Plan of Nevada is a domiciled plan and pay a 1.75% Insurance Premium Tax rate.

Mr. Willden turned his focus to the newly added Medicaid population, referred to as the Childless Adults (pages 24 and 25, [Exhibit B](#)). He said the legislatively approved caseload was 56,858 enrollees by May of 2014; however, the actual number reported was 101,384. He said DHHS significantly under projected the number of newly eligible adults who would access Medicaid in this group. He pointed out that this group was financed 100% by the federal government for a three-year period; however, the State of Nevada will be required to make a 10% contribution over time at the end of this three-year period.

Mr. Willden reported on the Nevada Check Up Health Care Program available to low-income, uninsured kids who were not covered by Medicaid. He referred to Nevada

Check Up as a subpopulation of Medicaid. He said the current enrollment was about 22,500 kids, which was over and above the 495,000 Medicaid recipients quoted earlier.

Mr. Willden discussed the behavioral health clients covered through Medicaid (page 28, [Exhibit B](#)). He said before the ACA was implemented, behavioral health clients largely had their health care paid for 100% by State General Fund dollars. He said at that time, 21% of the behavioral health population had Medicaid involvement and now that population approached over 60%, shifting some of the financial responsibility for those clients from 100% state dollars to a portion paid by the federal government.

Lastly, Mr. Willden mentioned the drug and alcohol treatment clients, stating it was the same concept as the behavioral health clients where a large amount of General Fund dollars were needed to support treatment. Therefore, DHHS set a goal to drive up the percentage of those recipients to have Medicaid eligibility. He said before implementation of the ACA, the percentage of drug and alcohol clients who received Medicaid was approximately 14%, and now approximately 40% of those clients are Medicaid eligible.

Mr. Maddox expressed concern that 30 months from now Nevada will have to kick in 10% of the cost of the Medicaid benefits.

Mr. Willden explained that the yellow highlighted groups on page 5 ([Exhibit B](#)), Parent/Caretaker and Childless Adults 19-64, were the two Medicaid groups that the federal government assumed 100% of the medical costs in calendar years 2014, 2015 and 2016, excluding administrative costs. He said beginning in calendar year 2017, per the ACA, the State of Nevada will be required to pick up a share of the medical costs for those two groups on a slide-down basis, over a three or four year period. At the end of the slide-down period, the federal government will be required to pay 90% of the medical costs and the state will be responsible for 10%. Mr. Willden repeated that this will be a new financial responsibility for Nevada starting in calendar year 2017.

Mr. Maddox referred to the 200,000 incremental Medicaid participants from June 2013 to June 2015, and asked what the estimated cost to the state would be. He noted that some of the Medicaid eligible groups medical costs are covered 37% by the state and others are covered at 10%. He said that sounded like it would cost the state hundreds of millions of dollars.

Mr. Willden said he did not have the estimated cost to the state with him, adding that DHHS was in the process of forecasting the 2016-2017 budget. He said he would work with the Forum's staff and provide those initial forecasts to the Economic Forum. He said it will be more expensive than the current year biennium.

Mr. Maddox asked what the average annual medical costs totaled for a Medicaid participant. He asked if it was \$10,000 annually per participant.

Mr. Willden said he did not have that information. He said everyone's cost was different, ranging from someone in a nursing home costing several thousand dollars per month to a mom and her kids running about \$350 to \$400 per month.

Mr. Maddox articulated that medical costs in the private industry ran between \$7,000 and \$10,000 annually. To further clarify his point, he multiplied \$10,000 by the 200,000 participants, resulting in \$2.0 billion dollars in incremental costs. He said if the state covered 10% of some participants medical costs and 37% of others, it could be a \$300 million to \$400 million hole in the budget 30 months from now, or 20% of the budget. Mr. Willden said Mr. Maddox was probably in the ballpark.

Chairman Wiles asked what percentage of enrollees paid their premiums or co-pays.

Mr. Willden replied that Medicaid recipients did not have a premium or a co-pay; however, the 22,000 Nevada Check Up plan participants pay a quarterly premium ranging from \$25 - \$80 per quarter, depending on their family income.

Mr. Leavitt commented that the Legislature will need to address the state's Medicaid obligation when they meet in 2015 to prepare budgets for the next biennium, effective for the time period January 1, 2017 through June 30, 2017.

Mr. Willden said when the 2015 Legislature meets to establish the budget for FY 2016 and FY 2017, a portion of the FY 2017 budget will be affected by the federal government coming off the 100% funding of Medicaid's newly eligible. He identified the three types of Medicaid recipients: 63% federal matching on regular Medicaid eligible, 74% federal matching for Nevada Check Up children, and 100% federal financing for the newly eligible, with newly eligible switching to a 90/10 split with the State of Nevada in calendar year 2017.

With respect to the impact from the financial transition of Medicaid's newly eligible, Mr. Leavitt repeated his concern about dealing with the six month impact on the 2015-17 biennium during the 2015 Session, and the full two years of impact on the 2017-19 biennium during the 2017 Session.

Mr. Willden explained that a Medicaid provider cannot bill services until a case is approved by the Nevada Division of Welfare and Supportive Services (DWSS). With so many cases, DWSS is concerned about not having an adequate number of months of claims data for the Legislature, Governor's Office, Budget Office and the DHHS Office to look at. He said DHHS knows what the caseload numbers are, but they do not have good claims data to see what the per member per month costs look like. He relayed that the health status of Medicaid's new populations are unknown, and that the information probably would not be available until the end of summer or early fall of 2014, making it difficult to tell if the DHHS projections were accurate. Mr. Willden agreed that the Medicaid numbers sounded astonishing; however, he shared that the DHHS budget increased from \$6.2 billion to \$7.4 billion in the last biennium, of which a significant portion was medical related. He said the DHHS budget jumps in billions of dollars each biennium, and the total projected budget going forward for the next biennium will jump a couple billion dollars again. He indicated that Medicaid is largely subsidized by federal dollars, but it does have a General Fund impact.

Mr. Leavitt repeated his growing concern over the large financial impact to the state when the state has to pick up 10% of the Medicaid costs for the newly eligible, starting in January of 2017. He noted the calculation that Mr. Maddox projected earlier equating to hundreds of millions of dollars. Mr. Willden concurred with Mr. Leavitt's statement.

Mr. Guindon understood that the state portion did not originate at 10%, but rather it phased in at a smaller percentage and would max out at 10% over a period of time.

Mr. Willden concurred. He recalled the first year would require a 97/3 split toward paying Medicaid medical costs for the newly eligible. The second year required a 94/6 split and the third or fourth year would eventually require a 90/10 split.

Mr. Maddox commented on the 200,000 additional Medicaid participants, and that it equated to an anticipated \$2.0 billion jump in Medicaid. He asked what percentage of additional participants would the state be liable for the 37% match.

Mr. Willden based his reply on the numbers quoted in his presentation, stating if the Medicaid enrollees increase by 200,000, roughly half would be newly eligible and half would require the old match of 37%. In conclusion, Mr. Maddox replied that 37% of a couple of billion dollars was a big number.

Chairman Wiles added that the state's estimated obligation toward Medicaid costs would be applicable, assuming the population stayed relatively stable. He noted that immigration and additional newly eligible participants could make the state's contribution even bigger.

Continuing on with the next presenter, Mr. Bawden focused his presentation on health plan enrollments from the original open enrollment on October 1, 2013, to approximately May 25, 2014, including the extended special enrollment period ([Exhibit C](#)).

Mr. Bawden said a person must be a legal resident of Nevada and not be incarcerated to obtain a qualified health plan (QHP) through Nevada Health Link. To be eligible for a tax credit the individual or family must file taxes, jointly if married; be enrolled in a QHP through Nevada Health Link; and have an income below 400% FPL.

Mr. Bawden explained that Nevada Health Link's original open enrollment period started October 1, 2013, and ran through March 31, 2014. During that period, the Exchange had roughly 21 million website hits, including 2 million unique visitors. Of those visitors, 382,874 eligibility determinations were made. That meant a person filled out a complete application and received a determination of eligibility that allowed them to move forward with acquiring a QHP, Medicaid, or a QHP without an Advanced Premium Tax Credit (APTC) (page 4, [Exhibit C](#)). Referring to the QHP, Mr. Bawden said 86,000 people who completed an application qualified for an APTC and 45,000 people did not, because their income was too high or they did not meet the eligibility criteria. He said as of the close of open enrollment, March 31, 2014, 42,000 individuals selected a plan and put it in their shopping cart; however, only 26,000 of those individuals paid up to that date. However, there were about 12,000 QHP holders who selected a plan late in the enrollment period and had until April 15, 2014, to pay for it. In regard to the dental plans

sold in conjunction with Medicaid and enrollment in the QHPs, there were about 46,000 enrollees.

