

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

December 6, 2013

The meeting of the State of Nevada Economic Forum (created by Senate Bill 23, 1993) was held at 9:00 a.m. on Friday, December 6, 2013, in room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with videoconference to room 3137 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
Patti Sullivan, Secretary, Fiscal Analysis Division

EXHIBITS:

<u>Exhibit A</u>	Meeting Packet and Agenda
<u>Exhibit B</u>	Nevada Labor Market Briefing – Department of Employment, Training and Rehabilitation
<u>Exhibit C</u>	Nevada Health Link – Silver State Health Insurance Exchange
<u>Exhibit D</u>	Other States New Markets Tax Credit Benefits – Department of Business and Industry
<u>Exhibit E</u>	Table 3 – General Fund Revenues - Actuals
<u>Exhibit F</u>	Tables 4, 5 and 6 – State General Fund Revenues

I. ROLL CALL

Chairman Ken Wiles called the meeting of the State of Nevada Economic Forum to order at 9:11 a.m. and the secretary called roll. All the members were present at the meeting in Las Vegas.

II. PUBLIC COMMENT.

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

III. OPENING REMARKS AND OVERVIEW OF THE ECONOMIC FORUM.

IV. PRESENTATION ON THE STATE EMPLOYMENT AND UNEMPLOYMENT OUTLOOK.

**Leannandra Copeland, Economist, Research and Analysis Bureau,
Department of Employment, Training and Rehabilitation**

**Bill Anderson, Chief Economist, Research and Analysis Bureau,
Department of Employment, Training and Rehabilitation**

Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation (DETR), introduced Leannandra Copeland to present statistics on the state and national labor markets.

Leannandra Copeland, Economist, Research and Analysis Bureau, DETR, stated that Nevada's economy grew over 2%, with increased job growth in nearly every sector. She said 2013 marked the third year of recovery, citing that about 25% of the jobs that were lost had returned. She said the state was in a full-fledged recovery, and although Nevada's job growth was starting to outpace about 50% of the other states, Nevada's unemployment rate was the highest in the nation.

Ms. Copeland said that Nevada's new economy was strongly correlated with the U.S. economy. She referred to the graph showing national unemployment trends (page 2, [Exhibit B](#)). Ms. Copeland explained that the U.S. economy was expanding moderately, with conditions in the labor market gradually improving. The unemployment rate was 7% in November 2013, a drop of 0.8% from 2012. She said the labor force was close to reaching an all-time high, but the labor force participation rate was trending downward, implying that the nation's population growth was outpacing the labor force participation growth. Ms. Copeland stated that the U.S. added an average of 190,000 jobs per month in 2013, but the job situation remained unsatisfactory because the unemployment rate exceeded the long run normal level. She said the U.S. job level was projected to reach the prior peak in 2007, sometime in 2014. She said the economy was adding more jobs per month than it had before the recession, but not as

many as during the late 1990's. She expected that once job levels break this threshold, the U.S. will enter a long awaited expansionary phase.

Ms. Copeland reiterated that the U.S. and Nevada economies were highly correlated. She said Nevada's economy was highly dependent on tourism, citing the United States Travel and Tourism Satellite Account, produced by the Bureau of Economic Analysis, as a good indicator of U.S. tourism. She said U.S. tourism advanced 2.5% in the second quarter of 2013, with gains recorded in 13 of the last 14 quarters (page 4, [Exhibit B](#)).

Ms. Copeland said an individual's personal income, including salaries and wages, investment dividends, rental income, etc., were a major factor of consumer consumption and drives much of the economy. She said Nevada's personal income grew 2.7% in the second quarter of 2013 compared to the same period in 2012 (page 5, [Exhibit B](#)). DETR reported that average weekly wages in the first half of 2013 jumped 1.0% since 2012, but real wage growth (wages adjusted for inflation) remained stagnant since 2007. She explained that nominal wages were growing, but struggled to keep pace with inflation.

Ms. Copeland said Nevada's unemployment rate declined 1.0% from 2012, whereas the nation's dropped 0.8%. Ms. Copeland stated that Nevada had the highest unemployment rate in the nation, but thought Nevada would lose that distinction in 2014 given its job growth rankings. She said the rural areas with a large mining presence fared relatively well throughout the recession; however, the dynamics could shift if gold prices continued to decline (page 9, [Exhibit B](#)).

Ms. Copeland said Nevada added 50,000 jobs since 2011. She said job readings showed a 1.8% increase from 2012, on a seasonally adjusted basis, and reported year-over-year gains for 34 straight months, surpassing the national average in 2013. On a non-seasonally adjusted basis, Nevada's job market showed a 1.9% increase through October of 2013 compared to the same period in 2012, versus the nation's 1.6% increase. Ms. Copeland referenced a national recovery map on page 14 ([Exhibit B](#)). She explained that the job recovery ratio was calculated by dividing the number of jobs gained, since the economy bottomed, by the total number of jobs lost. She said Nevada was one of the last states to begin its recovery and had not made up much ground, exceeding only New Mexico, Alabama, and Rhode Island.

Ms. Copeland said Nevada was the fastest growing state prior to the recession, and the fastest state to decline during the recession. In 2012, Nevada outpaced 25 states in job growth throughout all major sectors of the economy. She said that the government sector lost 60 jobs in the first half of 2013, whereas the construction industry rose nearly 10%. The professional business service sector was the leader of job growth by adding 5,500 jobs through the first half of 2013. Holiday employment in the trade and transportation sectors returned to levels seen before the great recession. Ms. Copeland stated that the employment gain between September and December of 2012 reached 10,400 jobs. Because more people were working, and nominal wages increased, gains for 2013 were expected to match or exceed that number.

Historically, Ms. Copeland said gaming revenue on “The Strip” comprised 60% of Las Vegas’ total revenues, whereas non-gaming revenues equated to about 40%. Today, those numbers are reversed and non-gaming revenue comprised about 64% of the Las Vegas’ total revenue mix. The chart on page 18 ([Exhibit B](#)) showed strong growth in Nevada’s restaurants, hotels, and motels, and decreased employment in casinos over the past ten years.

Ms. Copeland referenced job trends on page 19 ([Exhibit B](#)). In regard to the private sector, Nevada added nearly 11,000 jobs in 2011, 19,000 jobs in 2012, and another 19,000 jobs were expected to be added in 2013. She said 60,000 jobs were expected to be added through 2016; however, she forecast Nevada’s employment would remain below the 2007 peak until 2017. Ms. Copeland said the job growth rate accelerated over the past two years, reporting an upward momentum of 0.6% in 2011, 1.5% in 2012, and a 2% growth rate was expected in 2013.

Ms. Copeland stated that smaller growth projections were anticipated in the mining sector, because the price of gold continued to drop. She said gold averaged \$1,400 per ounce through October 2013, whereas in 2012 it averaged \$1,700 per ounce. She stated that newspaper articles reported hundreds of mining jobs were cut in 2013; however, the unemployment insurance records did not reveal evidence of industry decline. The construction and finance job sectors were the last two industries to rebound, while transportation and warehousing already rebounded and displayed growth potential and diversity in Nevada’s economy. She said the retail sector looked healthy and was only down 4,000 jobs since 2007, and was expected to reach new heights in 2014. The health care industry was expected to add 6,000 jobs through 2015 (page 24, [Exhibit B](#)). She reported that the accommodation and food services industry showed strong growth with nearly 300,000 jobs held in the second quarter of 2013 compared to 310,000 jobs held at its peak. Ms. Copeland testified that the unemployment rate averaged 9.57% in 2013, whereas she initially forecast a rate of 9.5%. She said the unemployment rate was expected to decline by 1% in 2014 and drop another .05% in 2015.

In closing, Ms. Copeland said that Nevada’s new economy was taking form with increased momentum, yet many people failed to find work. The unemployment rate remained above the normal level and substantial real wage gains have yet to be realized.

Mr. Leavitt asked how present total employment compared to peak total employment, not including the construction sector. Ms. Copeland said the state lost about 200,000 jobs over the course of the recession, 100,000 of which were in the construction sector. She said Nevada recovered about 50,000 jobs, with only 5,000 positions allocated to the construction industry. She said Nevada was about 55,000 jobs short from the peak years, not including the construction industry.

Mr. Leavitt said, with the exclusion of construction jobs, he did not think Nevada's employment recovery was doing too poorly compared to where it was at one time. He was unsure whether it would be good for Nevada to return to such high levels of demand in the construction sector, because it subjected the state to huge declines during an economic downturn.

Chairman Wiles said that he heard there was a transition from full-time to part-time employment on a national level. He said it would be helpful to review information that pertained to household income, as well as personal income. On a national level, he said that household income declined approximately 10% over the last six years and continued to decline. He said household income had an impact on consumer spending, travel, and all other areas that affected the local economy. For forecasting purposes, Mr. Wiles said it would be helpful to understand the composition of the labor force, including the labor participation rate, the average number of hours worked, and the average hourly wage because an individual's net wages had an impact on tourism and trade activity. He said if more jobs were created, but a significant portion of those jobs were 30 hours or less, that it would cause impact to household income, disposable income, and consumption habits. Ms. Copeland stated she would take those comments into consideration and include them in DETR's next presentation.

Russell Guindon, Principal Deputy Fiscal Analyst, Legislative Counsel Bureau, added that DETR's employment outlook presentation was beneficial, and that a comparison would be done when the Forum meets in June 2014. Mr. Guindon said he would work with Mr. Anderson and his staff to compile some of the metrics that Chairman Wiles inquired about, and distribute the information prior to the June 2014 meeting.

V. PRESENTATION ON FUEL TAX INDEXING (ASSEMBLY BILL 413, 2013 LEGISLATIVE SESSION).

Tina Quigley, General Manager, Regional Transportation Commission of Southern Nevada

Tina Quigley, General Manager, Regional Transportation Commission of Southern Nevada, said the Regional Transportation Commission of Southern Nevada (RTC) was the umbrella agency for all transit and transportation in Southern Nevada, except for taxi cabs and the monorail. She said RTC was the transit authority that operated the bus system and was the traffic management agency that oversaw the technology and movement of traffic, such as ramp meters, traffic signalization, and travel time signs. The RTC was also responsible for transportation planning and funding streets and highways.

