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

May 1, 2015

The meeting of the Economic Forum (created by Senate Bill 23, 1993) was held at 9:00 a.m. on Friday, May 1, 2015, in room 4100 of the of the Legislative Building, 401 South Carson Street, Carson City, Nevada, with videoconference to room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

ECONOMIC FORUM MEMBERS PRESENT IN LAS VEGAS:
None

ECONOMIC FORUM MEMBERS PRESENT IN CARSON CITY:
Ken Wiles, Chairman
Marvin Leavitt
Jennifer Lewis
Matt Maddox
Linda Rosenthal

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
Susanna Powers, Economist, Budget and Planning Division, Department of Administration
Judy Lyons, Committee Secretary, Fiscal Analysis Division

EXHIBITS:

Exhibit A	Meeting Packet and Agenda
Exhibit B	Gaming Revenue Forecast for FY 2015-17, Gaming Control Board
Exhibit C	Economic Forecast, Executive Budget Office
Exhibit D	Fiscal Analysis Division Forecast Information Packet
Exhibit E	TABLE 8, Major General Fund Revenue Forecasts for FY 2015, FY 2016 and FY 2017
Exhibit F	Economic Forum Projections, Department of Taxation

Exhibit G	TABLE 9, Comparison of Average Growth Required Over the Remainder of FY 2015 to Achieve the FY 2015 Forecast
Exhibit H	Report to the Governor and the 2015 Legislature (78th Session) on Future State Revenues, May 1, 2015; Summary of the Economic Forum General Fund Revenue Forecast; and General Fund Revenues – Economic Forum May 1, 2015, Forecast, Approved at the May 1, 2015, Meeting
Exhibit I	TABLE 3, General Fund Revenue Forecasts: Agency – Fiscal – Budget (**Distributed but not discussed**)
Exhibit J	TABLE 4, Forecasts for the Major General Fund Revenues: FY2015, FY 2016, and FY 2017

I. ROLL CALL.

Chairman Ken Wiles called the meeting of the Economic Forum to order at 9:07 a.m. and the secretary called roll. The members were present at the meeting in Carson City.

II. OPENING REMARKS.

Chairman Wiles thanked Assemblyman Ellison, Chairman of Assembly Government Affairs, and Assemblyman Randy Kirner, Chairman of Assembly Commerce and Labor, for allowing the Economic Forum to use Committee Room 4100. He conveyed it was not easy to make room adjustments during the legislative session.

Chairman Wiles explained that the Economic Forum was required to forecast under current law; however, the Assembly and Senate were convened in the 2015 Legislative Session and there were statutes in the process of changing due to measures that had already been adopted. He said the Economic Forum and its staff did their best to include these changes in the forecasts included in the meeting packet; however, there were issues and considerations being debated that were likely to change during the term of the legislative session. He indicated that forecasts will be revised, as necessary, after the changes have been approved by the Legislature and the Governor. Chairman Wiles announced the meeting packet was available in both Carson City and Las Vegas, as well as on the Economic Forum's webpage on the Nevada Legislature's website.

III. PUBLIC COMMENT

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

IV. APPROVAL OF THE MINUTES OF THE OCTOBER 17, 2014, MEETING

Chairman Wiles asked for approval of the minutes.

> MR. LEAVITT MOVED FOR APPROVAL OF THE MINUTES FROM THE OCTOBER 17, 2014, MEETING.
>
> MS. LEWIS SECONDED THE MOTION.
>
> THE MOTION CARRIED UNANIMOUSLY.

V. APPROVAL OF THE MINUTES OF THE NOVEMBER 7, 2014, MEETING.

> MR. LEAVITT MOVED FOR APPROVAL OF THE MINUTES FROM THE NOVEMBER 7, 2014, MEETING.
>
> MR. MADDOX SECONDED THE MOTION.
>
> THE MOTION CARRIED UNANIMOUSLY.

VI. APPROVAL OF THE MINUTES OF THE DECEMBER 3, 2014, MEETING.

> MR. LEAVITT MOVED FOR APPROVAL OF THE MINUTES FROM THE DECEMBER 3, 2014, MEETING.
>
> MS. LEWIS SECONDED THE MOTION.
>
> THE MOTION CARRIED UNANIMOUSLY

VII. PRESENTATION ON THE NATIONAL, REGIONAL AND STATE ECONOMIC OUTLOOK.

Daniel White, Economist, Moody's Analytics (via teleconference)

Mr. Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, communicated to the members of the Economic Forum (Forum) that Mr. Daniel White and Ms. Sarah Crane, Economists for Moody's Analytics (Moody's), would present their forecast reports via teleconference. He directed the committee to Moody's presentation on page 141 of the meeting packet (Exhibit A).

Mr. Daniel White, Economist, Moody's Analytics, thanked the Forum for allowing him to speak. He said he would discuss the U.S. macroeconomic outlook and forecast changes that occurred since his November 7, 2014, presentation, whereas Ms. Crane would present the economic outlook for Nevada and revenue forecasts relative to the State 2% Sales and Use Tax and Gaming Percentage Fees.

Mr. White reported the gross domestic product (GDP) growth dropped sharply in the first quarter of 2015, and indicated there were significant temporal factors that impacted the numbers. He said Moody's economists anticipated 1.0% growth, which was in line with the consensus in terms of growth in the first quarter; however, the GDP only grew by approximately 20 basis points. He said weather played a factor, specifically in the northeastern part of the United States (U.S.), which may have cost approximately three-quarters of a percentage point off growth in the first quarter. Additionally, trade numbers dragged down economic growth, because of recent growth overseas and port strikes and labor stoppages on the west coast. Lastly, Mr. White reported negative impacts from low oil prices, such as significant falls in drilling activity and energy investments, rig counts dropped by roughly half in the last three months, and capital expenditure in the energy sector had dropped significantly, which shaved approximately one-half of a percentage point from growth in the first quarter.

Mr. White said his recent economic growth forecast, based on new data, was adjusted down to slightly below 3.0%. He said Moody's counted on a very weak number in the first quarter of FY 2015, which is why the forecast had not changed much at the U.S. macro level. He said the Federal Reserve (February 2015) all but assured that the interest rates would not increase until September 2015, which was in line with Moody's previous estimates; therefore, his forecast did not change much. Mr. White said some of the economic activity that was lost due to bad weather is expected to come back, particularly in construction. Housing permit numbers in areas affected by the weather showed a spike in activity, which was contributed to people coming back online from delays in February and March of 2015. He said the coming months will see positive effects from oil becoming more evident, particularly on the consumer side, which is expected to pay dividends in Nevada. He said reports showed that personal income was not that good, but disposable personal income numbers were strong and the savings rate was rising. He stated that people are seeing more income available for consumption due to low oil prices, but that income has not trickled down through the economy. However, he expected higher consumer activity as those savings continued throughout the summer and the peak driving season. Mr. White turned the presentation over to Ms. Crane.

Ms. Sarah Crane, Economist, Moody's Analytics, stated that Nevada's recovery continued to make healthy strides as of the first quarter of 2015. She said statewide payrolls grew by approximately 3.2% over 2014, and was led by restaurants and bars and health care providers; job growth remained well above average; tourist volume in Nevada increased, particularly in Las Vegas; and the state's population expanded at an above average pace. She said the health of Nevada highly correlates with national and global economic trends, so whatever happens at the macro level will filter down to the state level. Ms. Crane reported that state gains exceeded the nation's, which signified the economy enjoyed a boost from industries outside of tourism and gaming. Ms. Crane said a large share of the jobs created during the recovery were low paying and in sectors that offer part-time work, such as retail, leisure and hospitality, and administrative services. She referred to the dip in tourism jobs in 2014 as a "false alarm," and confirmed tourism jobs continue to grow. Wage growth was up across a wide range of private sector industries, especially in leisure and hospitality, where average hourly earnings grew at twice the U.S. pace. She said a shorter work week capped the average weekly pay gains, but as the labor demand firms up in 2015 and 2016, the trend is expected to reverse itself. On the downside, Ms. Crane explained that wages in Nevada sat below the U.S. average due to the low paying and temporary jobs that dominate Nevada's employment landscape. Additionally, the unemployment rate, which had been on the decline, had flat lined for the past three months at around 7.1%. On the bright side, she said the flat line was due to the growing labor force rather than stagnant employment, which suggested labor market slack still existed. She reiterated that the weak start in 2015 would slightly dampen job growth; however, Nevada's recovery was secure.

Ms. Crane reported that U.S. home prices rose robustly over the past couple of years. She said the pace of growth slowed down since early 2014, but Nevada's increasing rate continued to outpace the rest of the country, and is expected to do so for the next few years. She said U.S. homes recovered upwards of 90% of their values since the recession, while Nevada home prices were at two-thirds of their prerecession level. Price appreciation is helping local property taxes to recover and is allowing municipalities to bring staff back onto the payroll.

Ms. Crane highlighted the following trends in terms of Nevada's economy:

- Overall, total state payrolls are roughly 4.0% below levels seen in the first quarter of 2008, whereas the nation and the rest of the Western Region have all exceeded their 2008 levels.
- An uptick in migration caused Nevada's population to grow twice as fast as the rest of the country in 2014, about 1.6% versus 0.75% (second to North Dakota), and state population growth was expected to remain above average over the length of Moody's forecast. In addition, the general shift of population in the U.S. to the Western Region is expected to continue.
- The real estate market is faring well due to progress in both residential and nonresidential.
  - Single family home building is keeping pace with the U.S., leaving apartment demand to power most of the gains. Both rental and homeowner vacancy rates continue to drop; however, Nevada has more vacant supply than other states. Excess stock needs to be worked off before homebuilding will start to ramp up. A jumpstart in homebuilding is expected to occur in 2016 or 2017; therefore, the construction industry will need to rely on nonresidential projects for business until then. The pace of homebuilding is forecast to surpass the U.S. around mid-2016, and remains more robust than average over the length of the forecast.
  - Nonresidential building, facility expansions, and speculative developments are sprouting up across the state. Southern Nevada industrial office and retail space showed improvement in the past six months compared to 2014. The Reno area and Northern Nevada has increased interest and strong leasing activity.
- Nevada is expected to sustain above average job growth over the short and long term, and maintain steady gains in visitors and residents.