Moving on to enrollment statistics (page 5, [Exhibit C](#)), Mr. Bawden said Anthem enrolled about 2,700 individuals in the market, the Anthem Multi-State product enrolled 305 individuals, St. Mary's enrolled about 3,700 participants, and Nevada Health CO-OP enrolled about 9,700 applicants. He said approximately 68% of the enrollees were from Clark and Nye counties, 21.6% were from Washoe County, 8.1% were from Carson City and Douglas, Lyon and Storey counties combined, and 2.3% comprised of the rural areas. Mr. Bawden said the chart on page 7 ([Exhibit C](#)) identified the enrollment statistics by race. He explained that the data was extracted from a voluntary question asked during the online enrollment process, and noted that only 4% of the enrollees chose not to provide the information. The statistics showed that 56.4% of enrollment was White, with the Hispanic population being the second largest enrollment at 17.8%. Mr. Bawden said it was questioned if the Hispanic population statistic should have been higher because previous statistics revealed approximately 40% of Nevada's uninsured population were Hispanic. He said looking at the enrollment statistics through other programs will give Nevada Health Link a broader look at the marketing program's success in reaching the uninsured.

Mr. Bawden said, because so many Nevadans had difficulty enrolling in health insurance during the open enrollment period, the Board opened a special enrollment period from April 1, 2014, to May 30, 2014. As of May 25, 2014, the latest report showed there were 48,711 QHP enrollees, of which 35,715 had paid. He pointed out that those individuals had until June 15, 2014, to make final payment, and that the final numbers would be reported in mid-June of 2014. The dental plan selections increased to 50,900 enrollees, of which 30,094 paid.

Moving on to page 9 ([Exhibit C](#)), Exchange Funding Mechanisms, Mr. Bawden said the economies of scale are with Nevada Health Exchange. He explained that the Exchange is funded by means of a per person per month fee that is charged to the health carrier and is used to cover operational expenses for Nevada Health Link and the Silver State Insurance Exchange. The original fee was set at \$4.95 per month with the anticipation of annual increases to approximately \$9.00 in 2014, and about \$12.00 in 2015 for the 2016 plan year. However, the enrollment goal was cut from 118,000 to 50,000; therefore, in April 2014 the Board decided to raise the per person per month fee to \$13.00 for the 2015 plan year; budgeting for 60,000 members enrolled by February 15, 2015.

Mr. Bawden informed the committee that on May 20, 2014, the Board voted to become a supported state-based exchange and would use the federal information technology (IT) architecture for open enrollment purposes in the 2015 plan year. He said the Xerox contract will wind down; however, individuals who purchased a plan through Nevada Health Link will still be able to make their payments and participate in qualifying events using the existing website. He explained that as of November 15, 2014, the Nevada Health Link website will offer options for individuals going into the 2015 plan year. Current members will be able to continue managing their plan for November and December using the same phone number and website for customer service.

The website will include a screening tool that will allow an individual to input family and income information used to predetermine eligibility for Medicaid or a QHP. If the individual is eligible for Medicaid, the user will be directed to the state's application system for Medicaid where the Nevada Division of Welfare and Supportive Services (DWSS) will verify eligibility and process enrollment. If the user is eligible for a QHP, or the individual wants to renew their plan in 2015, they will be directed to healthcare.gov where they will fill out the application and select a plan. He said all of the health care plans offered on that site will be authorized through the Nevada Division of Insurance and be specific to the State of Nevada. He noted that all health carriers will have time to review the available plans for accuracy.

Mr. Bawden said the Silver State Health Insurance Exchange Board members voted to end their relationship with Xerox. He said Xerox was in contract talks that would continue through the 2014 plan year, but moving forward the Board instructed staff to put out a request for proposal (RFP) for a new vendor. The Board will review the proposals and decide if there is a better system for the State of Nevada rather than remaining with the federal IT architecture. He said it was possible that Nevada and the Board would vote to stay with the federal IT architecture indefinitely. Mr. Bawden referred to page 11 ([Exhibit C](#)), explaining that Nevada would become a supported state-based exchange model, allowing the state to make key decisions and tailor the marketplace. He said the Nevada Division of Insurance would retain responsibility for plan certification, rate review, and network adequacy monitoring. The Exchange would retain eligibility and enrollment, marketing, advertising, and oversight of the Exchange Enrollment Facilitator Program that consisted of certified application counselors, navigators, and enrollment assistants who operate in the State of Nevada.

Mr. Maddox asked if the 50,000 current enrollees had to reenroll when the state moved to the federal IT infrastructure.

Mr. Bawden replied all paid enrollees would have to reenroll online. He said continual enrollment only applied if the Silver State Health Insurance Exchange Board decided to stay with Xerox and remediate the current system.

Mr. Maddox asked if the projected increase of participants was made under the assumption that current enrollees would reenroll in the federal IT infrastructure, additional to growing the base.

Mr. Bawden said that the projection was a combination of growing the base, reenrollments, and factoring in the one-setting simplified process of enrollment. He said statistics in Nevada showed that the original enrollment process required some individuals to come back multiple times to effectuate their enrollment in a QHP. Moving to the new architecture, individuals should be able to come through the system one time. He said all payments will be made directly through the health carriers in lieu of Nevada Health Link, relieving Nevada Health Link from the large burden of reconciling payments and transmitting information correctly to the health carriers. He said Xerox did not perform adequately with those processes.

Mr. Maddox asked how much Xerox was paid for the services they performed, and Mr. Bawden replied Xerox was paid \$12.3 million of a \$75 million contract to-date. The contract was a deliverables-based contract; therefore, Xerox would only be paid for complete deliverables verified by the Exchange's independent verification contractor, PCG Technology Consulting.

Chairman Wiles was curious as to what percentage of enrollees paid their premiums, and Mr. Bawden replied 35,000 of 48,000, or 73%.

Chairman Wiles thought that number could be higher or lower based on enrollments that did not require initial payment until June 15, 2014.

Mr. Bawden confirmed that the statistics for paid enrollment were not counted until the payment was received by the Exchange and sent to the health carrier. He noted that Nevada was one of two states that received payments on the health insurance exchange side.

Chairman Wiles asked if there was an estimate of the number of people who enrolled more than 30 days ago; pointing out that they passed their first payment deadline. He asked what percentage of those enrollees paid.

Mr. Bawden said approximately 70% of those enrollees passed their first payment deadline. He said subsequent reports would reflect both new enrollees and those who dropped their coverage, including cancellations and situations where individuals paid for a month or two of premiums and then quit making payments. Mr. Bawden noted that new statistics will come out in two weeks.

Mr. Maddox asked if Nevada was switching over to the federal IT infrastructure in November.

Mr. Bawden said in one week, the Exchange will start a six to seven week onboard process to ensure the health carriers have time to review their plans for accuracy and to perform data testing to make sure Medicaid applications could successfully transmit back and forth.

Considering the state's plan to switch to the federal IT structure, Mr. Maddox questioned the decision to issue an RFP to determine if the state wanted to continue in this marketplace. He asked if a decision would be made in regard to the RFP before moving to the federal infrastructure.

Mr. Bawden replied that it was the Exchange Board's decision to post an RFP. He said the RFP was specific to open enrollment for the 2016 plan year, allowing one year and five months to make sure everything was in place if the state decided to put in another system.

Mr. Maddox asked Mr. Willden to clarify how much the DHHS budget increased from the previous biennium to the current biennium.

Mr. Willden replied that the DHHS budget for the current biennium was around \$7.4 billion, including the combined total spent between federal, state and others, whereas the biennium before was \$6.2 billion.

Mr. Maddox questioned how many additional Medicaid enrollees were included in the \$1.2 billion increase. He noted that the data in the presentation only went back to 2013, and reflected close to 200,000 new enrollees since then.

Mr. Willden said he did not have that information with him, but responded that it was not 200,000 enrollees. He affirmed that the \$1.2 billion increase was the total DHHS budget, of which two-thirds was Medicaid expenditures. He said that the Medicaid portion included the enrollee's cost, health care costs, and costs related to inflation. He said it was typical to see large rollups in each biennium for Nevada Medicaid.