Ms. Quigley referenced the two local funding sources used for maintaining the streets and highways: (1) sales tax, which had increased over the last couple of years. In FY 2013, Southern Nevada sales tax revenue totaled \$159 million and was used to fund transit, technology, and streets/highways. She said \$30 million of the sales tax revenue

was allocated to streets and highways, and \$28 million of that revenue was obligated to debt service, leaving \$2 million for new projects; and (2) fuel tax.

Ms. Quigley explained that consumers paid a \$0.52 fuel tax for every gallon of gas purchased in Southern Nevada. She said \$0.185 of the fuel tax was allocated to the federal government, \$0.23 was distributed to the state (a portion stayed in Clark County), and \$0.09 stayed local with the RTC. The fuel tax was not associated with inflation; therefore, the rate had not increased since 1995 and the RTC's purchasing power decreased. She said the fuel tax generated about \$65 million annually, of which \$21 million was not currently obligated to debt service. She explained that projects that needed to be completed during the recession were funded with bonds against future revenues. In summary, the combined, unobligated revenues from the sales and fuel taxes produced an average of \$23 million in FY 2013 for new projects, whereas in the past (2002 – 2012) that number was \$136 million (page 13, [Exhibit A](#)).

Ms. Quigley explained that the recessed economy, combined with diminished purchasing power, presented a significant problem. She said since 1995, the RTC had experienced a 36% loss when compared to the Consumer Price Index (CPI), and a 58% loss when compared with the Producer Price Index (PPI). She noted that the PPI was related to the cost of construction goods and equipment. To put it into perspective, she said a purchase for \$1.00 in 1995 would now cost \$2.60.

Ms. Quigley explained that A.B. 413 was passed by the Legislature in 2013, enabling the Clark County Board of Commissioners to adopt a fuel indexing ordinance that tied the \$0.52 fuel tax to inflation. Compared to the PPI, which relates to the cost of construction goods and equipment, it is an increase of about 6%. She said the fuel tax would increase annually, \$0.03 on January 1, 2014, \$0.03 in 2015, and \$0.03 in 2016. The County Commission was authorized to enact the fuel indexing ordinance for a period of three years, so it would expire in December 2016.

The Clark County Commission passed the ordinance with a \$0.10 cap, regardless of inflation. Ms. Quigley explained that the indexing was calculated on a ten-year rolling average of the PPI, related to construction goods and equipment. She said, regardless of how significant the rolling ten-year average might be, it would be capped at \$0.10 for the three-year period.

Ms. Quigley said the fuel tax increase would cost the average driver about \$0.10 per day. The formula was calculated using a Toyota Camry, driven approximately 13,476 miles per year and averaging 25 miles per gallon, equating to 539 gallons of gas consumed per year.

Ms. Quigley said the additional revenue would allow RTC to bond for about \$700 million (185 projects), which would allow the RTC to move forward on projects that were put on hold due to the great recession, but were needed to keep up with existing demand. She said the construction funding would create between 8,900 and 9,400 "person years of employment" jobs, defined as one person working full time for one year. The positions

created would impact direct jobs (construction related), indirect jobs (created as a result of construction, i.e., supplier), and induced jobs (created as a result of direct and indirect jobs, i.e., grocery store clerk, daycare worker, dry-cleaning personnel).

Ms. Quigley stated that the funded projects would have aggressive construction timelines. Many of the projects already had completed designs and construction was scheduled to begin in spring 2014. She said the RTC worked with project works directors in Southern Nevada to identify the projects that would be included in the motor vehicle fuel revenue indexing program. They focused on projects that had regional significance, encouraging growth to diversify the economic base in Clark County, or projects that were needed for people to commute from home to work. She highlighted the following high profile projects that would make a significant impact:

- Phase 1 of the Interstate 11 Corridor: Las Vegas and Phoenix were the only two major metropolitan areas in the U.S. that were not connected by an Interstate. Forecasts for economic activity projected strong growth in that corridor due to transporting goods from Mexico to the U.S. Las Vegas was well situated regionally to become a hub for logistics and manufacturing activities.
- Finishing the Las Vegas Beltway: Much of this project was at grade level. Grade separation and bridges were anticipated to be under construction in April 2014.
- FAST (Freeway & Arterial System of Transportation): This includes investment in infrastructure, fiber and technology used to manage traffic. A well-timed corridor could increase traffic capacity by 30%.
- Maryland Parkway: An artery that links the airport with a major university, a medical district (Sunrise Medical District), a mall (recently purchased by a developer with aggressive plans), and downtown. It is a six-mile, north/south corridor with the highest ridership routes in terms of transit and heavy pedestrian activity.
- The Convention Corridor: The RTC and Las Vegas Convention and Visitors Authority (LVCVA) recognized the importance of remaining globally competitive. If the LVCVA is successful in its endeavor to build a new \$2.5 billion facility, the corridor would need significant investment in transportation amenities to accommodate the estimated 20% increase in the number of visitors traveling from the airport to the convention center.

Ms. Quigley said the RTC had an amazing amount of support from the private sector businesses, unions, small businesses, and construction and engineering industries, but all of the entities were adamant about keeping the newly created jobs local to the area. As a result, each of the county, city, and RTC jurisdictions adopted resolutions stating that they were wholly committed to making sure, within the legal limits of the law, that jobs were kept local.

Ms. Quigley explained that the indexing of the fuel rate to inflation was important, not just because of the investment in infrastructure. She explained the two biggest components of economic development, diversification, and growth were education and transportation. Ms. Quigley reiterated that when a company decides whether to expand or relocate its business, transportation and education were key factors. She said that

Las Vegas had partnerships with Phoenix, Salt Lake City, and Denver, but was also in competition with them. She reported that each of those cities were investing in transportation programs aggressively. She said Denver would invest \$4 billion in its transit and transportation system over the next three years, Phoenix would invest \$6 billion over the next three years, and Salt Lake City was considering a sales tax initiative that would generate \$11 billion for transportation. In reference to A.B. 413, Clark County voters would decide in 2016 whether to continue the fuel tax indexing. She said the RTC would educate the voters to make sure they understood which projects were a direct result of the three-year fuel tax indexing to inflation.

Ms. Quigley said that regardless of whether the voters decide to continue fuel tax indexing, vehicles were more fuel efficient and would have an effect on the fuel tax revenue. Therefore, other funding methods needed to be explored in order to maintain the roads. She said the Nevada Department of Transportation (NDOT), as well as other state and federal entities, had discussed implementation of a “vehicle miles traveled” tax. In this case, miles driven would be tracked and a tax would be paid to the applicable state(s) traveled in. She noted there were privacy and technology issues involved in tracking miles travelled. Another idea was to increase registration fees so that owners of extremely efficient vehicles (i.e., electric) would pay a fair share for road maintenance. Potentially, everyone could be paying the same fixed amount regardless of the number of miles driven. Ms. Quigley said “tolling” was a concept being considered nationwide; however, it proposed a challenge because it could only be implemented on new infrastructure. She expected that it would be discussed in the 2015 Legislative Session.

Ms. Rosenthal asked for clarification in regard to the fuel tax increase and its \$0.10 per day impact to the average driver. She understood the three-year increase was not to exceed \$0.10 per gallon.

Ms. Quigley explained that It was coincidence that the fuel tax cap and the impact to the average driver both totaled \$0.10. The first year of fuel indexing would cost an average driver \$52 in tax. The cost would increase about \$100 in 2015 (totaling about \$150), and increase another \$60 in 2016 (totaling about \$210). She said the cost to the average driver, compounded over the three-year period, was \$0.10 per day.

Ms. Rosenthal asked if the fuel tax rate would regress at the end of the three-year period.

Ms. Quigley explained that the fuel tax rate would remain at the level indexed at the end of the three-year period, and continue until the expiration of the 20-year bonds. She said A.B. 413 required two ballot initiatives: (1) to ask the voters if Clark County should continue to index the \$0.52 fuel tax with additional revenue being allocated to Clark County, and (2) to ask the voters if the state portion of the fuel tax should be indexed with the additional revenue being allocated to NDOT.

Ms. Rosenthal asked if the revenue generated by indexing the federal portion of the fuel tax would be distributed to the federal government. Ms. Quigley said the revenue from indexing the federal portion of the fuel tax would remain in Southern Nevada.

Mr. Maddox referenced the Toyota Camry fuel mileage used to calculate the indexed fuel tax impact on the average driver. He asked if the Toyota Camry was the appropriate median vehicle, and if 25 miles per gallon was the appropriate metric. Ms. Quigley said a local economist performed a study of vehicle types in Southern Nevada and the Toyota Camry was determined to be the average vehicle.

Chairman Wiles noted that \$28 million of the sales tax component was allocated to debt service. He asked for the total amount of debt incurred by RTC.

Mr. Marc Traasdahl, Finance Director, Regional Transportation Commission of Southern Nevada, said the RTC had bonds outstanding on sales tax revenue totaling about \$280 million.

Chairman Wiles asked for the average interest rate on the sales tax debt service. In addition, he asked if the \$28 million sales tax debt service was interest expense or if it was amortized.

Mr. Traasdahl said the interest rate was roughly 5%. Chairman Wiles explained that if the interest rate was 5%, then the interest expense on \$280 million would be roughly \$15 million. He asked if the \$28 million debt service expense was made up of 50% interest and 50% amortization. Mr. Traasdahl confirmed that Chairman Wiles was correct, that the percentage was close.

Mr. Maddox asked if bids had been received for the projects starting in the spring. Ms. Quigley said the Beltway project recently went out to bid, and it was expected to be under construction in April of 2014. She clarified that this project would involve building bridges to Interstate 215, and would also bring Interstate 215 up to Beltway standards between Decatur and North 5th Street.

Mr. Maddox asked if only local companies were allowed to bid on the projects. He was concerned about the large size of the projects. He asked if RTC expected multiple bids from local companies to make sure the price was right.

Ms. Quigley said the Nevada Preference Law allowed for low bid, but when a project was permitted as "design build," which allowed more leeway and did not require low bid, RTC included a weighted evaluation factor of 10% for "local knowledge and experience." She said that was used for the Boulder City bypass project bid. She said, within the parameters of the law, the RTC was trying to make sure that the local companies had an advantage.

Chairman Wiles asked what the expected total expenditures would be over the next year or two on projects going forward. Ms. Quigley estimated about \$300 million to \$400 million worth of projects would be underway in the next three to four years.

Chairman Wiles asked if there would be additional borrowing against the bonds. Ms. Quigley said, based on the revenue over the next three years, the maximum amount that the RTC could bond for was \$700 million. She said It would be more than that if interest rates dropped.