- Household formation will improve as the Nevada economy heals. Many younger residents who are living with their parents are expected to form their own household, which will be good for the construction industry.

Ms. Crane noted a downside risk to Nevada's economy would be if an adverse economic shock derailed current tourism, because there was not much else to sustain a recovery at this point. She said locals would struggle to sustain their current pace of spending, as most have below average credit scores and median household income.

Moving to the State 2% Sales and Use Tax, Ms. Crane said sales tax collections accelerated in FY 2015, and the recovery remained intact. Continued improvement in visitor volume, household formation, and residential building recovery boosted collections by a projected 7% in FY 2015. She said by FY 2016 and FY 2017, the state's housing recovery will accelerate and push collections to increase by 7.2% and 9.5%, respectively. Ms. Crane identified statewide residential construction and nationwide recreational services spending as key underlying drivers of sales and use tax collections, which is a proxy for Nevada and Las Vegas tourism. She reported that Las Vegas welcomed 40.8 million people in calendar year 2014, which was almost 3% higher than the visitor volume in 2013, and exceeded the annual record set in 2012. She said given the trajectory of the U.S. recovery, visitor volume will continue to expand steadily. Ms. Crane said the near-term forecast is higher than the previous iteration, because of stronger than expected homebuilding activity. She reported that housing completions were a surprise on the upside due to significant multifamily gains, and that continued healthy in-migration will generate sustained recovery in household formation and homebuilding in the years ahead.

Ms. Crane reported marginal growth relative to gaming percentage fee collections,. She said third-quarter data in FY 2015 was stronger than anticipated, and collections were outpacing FY 2014 year-to-date with one quarter left in the fiscal year. FY 2015 collections are expected to rise by 0.6% compared to FY 2014, but the near-term forecast is weak, because of the slowdown in the Asia-Pacific economies, particularly China, which will weigh on high dollar play. Ms. Crane forecasted collections to rebound to 3% in FY 2016 and 4% in FY 2017 in conjunction with more visitors and improved household finances among Americans, especially in the Western Region.

Ms. Crane stated the slowdown in baccarat win accounted for an outside share of the gaming revenue decline. The high-end game grew from about 4% of Nevada's gaming win in 2003 to more than 13% in 2013. She said visitation from the Asia-Pacific region slowed as a result of their economic downturn, which caused the win on the Las Vegas Strip to be lower than past years. Additionally, Nevada's share of the global gaming market fell in the last decade, and the composition of visitors to the state tilted toward consumers of nightlife and shopping rather than gambling. Ms. Crane indicated live entertainment and sales and use taxes would continue to increase at the expense of the gaming percentage fee due to the structural break in the relationship between recreational spending and gaming.

VIII. PRESENTATION ON THE STATE EMPLOYMENT OUTLOOK.

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

Mr. Guindon announced that the presentation materials for this agenda item started on page 149 of the meeting packet (Exhibit A).

Chairman Wiles commented that some of the meeting information was not available until recently, thus the multiple handouts.

Mr. Guindon explained the timing associated with the release of numbers from the Gaming Control Board and the Department of Taxation, along with the timing of the Technical Advisory Committee (TAC) meeting, posed difficulty in compiling the meeting materials into one packet prior to the printer's deadline.

Mr. Anderson, Chief Economist, Research and Analysis Bureau ,Nevada Department of Employment, Training and Rehabilitation (DETR), said he was tasked with providing an overview of the state's labor market, which included tracked labor market indicators and an outlook on employment and jobs. He said he would highlight any differences from what he presented to the Forum at the November 7, 2014, meeting.

Beginning with Nevada's unemployment, Mr. Anderson said the rate stood at approximately 7.1% compared to 7.2% in the fall of 2014 and 8.2% from a year ago. He reported jobs were up by approximately 13,000 from October 2014. Initial claims for unemployment insurance continued to trend about half of their recessionary peak, and the number of employers in Nevada had reached a record high within the last few months. He said wages continued to trend upward at a consistent rate of approximately 1.5%, and the state continued to maintain the fastest job growth rate in the nation. Mr. Anderson said most indicators were stable or pointing in a positive direction.

Mr. Anderson stated the reason for not getting more pronounced downward pressure on the jobless rate was because as labor markets improve, people re-enter the labor force and search for work. He reported Nevada's labor force increased by approximately 10,000 workers between October 2014 and March 2015, which explained the stubbornly high unemployment rates. Nevada measured 49 straight months of year-over-year declines. He noted at the height of the recession, Nevada's unemployment rate was close to 4.4 percentage points higher than the national rate. However, as of March 2015, Nevada's unemployment was approximately 1.6 percentage points higher than the national rate and is expected to trend downward over time. Mr. Anderson referred the committee to the table on page 153 (Exhibit A), Alternative Measures of Labor Underutilization, and drew attention to the discouraged workers (U-4) category. He defined discouraged workers as people who give up searching for work, because they feel there are no job opportunities. He pointed out that as the unemployment rate progressed from U-3 (the official rate of unemployment) to U-4, less than a percentage point (0.7%) was added to the unemployment rate.

Chairman Wiles asked if the table's spread was less than the national average, and if the unemployment rate would equal 8.1% if discouraged workers were added.

Mr. Anderson responded that he would have to check those figures and get back to the Forum.

Chairman Wiles said the information in the table was encouraging, and found it interesting that when discouraged workers are not accounted for, the unemployment rate drops, yet acts as a damper when the unemployment rate increases. He said the U-4 category was a better measure, and with 10,000 more employees coming back into the labor force, it signified a healthy economic base.

Mr. Anderson said the U-4 measure shows potential workers are confident about their likelihood of finding a job. He said workers will give up their search for work if they think no potential jobs are available, hence not be counted amongst the unemployed. When the labor markets improve, people are attracted back into the labor force, because they are more confident of being successful in their job search.

Chairman Wiles reiterated the importance of the U-4 number. He explained the employment outlook can improve while the unemployment rate remains the same, because so many people are returning to the work force and absorbing available jobs.

Mr. Maddox suggested that Mr. Anderson include previously reported comparison rates to the chart for future presentations to the Forum (page 153, Exhibit A).

Mr. Anderson acknowledged Mr. Maddox's request. He confirmed that all measures listed on the table were trending downward, including the official unemployment rate (U-3).

Continuing, Mr. Anderson reported 51 straight months of year-over-year job gains, dating back to 2011, with an increase of approximately 35,000 jobs compared to 2014. He explained that job growth is estimated monthly, and annual revisions are made at the end of the calendar year. Mr. Anderson said he had solid reason to believe that Nevada employment has been underestimated by a few jobs to several thousand jobs over the course of the last few months, as suggested in the chart on page 156 (Exhibit A). The chart showed the absolute level of job growth dropped to approximately 34,000 jobs in March of 2015. He said DETR's unemployment insurance records, which provide a complete account of employment as submitted by employers, reflected preliminary growth for the final quarter of 2014 (December) of approximately 45,000 jobs. He believed the true-up at the end of 2015 will better reflect the complete count of employment, and instead of growing in the 35,000 range, the job growth will be closer to 45,000. While job growth remained broad-based and diversified, all private sector industries contributed to job growth, including construction, which was growing the strongest in percentage terms. Mr. Anderson said, relative to the nation, Nevada's job growth exceeded the national growth for 32 straight months. Additional state statistics showed consistent growth in wages at approximately 1.5%, and personal income gains in 17 of the past 18 quarters (pages 159 and 160, Exhibit A).

Mr. Anderson focused on the state's labor market, and stated the data presented on pages 161 and 162 (Exhibit A) was compiled to help Governor Sandoval track his 50,000 job goal in his first term as Governor of Nevada. The data showed that Nevada added 99,000 jobs from 2010 through 2014, and further added 40,000 jobs through the first three quarters of FY 2015.

Mr. Anderson said Nevada went from having the strongest job growth rate in the nation to suffering the most pronounced decline in the nation during the downturn in the economy. However, Nevada rebounded its ranking to the third strongest state in the nation through the first three quarters of calendar year 2014 (behind North Dakota and Colorado). He implied that ranking was not expected to significantly change; however, the turmoil in the energy markets could negatively impact the top two states.

Mr. Anderson said DETR's job outlook forecast is slightly more optimistic now than what was presented to the Forum on November 7, 2014, which increased from 133,000 new jobs throughout the 2015-17 biennium to 158,000 new jobs. He reported job levels are expected to reach 1.36 million by year-end 2017, or 2.5% higher than what DETR previously suggested, with approximately 18 of the 20 industry sectors showing job growth in every year of the forecast period. He noted that Nevada lost approximately 175,000 jobs during the recession and regained approximately 100,000 of those jobs through 2014. DETR anticipates that by mid-2016, all jobs lost will be regained, and by the end of 2017, job levels will exceed the pre-recession peak by 97,000 jobs. Mr. Anderson forecasted job growth to increase from 45,000 in 2015 to 52,000 in 2016, and jump to approximately 60,000 in 2017.