Mr. Maddox asked how many enrollees caused the \$1.2 billion increase, wondering if it could have been around 50,000 over the biennium. Mr. Willden repeated that he did not have that information, but could get it for the Forum's staff.

Mr. Maddox said the intent of his question was to put the cost of the 200,000 enrollees into context.

Mr. Leavitt said in 2013, the Forum had previous discussions about revenue and how the Insurance Premium Tax (IPT) would affect enrollment in the health care system. He assumed when the enrollment goal was cut from 118,000 to 50,000 that it would have affected the IPT projection; however, he noticed the IPT actual collections were reported higher than estimated. He asked where the Exchange stood on this matter, how much of it related to this, and what other things were involved with the IPT.

Mr. Guindon suggested that Mr. Plain present his information prior to further discussion about IPT, anticipating that a response to Mr. Leavitt's question would be included in the presentation. Mr. Leavitt agreed to proceed.

Mr. Adam Plain began his presentation in reference to page 1 ([Exhibit D](#)), and gave perspective on the role of the Division of Insurance (DOI). He said the DOI was the primary regulator for the \$11.5 billion insurance industry in the State of Nevada, and managed the following:

- 1) Consumer Protection Agency. A consumer can call DOI to help resolve any issues they have with their insurance coverage.
- 2) Ensure that the insurers remain solvent so they can pay claims.
- 3) Regulate education and licensing of the insurers and producers.

Mr. Plain said the insurance industry greatly impacts the state, generating more than \$240 million annually in IPT and approximately \$27 million from licensing, fines, assessments and fees; all of which is deposited to the State General Fund. He said the DOI does not receive General Fund revenue, rather it is an Enterprise Fund that is funded by the industry it regulates. He said there are 2,100 health carriers in Nevada,

with 200 of them being domestic. There are 11,000 licensed insurance firms and 102,000 licensed insurance producers in the state, both resident and non-resident.

Mr. Plain directed the Forum to page 3 ([Exhibit D](#)), 2013 Health Insurance Marketplace, to give an idea of where Nevada's insurance market stood at the end of 2013, prior to the implementation of the Affordable Care Act (ACA). He said health insurance made up about \$2 billion of the \$11.5 billion industry, and there were 312,324 policies issued that covered 613,000 lives. Total member months represented the combined number of months that each covered life had a policy for, equating to 7.2 million, or 11.8 months per person. Considering all markets, including individual, small group, and regulated large group, the average premium in calendar year 2013 was approximately \$295.

Mr. Plain said as of May 1, 2014, similar statistics from the insurance industry for calendar year 2014 totaled \$565 million in premiums, 232,000 written policies and 558,000 covered lives, including approximately 32,000 lives through the Exchange. He said the approximate premium, averaged across all three insurance markets, totaled \$343 per month. However, because DOI was currently in the form and rate filing season, several of the small insurers were unable to respond to the data call request sent out two weeks ago; therefore, there were deficiencies in the numbers reported May 1, 2014. Additionally, he said numbers pertaining to policies issued and covered lives would be static throughout the year, under the ACA; however, the DOI did not expect to see much new enrollment from June 1, 2014, through December 31, 2014. He said there are those people who become eligible or lose eligibility based on qualifying events, such as marriage, deaths and births, but those events were relatively small in comparison to the overall marketplace, which was funneled into a defined open enrollment period.

Mr. Plain referenced page 5 ([Exhibit D](#)), the individual insurance market, and pointed out that the policy count rose in 2014 after the individual mandate was implemented by the ACA. He said the DOI did not report member months for 2014 because the data only represented the first quarter of the year. He explained that the implementation of the ACA, effective January 1, 2014, caused the market to trifurcate, requiring some short-term and long-term regulatory schema to occur under the "covered lives" statistic. Following are the regulatory categories.

1) ACA-compliant Lives: These are lives covered under policies that have been issued or renewed on or after January 1, 2014, that have conformed to the new ACA mandates, such as essential health benefits, actuarial value, no life time limits, no annual limits, etc.

2) Grandfathered Lives: This is a life that was covered in a policy on March 23, 2010, when the ACA was first enacted, and could remain the same as long as there were no major changes to the policy terms. Grandfathered lives are not covered by ACA-compliant lives and will continue in effect until the enrollee either chooses a new plan, or the offering insurer makes a change to the plan that is drastic enough to remove its grandfathered status.

3) Non-compliant Lives: These are lives that had a non-compliant plan in 2013, not issued to include the ACA rules, but also were not legally grandfathered. He explained

the most likely scenario in this category would be if someone had an individual plan and renewed that plan late in 2013. Those plans will not roll off the books until late November or December of 2014, at which point the enrollee will have to choose an ACA-compliant plan going forward.

Mr. Plain said the total covered lives in the individual insurance market rose to 127,000 in 2014 as a result from the ACA individual mandate, premium tax credits, cost share reductions and increased availability of insurance.

Mr. Plain moved on to define the small group insurance market (Page 6, [Exhibit D](#)), stating it included employers who employed between 1 and 50 people in Nevada. He said in 2013 and prior, a business owner could be considered an employee; however, ADA regulation changed that rule in 2014 to require the first employee to be a non-familial employee, and not a business member. He said this regulation disqualified a two-person, two-owner limited liability company from the small group market. Mr. Plain remarked that DOI saw discrepancies in the numbers reported by the small and large group markets, with policy count down considerably and covered lives down a fair amount. He said that DOI did not expect these numbers to hold true when the final numbers are reported at the end of 2014. DOI contributed the low numbers to a lack of reporting by the smaller health carriers, and a lack of true-up in the accounting used to get to those numbers. Overall, DOI expects the small group and large group insurance enrollment to be about the same as it was in 2013.

Lastly, Mr. Plain acknowledged the large group market that included employers who employed 51 or more employees, stating that it showed similar statistics as the small group market (page 7, [Exhibit D](#)). Mr. Plain noted there was no exchange market for this group, so it was excluded from the table. The same caveats applied as far as deficiencies in the 2014 data, but DOI expected it to even out over the course of the year.

Mr. Plain compared the tables on pages 6 and 7 ([Exhibit D](#)), stating the non-compliant lives represented a large portion of the covered lives marketplace in 2014. He believed it was an indication that, especially in the small group market, many of the employers renewed their existing policies in December 2013 with the intent to remain with them until December 2014. He said It would take several months before the non-compliant lives would start to roll off the books and enroll into ACA-compliant plans.

Mr. Plain said, for the purpose of the IPT, it was important to note that the ACA and its contributions to the insurance industry was a fractional number. Referring to page 5 ([Exhibit D](#)), Mr. Plain explained that as of May 1, 2014, there were approximately 32,000 to 33,000 Exchange enrollees in the individual marketplace, comprising of approximately 25% of the overall marketplace. He noted the overall covered lives in the individual marketplace totaled 127,000, or 25%, of the 600,000 lives in the overall marketplace. He said any deficiencies in the Exchange's enrollment would have a relatively low impact on the IPT, because that enrollment only made up 4% to 8% of the overall covered lives marketplace. Mr. Plain said IPT for this biennium was comprised of two factors: 1) the static IPT revenue that the Executive Branch, Legislative Branch,

and the Department of Taxation projected, based on historical data, and 2) the ACA's contribution to the IPT revenue. He said it was accounted through two different methods, the first being increased enrollment as a result of guaranteed issue, guaranteed availability, the individual mandate, etc, and the second related to what the law would do to premiums. Mr. Plain referenced pages 3 and 4 ([Exhibit D](#)), stating that enrollment was lower than projected, but premiums were higher than anticipated. Previously, he presented national premium figures to the Forum, quoting \$278 per month in 2013. Additionally, he added an inflationary factor of approximately 5% for the ACA requirements, increasing that total to \$291. He said current data exceeded the 2014 projection in 2013, and premiums had risen since then. While there was a decrease in enrollment through the Exchange, based on projections, there was an increase in average arithmetic premiums that helped close the gap. Additionally, health care and health insurance was a small factor in the overall premium tax collection comprised mostly of life insurance and property casualty insurance. Mr. Plain stated that he did not excuse the lack of premium taxes as a result of the Exchange enrollment projections being off, but there were significant factors that aided in driving the IPT upward, including increases in business creation, property and casualty collections and population growth. He pointed out that the 2013 Legislative Session approved Driver Authorization Cards, increasing IPT revenue because proof of insurance was needed to obtain the card. He added that the Las Vegas Strip showed signs of economic recovery, which triggered tax revenue generating expenditures for new businesses, such as business liability, premise liability and other forms of commercial insurance.