Chairman Wiles asked how much total debt was projected to be incurred at the end of 2016. Mr. Traasdahl said the debt would be about \$1.3 billion at the end of 2016.

Mr. Guindon said that Chairman Wiles requested that both Clark and Washoe County RTC representation attend the Economic Forum meeting, because Washoe County had been approved to implement the same type of indexing through legislation in 2009. He said Washoe RTC representatives were unable to attend due to a transportation summit that conflicted with the Forum's meeting. For the record, Mr. Guindon stated that Washoe County did not have the same fuel indexing provisions as Clark County. Washoe County had no expiration period defined, whereas Clark County was limited to a three-year period before a vote on an extension was required. Ms. Quigley added that Clark County was held to a \$0.10 cap over the three-year period, and Washoe County was not. Mr. Guindon agreed, but noted if Clark County continued indexing after the three-year period, the indexing cap could rise above \$0.10.

VI. PRESENTATION ON STATE ENROLLMENT RELATED TO THE FEDERAL AFFORDABLE CARE ACT AND THE PURCHASE OF HEALTH INSURANCE PLANS THROUGH THE SILVER STATE HEALTH INSURANCE EXCHANGE.

Jon Hager, Executive Director, Silver State Health Insurance Exchange

Jon Hager, Executive Director, Silver State Health Insurance Exchange (Exchange), stated it was too early to provide an estimate of plan enrollment via the Exchange, because only two months' of data was available. However, he reported that enrollment was accelerating rapidly. He reviewed the ten essential health benefits and explained that changes to the insurance rules created upward pressure on premiums (pages 3 and 4, [Exhibit C](#)). He said there had been stories in regard to the horrible premium increases that were anticipated; however, he did not think those stories were accurate because they were not based on valid samples. He said one of the studies compared the five cheapest plans in the current insurance market to the five cheapest plans in the new market, which reflected outrageous premium increases. However, the study did not make accurate comparisons between the plans. For example, the study compared a \$15,000 out-of-pocket maximum plan to a \$6,000 out-of-pocket maximum plan. In order to have a more accurate study, Mr. Hager said average enrollment needed to be compared amongst the different plans; nonetheless, there was not enough data at this time to generate that study. He said there would be a slight increase in premiums due to the implementation of essential health benefits and changes made to the cost benefit

structure, required by the Affordable Care Act (ACA). He said this was important because it would increase the total premium dollars and the Insurance Premium Tax revenue. He directed the Forum to the assumptions made by the Division of Insurance during the 2013 Legislative Session, noting that he thought those assumptions were still the most accurate. He suggested that Scott Kipper, Commissioner of the Nevada Division of Insurance, or his staff, be contacted for current statewide insurance enrollment statistics, noting the data would be limited.

Mr. Hager said that Nevada Health Link represented a small part of the entire insurance market in Nevada. He said Nevada Health Link helped people enroll into a qualified health plan that allowed them to be eligible for a tax credit. Nevada Health Link also helped people enroll in Medicaid, which he believed generated revenue through a premium tax paid by the Managed Care Organization (MCO). Mr. Hager said there were about 600,000 uninsured Nevadans, including 20% (120,000) who were not U.S. citizens. About 60,000 of the non-citizens were not in the U.S. legally. He reported that two-thirds of Nevada's remaining uninsured population were eligible for Medicaid, and one-third were eligible for a qualified health plan through the Exchange. Nevada demographics reflected that 25% of the population met the Medicaid threshold, because their annual income fell below the Federal Poverty Level (FPL) at 138%. He said 50% of the uninsured fell within the midrange FPL (138% - 400%) and were eligible for a tax credit, leaving 25% of the uninsured population the ability to access a qualified health plan (page 7, [Exhibit C](#)).

Mr. Hager said the following criteria must be met to enroll in a qualified health plan:

- The enrollee must be a legal resident of Nevada.
- The enrollee must not be incarcerated.

To be eligible for a tax credit, the following criteria must be met:

- The enrollee must file income taxes. If married, a joint return is required.
- The enrollee's income must be below 400% FPL.
- The enrollee must enroll in a qualified health plan.
- The enrollee cannot be eligible for another government or employer sponsored program.

With regard to Medicare, Mr. Hager understood that only 1% or 2% of residents 65 and older were uninsured. He said the Exchange did not expect to insure many individuals over 65, unless the person did not meet Medicare eligibility.

Mr. Maddox noted that if the average premium cost for a person on Medicaid was \$10,000 annually, that would equate to an insurance premium bill of \$3.5 billion for the 350,000 Nevadans. He asked if the potential annual \$3.5 billion Medicaid premium cost was an obligation to the state. He noted the amount would exceed the state's General Fund.

Mr. Hager made it very clear that he did not represent the agency that administered Medicaid. He was not sure about the average cost to insure a person through Medicaid, but said an annual premium of \$10,000 seemed high. He added that all funding for the Medicaid expansion population was provided by the federal government.

Mr. Maddox understood that the federal government had an obligation to pay 100% of each participant's Medicaid premium for up to three years. Considering the number of people who were qualifying for Medicaid, he was concerned that the State of Nevada would eventually have a Medicaid expense that was larger than its General Fund.

Mr. Hager said that at the end of the three-year term, the federal government's premium obligation would gradually decrease until 2020, at which point the state would be obligated to pay 10% of the Medicaid premium for the expanded population. He said the remaining 90% of the Medicaid premium would still be paid by the federal government. Mr. Hager advised the Forum to seek clarification from Mike Willden, Director of Nevada Department of Health and Human Services, or Administrator Laurie Squartsoff, Nevada Department of Health and Human Services.

Mr. Hager presented the following October and November statistics in regard to Nevada Health Link (page 8, [Exhibit C](#)):

- The website had 4.4 million hits, 458,000 of which were classified as unique visitors.
- 69,000 eligibility determinations were made, including Medicaid, Children's Health Insurance Program, and those who were ineligible.
 - 16,000 people were determined eligible for the tax credit.
 - 10,000 people were determined eligible for the qualified health plan without the tax credit.
- 4,800 people confirmed their medical plan selections.
- 8,300 people confirmed dental plan selections.

Mr. Hager explained that there were enrollees who unexpectedly found themselves eligible for Medicaid at the time of enrollment. Since the Medicaid premium was issued at no cost to the enrollee, some enrollees opted to spend their dollars on dental coverage. He noted that the premiums collected for the dental plans would generate an Insurance Premium Tax revenue.

Mr. Hager said Nevada Health Link projected 118,000 enrollees by March 31, 2014. He thought it was possible to meet that projection, stating that the enrollment was accelerating rapidly. In addition to Nevada Health Link, he said many insurance brokers were involved with issuing health care plans and that the pace of enrollment appeared to double every two weeks. He pointed out that the dental plan had twice the enrollments of the qualified health plans. He directed the Economic Forum to refer to the enrollment assumptions reported by the Division of Insurance, per their Insurance Premium Tax forecast presented at the May 2013 Economic Forum meeting.

Mr. Marvin Leavitt asked if the insurance premiums paid by Medicaid were subject to the Insurance Premium Tax. He said it appeared that more people were eligible for Medicaid who were not previously eligible. He asked where Insurance Premium Tax revenue projections stood if Medicaid was not subject to the tax.

Mr. Hager did not know whether Medicaid premiums were subject to the Insurance Premium Tax, but his understanding was that the MCO paid the tax on the amounts that were paid by the state. He said that question would need to be directed to Director Willden.

Mr. Leavitt expressed concern as to how the federal government reacted to paying premium taxes to the state while it was paying the insurance premium for the Medicaid eligible population of the state.

Mr. Guindon said the insurance company, or the agent that wrote the policy and collected the premium, had a statutory liability to report the paid premiums via a tax return. He questioned whether there was some form of reimbursement from the federal government, or some kind of netting out regarding the premiums reported by the insurance companies. Mr. Guindon said he would talk to the Department of Health and Human Services Director and the Director of the Department of Taxation to find out more about the administration of the Insurance Premium Tax. He will share his findings with members of the Forum.

Mr. Hager said the same question applied to those who enrolled into a qualified health plan, and were tax credit eligible. He said most people only paid a portion of their insurance premium, but the insurance company would be required to pay a premium tax based on the entire amount, just the amount paid by the individual. It was possible that an enrollee could select a plan that was cheaper than the tax credit awarded to them. In that case, he said the enrollee would not pay any portion of the premium; however, the insurance company would still be liable to pay a premium tax on the entire insurance premium. He said there were many services throughout the state that were subject to taxes in a similar fashion; the issue was much broader than just premium tax.

Chairman Wiles asked Mr. Hager about the enrollment statistics he quoted, specifically how the enrollments continued to escalate rapidly. He asked Mr. Hager how he knew the enrollments were escalating if he did not have numbers available to provide to the Forum.

Mr. Hager explained that the Exchange started with 500 to 1,000 enrollments in early October 2013. Enrollments doubled in the first two weeks, and doubled again the following two weeks.

Chairman Wiles asked, of the 13,000 participants that confirmed a plan selection, how many of those participants actually purchased a plan?

Mr. Hager clarified that the dental plan participants were included in the count of 13,000. He said about 25% of the enrollees paid for their plans, and most of the remaining enrollees set up scheduled payments. He said invoices were scheduled to be mailed over the weekend and payment was required by December 23, 2013, to satisfy the enrollment deadline. In regard to the medical only plans, he said not all of the anticipated 4,800 enrollees would be registered and paid by January 1, 2014. However, there were enrollees who signed up within the first three weeks of December who were also expected to enroll and pay by January 1, 2014.

Chairman Wiles said, of the 4.4 million web hits identified by Mr. Hager, roughly 1,000 people paid for their plan and another 3,000 were expected to pay. He said 460,000 of the web hits were classified as "unique visitors," but that number could include one person accessing the site three times in one day. He congratulated Mr. Hager on the website success, but said the conversion rate seemed low. He asked if a significant number of participants were expected to have a gap in insurance.

Mr. Hager said the Exchange expected 118,000 participants to have insurance by March 31, 2014. He said there would be a large number of people who would not have coverage by January 1, 2014, but those people were expected to obtain coverage over the next several months.

Assuming the projected 118,000 participants met the enrollment deadline of March 31, 2014, Chairman Wiles asked how many Nevadans would remain uninsured. He asked if a large number of the uninsured were expected to accept the penalty rather than pay the premium.