Mr. Anderson confirmed that construction was the fastest growing industry sector, which lost between 90,000 and 100,000 jobs during the recession. He said by the end of 2017, about half of those construction jobs will be regained. Driving forces behind the ramp up in construction are the Tesla facility, the MGM-AEG Arena (AEG Arena) in Las Vegas, the Genting World Resorts project, and some other less publicized projects. Mr. Anderson summarized activity within the following industry sectors:

- <u>Manufacturing</u> – Tesla is expected to bring in more than 5,000 new jobs, and growth will gradually tick upward through the forecast period.
- <u>Retail Trade</u> - Approximately 5,000 jobs are expected to be added annually with a stronger progression through 2017.
- <u>Health Care</u> – This industry is largely driven by population growth and held up relatively well during the recession Stable growth of approximately 4,500 new jobs per year is expected throughout the forecast period.
- <u>Accommodations and Food Services</u> – This industry captures tourism and gaming related industries. All jobs lost during the recession (30,000) have been regained and 40,000 additional jobs are expected through 2017.

Mr. Anderson stated there was month-to-month fluctuation in job growth over the 2015-17 biennium, but the overall trend going forward would reflect additional downward pressure on the unemployment rate. He forecasted an unemployment rate of approximately 6.5% in FY 2015 with continued downward pressure reaching the low 5% range by the end of FY 2017.

Mr. Anderson said the employment outlook shows improvement and the ground work has been laid to see continued improvement in the state's labor markets.

Mr. Leavitt asked how the employment outlook and job growth compared between Southern Nevada, Northern Nevada, and the rural areas.

Mr. Anderson replied job growth was observed throughout the state except in the Northeastern rural counties where mining dominated the economy, which was flat. He said Northern and Southern Nevada saw job growth, measured on a year-over-year basis, and unemployment rates throughout the state dropped by approximately 1% to 1.25% compared to where they were in 2014. He noted in March 2015, unemployment rates were down in all 17 counties.

Mr. Leavitt articulated if construction rebounded to half its prerecession numbers, then all other job sectors must have grown considerably, possibly above their prerecession levels.

Mr. Anderson responded with an example. He said the largest industry, Accommodations and Food Services, regained all 30,000 jobs that were lost; therefore, all growth going forward would be added to that record level of employment. He explained the ground made in the Accommodations and Food Services industry offset the huge hole that was dug in the construction industry, which amounted to the loss of two-thirds of the job base over the course of the recession. He noted that even with solid growth occurring, a lot of that hole was left to fill.

Ms. Rosenthal observed a 1.0% decrease, or more, in the unemployment rate each year from 2011 through 2015, and a less than 0.5% decrease from 2016 to 2017. She asked if that rate change was a function of the numbers getting smaller or if there was something driving the reduction in 2017.

Mr. Anderson said Ms. Rosenthal's observation was certainly a factor. He noted that during the boom prior to the recession, Nevada's unemployment rate was in the low 4% range, and could not fall below that. Mr. Anderson implied that the state's increasing job growth will attract Nevadans and people from other states into the labor force, and would help put a floor on how low the unemployment rate can go. He noted Nevada's population growth was rated one of the third fastest in the U.S. in 2014.

Mr. Maddox questioned the number of new jobs projected relative to the Accommodations and Food Services industry (40,000 out of 97,000 new jobs.) He asked how this industry can grow 13% from the peak of 310,000 jobs when gaming revenues were likely to be 25% less in 2017 than they were in 2007. He said new projects take 30 months to build from the ground breaking stage, and that he was unaware of any new large projects coming on board by FY 2017.

Mr. Anderson replied that the Accommodations and Food Services industry is broadly defined and consists of much more than gaming. He said it will capture the new AEG Arena and the expansion in restaurants and drinking establishments.

Mr. Maddox stated that Wynn Resorts makes 60% of its revenue from nongaming. He asked what areas of Las Vegas would be filling the 40,000 new jobs. He said 40,000 new jobs would be extraordinary, noting the AEG Arena will only hire a few hundred people.

Mr. Anderson responded the coverage would be statewide. He reported growth in Retail and Eating and Drinking Establishments in Northern Nevada, but were growing at a lesser pace than Las Vegas. He said as the nightclub scene evolved, the eating and drinking scene would evolve in addition to activity on the gaming floor. He reported that in addition to the AEG Arena, the Genting project is scheduled to come online toward the end of the forecast period. He said DETR is comfortable that their projection will accurately capture what unfolds going forward.

Mr. Maddox said he hoped Mr. Anderson was right, but implied the vast majority of new jobs would not be associated with the Las Vegas Strip. He suggested that DETR target specific growth in neighborhoods and restaurants in future forecast presentations.

Chairman Wiles gave an example to indicate the importance of the unemployment rate. Using a 7% base rate, he stated if 10,000 people entered the workforce, and the unemployment rate stayed at 7%, then 9,300 people found jobs. He said even though the employment rate did not change, the absorption of those jobs reflected a much broader employment base.

Mr. Anderson addressed the flipside of that scenario, and stated if all that occurred was job growth, and there was no inflow into the labor force, then the unemployment rate would be pushed way down.

Chairman Wiles concurred and said we were better off with the unemployment rate as it is now, and going by percentages versus absolute numbers.

IX. PRESENTATION ON TAX CREDITS ALLOWED AGAINST STATE GENERAL FUND REVENUE SOURCES.

A. Transferrable Film Tax Credits (S.B. 165 – 77th Regular Session)
B. Nevada New Markets Jobs Act Tax Credits (S.B. 357 – 77th Regular Session)
C. Economic Development Transferrable Tax Credits (S.B. 1 – 28th Special Session)
D. Nevada Educational Choice Scholarship Program Tax Credits (A.B. 165–78th Regular Session)

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

Chairman Wiles explained that he asked staff to provide an overview of various programs that provided tax credits against the General Fund revenue sources for which the Economic Forum was required to approve. He stated the Forum's intent was not to have a detailed presentation on each program or make any comment about the viability or the attractiveness of any program, but instead to be briefed on how each program may impact General Fund revenues.

Mr. Guindon referred the Forum to page 173 of the meeting packet (Exhibit A). His intent was to summarize the individual programs, with focus on revenues that could potentially be impacted by the program, and provide an explanation on how the impact would occur. Additionally, he would address staff's intent on to handle the credits and their potential impact going forward.

- Transferrable Film Tax Credit Program – These transferrable tax credits can be granted to qualifying film projects that apply to the Governor's Office of Economic Development (GOED). There are statutory provisions for calculating the amount of the tax credit based on the amount of qualified expenditures or the compensation paid to above-the-line and below-the-line personnel. Mr. Guindon referred the members to the following five revenue sources, to which the Transferrable Film Tax Credits can be applied:

    - Branch Bank Excise Tax – Under the law, *Nevada Revised Statutes* 363A, the transferrable tax credits can be purchased and applied to the Branch Bank Excise Tax. However, Mr. Guindon said it might be unreasonable that someone would buy the credits and apply them against the $7,000 per year fee.
    - Modified Business Tax (Financial Institutions)
    - Modified Business Tax (Nonfinancial Institutions)
    - Gaming Percentage Fee Tax
    - Insurance Premium Tax

Mr. Guindon conveyed that the Transferrable Film Tax Credit program was approved in the 2013 Legislative Session, and was supposed to be a four-year pilot program with a maximum cap of $80 million in credits, with an approved limit of $20 million per year. He noted if the GOED did not approve $20 million in any fiscal year, the unused portion would be carried forward. In the 28^{th} (2014) Special Session, this program was capped at $10 million, revised downward from the $80 million cap. Mr. Guindon explained that, after talking to the Department of Taxation and the Gaming Control Board, there was expectation based on the information from GOED that $10 million was certified and would be awarded to people. However, it was Mr. Guindon's understanding that that none of those credits were awarded and declared against any approved revenue source as of the date of the Economic Forum meeting. He said it was possible those credits could still be awarded and declared against one of the revenue sources before the end of FY 2015.

- Nevada New Markets Jobs Act Tax Credits Program - Insurance companies are eligible to receive a credit against the Insurance Premium Tax (IPT) when they make a qualified equity investment in a community development entity (CDE). Mr. Guindon said the total amount of credits under the program that can be awarded and certified as qualified equity investments by the Department of Business and Industry is $200 million. The insurance companies are entitled to receive a credit of 58% of the total qualified amount (58% of $200 million), which is a total available credit of $116 million that can be issued to the insurance companies that make the investments. Mr. Guindon further explained that the insurance company can begin taking their credit against the IPT on the second anniversary date of when their investment was made in the CDE. The credits are claimed over a period of six anniversary dates and can be claimed at the rate of 12% (after 2 years); 12% (after 3 years); 12% (after 4 years); 11% (after 5 years); and 11% (after 6 years). He said there is an expectation that more or less could be taken in those first two years of the program; however, the maximum amount is probably the 12% of the $200 million, or $24 million. Mr. Guindon reported there are seven different CDEs and approximately 34 insurance companies that are affiliated with those CDEs that will potentially be able to take the credits against the IPT. It is staff's understanding that the investments were made under the provisions of the law in late December of 2013, which means the second year anniversary date is in calendar year 2015. Mr. Guindon said there is the expectation that some of the insurance companies will begin taking these credits with the quarter that ended March 31, 2015, included in their end-of-April tax filing.

- Economic Development Transferrable Tax Credits Program - This program was put in place in the 28th (2014) Special Session, the same session that also changed the provisions for the Transferrable Film Tax Credit Program from $80 million to $10 million. Mr. Guindon said this program was also known as the "Tesla Program," because it was Tesla that applied to the program under the statutory provisions approved under Senate Bill 1 during the 28th (2014) Special Session and were awarded the credits allowed under this program. Mr. Guindon explained that a qualifying project can receive a credit of $12,500 for each employee, up to 6,000 employees, which is worth $75 million in credits. Additionally, that qualifying project can receive an extra 5% of the first $1 billion in capital investment, which is worth $50 million in potential tax credits, and then 2.8% of the next $2.5 billion in new capital investment, or another $70 million. He said this program has a maximum limit of $195 million of transferrable tax credits that can be awarded. He noted Tesla came in under the provisions of that statutory program, and applied for and was awarded $195 million, the maximum allowed.