Mr. Plain said one caveat was that the arithmetic premiums referenced on pages 3 and 4 ([Exhibit D](#)) did not account for changes in coverage, benefits, exclusions and limits, but was used purely as an economic number. He said it would be inappropriate to justify a comparison in premiums for anything other than that, and he would caution or advise anyone against saying that average premiums rose from \$295 to \$343 because their costs went up. He said there was a number of non-economic factors that went into those numbers.

Chairman Wiles said the average premium rose about 16%, taking into consideration qualitative factors. He questioned if those premiums included coverage that some people may not have wanted. He asked if that interpretation was unjustified.

Mr. Plain replied that he could understand Chairman Wiles' view from a mathematical standpoint, but from a policy standpoint he did not agree with Chairman Wiles' speculation. He said the premium numbers were provided on an aggregate basis and in no way indicative of any one individual's experience, or of any of the three marketplaces. He said most comparisons reported by the media, quoting various percentages of individual market premium increases, were inappropriate based on those numbers.

IX. PRESENTATION ON THE TAX CHANGES APPROVED BY THE LEGISLATURE DURING THE 2013 SESSION AND THE ECONOMIC FORUM MAY 1, 2013, FORECAST FOR FY 2014 AND FY 2015, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2013 SESSION.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau

Prior to moving forward with this agenda item, Chairman Wiles acknowledged the open seat on the Forum. He said his intent was to discuss this item in an effort to bring the new member up to speed on the tax changes approved by the 2013 Legislature. He said this could be a relatively short presentation because the new Forum member had not been appointed. Chairman Wiles advised the committee that a five minute break would follow the presentation on this agenda item.

Mr. Guindon referred the committee to the table on page 127 ([Exhibit A](#)). He said the only changes made to the table since the December 2013 Economic Forum meeting was that the forecast for FY 2013 had been replaced with FY 2013 actual revenues. Additionally, the meeting packet included the Economic Forum's forecast approved at the May 1, 2013, meeting, adjusted for legislative actions shown for FY 2014 and FY 2015, along with a description and data pertaining to those legislative actions (page 137, [Exhibit A](#)). Mr. Guindon thought it was a good decision to include this agenda item in the meeting packet because the Forum will have to address the sunset actions that will be in place when they start the forecast cycle this fall. He said the sunsets add complication to the forecasting exercise for both members and staff because certain tax structures were in place for FY 2014 and FY 2015 that will not be incorporated in FY 2016 and FY 2017.

In anticipation of the fifth member's appointment to the Economic Forum by the Governor, Mr. Guindon said the intent of this agenda item was to provide the new Economic Forum member with information from the December meeting and today's meeting, as well as video from both. He said this information would have provided the new member a complete set of data in order to start instilling some human capital in that member.

Chairman Wiles announced that a brief recess will be taken at this time.

X. REPORT AND DISCUSSION OF FY 2014 YEAR-TO-DATE ACTUAL COLLECTIONS COMPARED TO THE ECONOMIC FORUM MAY 1, 2013, FORECAST, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2013 SESSION.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau

Chairman Wiles resumed the meeting in progress.

Mr. Guindon explained that the intent of this agenda item was to track and discuss the status of the Economic Forum's forecast compared to actual collections fiscal year-to-date. He noted that the tables included in his presentation are updated monthly

and can be found on the Economic Forum's webpage, located on the Nevada Legislature's website.

Mr. Guindon directed the committee to Table 2, page 144 ([Exhibit A](#)), State General Fund Revenues: FY 2014 - Actual Compared to Forecast, and explained it contained actual collections reported through April 2014. He also brought attention to page 2 ([Exhibit E](#)), Table 2-PRELIMINARY, stating that it was the same table as on page 144 ([Exhibit A](#)), but updated to represent an additional month of collections through May 2014. He recommended placing the two tables side-by-side for comparison. He explained that each revenue source included the number of months or quarters of actual collections. He pointed out that in Table 2-PRELIMINARY, the Gaming Control Board included an additional month of gaming Percentage Fee Tax collections, as well as the other taxes they collect, and that the Department of Taxation reported another month of Sales and Use Tax, Liquor Tax and Cigarette Tax; reiterating that those revenue sources were collected on a monthly basis. Table 2-PRELIMINARY also included third-quarter reports for Insurance Premium Tax, Real Property Transfer Tax and the Modified Business Tax. In regard to the Major General Fund revenues, Table 2 (page 144, [Exhibit A](#)) showed that actual collections for eight to ten months of monthly revenue sources and two quarters of the quarterly revenue sources (through April) totaled \$5.2 million ahead of the forecast in aggregate for the major General Fund revenue sources. Looking at page 2 ([Exhibit E](#)), Table 2 – PRELIMINARY, the FY 2014 Forecast Year-to Date showed the state up \$15.5 million ahead of forecast in aggregate for the major General Fund revenue sources, representing a .8% forecast error, and reflecting actual collections reported and booked through two-thirds of FY 2014.

Mr. Guindon discussed some of the larger non-major General Fund revenues, stating there was not much difference between actual collections less forecast through April 2014 (\$9.5 million ahead of forecast) compared through May 2014 (\$9.2 million ahead of forecast), showing a 3.2% and 2.8% forecast error, respectively. He said the major and non-major General Fund revenue sources were the bulk of the State General Fund's revenue sources.

Mr. Guindon said all other General Fund revenue included revenue sources mentioned in the previous agenda item, starting on page 127 ([Exhibit A](#)). They are a relatively small piece of the General Fund and were not all paid monthly or quarterly. Many were collected and reported toward the end of the fiscal year. For example, through April 2014 the Net Proceeds of Minerals Tax (NPMT) actual collections was reported to be approximately \$11.8 million below the forecast, and the May 2014 report showed the NPMT actual collections was approximately \$71.7 million below the forecast (page 144, [Exhibit A](#)). This resulted in the total General Fund revenue changing from almost \$3 million above the forecast through April to almost \$47 million below the forecast through May, reflecting a 1.9% forecast error. Mr. Guindon reiterated that the drive behind the significant change in the forecast was the NPMT. He said there was a forecast approved in May 2014, adjusted per legislative actions, to extend the sunset during the 2013 Legislative Session totaling approximately \$95.7 million. The actual collections deposited in the Controller's system through May 2014 was \$21.3 million. He stated additional postings could occur before the fiscal year officially closed, although he did not expect it to change much. Therefore, the NPMT forecast was

missed by approximately \$74.4 million. He referred back to Table 2 – PRELIMINARY on page 2 ([Exhibit E](#)), and explained that if you back out the \$74.4 million shortfall due to the net proceeds of minerals forecast compared to actual collections, the General Fund would be up \$27.4 million, which was approximately a 1.1% forecast error. Mr. Guindon restated that it took only one revenue source to go from a slight net plus difference to a negative difference, noting once the NPMT was backed out the aggregate forecast over all the other revenue sources was very close. He did not remember seeing a forecast this close in aggregate throughout his time staffing the Economic Forum. As a forecaster, he explained that it would be an irrational expectation to think everything could be closely projected, but the focus was to target the total General Fund because that is what the state budget is built on, which is for the total General Fund revenue forecast.

Mr. Guindon said the Forum's total General Fund revenue forecast for FY 2013 was \$46 million above forecast, which was about a 1.5% forecast error. He said of the \$46 million that was reported in actual collections over the forecast in FY 2013, \$17.5 million was due to the NPMT coming in above forecast. In 2014, that condition reversed itself and resulted in a net negative versus a net positive position in FY 2013.

Mr. Guindon added comments in regard to Mr. Leavitt's earlier question about the IPT. He referred to Table 2-PRELIMINARY (page 2, [Exhibit E](#)), stating that three quarters of actual collections had been reported for IPT, and reflected \$7.6 million above the forecast. He recalled Mr. Leavitt's earlier question regarding the base forecast and the impact of the ACA. Mr. Guindon said that some money was added to the forecast to accommodate the ACA requirements for FY 2014 and FY 2015, although the percentage of the total was relatively small. He said when staff recognized what was going on with the Exchange and the enrollment deficiency, the concern was expressed that the additional revenue projected in the forecast would not materialize. He noted that the missed projection, due to low enrollment, would affect two quarters in FY 2014 and four quarters in FY 2015. Mr. Guindon reminded the committee that the actual IPT collections are not itemized; therefore, it is not clear as to what makes it up. It was important to remember that IPT was not only associated with health insurance, but it also attached to property, auto, life, annuities and other insurance products. He noted that overall the IPT was running above forecasts and it provided an offset to those tax revenues that were running below the forecast. Mr. Guindon reinforced his belief that the requirement to carry auto insurance in order to obtain a driver's authorization card and the strength in auto sales might be aiding in the actual IPT collections tracking above the forecasts; noting those tax collections may be contributing more than staff would have thought when preparing forecasts in May 2013.