Mr. Hager said Nevada Health Link and Medicaid aimed to reduce the uninsured rate for those under age 65 from 24.9% to 12% in the first year. He said the remaining 12% were expected to remain uninsured through 2014; however, many people within that group were low-income individuals who qualified for an exemption. He explained that the first year penalty for not having insurance was \$95 per family member, or 1% of income, whichever was greater. He said many people were willing to accept the first year penalty rather than pay a premium. The penalty will increase to \$375 per family member, or 2% of income, in 2015, and \$695 per family member, or 2.5% of income, in 2016. He further clarified that the penalty would continue to increase substantially in hopes to incentivize the uninsured population to purchase insurance. He said the incentive to purchase insurance was not to avoid the penalty during the first year, but to obtain the tax credit. Mr. Hager reiterated that the Exchange projected that 12% of Nevadans would remain uninsured through 2014, and that this projection was provided during the 2013 Legislative Session.

Chairman Wiles recalled Mr. Hager's comment about the anecdotal evidence that suggested outrageous premiums, that it was incorrect due to lack of consideration of the full picture. Chairman Wiles asked Mr. Hager to report on the average person's total annual out-of-pocket expenses, including the monthly premium, deductibles, and co-pays, based on the estimated number of visits.

Mr. Hager said that was a very difficult equation to figure out. He said the premiums would be the easiest data to capture, because it is tracked through the premium taxes. He explained that when essential health benefits are adjusted or changed (i.e., reduction of the maximum out-of-pocket expenses), an individual's out-of-pocket costs are reduced on the back end of a plan, but the premium is increased on the front end. Mr. Hager said he did not know if it was possible for the state to compile the aggregate amount of an average person's total annual out-of-pocket expenses. He said this type of study had not been considered as of yet, but that it might be something that is looked at over the long term. Mr. Hager stated that the goal of the ACA was to reduce the overall cost of one's care, but not necessarily lower the costs specific to premiums. He said that question would need to be revisited over the next three or four years to determine if the ACA results in a reduction of overall health costs.

Chairman Wiles said the purpose of his questions was to recognize whether the ACA implementation would affect consumer spending, and to understand how it was impacting various industries, both nationally and in Nevada.

Mr. Hager said Chairman Wiles' question was extremely complicated. Mr. Hager said if costs shifted from the back end of a health plan to the front end, the premium increase would result in an increase in Insurance Premium Tax revenue. He did not think there was a tax on doctor or hospital services. He said spending trends showed that health care money was being spent throughout the year when high deductibles applied. With lower deductibles, an individual would tend to spend more money at the beginning of the health plan year. He said once the low deductible was met, and the co-insurance became applicable, spending on health care decreased toward the end of year. Theoretically, a participant would potentially have more money at that point, unless it had already been spent on the premium or deductible.

Mr. Maddox said his employer had the single largest premium increase ever for 2014 and 2015. He said because of the 4.95% tax required by the federal government, plus the extra 2%, doctors advised his employer to expect a 22% cost increase. He said the premium increase applied to 10,000 employees, which would have an impact on consumer spending. Mr. Maddox understood there was a very large union contract negotiated for multiples of those 10,000 people, where all increases would be applied to health benefits and nothing allocated to wages. Mr. Maddox stated that the high premiums would have a real impact on actual spending and wages. He said the enrollment numbers over the next couple of quarters could have an impact on the economic forecast.

Mr. Hager said that the experience described by Mr. Maddox was not uncommon. He said that recent studies touted a 179% premium increase, which he believed was excessive. He said the 20% increase that Mr. Maddox quoted was more in line with the Division of Insurance projections from early 2013.

Mr. Maddox stated that premium costs increased between 5% and 7% annually over the last decade, emphasizing that his employer's premiums tripled over the last two years. Mr. Hagar said that over the past decade health plan inflation typically increased 10% to 12% per year, but the premiums were kept lower due to cost shifting measures, such as increases to deductibles, co-insurance, and co-pays.

In response to Mr. Hagar, Mr. Maddox stated that his employer had not changed its benefit structure at all, including a \$300/\$900 deductible and a \$3,000/\$6,000 out-of-pocket maximum. Considering what his employer was experiencing with 10,000 employees, he said it would be interesting to observe what was happening elsewhere.

Chairman Wiles recalled a national analysis pertaining to the average anticipated premium increase by state. He said Nevada was at the top of the list, reflecting a 79% premium increase in 2014.

Mr. Hagar said the Manhattan Group performed that study. He said the anticipated premium increase for Nevada was a 179% increase, not 79%. He said the Manhattan Group compiled the study by comparing the five lowest plans in the 2013 market to the five lowest plans in Nevada Health Link. He explained that Nevada Health Link only represented 10% of the Nevada market, so the study's data was skewed from the beginning. In addition, the study reflected a straight-line average of all Nevada Health Link premiums. He said that formula assumed identical weight throughout Nevada's 17 counties, although three-quarters of the population resided in Clark County where premiums were lower than the rest of the state. Mr. Hagar said there were lots of flaws in the Manhattan Group study.

VIII. PRESENTATION ON THE NEVADA NEW MARKETS JOBS ACT (SENATE BILL 357, 2013 LEGISLATIVE SESSION; CHAPTER 231A OF NRS).

Ashok Mirchandani, Deputy Director, Department of Business and Industry

This agenda item was taken out of order.

Ashok Mirchandani, Deputy Director, Department of Business and Industry (B&I), said that B&I will present the Nevada New Markets Tax Credit (NMTC) program that resulted from S.B. 357 in the 2013 Legislative Session.

Mr. Kent Steadman, Management Analyst II, B&I, said the Nevada New Markets Job Act (S.B. 357), referred to as the NMTC program, was passed by the Legislature in June of 2013. He noted that the Assembly voted 40 yay, 1 nay and 1 absent, and the Senate voted 20 yay, 0 nay and 1 absent.

Mr. Steadman said the NMTC program was administered by B&I and that its purpose was to encourage capital investment in low-income areas and create jobs. He said the

program was allocated \$200 million in tax credits and B&I could award a maximum of \$50 million in tax credits to any one Community Development Entity (CDE) applicant. He said a state NMTC program could also attract federal NMTC money, another resource to help build the local economy.

Mr. Steadman stated that the NMTC program was an alternative financing arrangement that complemented conventional capital investments. He said a typical investment ranged from \$3 million to \$5 million, based on what other states reported, and was structured as a short term, seven-year, below market interest loan. He said the loan could be originated in two ways: (1) include a below market interest rate, or (2) define part of the loan as forgivable, and structure the loan to best meet the needs of the business.

Mr. Steadman said the Nevada NMTC fund focused on operational capital loans, compared to the federal NMTC that focused on real estate projects. He explained that an insurance company that made a Qualified Equity Investment (QEI) could earn up to a 58% tax credit over a seven-year period; yielding a 0% tax credit benefit the first two years, 12% the next three years, and 11% the last two years.

Turning to page 66 ([Exhibit A](#)), Mr. Steadman named B&I, the CDEs, and the Investors/Insurance companies as components to the structure of the program. He explained that the investors make a cash investment to the CDEs, the CDEs package the investments with conventional loans, and the packaged loans are offered to qualified low-income community businesses. The businesses have seven years to repay the loan. Other states reported that after seven years, the businesses were strong enough to refinance into conventional loans.

Mr. Steadman explained the application process, stating that Nevada's NMTC program piggybacked on the federal system. He said the administrative costs were lowered by using federally certified CDEs and federally defined low-income census tracks. He said October 1, 2013, was the deadline for federally certified CDEs to apply for the tax credits. By November 15, 2013, B&I qualified seven CDEs and allocated \$200 million in tax credits. The CDEs had 30 days to report all cash received from the QEI made with the insurance companies.

Mr. Steadman said B&I was developing regulations, monitoring, and reviewing reports while processes transpired. He said within one year of receiving the QEI, the CDE had to invest at least 85% of it into low-income businesses. If the CDE failed to make the deadline, B&I would implement the recapture provisions of the statute. Mr. Steadman acknowledged Nevada's CDE recipients and award totals (page 69, [Exhibit A](#)). Based on the applications, six CDEs received \$32 million and one CDE received \$8 million.

Mr. Steadman said B&I's role in monitoring the Nevada NMTC program was significant and time consuming, emphasizing that Nevada employed one person to monitor the program, whereas other states employed three to six individuals to do the same work. He highlighted B&I's responsibilities (page 70, [Exhibit A](#)).

- Receive applications.
- Certify the CDE.
- Process application fees.
- Grant or deny the applications.
- Verify that the CDEs received cash within 30 days of receiving the QEI authority.
- Reallocate the QEI authority if the CDE failed to meet the NMTC program requirements.
- Verify investments to ensure qualified low-income community requirements are met.
- Verify that 30% of the investments met the severely depressed census tract requirements.
- Develop and administer program regulations.
- Verify that the CDEs invested 85% of the QEI cash investments within 12 months of receiving the tax credits from B&I.
- Verify that no QEI exceeded 25% of the total QEI authority granted to the CDE. This was specified by the Legislature to make sure that the money was used to offer loans to at least four low-income community businesses.
- Process refunds.
- Verify that investments were made to qualified low-income community businesses.
- Verify that the qualified CDE follows the defined processes.
- Verify that the CDEs made investments equal to 150% of the investment proceeds over a seven-year period.
- Issue letter rulings to the CDEs to legally bind a department, agents or successors until the tax credit is claimed.
- Decertify a QEI if S.B. 357 requirements were not met.
- Perform an annual review of the qualified CDEs, and issue a bi-annual status report to the Legislature.

Mr. Mirchandani said the Insurance Premium Tax was the basis for the tax credits. He stated that the federal NMTC program had been in existence for ten years, but Nevada did not receive an allocation until 2013. He said the NMTC was designed around the federal NMTC program, and reiterated that the federal program was designed for commercial real estate investment, whereas the Nevada NMTC targeted operating loans. Nationally, the state NMTC program was new; therefore, results were vague in regard to its effect on economic impact and job growth. Mr. Mirchandani quoted statistics for all of the states that had implemented a NMTC program, noting that Missouri and Florida's NMTC program created thousands of jobs ([Exhibit D](#)).