Mr. Maddox asked if Tesla sold those transferrable tax credits.

Mr. Guindon stated that Tesla did not sell those credits, because the credits had not been awarded yet. He said the first credits on this program will be awarded in early FY 2016, which can be declared against the same revenue sources as for the Transferrable Film Tax Credit Program.

Mr. Maddox asked Mr. Guindon to clarify if those transferrable tax credits could be sold.

Mr. Guindon confirmed they are transferrable credits and can be sold. He said, because Tesla is only subject to one of the five approved taxes for which the credits can be applied to (Modified Business Tax – Nonfinancial Institutions), and given the volume of credits, the expectation is that Tesla will declare the credits against one of the major revenue sources and sell them in the secondary market. Under the law, a maximum of

$45 million per year can be awarded, and whatever amount is not awarded will carry forward to the next fiscal year.

Chairman Wiles stated if an entity qualifies for these tax credits, but does not pay taxes on the items for which those tax credits apply, that entity can sell the credits to someone else who can use the tax credit, dollar for dollar.

Mr. Guindon said his understanding is the credits can be sold at an agreed upon price in the transferrable secondary market (e.g., ninety cents on a dollar); however, the purchased credits are worth dollar for dollar against whatever tax it was declared against. To summarize the process, Mr. Guindon explained that GOED will determine the amount of the credit to be issued based on jobs created and capital investment. The credit is awarded to the lead participant, and in turn the credits are declared against one or more of those major revenue sources. GOED is required to notify the Department of Taxation and the Gaming Control Board of the transferrable tax credits issued, per revenue source, and then the lead participant uses the tax credits themselves or sells them in the secondary market. He said whoever buys the tax credits must use them against the tax to which they have been declared against.

Chairman Wiles added that the objective of the tax credits is to enhance economic activity, and target specific industries or areas that the taxing entity wants to promote. In terms of forecasting, he said not only is there a forecast on the amount of tax credits that GOED issued and utilized, but also against the tax buckets for which those credits are applied.

Mr. Guindon concurred, and said Chairman Wiles hit on the critical element that needed to be discussed by the Forum with regards to the understanding of how the tax credit program worked, how the credits could impact the General Fund revenue sources, and how the credits would be recognized and recorded.

Chairman Wiles said it is unknown as to where and when the net income number would be applied. He said there is uncertainty about how to forecast this, but ultimately those credits would be a dollar for dollar reduction against General Fund revenue.

- <u>Nevada Educational Choice Scholarship Tax Credit Program</u> - This program passed in Assembly Bill 165 in the 2015 Legislative Session and was approved by the Governor on April 13, 2015. Mr. Guindon said, because of the passage and approval effective date provisions in the bill, this program is now law. Under this law, a tax payer who is required to pay the Modified Business Tax (MBT) can receive a credit against that tax if they make a donation of money to an eligible scholarship organization. The eligible scholarship organization must be a 501c(3). If the taxpayer is awarded the credit, they can apply the dollar for dollar credit against the MBT-Financial or MBT-Nonfinancial institutions. Under the provisions of the bill, although the program is effective now, the credits cannot be awarded or taken until FY 2016. The program is capped at $5 million for FY 2016; $5.5 million for FY 2017; and increases 10% for each year thereafter. There is no sunset on this program.

Mr. Guindon explained the Insurance Premium Tax, Modified Business Tax, and the Gaming Percentage Fee Tax forecasts are gross forecasts and have not been adjusted for any of the four tax credit programs discussed. He said three of the tax credit programs can affect the MBT; three of the programs can affect the IPT; and two of the programs can affect the Gaming Percentage Fee Tax in terms of being restricted to use against a specific revenue source or a transferrable credit that can be sold in the secondary market once declared against one of the three revenue sources. He said after talking with Chairman Wiles and staff from the Executive Budget Office, the best approach for the Economic Forum was to have forecasts prepared by each forecaster based on the gross amount, which would be presented to the Forum for approval. Mr. Guindon further explained that before the end of the 2015 Legislative Session, adjustments would be made to the Economic Forum's forecast to include the credits. He said most likely there would be an adjustment made to the Economic Forum's General Fund revenue forecast table to include both the gross forecast and the net forecast that reflects the credits. He said not until the transferrable credits are declared against a specific revenue source will staff know which General Fund revenue sources will have a liability against them, and which ones were used. Mr. Guindon made it clear that other actions could be approved during the 2015 Legislative Session that could require adjustments to the Economic Forum's forecast. He said, in that event, updates will be provided at future Economic Forum meetings held throughout the interim in regard to credits declared and credits used against the various revenue sources.

Ms. Rosenthal asked Mr. Guindon to clarify if the Economic Forum's gross forecast for each revenue source would include a line item by fiscal year showing an estimated credit for that revenue source in order to achieve the net budget for legislative purposes.

Mr. Guindon replied the tax credits have been accounted for during the 2015 Legislative Session, and based on current information, Transferrable Film Tax Credits are expected to be worth $5.2 million in FY 2015 and $4.8 million in FY 2016; the Economic Development Transferrable Tax Credits, based on the Tesla project, are expected to come in at the maximum amount per year ($45 million) in FY 2016 and FY 2017; the New Markets Jobs Act Tax Credit are projected at approximately $17.7 million in FY 2015 (which can be adjusted once the first quarter numbers are reported by the Department of Taxation and reconciled with the current estimates) and $24 million in FY 2016 and FY 2017; and the Nevada Educational Choice Scholarship Tax Credits are forecast to be worth $5 million in FY 2016 and $5.5 million in FY 2017.

Chairman Wiles commented on the Nevada Educational Choice Scholarship Tax Credit Program. He said his understanding is that a contribution is made to a 501c(3), which is tax deductible at the federal level and is a tax credit at the state level; therefore, every dollar contributed would return a $1.30 in benefit. He said if that was the case, those credits would be used.

Mr. Guindon said he agreed with that expectation. He said because the contribution is made to a 501c(3) as a charitable contribution, the contributor can receive a credit toward their federal taxes amounting to more than a dollar back in benefit when taking the dollar-for-dollar credit against the MBT taxes.

Mr. Guindon clarified that credits from the four tax credit programs could potentially amount to $22.9 million in FY 2015, $78.8 million in FY 2016, and $74.5 million in FY 2017. He reiterated that the 2015 Legislative Session was not closed; therefore, changes to these estimated credits could occur as Session moved forward.

For clarification, Ms. Rosenthal asked if the Economic Forum was responsible for approving the estimated credits (as a line item) as part of their forecast.

Mr. Guindon replied it was not the responsibility of the Economic Forum to approve the estimated credits. He said the estimated credit amounts are based on information provided by staff to the Forum, and the Forum was only responsible for approving the gross revenue source, which will be adjusted for other legislative actions that could occur before the end of the 2015 Legislative Session, and for the final consensus estimate that the Budget Division and the Fiscal Division will agree to relative to the tax credits for FY 2015, FY 2016 and FY 2017.

Mr. Leavitt asked if the Forum's report to the Governor and the Legislature would indicate that the tax credits were not considered in the Economic Forum's forecasts for these four revenue sources. He was concerned about the clarity of the forecast.

Mr. Guindon said the draft letter to the Governor and Legislature did not include a statement as such, but it could be added and reviewed by the members prior to final approval by the Forum. He said it was made very clear to staff in the Budget Office and the Fiscal Division of what was in play.

Ms. Rosenthal stated that even though the members of the Forum were not approving the tax credit amount, the responsibility of the Forum was to forecast the General Fund revenues; therefore, the tax credits needed to be reflected. She asked for confirmation that the credits would be reflected in the forecast report.

Mr. Guindon replied that the credits would be reflected in the forecast before the 2015 Legislature adjourns. He reiterated that the Forum would only be approving the gross amount of revenue at this meeting. He explained that it was easier for the Forum to have each forecaster prepare and present a gross forecast versus each forecaster include their own projections as to where they thought the credits would be applied. He said the credit forecasts will be included in the report at the time it is adjusted for actions approved by the 2015 Legislature, but will not be included in the tables relative to the outcome of this meeting.

Ms. Rosenthal questioned why the current tax credit estimates could not be added to show the actual net amount that the Forum was approving and forwarding to the Legislature.

Mr. Guindon said the credit estimates could be included at the Forum's request. However, he reiterated the tax credit estimates mentioned earlier in the meeting were estimates that the Budget and Fiscal offices carried on the fund balance sheet, and would be taken into account during the 2015 Legislative Session with regards to the potential impact on the net resources available for appropriation. Mr. Guindon said it was up to the Forum to decide if they wanted to break out the gross and net forecast individually. He reiterated the credit numbers would change.

Chairman Wiles proposed that the tables approved by the Forum include the gross amount, the estimate aggregated for the tax credits on the General Fund, and the estimated net amount of General Fund revenues (all subject to revision) in order to show clarity of the tax credit impact.

Ms. Lewis said the report needed to reflect the tax credit per Chairman Wiles's suggestion or be included in an appendix. From a forecast perspective, she said Chairman Wiles' suggestion was the maybe not the popular choice, but it was the more responsible approach.

Mr. Maddox agreed that the tax credits needed to be addressed in the report, but the method of reporting depended on the accuracy of the information received to-date, which he did not have a good sense for. He said if the forecasters had confidence in the tax credit number, then a line item identifying that hard number would be acceptable. However, if the tax credit projections were a wild guess, then he found it acceptable to include a sentence in the report stating the tax credit projection was not included, and instead reference a forecast range of the tax credits as opposed to a hard number.

Ms. Rosenthal recalled Mr. Guindon indicating that the maximum tax credits would be taken and reflected in the forecaster's gross revenue numbers that the Forum would be approving. She rationalized that the forecast would be conservative, and then be adjusted after the 2015 Legislative Session was over. She said she was comfortable reporting either way, although she preferred the recommendation suggested by Chairman Wiles (where the Forum includes the tax credits as opposed to stating in the report that the tax credits were not considered).