Mr. Leavitt observed that automobile sales had been good, driving up the sales tax revenue. He said he was surprised to see that Governmental Services Tax (GST) was under because it was often driven by the sales of new automobiles.

Mr. Guindon said that was a good observation, and noted that his office also noticed that taxable sales and auto sales was up, but there was only 1.1% growth in the GST. He said the component of the GST that is deposited into the General Fund, after the legislative action added the additional 10% to the depreciation schedules, applied to

one-year-old and older cars. Therefore, new cars did not generate GST for the General Fund in the first year they were registered. Not until the registration is renewed the second year does it start generating money for the General Fund. He said he could not tell if that was why GST was tracking below the forecast, but that it might be one contributing factor.

Mr. Leavitt commented that Live Entertainment Tax, both gaming and non-gaming, was doing well as a percentage of the fiscal year forecast total.

Mr. Guindon compared Live Entertainment Tax to Insurance Premium Tax, stating that statute did not require properties to submit itemized reports. He implied that staff utilized websites to find out what shows were coming up, and used the average ticket prices as a forecast tool. He said the Gaming Control Board polled casino properties to find out when existing shows were going offline and when new shows were scheduled to come online. Although that information was taken into consideration to project Live Entertainment Tax; it was a difficult revenue source to forecast. Mr. Guindon thought it was a positive sign that the gaming industry was able to get the entertainment product fired back up after the recession. He said live entertainment appeared to be more popular now than when the Economic Forum was building the forecast. His understanding was that some of these shows would be annualized in FY 2015; therefore, continued growth at the current rates was not expected in the next fiscal years.

Mr. Leavitt commented that Sales and Use Tax and Percentage Fees Tax made up a huge percentage of the total revenue structure (page 2, [Exhibit E](#)). He observed that the actual collections were slightly under the forecast, but thought it was a good sign that they were under less in May 2014 than they were in April 2014.

Mr. Guindon agreed, stating the last two months of sales tax came in above forecasts, which caused the forecast error to move closer to zero. He noted the last month of gaming was a neutral month compared to the forecast, but reminded the committee there was still one month of collections left. In regard to Sales and Use Tax and Percentage Fees Tax, and what they make up as a percentage of the General Fund and their relativity to the forecast this late in the fiscal year, Mr. Guindon thought the economy was doing a very good job at matching what forecasters thought it would do in FY 2014.

Mr. Leavitt acknowledged the Real Property Transfer Tax and asked where the data was coming from. He noticed that its actual collections were up considerably from the forecast and was curious as to what county(s) might be contributing the benefit.

Mr. Guindon said the RPTT is reported by county and that his staff tracked it quarterly by county; however, it was not forecast by county. It was forecast in aggregate. He said he would have that table updated and sent to the members of the Economic Forum.

XI. PRESENTATION ON THE TAXATION OF NET PROCEEDS OF MINERALS IN NEVADA.

Terry Rubald, Deputy Executive Director, Department of Taxation

Ms. Rubald said in order to forecast the revenue stream for net proceeds a year in advance, the Department of Taxation (Taxation) relied on available information regarding price, production and net to gross proceeds ratio. She stated that several types of minerals are subject to the NPMT (page 2, [Exhibit F](#)); however, the forecast is based on gold because it represents about 92% of total production. The proportion of gold to other minerals had been dominant since 1980. The graph on page 4 ([Exhibit F](#)) showed that gold prices per ounce rose significantly over the last twenty years, topping out in late 2011 and significantly declining in 2013. Ms. Rubald explained that in 2009 the price of gold was low at \$909 per ounce, and in mid-2011 gold reached a high at \$1,900 per ounce. The accumulative average in 2013 was \$1,411, whereas to-date the average price was \$1,294 per ounce and trading at \$1,243 per ounce. Ms. Rubald added that the strengthening of the U.S. dollar, combined with its supply and demand, contributed to gold's decline in price. She said if the price of gold was high when measured in U.S. dollars and other major foreign currencies, it was an indication that the demand for gold was high; therefore, its value increased. Consequently, if the price of gold was high in U.S. dollars and at the same time was cheaper in other currencies, then it could be assumed that the U.S. dollar had weakened and gold lost value in all other currencies.

In addition to the price metric, Ms. Rubald said that overall production affected NPMT revenue. In 2012, approximately 5,559,000 gold ounces were produced in Nevada, along with 8.1 million ounces of silver and approximately 145,000,000 pounds of copper (page 6, [Exhibit F](#)). She explained that the total gross yield of gold in 2012 was \$9.2 billion, yielding a per ounce price of \$1,663 (total gross yield divided by the ounces reported as sold). In 2013, production in gold ounces was 67,084 ounces less than in 2012, and the average derived price dropped from \$1,663 per ounce to \$1,394 per ounce, a loss of 16%. However, Kitco's average price for gold in 2013 was \$1,411 per ounce. The total gross yield for gold dropped from \$9.2 billion in 2012 to \$7.65 billion in 2013, and copper was down 7.8 million pounds from 2012; it dropped in price from \$3.63 per pound to \$3.22 per pound, a loss of 11.2%. Silver production was up 1,960,000 ounces over the prior year; however, the price dropped from \$30.99 per ounce to \$22.88 per ounce, a loss of 35%. Ms. Rubald noted another major mineral group was geothermal power plants, producing approximately 374,000,000 more kilowatts in 2013 than it did in 2011. She contributed the increase to the influx of newly built plants.

Turning to page 8 ([Exhibit F](#)), Ms. Rubald expanded on the illustration representing gold production from 1978 through 2012 in comparison to the average gold price per troy ounce. She said high production of gold occurred during the years when gold prices were significantly lower. When gold prices were high it enabled companies to produce lower grade ore, or ore that was more difficult to extract.

In regard to state-wide net to gross ratio, Ms. Rubald said a mine was required by law to report the value of any mineral extracted, sold, exchanged, removed from the state in a form ready for use or sale, or used in a manufacturing process. She said the law also stated that a certain cost in producing the mineral may be deducted from the gross yield to obtain a net proceed, including costs for extraction, transportation, reduction, refining and sale, delivery, and depreciation of equipment. Ms. Rubald explained that the net to gross ratio was determined when a comparison was done between the net proceeds and the gross yield. When the net to gross ratio number was lower it meant the costs to produce the mineral was higher, and when the ratio was higher, the cost to produce the mineral was lower. Examples of a high net to gross ratio occurrence are when a mine is more efficient, and the mineral is less costly to extract; the grade of ore is higher; or the price per ounce is greater and more profit is generated. She said the highest state-wide net to gross ratio for all mineral types occurred in 2011 and 2012 at 46%. It had since dropped to levels more in keeping with the mean average of 28%, and the median average of 27% (page 9, [Exhibit F](#)). Ms. Rubald referred the committee to a NPMT rate table on page 10 ([Exhibit F](#)), and explained how the net to gross ratio affected the tax rate, based on a sliding scale. For example, if the net to gross ratio was less than 10, the mine would pay a tax rate of 2%. If the net to gross ratio was 50 or more, the mine would pay a tax rate of 5%. In addition, if the mine had a gross yield of \$4 million or more, the tax would automatically be calculated at the 5% rate. She said royalties also paid at the 5% rate. If the mine was a geothermal mine, the rate could be no higher than the county combined rate for property tax, which could be no greater than \$3.66 per one hundred dollars of assessed value. Ms. Rubald used the example on page 11 ([Exhibit F](#)) to further explain the calculation of the tax. She said after figuring out the net to gross ratio, a tax rate is assigned per the sliding scale tax rate in order to determine the NPMT revenue (page 10 ([Exhibit F](#))). Ms. Rubald explained that 40% of the NPMT revenue was distributed to the county based on the county combined rate, approximately 4% was distributed to the state debt rate, and the remainder was deposited to the State General Fund. She reiterated that geothermal mines were always taxed at the county combined rate, and do not distribute funds to the State General Fund. The same was true if the mine was producing at a level that generated a net to gross ratio that resulted in a tax rate less than the county combined rate. Ms. Rubald explained that distribution of the tax was about 50% to the state and 50% to the applicable county. Page 13 ([Exhibit F](#)) showed how much of the NPMT for the State of Nevada was disbursed from 2000 to 2013, including an estimate for 2014.