Chairman Wiles noted that Florida was allocated \$178 million in tax credits and created over 8,000 jobs, whereas Missouri was allocated \$300 million and created over 7,000 jobs. He remarked that Missouri was allocated almost twice as much and produced less job growth.

Chairman Wiles asked for clarification. He understood that the NMTC program was going to utilize the Insurance Premium Tax revenue to support the \$200 million tax

credit program. In exchange for the tax credits, the insurance companies would invest with CDEs, who in turn invested in operating companies to stimulate economic growth.

Mr. Mirchandani responded, of the \$200 million in tax credits, 58% was actually redeemable as tax credits. He believed that the program was structured to prohibit the insurance companies from receiving a tax credit for the first two years to ensure incoming revenue. He said the 2-year hold on issuing tax credits would reflect a net positive in the outflow of funds, as a result of the credit against the Insurance Premium Tax revenue, whereas the inflow of additional dollars from the economic activity will be occurring at that time.

Chairman Wiles asked if the \$200 million in tax credits was equivalent to \$116 million in cash investments, anticipated over the life of the program.

Mr. Mirchandani concurred, stating that the insurance companies would receive a tax credit of \$0.58 on the dollar, equal to 58% of the purchase price of their investment.

Mr. Steadman said that the insurance companies received both a tax credit and reimbursement for their cash investments. He explained that the debt service payments from the low-income community businesses are paid to the CDE, and the CDE disperses allowable distributions to the insurance company (page 66, [Exhibit A](#)).

Chairman Wiles asked if the insurance company would receive a “preference payment.” He asked if the insurance companies get their money first, and then the tax credit applied. Mr. Steadman concurred with Mr. Wiles.

Chairman Wiles asked if the CDEs choose the operating companies they invest in, based on certain criteria. In addition, he asked if the insurance companies provided the capital for those investments.

Mr. Mirchandani said the insurance companies provide the capital and receive the tax credit. He explained that the insurance companies purchase the tax credits at a discounted rate, \$.30 to \$.40 on the dollar, because their cash investment is tied up for seven years. The insurance companies consider the present value of the cash flow when negotiating their cash investment, because it will take seven years to capture the full 58% return on their investment. He said the CDEs combine the cash investments with conventional resources to create the low interest loan packages that are offered to the low-income community businesses.

Mr. Mirchandani said the NMTC program was created so that low-income area businesses could be offered a customized loan structure at below market interest rates to help stimulate economic growth.

Chairman Wiles referenced Nevada’s seven qualified CDEs and asked what their investment criteria was. He wanted to know what type of projects were being invested in.

Mr. Mirchandani said the projects had to be located within federally defined low-income distressed or rural areas. He said the CDEs research projects that specialize in specific areas, such as renewable projects or health care. He said the CDEs mastered the art of identifying low-income community projects, and that nothing in the law prevented the CDEs from funding multiple specialty projects in one area.

Besides the explanation of the NMTC program, and its disbursement of Insurance Premium Tax revenue, Ms. Rosenthal asked if today's presentation had anything to do with forecasting tax revenues.

Mr. Mirchandani said that his presentation did not address forecasting revenue, but implied that the discussions would be helpful to the Forum in the event that the NMTC program was successful with creating jobs and stimulating economic activity.

Russell Guindon agreed that the NMTC program could create jobs and stimulate economic activity, and that forecasting Insurance Premium Tax revenue might need to be taken into account when the Forum convenes in the fall of 2014. He said at some point there would be credits against the Insurance Premium Tax that would have to be recorded as a negative impact, creating difficulty for the forecasters to assess the economy. He said, because the insurance companies were not allowed to receive tax credits in the first two years of the program, the Economic Forum may not have to address the impact of the tax credits until after the next biennium.

Ms. Rosenthal asked if the tax credit would be issued against the Insurance Premium Tax revenue, which the Forum would have to consider, or if the credit would be an expenditure out of the Insurance Premium Tax revenue, whereas the Forum would not have to consider.

Russell Guindon understood that S.B. 357 was directly related to the insurance companies, allowing them to purchase tax credits that could accumulate to a 58% credit toward their Insurance Premium Tax obligation. He said the tax credits would be applied via a tax return. Because of the process, Mr. Guindon indicated that it will become more interesting to forecast the Insurance Premium Tax in the future as the Forum learns the details of the Affordable Care Act, the NMTC program, and potential new programs that relate to Insurance Premium Tax revenue.

Mr. Mirchandani said the CDE's were required to submit regular reports to B&I that illustrate the number of jobs they create and the economic impact results. He said B&I will ask the CDEs for pertinent information that should help the Forum to identify incremental revenues as a result of the NMTC program.

Mr. Marvin Leavitt asked if specific criteria was required on the CDEs application, such as details on what area or specialty project they planned to invest in, and the number of jobs they projected to create. In addition, he asked if that criteria was used to calculate

the ultimate effect on future state tax revenue, or if B&I was only concerned with general economic activity.

Mr. Mirchandani said B&I had no input in S.B. 357, but the law clearly defined that recipients of the tax credits had to meet specific federal requirements to qualify. He said B&I collected large deposits, and the deposit became non-refundable if the CDE did not perform per the requirements of S.B. 357; therefore, the CDEs were careful to identify specific project needs that met the funding criteria.

Chairman Wiles referenced the CDEs that were awarded the tax credits totaling \$200 million (page 69, [Exhibit A](#)). He asked what type of companies they were. Mr. Mirchandani said all but one were national firms that were experienced in the NMTC programs at the federal and state levels.

Mr. Matthew Maddox asked if the named CDEs were known national firms run by private citizens, that no appointees existed who could take advantage of the NMTC in various states. Mr. Mirchandani concurred that the CDEs were known national firms and that this was the primary function of their business.

Mr. Maddox asked if the investment return had a cap. Mr. Mirchandani said there was a cap on returns, but was determined per individual investment contract.

Mr. Maddox asked if the CDEs expected to receive 15% - 20% return with the tax credits, plus additional revenues through the loan profile. He asked if there were legislatively approved caps, or if it was a free market. Mr. Mirchandani said that he did not know what the returns amounted to, but confirmed that this was a private market and there was no cap on the investment.

Mr. Leavitt asked if B&I was encouraging people to invest, because of the tax credit incentive to invest in an otherwise difficult market.

Mr. Mirchandani expressed that access to capital was a huge impediment to the economic activity, and that conventional lending had not worked in many places. He welcomed the NMTC program because of its unconventional access to capital.

Mr. Leavitt asked if B&I had a compilation of how much revenue the state was expected to receive from the CDEs upon success of the program. He asked if those projections were compared to the amount of revenue that the state was giving up in support of the program. Mr. Mirchandani replied that those discussions would have taken place during the 2013 Legislative Session.

Mr. Leavitt clarified that he was asking if the CDEs provided revenue projections to B&I. Mr. Mirchandani said there was nothing referenced in the statute that required B&I to make those forecasts. He said he only had procedures on how to deploy the funds.

Mr. Leavitt reiterated his concern that there was no analysis on what the return might be to the state in the way of tax revenues.

Mr. Steadman said the statute required the CDEs to submit statistical data to B&I after the first 12 months of B&I issuing the tax credits. The report was to include the projected job creation and the economic impact. He said there were too many variables for the CDEs to accurately project anything up front.

Chairman Wiles said the Forum would have a better understanding of how the program funds were being deployed in the June 2014 Economic Forum meeting. He hoped that the CDEs correlated with what the Office of Economic Development identified as key industries.

Mr. Mirchandani stated that a roundtable meeting took place to discuss the NMTC program, potential projects, and the timing of those projects. The attendees consisted of local jurisdiction, the Regional Development Authorities and the Governor's Office of Economic Development. He said it was important for all parties to understand that the CDEs had to deploy 85% of their funds by November of 2014. Mr. Mirchandani said he would be happy to present an update at the June 2014 Economic Forum meeting.

VII. PRESENTATION ON THE PROGRAMS AVAILABLE TO THE GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT AND THEIR USE TO PROMOTE ECONOMIC DEVELOPMENT INCLUDING:

A. CATALYST ACCOUNT (NRS 231.1573)

B. KNOWLEDGE ACCOUNT (NRS 23.1592)

C. TRANSFERABLE FILM TAX CREDITS (NRS 360.758 – 360.7598)

D. TAX ABATEMENTS

Steve Hill, Executive Director, Governor's Office of Economic Development

This agenda item was taken out of order.

Steve Hill, Director, Governor's Office of Economic Development (GOED) stated he would provide an overview of the economic development programs available through GOED (page 39, [Exhibit A](#)). He added that he would also discuss job growth from businesses that were assisted by the programs, as well as job growth in certain targeted sectors.

Turning to abatements, Mr. Hill said GOED had the ability to abate certain taxes such as Sales and Use Tax (SUT), Modified Business Tax (MBT), and Personal Property Tax (PPT). He said abatements were available for businesses that met certain criteria. The criteria changed based on location, and whether the business was new to, or expanding in Nevada. Mr. Hill said the MBT had an impact on state revenue; however, the majority of the taxes applied to only local revenue, having little or no impact on state revenue.

He noted the SUT and PPT affected the calculation of the Distributive School Account. Mr. Hill said the Transferrable Film Tax Credit (TFTC) was a new program for which the regulations were being drafted, and GOED hoped to have the program ready by the beginning of 2014.

Moving on to grants and investments, Mr. Hill stated that Silver State Works, Train Employees Now (TEN), and the Battle Born Venture Fund were federally funded. The Catalyst and Knowledge Funds were funded by the General Fund. The Catalyst Fund was originally funded with \$10 million, then increased to \$11.5 million during the 2013 Legislative Session. The Knowledge Fund was funded with a \$10 million commitment during the 2013 Legislative Session.

Referring to the Abatement & Assistance Activity table (page 40, [Exhibit A](#)), Mr. Hill noted that new jobs growth continued to increase annually. Over the past decade, an average of approximately 1,000 new jobs had been created annually through abatement and assistance programs. He thought the number of new jobs for 2013 would reach 5,000 by the end of the calendar year.

Mr. Hill said in 2012, Apple Computer Data Center (Apple) and Boulder Solar Power Generation Plant (Boulder Power) each invested approximately \$1 billion of capital. For purposes of comparison, GOED reported capital investment numbers with and without Apple and Boulder Power.