Mr. Leavitt suggested that an explanation be included in the "Notes" section of the forecast table that will be attached to the Forum's report to the Governor and Legislature, stating the table did not include deductions for tax credits along with an estimate of the transferrable tax credits. He noted it would keep the table clean.

Ms. Rosenthal added that her desire to include the estimated tax credits and the total amount of General Fund revenue, net of tax credits, in the forecast report was because the legislative body used that number for appropriations. She stated the Forum had to be very clear as to what that number was.

Mr. Guindon said the Forum could proceed with the other major General Fund revenue forecasts and return to the issue of transferrable tax credits at the time of final approval.

Mr. Maddox was adamant that the punchline of the report had to include the transferrable tax credit number, whether in the table or in the notes section. He said it was important to list both the gross and net General Fund revenue in the forecast report to the Governor and the Legislature.

Mr. Guindon stated that, because the table is posted on the Nevada Legislature's website, the gross and net revenue should both be listed as separate line items in the table, as well as the amount of the estimated transferrable tax credits. He reiterated that the tax credits were estimates that staff from the Fiscal and Budget divisions had been carrying on fund balance sheets as they were accounted for in the legislative process; however, they were not accounted for on the Economic Forum's General Fund revenue sheet. He said, because these credits will impact the unrestricted General Fund revenue sources that the Forum is statutorily responsible for forecasting, staff would work on incorporating the estimated impact of the tax credits into the Economic Forum's forecast report.

Chairman Wiles suggested that a footnote be added to the estimated tax credit number that denotes an estimate, and is subject to change.

Mr. Guindon concurred and stated the Forum's intent was made very clear on the record.

Chairman Wiles summarized the Forum's intent during this process was not to address the fundamental characteristics or quality or anything about the tax credits, it was simply to acknowledge the dollar-for-dollar impact on the General Fund revenues. He stated the Forum believes they know how many credits will be used; however, the challenge was forecasting against which tax source those credits should be applied to, and in what fiscal year. He said if the Forum has reasonable clarity or a reasonable judgement about what fiscal years and the amounts, then the credits should be included in the table with explicit language stating they are subject to change.

Ms. Rosenthal asked if the Forum needed to vote on whether to make adjustments to the table to include the transferrable tax credits and net General Fund revenue.

Chairman Wiles advised the staff to include the transferrable tax credits in the General Fund revenue table attached to the forecast report to the Governor and Legislature (Exhibit H).

In closing, Mr. Guindon said staff would make revisions throughout the meeting and add language to the letter addressed to the Governor and the members of the 2015 Legislature with regards to the gross General Fund revenue, the estimated transferrable tax credits applied, and the net General Fund Revenue (including the tax credits). He said a notation could be added to clarify the numbers were based on the current consensus estimate generated by the Budget Office and the Fiscal Analysis Division relative to the transferrable tax credits.

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

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

Mr. Guindon explained the historical charts and tables on gaming and taxable sales were recently updated and could be found on the Economic Forum's webpage on the Nevada Legislature's website. He said the sales tax charts included the latest numbers released through February 2015 by the Department of Taxation; however, the gaming charts and tables had not been updated with the latest numbers released by the Gaming Control Board in late April 2015. Mr. Guindon reported taxable sales surpassed the prior peak, especially in Clark County. He noted renewable energy projects in other counties carried Nevada through the recession, but with the downturn in renewable energy, Clark County now made up 74% to 75% of the state's taxable sales. In regard to gaming, he said tables showed some softening, but slots were performing slightly better than expected.

XI. REVIEW AND DISCUSSION OF FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2015, FY 2016, AND FY 2017.

A. Gaming Percentage Fee Tax
B. Live Entertainment Tax – Gaming
C. State 2% Sales Tax
D. Insurance Premium Tax
E. Modified Business Tax
- **Nonfinancial Institutions**
- **Financial Institutions**

F. Real Property Transfer Tax

Mr. Guindon clarified none of the material from the different forecasters for the their forecasts of the major General Fund revenue sources were included in the meeting packet (Exhibit A). He acknowledged handouts from the Gaming Control Board (Exhibit B), the Executive Budget Office (Exhibit C), the Department of Taxation (Exhibit F), and the Fiscal Analysis Packet (Exhibit D). Additionally, he brought attention to two tables specific to the major General Fund revenue sources: 1) TABLE 8 (Exhibit E), which showed the May 1, 2015, forecast by forecaster compared to previous forecasts, including the Economic Forum's December 3, 2014, forecast, and (2) TABLE 9 (Exhibit G), which illustrated year-to-date actual collections and the percent change over the last few fiscal years, the forecast by forecaster for FY 2015, and the targeted growth rate in order to hit that forecaster's forecast for the remainder of the FY 2015.

A. GAMING PERCENTAGE FEE TAX

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board (GCB)

Mr. Lawton said his presentation would include an update on what transpired with regard to gaming win, taxable gaming win, and percentage fee collections since the Economic Forum met on December 3, 2014. He stated his December forecast included gaming win reported through October 2014, at which time statewide gaming win was down 0.2%, whereas his current forecast would include gaming win reported through March 2015, leaving two months to complete in Fiscal Year 2015. Mr. Lawton reported gaming win was down 0.7% ($66.7 million) compared to 1.1% growth a year ago for the same reporting period; taxable gaming revenue was up 1.4% ($118.3 million) compared to 1.5% a year ago for the same reporting period; and percentage fee collections were up $176,000 fiscal year-to-date, after an increase of 0.7% for the same reporting period a year ago, with collections approximately 1.0% (-$5.0 million) below the GCB's December 3, 2014, forecast.

Moving to statewide slot win, Mr. Lawton reported stable growth, and noted slots were not affected by huge swings seen in table games, primarily caused by baccarat. He reported slot win was up 1.8% ($98.3 million) through March 2015 compared to positive growth of 0.9% in December 2014 and negative growth of 0.1% for the same reporting period in FY 2014. He said every market in the state showed positive growth, with the exception of South Lake Tahoe at negative 0.2%. Mr. Lawton reported slot volume growth fiscal year-to-date of 1.0% compared to being down 1.1% in FY 2014 for the same reporting period. He noted that in FY 2015, slot volume increased three of the last four months statewide and eight out of ten months on the Las Vegas Strip, with the trend in slot hold sitting at 6.42% compared to 6.37% in FY 2014.

Mr. Lawton said the GCB revised their slot win forecast for FY 2015, from 0.7% to 1.9% with $6.8 billion in slot win, which meant slot win needed to increase by 2.5% over the remainder of FY 2015. Slot win was facing a soft comparison of negative 4.5% in order to meet the GCB forecast. He said the December 2014 forecast was also adjusted to reflect an increased growth rate from 1.6% to 2.5%, ($6.9 billion) in FY 2016; and from 2.6% to 3.2% ($7.2 billion) in FY 2017.

Relative to game and table win, Mr. Lawton reported a decline of 4.4% (-$165 million) fiscal year-to-date compared to 2.8% growth in FY 2014 for the same reporting period, and negative 2.1% forecasted in December 2014. Game and table volume fiscal year-to-date was down slightly at negative 0.02% compared to 0.4% in FY 2014 for the same reporting period. Mr. Lawton noted that game and table hold was sitting at 12.74%, down from 13.29% in FY 2014 for the same reporting period. Results of major games were as follows: 21 was down 0.9%, craps was down 1.8%, roulette was up 6.7%, and baccarat was down 8.9% (-$120.1 million). Mr. Lawton said baccarat win decreased seven of the last eight months and game's volume declined six of the last seven months, and was currently down 1.8% (-$184.7 million). He implied the anti-graft campaign in Beijing affected baccarat business on the Las Vegas Strip, and customers were being cautious with their spending. This trend is expected to continue until results are annualized, which is anticipated to occur around the second quarter of FY 2016.

Mr. Lawton reported that baccarat was up 2.1% in FY 2014, at this point in the fiscal year, and finished up 8.9% for the fiscal year, while baccarat volume in FY 2014, fiscal year-to-date, was up 2.2% and finished up 4.7% for the fiscal year. Based on these results, the GCB revised their game and table win forecast, dated December 3, 2014, from an increase of 1.7% to a decrease of 3.4% for FY 2015 (total win of $4.3 billion); a decrease from 3.6% to 2.0% for FY 2016 (total win of $4.4 billion); and no change in the growth rate in FY 2017 (total win of $4.6 billion). He said in order to meet the GCB's forecast, game and table win had to increase by 1.9% over the remaining two months in FY 2015. Mr. Lawton said game and table win are facing very difficult comparisons from a year ago at a 21.6% increase, and a 66.4% comparison on baccarat. Mr. Lawton said he felt the GCB's game and table win forecast was obtainable considering the special events due to occur in May 2015 on the Las Vegas Strip.

Mr. Lawton briefly summarized fiscal year-to-date gaming win standings for the following markets in Southern Nevada:

- The Las Vegas Strip was down 2.6% (-$144 million) compared to 1.5% for the same period in FY 2014 and 0.5% in December 2014. Games are down because of baccarat, down 5.9% (-$180.1 million), and slots are up 1.5% ($36.1 million). Without baccarat, the Las Vegas Strip would only be down 0.5% (-$18.5 million). As a result of some difficult comparisons (an increase of 10.7% statewide and an increase of 68.5% for baccarat), the GCB dropped their projected growth rates from 1.4% for the Las Vegas Strip to a decrease of 1.8% compared to a 2.9% increase in FY 2014 for the same reporting period.
- Las Vegas Downtown was up 1.8% compared to being up 1.8% in FY 2014 for the same reporting period.
- Laughlin was up 2.6% compared to being up 0.9% in FY 2014 for the same reporting period.
- The Las Vegas Locals was up 2.2%, with a breakdown as follows: the Boulder Strip was up 2.9%; North Las Vegas was up 4.2%; and the balance of Clark County was up 1.2%. The long-term thesis for the return of this specific market is driven by continued job growth, improved customer balance sheets, increased wages, and the housing recovery. There is an estimated $5 billion in projects in Southern Nevada, including the Las Vegas Visitors Convention Authority and the Genting project. Based on the appearance of sustained growth in the Las Vegas locals market, the GCB forecasted this market to increase 2.1% in FY 2015 after decreasing 0.1% in FY 2014.