Ms. Rubald focused on the timeline related to reporting net proceeds of minerals, stating that in any given calendar year, two production years are taken into consideration (page 14, [Exhibit F](#)). Using the 2014 calendar year as an example, she described the timeline as it occurred prior to 2008. The month of February was when the taxpayer reported gross yield and claimed deductions for the previous calendar production year. She said Taxation reviewed that information and produced a certification and billing that was mailed out by April 20, 2014, referencing a due date no later than May 10, 2014. The Nevada State Controller's Office distributed the tax payments to the local and state entities by May 30, 2014. Ms. Rubald recalled that in 2008, beginning with the production year 2009, the law was changed to impose a prepayment system. In addition to the normal reporting certification and billing that she described, the taxpayers were also required to project what the current year

net proceeds of minerals would be, and make a payment on that projection. The taxpayers had the opportunity during the following four quarters to amend the March projection and make additional payments of taxes. She said a 10% penalty would apply if the total tax payments did not reach at least 90% of what was actually due. If an overpayment was made, the overpayment would be credited toward the payment due on March 1, 2015. If there was still an amount of overpayment remaining after applying the credit, then a refund would be made. Ms. Rubald referred to page 15 ([Exhibit F](#)), Net Proceeds of Minerals 2013 Reporting and Payment Timeline. She explained that at the beginning of 2013, Taxation had a balance of overpayments from 2012 in the amount of \$19,511,484, which was carried forward to apply to 2013 projection payments. On March 1, 2013, the taxpayers made projection payments for calendar year 2013 in the amount of \$204.2 million. Between the carry-forward overpayments and the projection payments, the total cash on hand was \$223,798,000. She said it was not until April 20, 2014, 13 months later, the Department of Taxation learned that the actual amount due was \$170.9 million, reflecting an overpayment in taxes by \$52.8 million. In March 2014, Taxation applied \$31,688,000 of the \$52.8 million to the prepayments that were due on March 1, 2014. After the certification process in April 2014, Taxation received additional tax payments of about \$2 million for the production year 2013, mostly from taxpayers who had underpaid for the year. After making those adjustments to cash, and applying the prepayments to the actual tax liability due, the net amount of overpayments to be carried forward was \$23,203,850.

Looking at the 2014 production year (page 16, [Exhibit F](#)), Ms. Rubald pointed out that Taxation received prepayments of the NPMT on March 1, 2014, totaling \$47,115,000. Taxation also applied cash from overpayments made in 2013 to the prepayments in the amount of \$31.6 million. She said the total amount of net proceeds of minerals projected for production year 2014 was \$78.8 million, but 40% of that was overpayments made in 2013. She said Taxation will not know what the total actual liability will be for production year 2014 until April 2015. She said, assuming the prepayments made in March 2014 were accurate, Taxation would still apply the 2013 carry-forward of \$23.2 million to the projection payments due on March 1, 2015. Assuming the level of net proceeds of minerals in 2015 is about the same as 2014, approximately \$78 million to \$80 million, the total expected cash amount to distribute after applying the 2014 carry-forward would be about \$57 million. She said about 50% was the state's portion and 50% was the county's portion.

To summarize, Ms. Rubald referred to page 17 ([Exhibit F](#)), Distribution of FY 14/15 Net Proceeds of Minerals Payment. She said the total projected net proceeds of minerals to be produced in 2014 was \$78.8 million. The mines made overpayments, with part of those being applied to the projection payment that was due March 1, 2014, in the amount of \$31.6 million. The mines also paid cash of \$47.1 million. The distribution of the cash will be about \$20.6 million to the State General Fund and \$26.4 million to the counties.

Mr. Maddox asked if property taxes were collected in addition to the county's portion of the NPMT or if it was included in the NPMT.

Ms. Rubald replied that the NPMT is in lieu of a property tax, and the basis for the levy is the property tax rate. She said the county's portion of the NPMT is based on the county's combined rate for property taxes. For example, in White Pine County the tax rate allowed for property taxes is \$3.66 per one hundred dollars of assessed value. Using that number, if the total tax rate is 4%, then 3.49% of the NPMT revenue would go to White Pine County. She said the remainder would first satisfy a percentage allocated to the state debt fund and anything left after that would be deposited to the State General Fund.

Mr. Maddox asked if a 15% decline in revenue equaled a 75% decline in the NPMT. He commented that revenues dropped from \$10 billion to \$8.8 billion, and yet taxes were down by 75%.

Ms. Rubald replied a lot of that had to do with the fact that the NPMT was pre-paid and there was a lot of overpayment that had to be applied to the following year.

Mr. Maddox asked if there were other noncash items, besides depreciation, that could be deducted when calculating NPMT; like the large write-downs that Newmont and Barrick were taking this year.

Ms. Rubald said there was a specific list of deductions that the mining industry was allowed to take, such as cost of extraction, cost of transportation, delivery of the mineral, refining of the mineral, and more. She said depreciation was probably the largest noncash deduction. She said there used to be a deduction for a crude reclamation, but the law changed to disallow it.

Ms. Rosenthal observed that the mining industry forecast a greater production of revenue than it was able to materialize, thus the overpayment of NPMT and the over-forecast from the state budget perspective. Referencing the payment timelines on pages 15 and 16 ([Exhibit F](#)), Ms. Rosenthal was curious as to what information the Forum had available to them to aid in forecasting the budget in December, prior to legislative session.

Mr. Guindon indicated that the information available to the Economic Forum in the fall versus when forecasting in April and May was significantly different. In the fall of 2014, the Forum will have current information known thus far, including the mining entities reported production estimates for calendar year 2014 and the 2013 true-up between estimated taxes and actual collections. Mr. Guindon said it was important to clarify that the \$21 million in the General Fund for FY 2014 was the net estimate for mining production related to calendar year 2014, plus the true-up for calendar year 2013. He said the Forum would not receive much more information from the mining industry when forecasting in the months of October, November and December; however, Taxation does report information to staff in the Budget Office and the Fiscal Division as it comes in. He said when forecasts are produced in April, true-ups for the previous year are just being reported, and making it difficult for Taxation to compile the information for forecast purposes. Mr. Guindon recalled May 2013 when the Forum was producing the forecasts for FY 2013, and stated that the Forum had the estimates for what the mines projected to produce in calendar year 2013, plus their true-up for

calendar year 2012, but the actuals collected still came in \$17 million above the forecast in FY 2013. Additionally, he said the Forum was “on their own” in April 2013 when forecasting for FY 2014. Mr. Guindon reiterated that not much information is available for forecasting purposes in the fall, because the NPMT is not reported on a monthly or quarterly basis. However, he said the mining industry is allowed to do quarterly true-ups to stay within 90% of their estimate to avoid a penalty. Mr. Guindon stated that more information is available in May when the Forum generates a base-year forecast for the legislatively approved budget; however, minimal data is available to aid in projecting gold’s price, production, and the net to gross ratio for the following two years. He noted that gold accounted for about 90% of the minerals produced in Nevada, and gold made up 97% of the NPMT revenue that is deposited to the General Fund. Mr. Guindon mentioned the sliding scale that determined the NPMT rate, and stated that almost all the gold mining entities were paying the 5% maximum rate. He explained that the General Fund received funds that were not consumed by the combined property tax rate and the 5% NPMT rate, making gold the major payer of taxes in regard to the General Fund. Lastly, Mr. Guindon explained that the Technical Advisory Committee (TAC), directed by the Economic Forum, produces the consensus forecast percentages. Those numbers are presented to the Forum for review and approval. He clarified that the Forum only forecasts the General Fund portion of the revenue and not the county or state debt portions. He felt this was important to recognize, especially after he read some of the articles relating to the net proceeds of minerals deficit. He felt there was confusion about what the Forum forecasts and how it derives to its numbers.

Ms. Rosenthal thought it was obvious that the projections being turned in by the mining companies, used to calculate their estimated taxes, would presumably be based off their estimated production for the year. She asked Mr. Guindon to clarify if he included any overpayments in his forecasts.

Mr. Guindon replied that all of the information that Taxation received from the mines, including overpayments and underpayments, was taken into account when producing the base-year forecasts in December 2012 and May 2013 for FY 2015; knowing there was a potential liability of carrying forward overpayments from prior periods. He said forecasts for the following two years did not take into consideration any underpayments or overpayments, because it would be admitting unreliable forecasts.