Mr. Hill explained that a contract was not established with a company seeking abatement or assistance until approved by the GOED Board. The company was obligated to establish a certain number of jobs, at a specific average wage rate, with a specified amount of capital investment as outlined in the contract. Mr. Hill said GOED used the number of projected jobs specified within the contract for reporting purposes. He said in the event of noncompliance, there was a clawback provision included in each contract, which had been surprisingly effective. At the end of the second and fifth contract years the Nevada Department of Taxation performed an audit to determine substantial compliance. Mr. Hill said that over the past two years the conversion rate for company commitments had been in the range of 50%; however, GOED projected it would likely increase due to the large, publicly traded companies, such as Barclays Bank, SolarCity, Reagor Dykes Auto Group, and Lincoln Electric Company, that have established contracts within the past few years. He noted those companies were already over-performing their projections.

Mr. Hill provided an overview of Sales and Use Tax (SUT), Modified Business Tax (MBT), and Personal Property Tax (PPT) abatements (page 41, [Exhibit A](#)). With regard to the MBT and PPT, Mr. Hill said GOED recently reduced the abatement by 25% for companies paying less than 75% of the county average wage. He said the reduction was a policy instituted by GOED, not a requirement by statute. Mr. Hill said the policy could be negotiated if necessary; however, as Nevada's economy improved and unemployment decreased, level of pay should be considered for jobs that are encouraged to come to Nevada.

Turning to the Transferable Film Tax Credit, (Page 44, [Exhibit A](#)), Mr. Hill said the program was established during the 2013 Legislative Session. He said the goal of the program was to attract film production, digital media, and application development to Nevada. The four-year pilot program could cost \$20 million annually, or \$80 million overall. Mr. Hill said 60% of the production costs must be incurred in Nevada at a minimum of \$500,000 and a maximum of \$6 million per production. Qualified expenditures in Nevada would result in a base tax credit of 15%, with incremental increases based on the amount of Nevada labor, and/or county of production. Upon completion, the producer was required to generate an audit and provide GOED with the results. Mr. Hill noted that the film tax credit was transferrable, so it would reduce revenue in applicable taxes. He thought the Gross Gaming Tax revenue would be impacted the most, because it was the largest eligible area and the most liquid.

Mr. Hill moved on to the Catalyst Fund Grants (Page 45, [Exhibit A](#)), reiterating it was an expense of \$11.5 million from the General Fund. He noted that 11 agreements had been negotiated and approved over the past 12 months, with another project awaiting approval that would increase the number to 12, and increase the commitment to approximately \$8 million over the course of time. In addition, all of the agreements were performance based, meaning they were tied to job creation and a minimum average wage, spread out over 3 to 5 years. If the job creation threshold was met, then a payment was made to the company. Mr. Hill said the goal at the beginning of the program was to assist in the creation of 2,500 jobs. He said there were currently 2,800 jobs associated with the grants and projects; however, if the jobs were not created then the funding would revert back to the Catalyst Fund.

Mr. Hill said the TEN and Silver State Works Grants were intended to help train employees for new and expanding businesses in Nevada. Each of the grants were slightly different, but both programs were federally funded. He said the grants would allow individuals across the state to be trained and improve their skills, resulting in higher salaries.

Turning to the Knowledge Fund Grant, Mr. Hill said during the 2013 Legislative Session, the grant provided \$10 million to encourage research, innovation, and commercialization through the three research institutions in Nevada: University of Nevada Reno, University of Nevada Las Vegas, and Desert Research Institute. He said a "Knowledge Fund Advisory Council," was established to screen applications from the three research institutions. The advisory council included six experienced members of the private sector. Mr. Hill said the advisory council recommended four programs so far, and the process of contracting grants with the three research institutions was in progress. He said it would take time to see an impact, but the proposals were aligned with the targeted sectors in the State Economic Development Plan. GOED thought it was important to enrich the research performed in the university system, but also execute it in a way that was applied and commercialized. Mr. Hill said the goal of the Knowledge Fund was to create intellectual property that could generate revenue, and create companies and jobs.

With regard to the Battle Born Venture Fund, Mr. Hill said it was funded through the U.S. Treasury's "State Small Business Credit Initiative" and launched in September 2013. He said the purpose of the fund was to provide collateral loan support for businesses that had difficulty obtaining loans from banks. Nevada appealed to the U.S. Treasury to use \$5 million of the original \$14 million grant to create a Venture Capital Fund to attract venture capital to Nevada. A committee, made up of venture capital professionals, was created to help screen applications. Mr. Hill said within the first few months nearly 30 applications had been submitted, and GOED hoped to fund the first few companies by January 2014.

Mr. Hill said the graphs titled "Projected Jobs from Assisted Companies" (pages 50 and 51, [Exhibit A](#)), provided a general projection of when jobs would be created by contracted companies. He said the process would be tracked to show projected jobs versus jobs that were actually generated. Mr. Hill added that the reports would include contracted and build-out jobs. As an example, Barclaycard US (Barclay) was going to establish an office in Nevada and the contracted number of jobs was 400. Mr. Hill said Barclay would be required to create the jobs within the first 12 months to qualify for abatements. He added that Barclay anticipated a build-up to roughly 1,000 jobs within three years. Mr. Hill said GOED's reports would reflect the progression of jobs as they were created.

Mr. Hill noted that in the few years since GOED was established, it assisted with the creation of 7,000 jobs. He clarified that there were not 7,000 active jobs yet; however, GOED estimated that approximately 3,500 would be in place by the end of 2013, and that number would continue to grow. To put it into perspective, Mr. Hill said over the past ten years there had been approximately 1,000 jobs per year announced as a result of the Economic Development Program. Mr. Hill said, based on a 2008 study, the conversion rate for projected versus actual jobs was approximately 50%. He indicated the conversion rate was directionally accurate to GOED as well. Mr. Hill said there would be some amount of loss in the conversion rate going forward; however, the numbers were much larger than in the past. GOED also anticipated that some companies would over-perform their projections, which would positively impact the number.

Mr. Hill presented information concerning economic development in certain targeted sectors (page 55, [Exhibit A](#)). He noted that most of the targeted sectors in Nevada were achieving at a slightly higher rate than the overall economy. He pointed out one exception was the Clean Energy sector, which experienced job reductions, likely because of the lack of growth in the construction sector. Mr. Hill pointed out that the areas of tourism, gaming, and entertainment had been healthy and continued to have a positive impact on Nevada's economy.

In response to a question from Mr. Leavitt, Mr. Hill answered that the Sales and Use Tax abatement reduced the county rate, including the Local School Support Tax, to only the General Fund portion of 2%.

Mr. Guindon added that the General Fund rate of 2% could not be abated by the Governor's Office per statute; therefore, local rates were impacted by abatements affiliated with GOED.

Chairman Wiles thanked Mr. Hill for his presentation, stating it would help the Forum assess how economic activity would develop over the next few years.

Mr. Hill pointed out that GOED was also working to build clusters and grow targeted sectors. He said, in addition to what was discussed today, efforts were being made to attract the unmanned aerial vehicle industry to Nevada. GOED thought it would help expand and attract businesses and increase employment opportunities in the state.

Mr. Guindon said the TFTC was one program that the Governor's Office of Economic Development was statutorily tasked with administering that involved General Fund revenue sources, such as the Gaming Percentage Fee Tax, the Modified Business Tax, and the Insurance Premium Tax. He said the TFTC program was designed to generate economic activity, but the state would also have to monitor tax credits that may affect revenue forecasts. Mr. Guindon thought the design of the program would allow staff to easily track and report the status of outstanding film tax credits to produce forecasts. For example, film companies would be required to declare which tax to apply a film tax credit, or to whom the tax credit was transferred. Also, film tax credits would have an expiration date to avoid an infinite liability for the state.

IX. PRESENTATION ON THE MEDICAL MARIJUANA PROGRAM AND IMPOSITION OF AN EXCISE TAX (SENATE BILL 374, 2013 LEGISLATIVE SESSION).

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

Mr. Guindon said the Medical Marijuana Program, and imposition of an excise tax, was based on approval of S.B. 374 during the 2013 Legislative Session. He said he wanted this agenda item on the record in order to discuss the direct and indirect effects of the Medical Marijuana Program. He said there were Nevada residents that had a registered medical marijuana identification card, but the state never had the ability to cultivate, produce, or dispense marijuana to those individuals. Marla McDade-Williams, Deputy Administrator of the Nevada Division of Public and Behavioral Health (DPBH), the division tasked with implementing and administering the Medical Marijuana Program, was in attendance. Mr. Guindon stated that he would present this agenda topic as it relates to economics rather than public and social policy.

To summarize the highlights of S.B. 374, Mr. Guindon said the Division of Public and Behavioral Health could issue licenses to four types of entities, in relation to the Medical Marijuana Program: (1) test lab, (2) cultivation facility, (3) production facility, and (4) dispensary (page 75, [Exhibit A](#)). He said a business could apply as a vertically integrated entity, meaning the business could perform more than one of the four types

of establishments. Under the law, the division could approve a total of 66 medical marijuana dispensaries in the state: 40 in Clark County, 10 in Washoe County, 2 in Carson City, and 1 in each of the remaining 14 counties. However, Mr. Guindon said there were provisions in S.B. 374 that allowed modifications to permit at least one dispensary in each county.

In regard to the test laboratories, cultivation facilities, and production facilities, Mr. Guindon said the division would be responsible for approving the number of establishments needed in order for the dispensaries to meet the supply demands of the medical marijuana card holders.

Mr. Guindon said that each Medical Marijuana Program applicant was required to pay a one-time, non-refundable application fee. That fee would fund division related application costs. In addition, in order to participate in the program there were initial registration and annual renewal fees required for each type of medical marijuana establishment (page 75, [Exhibit A](#)).

Mr. Guindon stated that the revenue received from the Medical Marijuana Program fees would not be deposited into the State General Fund as a non-restricted General Fund revenue source; therefore, the Economic Forum would have no statutory responsibility to produce forecasts for the revenue. He said the revenue would be used to fund the division and excess revenue would be deposited in the DSA, in the General Fund. He said by placing the revenue in the DSA, the funds are deemed a restricted General Fund revenue source (page 75, [Exhibit A](#)).