Mr. Lawton switched his focus to Northern Nevada:

- Washoe County was up 2.0% with four consecutive monthly increases recorded compared to being up 0.6% in FY 2014 for the same reporting period.
- Elko County was up 0.4% compared to being down 0.1% in FY 2014 for the same reporting period.
- South Shore Lake Tahoe was up 0.95% compared to being down 3.7% in FY 2014 for the same reporting period.

Mr. Lawton highlighted the revisions that were made to the GCB's December 3, 2014, forecast for percentage fee collections. For total win, FY 2015's growth rate was adjusted down from an increase of 0.8% to a decrease of 0.2%, with $11.1 billion in gaming win. He said in order to meet the GCB's forecast, total win needed to increase by 2.3% over the remaining two months in FY 2015, using a 4.1% increase a year ago as the comparison. The FY 2016 growth rate was reduced from 2.4% to 2.3% with $11.3 billion in total gaming win; and in FY 2017, the growth rate was increased from 3.5% to 3.9% with $11.9 billion in total gaming win. He said the corresponding percentage fee collections for FY 2015 was adjusted down slightly, from an increase of 0.7% to 0.4% with $685 million in collections compared to an increase of 0.5% in FY 2014 at this time.

Mr. Lawton explained that although the GCB's total gaming win forecast was reduced, percentage fees were still forecast to increase based on the ratio between the taxable gaming revenue and win being higher than originally forecasted back in December 2014. The GCB originally forecast a ratio of 92.1%, but increased it to approximately 93.5% due to changes in baccarat play. He said although baccarat was down, the amount of extended credit in the game of baccarat was down 3.5%, which helped the taxable gaming to win ratio to rise. Currently, the GCB's taxable gaming revenue to win ratio is at 93.7% compared to 91.8% in FY 2014 at this time. Mr. Lawton reiterated that is why the GCB's forecast shows gaming win down, but the forecast for percentage fee collections rising slightly.

With two months left to complete the fiscal year, Mr. Lawton expected gaming win to rise 2.3%; taxable gaming revenue to rise 2.6%, and percentage fee collections on taxable gaming revenue to rise 2.9%. Facing tough comparisons of a 66.4% increase in baccarat and a 4.1% increase in total gaming win; Mr. Lawton said research indicated that the upcoming Mayweather versus Pacquiao boxing match and the outdoor concert schedule for mid-May were going to be significant drivers for visitation and gaming spend. In order to meet the GCB's forecast, percentage fee collections needed to increase by 2.4% over the remaining two months. The comparison for the final two months is a decrease of 0.7%. Mr. Lawton explained the growth rate for percentage fee collections in FY 2016 was unchanged at a negative 2.8% with $704.4 million in collections, and in FY 2017, the growth rate dropped from 3.3% to 2.9% with $725.1 million in collections.

Ms. Rosenthal pointed out the GCB forecast for percentage fee collections showed an increase each year. She asked how much of that increase was relative to a recovery in baccarat.

Mr. Lawton clarified the baccarat forecast showed a 10.3% decrease in FY 2015; 4% increase in FY 2016; and a 7% increase in FY 2017.

Ms. Rosenthal asked what the general assumption was in the forecast relative to slot win and table game win.

Mr. Lawton replied slot win was up 1.9% in FY 2015, up 2.5% in FY 2016, and up 3.2% in FY 2017. Relative to games and table win, the forecast showed a decrease of 3.4% in FY 2015, growth of 2% in FY 2016, and growth of 4.9% in FY 2017. He noted the majority of the increases in percentage fee collections was from slots.

Ms. Rosenthal stated she was trying to get a sense of the trends for each of the components in the forecast.

Mr. Maddox said he thinks in terms of gross gaming win as opposed to the amount of percentage fees collected. He asked what the ratio was between baccarat win relative to percentage fee tax collections.

Mr. Lawton replied the gaming establishments report only total tax collections; therefore, he did not know the ratio between tax collections from baccarat and total collections.

Mr. Maddox projected baccarat to be down approximately 25% in the next twelve months. He reported Wynn Resorts holds 25% of the baccarat market, and customers were not showing up. He clarified the decline was not a true 25% decline, because given the credit and discounts associated with baccarat, the amount collected on baccarat was significantly less relative to slots and tables without the discounts and credits.

Mr. Lawton conveyed the GCB was told that customers were cautious; however, they were not told customers were flat out not coming.

Mr. Maddox reported baccarat volume at Wynn Resorts was down 30% through April 2015 (calendar year), and they were by far the leader in the second quarter of 2014. He said baccarat volume at Wynn Resorts was at 66% in May of 2014; however, that was not the case in 2015. He agreed the Mayweather versus Pacquiao fight was looking good relative to baccarat, with $70 million in front money (credit) coming in, but Wynn Resorts was still expecting a 20% plus decline over the next twelve months in Las Vegas. He reported the nongaming side looked great.

Mr. Lawton commented that Wynn Resorts did a fantastic job of finding new play. Mr. Maddox responded that Wynn Resorts was targeting Southeast Asia, but to bring in business from Latin America was hard. He said it was clear that the Financial Crimes Enforcement Network (FinCEN), along with other developments, was not making it easy to bring in business. Mr. Maddox agreed that domestic business relative to slots and tables felt better, especially relating to the slot business.

Mr. Maddox encouraged the forecasters to take a hard look at the baccarat numbers going forward.

Chairman Wiles elaborated on the uncertainty in the baccarat numbers, with only 200 to 250 major players in the world. He found it interesting how international political decisions and tax policies affected Nevada, such as the anti-graft campaign in China and its chilling effect on Nevada gaming.

In closing, Mr. Lawton recalled the Forum's December 3, 2014, meeting. He said, at that time, the GCB understood the baccarat business to be healthy, and had the impression that play would seek other markets. He said, unfortunately, that market was Australia and not the Las Vegas Strip.

Susanna Powers, Economist, Department of Administration, Budget Division

Ms. Powers conveyed that the Executive Budget Office (EBO) revenue forecast was based on drivers of Nevada's General Fund tax base. She said the forecast is econometrically driven by the models, and adjustments are made when appropriate. The economic model forecasts an average inflation adjusted rate of change to all dollar denominated variables; therefore, inflation plays a significant role in forecast outputs after the currency variables are transformed back to nominal levels. She referred the Forum to page 36 (Exhibit C) of her presentation, Consumer Price Index U.S. Total. She said the table was misplaced in the EBO forecast packet, but clarified that it was used in the EBO's models. Relative to inflation, she said the forecast is expected to range from 0.7% to 2.6% over the forecast horizon. Ms. Powers directed the Forum back to page 2 (Exhibit C), and identified visitor volume as the main driver for growth, which is dependent on the health of the national and world economies. She stated the EBO projects the average visitor comes to Nevada with a fixed budget; therefore, their model incorporates the amount of dollars visitors are likely to spend, and of that amount, the estimated portion that trickles down to the businesses and the overall economy. Acknowledging the primary economic variables used in her model, she further explained the sequence of the model equations:

- Moody's forecast is referenced to determine the national and world economy variables that drive Nevada's economy.
- Las Vegas visitor volume is derived, which in turn effects the gaming drop and related retail activity on the Las Vegas Strip.
- The model accounts for the fact that the gaming and retail sectors have an impact on employment, and that those employees in turn spend money on retail, gaming and entertainment, which in combination generates the "locals activity" in their model.

Ms. Powers said visitor volume in Las Vegas is the strongest economic driver in the EBO's forecast and serves as a proxy for visitors for the whole state. Visitor volume is linked strongly to gaming drop, retail activity, and Nevada employment, and is estimated based on U.S. employment; world GDP; dollars spent on recreation, measured by personal consumption expenditures; the number of rooms in Las Vegas; and the number of states with casinos. Ms. Powers confirmed there were no major changes made to the EBO's December 2014 visitor volume forecast, and that steady growth was expected in visitor volume over the next three fiscal years. Relative to employment, Ms. Powers said employment was a function of visitors, gaming, and construction (page 5, Exhibit C). She stated her employment forecast from December 2014 had no major revisions, which assumed moderate acceleration in payroll employment.

Ms. Powers pointed out that the EBO percentage fees forecast presented to the Forum on December 3, 2014 was based on a model that separated baccarat from games and tables and lumped slots together with all other games and tables. She said, based on feedback received from the Forum, the EBO changed their model and separated slots, which reflected the following observations:

- Visitors' spending patterns continue to favor nongaming amenities, such as shows, party pools and retail.
- Significant growth in competition is providing alternatives for gamblers, reducing the number of travelers to Nevada.
- The average Las Vegas visitor is younger in age, tend to favor shopping and other nongaming options, and prefer skill-based games instead of games of chance, which steers them away from slots.
- The recession had a negative impact on home values and retirement accounts, reducing casino visits from the 55 and older population;
- Lower gasoline prices provided a boost to slot volume, which benefited slot coin-in. Ms. Powers noted lower gas prices are considered a temporary trend.

Ms. Powers said her forecast projects slot volume to increase by 1.0% in FY 2015 and incrementally increase by 1.1% and 1.2% in FY 2016 and FY 2017, respectively (page 7, Exhibit C). She reported a further recovery in the locals market depended heavily on developments on the Las Vegas Strip and the construction of Genting Resort World Las Vegas, which is reported to start May 2015.