Ms. Rubald reiterated that when the projection payments were made in March 2014, there was no way for Taxation to know if the \$78.8 million was forecast correctly by the mining companies until April 2015. She said the time lag can really affect the forecasting.

In regard to the Economic Forum’s forecast for NPMT, Ms. Rosenthal asked staff for a breakdown of the drivers of the deficit, and specifically asked if it was production levels or overpayments that were not forecast. She wanted to know what was driving the shortfall.

Mr. Guindon replied that Ms. Rubald’s presentation contained that information for FY 2014, but it was hard to see because the data was parsed into separate years.

He said he would have the data compiled so it was displayed in one table. He stated the projection in FY 2014 was missed because the forecasters projected a higher estimated tax payment for calendar year 2014 than what occurred, and the forecasters did not expect the estimates submitted by the mining companies for FY 2013 to be overestimated by such a high margin. This resulted in a double negative impact to actual collections in relation to the forecast prepared in May 2013.

Ms. Rubald added that when Taxation projected NPMT, they estimated gold at \$1,500 per ounce when it was selling between \$1,700 and \$1,800 per ounce. She said Taxation also used a net to gross ratio average of about 43%, based on the weighted average of the previous five years; however, it actually came in at 24%. She recognized those as the two principal drivers of the shortfall.

Chairman Wiles expressed his appreciation for the detailed information in Ms. Rubald's presentation. He said the economically rational thing for the mining companies to do, in conjunction with good foresight, was to pay 90% of the anticipated tax obligation; they could use their funds longer and ultimately true-up. He said the great uncertainty in the industry, such as pricing and volume, would more than likely cause a company to overpay their tax estimate in order to avoid the 10% penalty. Chairman Wiles remarked that a better mechanism for interim reporting would enhance the accuracy of the Forum's forecast, and especially be helpful when making 2-year ahead forecasts. He implied that lack of reporting by the mines was one of the conditions that lead to the miss.

Mr. Guindon agreed that better reporting might help forecast the base-year, but he thought biennial forecasts for all revenue sources were more difficult to project because they are based on international, national and state economic conditions and outlooks.

Chairman Wiles concurred, but shared his concern that six weeks ago the forecast was off by .06%, and three weeks later a significant difference was reported. He implied that there were people in the industry who knew the total tax payments were different materially, and would miss the forecast; reasoning that the shortfall did not occur in three weeks. Chairman Wiles repeated the need for additional reporting from the industry.

Mr. Guindon understood Chairman Wiles' view; however, he reminded the committee that NPMT was an annual tax; therefore, revenue did not come in throughout the year. He did not know if detecting a discrepancy in the tax revenue forecast early would make a difference versus knowing at the end of the fiscal year. He said it boiled down to the final payments and the tax collected at that time. Mr. Guindon pointed out that there were approved tax law changes in the 2013 Legislative Session that applied to the prepayment of NPMT, and noted there was an extended sunset that could require the estimated payments to go away. He was hesitant to say that the sunset occurrence might allow for a more accurate forecast; however, he said it would take away one of the elements that was creating the uncertainty and variance in the forecast. He said, because Taxation was not able to apply all of the tax credits from the previous year, that they were obligated to carry credits forward. He said those credits being used in FY 2015 will depend on how accurate the current forecasts are. Mr. Guindon recalled

when the mines reported net proceeds of minerals at the end of the calendar year, and paid their taxes accordingly; whereas now the reporting laws require paying taxes based on estimates and true-ups. He said the problem with the prepayment sunset was that there will be no revenue collected in FY 2016. Mr. Guindon said that it is difficult to apply a law that requires additional reporting, for the sake of reporting, if there is no liability to pay the tax attached to it. However, he said additional reporting could be taken into future consideration.

Mr. Maddox was curious as to how the mining industry built their forecast, and pointed out that their deductions were increasing regardless of revenues. He shared his concern as to why the forecasters based their projection for net proceeds of minerals using a 43% net margin; knowing production costs were escalating at the same time the price of gold was dropping. He said using a weighted average over the last five years, during the ultimate bubble, made no sense when compared to 2009 when gold was about the same price as today, and at a 30% net margin. He said when costs are recognizably increasing, those costs should be included in the forecast before projecting the revenue. Mr. Maddox expressed that it would be helpful to have insight to the mines' cost structures, stating that the Forum never saw any of that data and only received a lump sum number.

Mr. Guindon said the Economic Forum can make the decision to direct the TAC to produce the forecast, or have the information presented directly to the members of the Economic Forum for them to finalize the forecast.

Mr. Maddox thought it would be beneficial to have the TAC present to the Forum, and explain their rationale. He commented that maybe there was a logical reason to forecast a 43% net margin at the same time the price of gold was forecast to drop.

Mr. Guindon suggested that this topic be further discussed with Chairman Wiles. He explained that the forecasts prepared by Taxation, Fiscal Division and the Budget Office, using the information from Taxation, are presented to the TAC for comment and review. The TAC has the opportunity to ask questions and make adjustments to the consensus forecast. Once the consensus forecast is finalized, it is forwarded to the Economic Forum. Mr. Guindon made it clear that the mining industry is not asked to present any detail to the TAC pertaining to their estimates or their tax returns. He said it was not an impossible request, but it definitely required discussion amongst the members of the Economic Forum. He said the Forum would also have to decide if they would require that detail from any of the other tax revenue sources.

Chairman Wiles said there was a broader issue at hand, pointing out that significant decisions were being made at the state and county levels based upon some of these forecast tax revenues. He said the shortfall of revenue would particularly impact certain rural counties, because it would provide them with a revenue source that was significantly diminished from what they anticipated. He said, although it was not the Forum's purview to determine the reason for the shortfall, it would be the Forum's desire to have any information that is potentially available to them, and for the Governor and Legislature to consider mandatory quarterly reports from the industry that would aid in making better and informed decisions. Chairman Wiles explained that in public

company accounting, a 10K filing is released annually that details financial information on that company. He said if the company anticipated a significant divergence from expectations, that information would appear in a quarterly 10Q report or was part of the notes; maintaining that part of the risk factor was the management discussion and analysis. He implied that someone inside the industry or the state knew that the NPMT revenue was going to result in less than anticipated. He questioned how those sources could be identified and how better estimates could be obtained from the mines, or whether the mines would cooperate.

Mr. Leavitt remarked, "sometimes we are our own worst enemy." In relation to NPMT, he explained that the state was in need of cash so they incorporated the prepayment system. He said the forecast accuracy diminished with this system because it required forecasting into the future. He said it worked out as long as the price of gold was rising. Mr. Leavitt said it appeared there were fixed costs that were unrelated to production, and pointed out the cost of minerals was not going down commensurate with the reduction in price and production. He acknowledged that the net percentage was very different than it was a couple of years ago. Additionally, because the prepayment system was already in place its elimination will affect revenue for an entire year. He recalled that the state had been dealing with net proceeds of minerals issues for almost 50 years, and stated it was only getting worse.

Chairman Wiles thanked Ms. Rubald for her presentation, stating that the timelines were particularly helpful to get a sense of the timing and uncertainty that everyone faced when making projections. He said the examples helped to clarify the challenges in the timing of the tax payments and the carry-forwards.

Mr. Guindon referred to [Exhibit G](#), Comparison of Forecast and Actual Net Proceeds of Minerals Revenue (State General Fund), FY 1995 TO FY 2013 and FY 2014 Preliminary. He said at the request of Chairman Wiles, he included in the table the actual collections for the NPMT that related only to the General Fund portion, along with the different forecasts that were occurring for the 1-year ahead and the 2-year ahead forecasts. Moving on to the middle of page 2 ([Exhibit G](#)), Mr. Guindon explained that from FY 1995 to FY 2008, NPMT revenue made up a very small portion of the General Fund, averaging about \$18.2 million. He said in FY 2009, the state required the actual payment from the preceding calendar year and the estimated payment for the current calendar year be combined in one fiscal year to help out during the fiscal crisis. He said that movement is what set the stage for the estimated payment tax structure. From FY 2009 to FY 2013, the actual collections averaged around \$98 million and became a much larger General Fund revenue source. In FY 2014, the net amount paid to the General Fund, including the estimate plus the true-up, was back to around the amounts reported between FY 1995 and FY 2008. Mr. Guindon explained that when the data was analyzed in average and absolute average terms, the conclusion was that the NPMT was never an easy revenue source to forecast, whether it was based on the actual collections from the preceding calendar year or the estimated payment system currently in place. Historically, there has always been relatively large forecast errors, but the errors were not noticed as much when the NPMT was a relatively small revenue source totaling \$18 million.