Mr. Guindon said there was a 2% excise tax that applied to the sale of medical marijuana products at the cultivation, production, and dispensing stages of the program. He explained that 75% of the excise tax revenue would be deposited in the DSA, and 25% would be directed to the division to cover administrative costs. He clarified that the excise tax was a restricted revenue source; therefore, the Economic Forum would not have to produce forecasts pertaining to the excise tax revenue. However, the Forum's forecasters would project the sales tax at the dispensary level because that transaction would be considered a retail sale. Mr. Guindon said that forecasters would meet with the Economic Forum in the late fall of 2014 to discuss the projected sales tax forecasts for the Medical Marijuana Program.

Chairman Wiles asked about the number of applications that had been received for dispensary licenses. He expressed concern that the state would be collecting taxes and registration fees for something that was illegal at the national or federal level.

Mr. Guindon said the Medical Marijuana Program would not be in effect until April 1, 2014, so the application process had not started. He said Marla McDade-Williams was currently developing the program's regulations, and that attendance at public hearings in regard to the Medical Marijuana Program reflected interest from potential applicants. Mr. Guindon said that many of the entities that provided recreational and medical marijuana in Colorado, Arizona, and California were

also expected to apply. He noted that Nevada's statutes were closely modeled after Arizona's medical marijuana program. He said an applicant was required to have \$250,000 worth of liquid assets, and with knowledge of the federal government's lack of support for the program, normal financial institutions may be hesitant to provide funding.

Mr. Guindon said it was interesting that Nevada was venturing into another privilege industry. He referenced gaming as Nevada's major privilege industry, and similar to the gaming industry, the Medical Marijuana Program required suitability criterion in order to apply for the establishment, manage the programs, and to be employed in the industry. He said DPBH would be responsible for implementing the rules that govern the suitability requirements, very much like the Gaming Control Board and how it regulates the gaming industry.

Mr. Guindon reiterated that the Medical Marijuana Program would go into effect in April of 2014. At that time it would be determined if a build-out process was necessary to accommodate the application activity and approval process in order for the establishment to get up and running. Since the program is new, he did not know how much real data would be available to utilize when forecasting in the fall of 2014. He felt it was beneficial to include this topic on the agenda today, and encouraged updates at the June 2014 and fall 2014 Economic Forum meetings, hoping to track economic stimulation and potential tax impact, both positive and negative.

X. PRESENTATION OF 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.

Mr. Guindon presented the Economic Forum's forecast adjusted for actions that were approved by the 2013 Legislature, and signed by the Governor. After the 2013 Legislative Session, staff from the Fiscal Analysis Division and the Budget Division collaborated to generate a consensus forecast to show how the legislative actions would impact the state.

Referring to page 87 ([Exhibit A](#)), Mr. Guindon summarized the adjustments that applied to various revenue sources, and explained how those adjustments impact estimated revenue for the 2013-15 biennium. He said that forecasts made by the Forum, in December 2012 and May 2013, took into consideration the sunsets that were present at that time, which reflected unusual growth rates for some of the revenue sources. He noted that the 2013 Legislature extended most of those sunsets for another two years. Specifically, Mr. Guindon called attention to the two-year sunset extension on the Net Proceeds of Minerals and the \$100 increase in the Business License Fee.

In regard to the Modified Business Tax (MBT), Mr. Guindon explained that a two-year sunset was applied, and changes were made to the tax structure on taxable wages paid by the employer, effective FY 2014 and FY 2015. Previously, there was a 0.50% tax

rate on taxable wages up to \$62,500 (per quarter), and all wages over that amount were taxed at a rate of 1.17%. The tax rate changed to 0.0% on taxable wages up to \$62,500 (per quarter), with taxable wages over that threshold taxed at the 1.17% rate. The 2013 Legislative Session held the tax rate at 0.0%, but increased the exemption threshold from \$62,500 to \$85,000 (per quarter). All taxable wages exceeding the threshold would continue to be calculated at the 1.17% rate. However, there was a sunset applied to the MBT, effective July 1, 2015, at which time the tax rate would adjust to 0.63% on all taxable wages per quarter.

Mr. Guindon explained that a portion of the Governmental Services Tax (GST) going to the General Fund was supposed to be deposited in the State Highway Fund, beginning in FY 2014; however, A.B. 491 required the funds to remain in the General Fund until FY 2016. Beginning in FY 2017, those funds will be deposited in the State Highway Fund (page 87, [Exhibit A](#)).

Mr. Guindon continued by discussing the Vital Statistics Fees (page 88, [Exhibit A](#)). A legislative decision was made to allow revenues to be retained by the Health Division, Department of Health and Human Services, instead of being deposited in the state General Fund.

Mr. Guindon reported that the GST Commissions and Penalties revenue that funded the Department of Motor Vehicles (DMV) diverted proceeds from their budget to the state General Fund, effective in the 2011-13 biennium for FY 2012 and FY 2013. He said the 2013 Legislature approved diverting the proceeds from the DMV's budget to the state General Fund for FY 2015 only.

Mr. Guindon explained that by statutory requirement, a portion of the revenue from the Court Administrative Assessments must be allocated to fund certain programs; therefore, a revenue forecast was necessary for budget purposes. Based on the legislatively approved program budget, a comparison would be made to the Court Administrative Assessment revenue forecast to determine the estimated revenue available. The amount by which the estimated revenue exceeds the legislatively approved budget amount is the forecast amount allocated to the state General Fund. Mr. Guindon said that the Forum cannot forecast the Court Administrative Assessments revenue without a program budget.

Regarding the Cost Recovery Plan, Mr. Guindon said that after the Forum met in May of 2013, this revenue item was adjusted to reflect true data, which required a positive adjustment.

Mr. Guindon stated that, per statutory provisions regarding the funding plan for K-12 education, additional dollars in the DSA could become a General Fund offset. He said that was why the DSA was considered a generating resource for the General Fund. The revenue deposited in the General Fund, from the DSA, had to be recorded and forecast by the Economic Forum. He highlighted the following adjustments that pertained to the DSA, and were approved by the 2013 Legislature:

- The State 3% Room Tax currently had a sunset that required revenue to be deposited in the DSA, effective FY 2014 and FY 2015. Effective FY 2016, the revenue will return to the State Supplemental School Support Fund.
- The 0.35% increase to the Local School Support Tax sales tax rate was extended for two years.
- The sunset related to the Net Proceeds of Minerals Tax in the General Fund also effects the Net Proceeds of Minerals Tax that is allocated to the school districts.

Mr. Guindon closed by referencing key forecast adjustments: the net amount of revenue that was added to the General Fund (page 89, [Exhibit A](#)), and the amount added to the Economic Forum's forecast sheets (page 88, [Exhibit A](#)).

XI. REPORT AND DISCUSSION OF FY 2013 ACTUAL COLLECTIONS COMPARED TO THE ECONOMIC FORUM DECEMBER 1, 2010; MAY 2, 2011; NOVEMBER 30, 2012; AND MAY 1, 2013, FORECASTS, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2013 SESSION.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, presented a comparison of actual collections versus forecasts made by the Economic Forum for FY 2013 (page 91, Table 1, [Exhibit A](#)). He said the Economic Forum produced four separate forecasts for FY 2013: (1) 2-Year Ahead Forecast, dated December 1, 2010; (2) 2-Year Ahead Forecast, dated May 2, 2011; (3) Current Year Forecast, dated November 30, 2012; and (4) Current Year Forecast, dated May 1, 2013. He explained that Table 1 included adjustments for legislatively approved actions that were taken from the 2011 Legislative Session. He said the actions taken during the 2013 Legislative Session did not affect revenue in FY 2013; however, those actions did affect revenue for FY 2014 and FY 2015.

Mr. Nakamoto pointed out that Table 1 showed actual revenue collections in FY 2013 for major and non-major revenue source categories, compared to forecasts that were prepared by the Economic Forum, the agency collecting the tax. It also showed forecasts by the Fiscal Analysis Division, the Budget Division, and Moody's, which provided forecasts associated with sales and gaming taxes. He said the table showed the difference between the forecast and the actual revenue collected, as well as the percentage by which the forecast exceeded or fell below the actual revenue collected.

Mr. Nakamoto explained that Table 1 identified several of the General Fund revenue sources, including major sources, select non-major sources, and all other revenue sources (pages 91-94, [Exhibit A](#)). The bottom of page 94 ([Exhibit A](#)) showed the total revenue results for all General Funds combined.

Mr. Nakamoto stated that the most important forecast in Table 1 was the Current Year Forecast, dated May 1, 2013. He said the Legislature used this forecast during the 2013 Legislative Session to build the final budget for the 2013-15 biennium. He pointed

out that the Economic Forum forecast the total General Fund revenue to be \$3.086 billion, which was approximately \$45.9 million below the actual General Fund revenue collections of \$3.133 billion for FY 2013.

Mr. Nakamoto explained that Table 2 showed all of the unrestricted General Fund revenue sources, and a comparison of the Economic Forum's forecasts (November 30, 2012 and May 1, 2013) to the actual revenue collections for FY 2013 (page 97, [Exhibit A](#)).

Mr. Guindon stated that the tables presented by Mr. Nakamoto illustrated how the Forum performed with its forecasting, compared to actual collections. Mr. Guindon said it was important to identify the results on public record because of the interest expressed by legislators and members of the public. He thought the Forum did well with its forecasts, but noted that FY 2013 presented a challenge. He observed that the 2-Year Ahead Forecasts produced more accurate results than the Current Year Forecasts, in comparison to actual revenue collections.

XII. 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.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, began his presentation in reference to Table 3 ([Exhibit E](#)). He explained that Table 3 illustrated actual General Fund revenues for FY 2008 through FY 2013. The far right column of the table showed year-to-date actual collections for all of the major and minor revenues through November for FY 2013 and FY 2014.

Mr. Reel referred to Tables 4, 5, and 6 ([Exhibit F](#)), stating that the tables were based on the monthly status reports that were distributed to the Economic Forum, and were posted to the Nevada Legislature's website. The report identifies how the General Fund revenue forecasts compare to the actual collections fiscal year-to-date. He explained that the major and select-major state General Fund revenues shown in Table 4 represent about 90% of total General Fund revenue. He said the Percent of Total General Fund revenue columns portrayed the percentage of the total General Fund revenue that each funding source represented. The FY 2013 Actual columns reflected the actual revenues collected in FY 2013, the actual percent change in revenue, and the forecast percentage change approved by the Economic Forum at its May 2013 meeting. He noted, with the exception of the Secretary of State Securities revenue, the actual revenue came in above what was forecast for FY 2013, at the May 2013 meeting.