Ms. Powers projected slot win to be up 1.5% in FY 2015; up 1.3% in FY 2016; and up 1.5% in FY 2017. She said the slot win to drop ratio increased due to a mix of machines and player preferences moving to machines with higher win percentages. The EBO forecast shows the slot win to drop ratio at 6.4% in FY 2015; 6.42% in FY 2016; and 6.44 in FY 2017.

Ms. Powers reported baccarat volume was largely driven by trend, which has been negative six out of the last seven months, measured on a year-over-year basis. She said weaker economic growth and the corruption crackdown in China caused fewer Chinese high-end players to travel to Las Vegas. Ms. Powers noted the Chinese New Year did not boost the numbers. She forecast baccarat volume to be down 1.5% in FY 2015, and increase in FY 2016 and FY 2017 to 5.3% and 7.4%, respectively (page 9 Exhibit C).

Relative to baccarat win, Ms. Powers stated baccarat play was at a record high in FY 2014, and the win percentage was almost 0.5% higher than average, making baccarat a bigger contributor to revenue than what recent years suggested. She said the EBO forecasts baccarat win to be down 9.9% in FY 2015, and increase growth to 7.6% in FY 2016 and 7.4% in FY 2017 with a win to drop ratio of 12.6% (four-year historical average) in FY 2016 and FY 2017.

Ms. Powers relayed that all other gaming volume, except slots and baccarat, have seen positive year-over-year readings since 2011. She projected volume in this category to be up 1.2% in FY 2015, up 1.7% in FY 2016; and up 2.6% in 2017, with younger visitors who prefer table games over slots making up the larger share in volume. Turning her focus to all other gaming win, except slots and baccarat, Ms. Powers forecast win to decline by 2.0% in FY 2015; increase by 3.5% in FY 2016; and rise to 3.8% in FY 2017. She said the win to drop ratio is 12.4% in FY 2015; 12.6% in FY 2016; and 12.7% in FY 2017 (page 12, Exhibit C). She noted the win to drop ratio in FY 2015 reflects a year-to-date amount while FY 2016 and FY 2017 reflect historical averages.

Ms. Powers moved to gaming percentage fee collections. She explained that statewide gaming volume is a summation of slot, baccarat, and all other gaming volume. She reported the EBO forecasted total volume to be up 0.8% in FY 2015; up 1.5% in FY 2016; and up 2.0% in FY 2017. On the total gaming win side, total win is forecast to be down 1.0% in FY 2015 (due to baccarat); up 2.7% in FY 2016; and up 2.9% in FY 2017. Taxable gross gaming revenue is forecast to be up 1.2% in FY 2015; up 1.6% in FY 2016; and up 2.1% in FY 2017. Ms. Powers said the share of taxable gaming revenue to total win over the forecast horizon is approximately 93%, a slight increase over past years. She noted the drop in baccarat play coincided with a lesser amount of offered credit, which had a positive effect on taxable gaming revenue. Ms. Powers projected gaming percentage fee collections, before the estimated fee adjustment, to advance 1.3% in FY 2015; increase 1.6% in FY 2016; and increase 2.1% in FY 2017. She said the growth rate in FY 2015 collections was not as strong, because collections in FY 2014 were roughly $6 million higher than what was calculated based on the estimated fee adjustment alone due to credit play, which made FY 2014 artificially appear better than it actually was. Ms. Powers said, after the estimated fee adjustment, collections are forecast to increase 0.5% in FY 2015, and grow 2.2% in FY 2016 and 2.3% in FY 2017.

Mr. Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon directed the Forum to the Fiscal Analysis Division's (Fiscal) packet (Exhibit D) and TABLE 8 (Exhibit E). He located many of the charts inside the packet that summarized the economic variables assumed in developing the Fiscal forecast, such as employment, wages, personal income, and visitors. He said his intent was not to elaborate on these charts unless there were questions. Mr. Guindon identified DETR's employment forecast as the source from where Fiscal pulled their underlying growth rates; however, the growth rates were slightly different because Fiscal's outlook is based on fiscal year whereas the DETR's outlook is based on calendar year.

Mr. Guindon began with employment, and stated Fiscal's outlook was a little stronger than what drove their December 3, 2014, forecast; however, wage and salary disbursements, personal income outlooks, and the visitors forecast did not change much. Mr. Guindon directed the members of the Forum to page 36 (Exhibit D), TABLE 1C, and reported slot win was revised upward by approximately 1.1% to 1.9% growth for FY 2015 with little change to the forecast growth rate for FY 2016 and no change for FY 2017. In regard to risks, he thought given the employment growth forecast compared to the slot win forecast, the slot win per employee was perhaps declining at too fast a pace, specifically in FY 2016 and FY 2017.

Mr. Guindon moved to the games win column and explained a downward adjustment was made to the forecast due to the baccarat market and the results of year-to-date data. Games win was adjusted to fall 1.8% in FY 2015 compared to the slight 0.3% growth forecast in December 2014; however, two months remained in FY 2015 that had not been accounted for. To elaborate on the forecast changes, Mr. Guindon communicated that although the total win forecast was revised to drop slightly in FY 2015, and little change was made to taxable gaming revenue (TGR), the percentage fee collections from taxable gaming revenue was revised upward by 0.1%. He said even with reduced growth rates in total win, the TGR to win ratio was higher than expected. He reiterated that by dropping the win forecast and increasing the tax collections, the estimated fee adjustment changed. In this scenario, the difference between the May 1, 2015, forecast versus the December 3, 2014, forecast amounted to a decrease of $292,000 in FY 2015. Mr. Guindon said the win forecast was revised slightly downward, but percentage fee total collections remained at 0.2% growth for FY 2015, which is identical to the December 2014 forecast.

Mr. Guindon turned his focus to the last two months of FY 2015, May and June. He said May is the last business activity month for FY 2015, in which the Mayweather versus Pacquiao fight and the Rock in Rio concert occur and are expected to draw a lot of play, possibly high-end, which links to a lot of credit play. Relative to the FY 2015 forecast, Mr. Guindon reported that game win was up approximately 33.0% in May 2014 compared to May 2013, primarily due to baccarat; therefore, tough comparisons had to be met in order to achieve the forecast. He referred the Forum to the bottom of page 35 (Exhibit D), TABLE 1B, and explained that games win was up 21.6% in April and May of FY 2014, and so games win had to grow 12.5% against that in order to meet the FY 2015 forecast for games win.

Continuing, Mr. Guindon pointed out that slot win is projected to grow 2.4% over the last two months of FY 2015 against a negative 4.5% in FY 2014; games win had to be strong in April and May of FY 2015; total win had to average 6.3% compared to 4.1% in FY 2014; and percentage fee collections needed to average 1.2% growth compared to being down 0.7% over the last two months in FY 2014. Mr. Guindon said after looking at baccarat readings and publications pertaining to baccarat, Fiscal pulled games win down compared to the growth rate in FY 2016. He was hopeful that the baccarat market would stabilize by the beginning of calendar year 2016 and increased wagering activity would return to the Las Vegas market. He said although the percentage fee collections forecast growth may still be a little weak in FY 2016, the growth rate is projected to come back in FY 2017 to the projection made in Fiscal's December 3, 2014, forecast.

In conclusion, Mr. Guindon projected percentage fee collections to increase by 2.2% in FY 2016 compared to the 2.6% growth forecast in December 2014, which resulted in a loss of approximately $3.4 million. He said the growth rate stayed the same at 2.5% in FY 2017.

Ms. Rosenthal asked Mr. Maddox what the industry's outlook was relative to baccarat and its comeback. She understood the industry was looking for new players, but questioned whether the old players were coming back.

Mr. Maddox replied calendar year 2015 would be challenging, with the exception of the month of May. He indicated that May 2015 numbers would probably not beat May of 2014, but noted that games and slots, excluding baccarat, were expected to be strong, because of the influx of the fight and the other events. Mr. Maddox stated that over the next twelve months, baccarat win is expected to be in the range of 15%. He said large drop-offs occurred and the industry was not forecasting an increase. He reported four new multi-billion dollar properties are scheduled to open in Macau beginning the first quarter of FY 2016, which will trigger mass marketing by operators in China and create competition for Las Vegas. Mr. Maddox cautioned forecasting a lot of growth in this market. He advised the forecasters to double check their gaming percentage fee forecasts by using historical data from ten years ago and growing that number by 3% (a normal growth rate). To clarify his point, Mr. Maddox emphasized that baccarat is "the game" in Macau, and this market dropped from $45 billion in 2014 to approximately $30 billion in 2015, a loss of approximately $15 billion in twelve months. He thought the concern of losing $150 million statewide, or approximately 10%, appeared reasonable when looking at global numbers. Mr. Maddox clarified that was his approach to the forecast.

To reinforce Mr. Maddox's point, Mr. Guindon turned to page 40 of the Fiscal Analysis Packet (Exhibit D), GAME MARKET STATISTICS – STATEWIDE. When looking at the comparison of games win versus slot win, he pointed out how you can see the double digit positive growth rates in games win, which then turn to double digit negative growth rates the following year. However, you don't see this kind of variance in the slot win side of the market. He stated that when you are forecasting games and slot win, you are projecting the amount of wagering that will occur and then hold percentage retained by the casinos. When forecasting for the current fiscal year, it is sometimes very difficult to contend with the double digit growth rates recorded a year ago. By the time you are forecasting for the first and second year of the forecast, it is easier to have the forecast settle down to the anticipated growth rate for each fiscal year period. The bottom line is that with the historical variance reported, it is a difficult forecasting exercise to project the games side of the market.