Mr. Maddox said that Chairman Wells made a great point, that the mining companies are public companies and they present their financial statements every quarter. He said the information is out there and the forecasters should look at it more carefully.

Mr. Guindon said he did not disagree; however, there were other publicly traded companies that paid other taxes required by law and were not required to report information, such as Insurance Premium Tax and Live Entertainment Tax. His observation as a legislative staff member triggered his concern as to where the reporting requirements would begin and end, should the Legislature require businesses to start reporting.

In closing, Mr. Guindon stated that the purpose of [Exhibit G](#) was to show the history of the NPMT revenue source, and to discuss its difficulty to forecast; no matter what the tax structure was.

Mr. Maddox asked how much of NPMT revenue was derived by Barrick Gold and Newmont Mining, and emphasized that information would be requested from two companies versus the thousands of payers who contributed to the Insurance Premium Tax.

Mr. Guindon said Barrick Gold and Newmont Mining were predominant companies in the mining industry, specifically mining gold.

Chairman Wiles declared there was more discussion needed on this item and that it would be addressed in the fall meeting. He said there would be considerable work focused on this issue over the next several months.

XII. PRESENTATION ON PERSONAL INCOME AND WAGES IN RELATION TO POPULATION, EMPLOYMENT, AND INFLATION ON A NATIONAL LEVEL AND THE STATE OF NEVADA.

*Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division,
Legislative Counsel Bureau*

Mr. Reel reported that the national economy lost about 8.0 million jobs during the recession, but gained almost all of them back over the last four years (page 1, [Exhibit H](#)). He said the U.S. was -0.4% below the U.S. total nonfarm employment level since the first quarter of 2008. Mr. Reel reported that Nevada lost 180,000 jobs over the course of three years, with half of those jobs being in the construction industry. He said the state gained back about 90,000 jobs over the last three years; however, only about 10,000 of those jobs returned to the construction industry. He reported that Nevada's job growth rate grew by 1.8% between the first quarter of 2011 and the first quarter of 2014, rising above the U.S. growth rate average of 1.5%. He explained that Nevada's population declined considerably throughout the downturn in economy, but had since increased its growth rate by about 1%. Mr. Reel referenced the U.S. Consumer Price Index (CPI) on page 5 ([Exhibit H](#)) to give a point of reference as he directed his focus toward more inflation-adjusted areas.

Moving on to page 7 ([Exhibit H](#)), U.S. Total Personal Income and Total Wages and Salaries, Mr. Reel reported that U.S. total personal income increased 15.3% since the peak in 2008. He said U.S. total wages did not experience the same growth as personal income, but still surpassed its previous peak, growing by 11.4% from peak to peak. In Nevada, personal income grew by 1.7% from its previous peak; however, the wage component measured 5.1% below the previous peak in 2008. Continuing, Mr. Reel compared the U.S. and Nevada personal income growth rates (page 9, [Exhibit H](#)). He said during the expansion years, Nevada typically had stronger personal income growth rates than the national average; however, reporting's from the last few quarters showed that Nevada returned to the same growth as the national average. He explained that the wage and salary component chart on page 10 ([Exhibit H](#)) showed that Nevada rose slightly above the national average within the last few quarters, adding that both the U.S. and Nevada had been hovering around the 3.0% range for several quarters. Mr. Reel pointed out that U.S. per capita personal income grew by 10.3% since the peak in 2008; however, when adjusted for inflation, it showed running flat since 2007 at 0.2%. He said Nevada's per capita personal income was down by 4.7% compared to the previous peak in 2007, and on inflation adjusted terms the state was 15.6% below the peak level in the second quarter of 2005. The graph on page 13 ([Exhibit H](#)) showed a side-by-side comparison of how the U.S. and Nevada measured in regard to per capita personal income. He said in 2007, Nevada was running ahead of the national average at around \$40,000 per year, but it still had not returned to that peak level since the economic downturn. He said Nevada had slower per capita personal income growth rates throughout the recession, but had grown 1.8% since turning positive; compared to the national average at 3.2%. In regard to the per capita personal income growth rates, adjusted for inflation, the U.S. was holding positive at 1.1% since 2010, whereas Nevada reported running below at negative 0.2% and holding with inflation.

Mr. Reel reported that the wage and salary component of personal income on a per employee basis at the national level showed a drop in the fourth quarter of 2008, but the growth initiated a climb and is now at 10.1% above the previous peak. On inflation adjusted terms, wage and salaries per employee had been flat since the previous peak in 2007, and currently sits at negative 0.4% since that peak. In Nevada, the growth prior to the recession was strong. Wages and salaries per employee declined after peaking in 2008 and recently started to grow; however, they are only 2.6% above that previous peak in 2008. The inflation adjusted level showed that Nevada wages and salaries per employee declined by a negative 7.3% since the fourth quarter of 2007. Mr. Reel compared the U.S. and Nevada wages and salaries per employee, and the U.S. average showed that it had consistently been a little higher than Nevada's; however, that gap started to close prior to the recession and now reflects about a \$5,000 variance (page 19, [Exhibit H](#)). In inflation adjusted terms, the U.S. has been holding flat since 2007 and Nevada's wages and salaries declined by negative 7.3%.

Mr. Reel explained that the last two charts on pages 21 and 22 ([Exhibit H](#)) compared the wage and salary per employee growth rates between the U.S. and Nevada. He said Nevada was holding its own with a small growth rate of .8% since the second quarter of

2009; however, with inflation adjustments Nevada is 0.9% below the second quarter of 2009 reference point.

In closing, Mr. Reel stated that he based his presentation on a request made by Chairman Wiles at the December 2013 meeting to provide more information regarding personal income and wages and salaries.

Mr. Guindon said that Mr. Reel's presentation regarding inflation-adjusted personal income per person and wages per employee was helpful with identifying the current degree of purchasing power. He said purchasing power was holding its own at the national level, and noted that the U.S. has a tourist based economy. However, Nevada's purchasing power was still falling. Speaking as an economist, Mr. Guindon said he sometimes wondered how auto sales and other taxable sales were doing so well when taking into consideration wages and salaries per employee in inflation-adjusted terms. Mr. Guindon offered to continue updating the charts included as part of this agenda item, and to publicize updates at the next Economic Forum meeting.

In conclusion, Chairman Wiles commented on how helpful the charts were; particularly regarding the inflation-adjusted numbers. He noted the dramatic change in personal income since 2005. Chairman Wiles asked Mr. Reel if he had information on family income. He said that personal income is based on an individual's income, whereas family income is based on the combined income of all working members in a household over age 15. For example, if a person in a two-income household lost his/her job, then the family income would drop, but the personal income would remain the same. He said it would be interesting to see how family income would be impacted on an inflation-adjusted basis. He said he did not need to see a full range of statistics, but a couple of indicators would be interesting.

Mr. Reel said he would expand his next presentation to include family income.

XIII. PRESENTATION ON HISTORICAL TAXABLE SALES AND GAMING MARKET STATISTICS.

*Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division,
Legislative Counsel Bureau*

Mr. Guindon explained that all of the tables relating to this agenda item are located on the Economic Forum's webpage, located on the Nevada Legislature's website. He said a hardcopy of the charts could be requested through the Fiscal Analysis Division at the Legislative Counsel Bureau. He encouraged the committee and the public to access the status of taxable sales and gaming through the links provided on the website. These charts are updated prior to each Economic Forum meeting.

XIV. DISCUSSION OF THE REPORT BY THE ECONOMIC FORUM TO THE INTERIM FINANCE COMMITTEE REQUIRED PURSUANT TO NRS 353.228.

*Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division,
Legislative Counsel Bureau*

Mr. Guindon stated that under the law the Chairman of the Economic Forum or a member of the staff of the Economic Forum shall present to the Interim Finance Committee such matters considered at this meeting, and considered appropriate by the Economic Forum. He pointed out that the next Interim Finance Committee (IFC) meeting was slated for June 19, 2014, and said he would work with Chairman Wiles' staff to get his report prepared.

XV. PUBLIC COMMENT

There was no public comment at either location.

XVI. ADJOURNMENT

The meeting was adjourned at 1:08 p.m.

Respectfully submitted,

Judy Lyons, Committee Secretary

APPROVED:

Ken Wiles, Chairman

Date: _____

Copies of exhibits mentioned in these minutes are on file in the Fiscal Analysis Division at the Legislative Counsel Bureau, Carson City, Nevada. The division may be contacted at (775) 684-6821.