Moving to the FY 2014 Forecast column, Mr. Reel said the numbers reflected the Economic Forum's forecast made at the May 2013 meeting, adjusted for legislatively approved actions. The next column showed the growth rates forecast by the Forum,

and the third column showed the Forum's adjusted forecast, based on the actual revenue collected for FY 2013.

Mr. Reel directed attention to Table 5 that displayed the fiscal year-to-date collections compared to fiscal year-to-date forecasts for FY 2014. The far left column lists the major and minor General Fund revenues, with the parenthetical data representing the number of months or quarters for which the actual revenues were reported. He said this table compared actual revenue data for FY 2013 and FY 2014, and identified how the forecasts compared to actual collections for FY 2014. Focusing on the FY 2014 Forecast Year-to-Date columns, Mr. Reel observed that actual sales tax, gaming percentage fees, and Modified Business Tax collections were below the forecast. This shortfall was offset by three other major General Fund revenues, such that collections for the major revenue sources were above forecast by about \$1.9 million. He commented that collections for two of the minor revenues, cigarettes and governmental services tax, were below the forecast; however, overall collections for the minor General Fund revenues were \$990,491 above the forecast.

Mr. Reel said that All Other General Fund revenues accounted for approximately 10% of the total General Fund revenues, and were roughly \$1.6 million below forecast. Mr. Reel said that actual total General Fund revenues reported were about \$1.3 million above the Economic Forum's forecast for the periods reported.

Mr. Reel said that Table 6 was a comparison of FY 2013 to FY 2014, and represented the revenue that remained to be collected throughout the remainder of each fiscal year.

Mr. Leavitt commented that the Government Services Tax revenue normally followed the trend of the sales of automobiles; however, it was lower than he expected. He noted that sales tax had been fairly good from the automobiles category in FY 2014.

Russell Guindon explained that the time period for which the revenue was collected did not necessarily reflect the period in which the activity occurred. He said the money must first be deposited into the Controller's office system before the information is available to be included in the report. He explained that some agencies make an effort to account for collections in the same period that the activity occurs. However, other agencies' financial reports may only reflect revenues collected through the previous month, regardless of when the activity occurred.

Mr. Leavitt asked if there were some counties still collecting past revenues. Mr. Guindon believed there were a few counties that had not reported revenues, and those revenues could amount to a few hundred thousand dollars. Mr. Leavitt voiced his concern about the lag in the reporting of revenue collections.

Mr. Guindon voiced concern over the most current statements for the state General Fund reserves, recognizing that the state General Fund was in aggregate \$1.3 million. He said the public may not understand and express deception.

Chairman Wiles pointed out that a \$1.3 million difference between actual collections and the forecasts translated to a 0.1% margin of error.

Mr. Guindon noted that one of the duties of the Economic Forum was to review the state's current status. After careful analysis of the forecasts, and taking into consideration the standard deviation and the month-to-month movements of the revenue sources, Mr. Guindon said he was not concerned with the difference between actual collections and the current forecast. He explained that the Live Entertainment Tax revenue (Non-Gaming) includes live shows, which were sometimes a challenge to forecast. He said he would not be surprised if the level of under-forecasting continued to grow.

Mr. Leavitt observed that the Real Property Transfer Tax (RPTT) revenue was climbing. He said the increase in revenue indicated there was an increase in sales activity in the real estate market.

Chairman Wiles said the Economic Forum had heard anecdotal stories about growth in the real estate market. He said it was nice to see that being reflected in the collection of RPTT revenues.

XIII. REPORT ON FORECAST ACCURACY BY FORECASTER FOR SELECTED REVENUES.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, presented the historical forecast error analysis found on page 105, Tables 1 and 2 ([Exhibit A](#)). He referenced the 40-page accuracy report that coincides with the tables (page 107, [Exhibit A](#)), but said that he was not going to go through it in today's meeting.

Mr. Nakamoto explained that the tables identified two major revenue sources, Sales and Use Tax and Gaming Percentage Fee Tax, as well as the total General Fund revenue. The tables showed a historical summary of the percentage errors and absolute percentage errors, based on the Forum's forecast performance in the current year, 1-year ahead, 2-year ahead, and the biennium.

Mr. Nakamoto explained that the average percent error represents an average of how far the forecast exceeds or falls below the actual collections for a specific revenue source, because it allows positive and negative forecast errors to cancel each other out. He said the absolute average percent error averages did not allow positive and negative forecast errors to cancel each other out by treating negative forecast errors as a positive result. He explained that the percentage errors identified in the table were based off the accuracy reports that were given to the Forum in the fall of 2008 (before the recession), the fall of 2010 (when the economy hit bottom), and in the fall of 2013 (included in the meeting packet (page 107, [Exhibit A](#))).

Mr. Nakamoto referenced the total General Fund revenue in Table 1, focusing on the Biennium Forecast columns (page 105, [Exhibit A](#)). In reference to the fall of 2008 report, he noted that the average percent error showed that actual collections for the total General Fund were 3.0% above the Forum's forecast. The fall of 2010 report showed the average percent error dropped to 0.0%, indicating the forecaster's lack of ability to gage the effects of the recession. Lastly, the fall of 2013 report showed an average percent error of -0.1%, indicating that the Forum over-forecast the actual total General Fund collections. Mr. Nakamoto said, although a -0.1% error rate might look good on paper, the average percent error rate allowed positive observations to cancel out negative observations; therefore, the true performance of the individual forecast was not accurate. For that reason, the absolute average percent error was added to Tables 1 and 2 in order to capture a more accurate statistic. He further clarified that, on average, the Economic Forum's biennium forecast was within 0.1% of the target. However, when the absolute average percent error was calculated, the forecasters were either plus or minus 6.1%.

Mr. Nakamoto explained that Table 2 presented the same error analysis as Table 1, but showed the error results in dollars versus percentages. In review of the biennium forecasts for the total General Fund revenue, the average error reflected that the Forum under-forecast actual collections by \$27.8 million in the fall of 2010 report, and dropped to an under-forecast of \$27.2 million in the fall of 2013 report; reflecting a huge difference from the over-forecast of \$143 million in the fall of 2008 report. Mr. Nakamoto pointed out that there was an error in the table, that the middle column of the biennium forecast should read 2010 rather than 2013. Mr. Nakamoto said, in dollar terms, the absolute average error reflected an over-forecast of \$200.6 million in the fall of 2008 report, an over-forecast of \$322.4 million in the fall of 2010 report, and an over-forecast of \$309.9 million in the fall of 2013 report.

Mr. Nakamoto said, historically, the Economic Forum did not perform too badly with its forecasts. He said the recession affected the forecasts and skewed the ability to gage the economy. However, the errors were starting to normalize, meaning the Economic Forum was doing a better job of forecasting as the economy recovered.

Mr. Guindon noted that the 1996-97 biennium recorded the first biennium forecast, with Nevada's economy on the upward trend. He referenced Table 2, Biennium Forecast for the Fall of 2008 Report (biennium ending FY 2007), and made comment that the actual collections for the total General Fund revenue was only 3.0% above the Forum's forecast. He said the 1.7% difference between the average error and the absolute average error could have been a lot worse, considering that the reports from 2010 and 2013 were heavily influenced by the recession. Mr. Guindon stated that these tables are reviewed by the forecasters to stimulate ideas of where forecast improvements can be made among the various revenue sources. As an example, he highlighted the General Fund revenue source, Net Proceeds of Minerals in FY 2013 (page 98, [Exhibit A](#)), stating that forecasters thought they had reliable data to project from, yet they missed the actual collections by a large percentage. Mr. Guindon said that the Fiscal staff will meet with the Department of Taxation and re-evaluate how forecasts are

prepared. He theorized that the timing of the prepayment and true-up stages might be part of the discrepancy between the forecast and the actual collections.

Mr. Marvin Leavitt said he had been observing the Net Proceeds of Minerals revenues for the last forty years, noting the forecasts had been consistently over or under the actual collections. He stated that he was not a member of the Forum at the beginning of the recession, but given the severity of the recession, he thought the Forum did well with its forecasts. He recalled when the Economic Forum made changes to the property tax system in 2005, stating that he never expected to see the huge decrease in the assessed value of property that later resulted from the recession. He said that Nevada's local government and school districts were experiencing a big problem now, because of the major hit that property taxes suffered as a result of the recession. He said, because of the annual cap that altered growth on property taxes, recovery would be slow. Mr. Leavitt reiterated that the Forum did a good job with its biennium forecast, considering how volatile that period was.

Chairman Wiles' viewpoint was that the Forum's biennium forecasts reflected an average percent error of - 0.1% (over-forecast of actual collections), and suspected that average percent error was within the margin of error.

XIV. PRESENTATION OF HISTORICAL TAXABLE SALES AND GAMING MARKET STATISTICS.

Russell Guindon suggested that the Economic Forum members look at the taxable sales and gaming charts that were posted to the Nevada Legislature's website. He explained that the taxable sales charts showed actual taxable sales by county, taxable sales growth rate for Nevada's 17 counties, and each county's share of statewide taxable sales.

Mr. Guindon said there was strong growth in the auto industry. He said some industries produced double digit growth rates a year ago, stating that it was a hard comparison to grow against, especially when taking into consideration some of the underlying dynamics in the economy in terms of wages and employment. Mr. Guindon announced that members of the public could request a hardcopy of the charts and tables through the Fiscal staff at the Legislative Counsel Bureau.

Mr. Guindon closed by announcing to the Forum that the tables included in Mr. Reel's presentation ([Exhibit E](#)) would be updated monthly, and be uploaded to the Economic Forum page of the Nevada Legislature's website.

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

Russell Guindon stated the intent of this agenda item was to discuss the report that Chairman Wiles was scheduled to present to the Interim Finance Committee (IFC). He said it was too late to be included on the agenda for Monday's IFC meeting, December 9, 2013, but would collaborate with staff to prepare a report and have it placed on the February IFC meeting agenda. He said as soon as an IFC meeting date is finalized, he will contact Chairman Wiles to put together a schedule.

XVI. PUBLIC COMMENT.

There were no public comments at either location.

XVII. ADJOURNMENT.

Chairman Wiles thanked everyone who attended, as well as the speakers and the staff for preparing the information. He noted that the accuracy forecasted by the Forum was highly dependent upon the quality of the information that the Forum received from staff and other parties. The meeting was adjourned at 12:45 p.m.

Respectfully submitted,

Judy Lyons, Transcribing 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.