Mr. Leavitt commented that the Gaming Percentage Fee Tax revenue source was difficult to forecast and the chances of being either too high or too low was really great. He said this revenue source almost comes down to the actions of the Chinese government.

Mr. Maddox added that the U.S. government makes it difficult for international players to wire money into the U.S. He reported that every bank account is under scrutiny, making it hard for international players to come to the United States, which places a direct impact on baccarat revenue. He stated the operators in Las Vegas are being penalized and are feeling the impact.

Mr. Leavitt observed that the slots side of gaming, including the Las Vegas Locals Market, looked better than it had in a while.

Mr. Maddox agreed that domestic business was better. He suggested that game win be recalculated with the exclusion of baccarat. He thought it would be more realistic if the game win forecast was down approximately 10% for FY 2016 and remained flat in FY 2017. He noted the other assumptions in the forecast made sense. Mr. Maddox estimated his adjustment would result in $75 million to $150 million in game win over the 2015-17 biennium. He rationalized the state should not rely on the 200 international players who were traveling to Las Vegas to play baccarat, because those people were not coming as often. He reiterated that game win growth should be forecasted flat at best, and more focus should be applied to growth on the domestic side.

Chairman Wiles asked if one of the pressures faced by the industry was the U.S. federal government questioning where funds were coming from.

In response, Mr. Maddox indicated that FinCEN informed the casino and gaming industry in Las Vegas of their responsibility to comply with regulations like that of banking institutions. The regulations required due diligence on customers, which was much harder to do on businesses located in China or Brazil. Mr. Maddox said if there was any illicit behavior by the customer in Mexico, unbeknownst by the casino operator, the casino operator could be accused of money laundering. Mr. Maddox reported that every casino on the Las Vegas Strip is under investigation by FinCEN, and although the gaming industry is highly regulated, it is much harder for the State of Nevada to import business.

Chairman Wiles agreed the tougher regulations will drive international players to travel elsewhere.

Mr. Maddox reiterated that it would be a mistake to forecast increases knowing the international baccarat segment.

Chairman Wiles stressed if any of the information discussed at this meeting impacted or called for a reevaluation of the presented forecasts, it needed to be brought to the attention of the Forum at this time. He said the Forum needed to be alerted if forecasts should be softer versus using the provided estimates.

On behalf of the Fiscal gaming percentage fee forecast, Mr. Guindon said slot win might be forecasted a little low and game win a little high; however, the adjustments could result in the same 0.2% forecast for FY 2015 collections. He stated the 0.8% slot win forecast for FY 2016 was possibly too low. Mr. Guindon referred the members to CHART 1 and CHART 2 (pages 41 and 42, Exhibit D), which showed slot win per statewide employee. He pointed out that statewide slot win was projected to taper off over the forecast path. He questioned whether that taper would fall off as much as reflected in Fiscal's forecast after taking into consideration expected employment growth and conversations relative to the domestic market.

Mr. Maddox suggested the members do a quick calculation to see if the forecast was close, using the assumption there was an extra percentage point on slot win and an extra percentage point on win outside of baccarat, with baccarat down 10%.

Mr. Guindon replied that in order to walk it through his forecasting model, the TGR to win ratio and the affected tax rate would also need to be looked at.

Mr. Maddox indicated the calculation could be done at a high level, assuming all things constant, using $6.8 billion in slot win and $1.45 billion in baccarat win in FY 2015, and adding another point to games win.

After some quick calculations to determine total win, which included a 10% decrease in baccarat, Mr. Maddox figured the affect would amount to a net loss of approximately $43 million in total win. He said the TGR would decrease slightly, because less is collected on the baccarat side. He clarified that his calculation was only based on the Las Vegas Strip numbers, not statewide.

Mr. Guindon said it was possible to lose $50 million in win, but not lose $50 million in TGR.

Mr. Guindon calculated that $40 million in win multiplied by the average tax rate (6.6218%) for FY 2015 equaled approximately $2.6 million in percentage fee collections.

Chairman Wiles reiterated that he did not want to forecast high and provide guidance to the Governor and the Legislature that indicated a substantially higher budget, because of the downstream impact on local budgets and the state budget.

Chairman Wiles asked if there was discussion or a proposal relative to the forecasts on gaming percentage fees. He pointed out the forecasts were slightly high for FY 2015, but a little softer in FY 2016 and FY 2017. He observed that Fiscal's forecast was considerably lower than the GCB's forecast, and almost the same as the forecast presented by the EBO.

Marvin Leavitt said he felt comfortable with the lower forecasts, particularly in FY 2017.

Chairman Wiles commented on how close the forecasts were for FY 2015, but also recognized that FY 2015 was almost over.

Mr. Maddox added that the forecast difference between Fiscal and the EBO was only $2.0 million in FY 2016 and were nearly the same in FY 2017.

> MR. LEAVITT MOVED TO ADOPT THE GAMING PERCENTAGE FEES REVENUE FORECAST PREPARED BY THE FISCAL ANALYSIS DIVISION OF $683.708 MILLION FOR FY 2015, $698.701 MILLION FOR FY 2016, AND $716.158 FOR FY 2017.
>
> THE MOTION WAS SECONDED BY MS. LEWIS.
>
> THE MOTION CARRIED UNANIMOUSLY.

B. LIVE ENTERTAINMENT TAX - GAMING

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mr. Lawton directed the members to the tables starting on page 15 (Exhibit B). He reported the GCB's forecast for Live Entertainment Tax (LET) collections was revised downward 5.7%, or $5.8 million, and is 4.8% below their December 3, 2014, forecast. He said the decrease in FY 2015 was attributed to several different variables:

1. Late night production shows were negatively impacted by other late night offerings, such as nightclubs, which some are not subject to LET.
2. The majority of new programming was geared toward nontaxable music festivals or offsite concert venues, such as Route 91 Harvest Country Music Festival, Life is Beautiful, Rock in Rio, Electric Daisy Carnival, and the Downtown Las Vegas Events Center.
3. A series of show cancellations by a popular Las Vegas headliner occurred between August 2014 and March 2015. However, Mr Lawton noted the headliner was scheduled to return in FY 2016, which would apply to collections in FY 2016.

Mr. Lawton said, based on this information, adjustments were made to the GCB's December 3, 2014, LET forecast (page 15, Exhibit B). He said the current growth rate was adjusted down from a decrease of 3.3% to a decrease of 7.3% with $129 million in collections compared to a 10.7% increase with $139.1 million in collections in FY 2014 (an all-time record). He noted only one monthly increase was reported in LET collections in FY 2015, year-to-date. He said in order to meet the GCB's forecast, collections in FY 2015 could decrease by an average of 11.4% over the remaining three months compared to the 9.1% increase reported in FY 2014 for the same time period. The GCB forecast for FY 2016 was revised to show a growth rate reduction from an increase of 2.1% to a decrease of 2.9% with $125.4 million in collections. He said it was difficult to forecast growth in FY 2016, because of the strong decline in growth seen in FY 2015, the absence of new production shows on the horizon, and the continued development of multi-million dollar nightclub venues. However, the forecast growth rate in FY 2017 was revised from 2.5% to a decrease of 2.0% with $122.9 million in collections. Mr. Lawton informed the Forum that the GCB's original forecast growth in FY 2017 included revenue collections from the AEG Arena that is scheduled to open in late FY 2016. However, collections from the AEG Arena will not be under the jurisdiction of the GCB, but instead under the Department of Taxation; therefore, that growth was taken out of his forecast.

Susanna Powers, Economist, Department of Administration, Budget Division

Ms. Powers said the Executive Budget Office (EBO) forecast for the LET revenue source was driven by visitors and employment, which accounted for the impact from the locals. She said the Case-Schiller home pricing index and the SB500 index used in the EBO's forecast models serve as a proxy to reflect household balance sheets and consumer propensity to spend. Ms. Powers reported that her LET revenue forecast for FY 2015 was revised to decline by 6% compared to the EBO's December 3, 2014, forecast of a 2.9% decrease. She said the fall in FY 2015 revenue surprised her, because of the record visitation and improving overall economy, however, a lot of new retail venues opened on the Las Vegas Strip in 2014. Additionally, the EBO forecasts 4.3% growth in FY 2016 over FY 2015, and 4.7% growth in FY 2017 over FY 2016. In summary, Ms. Powers believed casinos would continue to bring shows that generate more nongaming revenue, because entertainment plays a strong factor in the gaming industry's bottom line. She said although a strengthening local economy will contribute to collections, visitors are what drive this revenue source and entertainment is what lures people to Las Vegas. She said as visitation increases and the local economy continues to improve, tax collections from entertainment venues will improve as well.

Mr. Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon said the Fiscal forecast for LET was revised downward from their December 3, 2014, forecast, from a 2.3% decline to a 5.5% decline, based on current fiscal year-to-date information and given the few months remaining to be collected in FY 2015 (TABLE 8, Exhibit E). The forecast In FY 2016 dropped from 3.4% growth to 0.5% and is projected to increase by 2.1% in FY 2017 compared to the growth of 3.7% projected in December 2014. Mr. Guindon believed the industry would react by bringing shows online to draw more people. He agreed the industry moved away from gaming to nongaming, but pointed out that some of the nongaming was associated with live entertainment events. He said the Fiscal forecast would probably be too high if visitors become more interested in nightclubs and day clubs instead of major production shows. Assuming there was a bottom to this trend, his forecast showed the bottom occurring in FY 2016 and growing slightly in FY 2017. Mr. Guindon noted the growth in LET collections would continue to decline if a change occurred in the industry with regards to live entertainment at gaming establishments.

Mr. Maddox questioned Mr. Lawton in regard to his comment, "there went my growth." He asked Mr. Lawton to clarify if he was referring to his department (GCB) or LET revenue collections relative to events at the AEG Arena.

Mr. Lawton said the GCB would not be responsible for LET revenue collections from the AEG Arena, rather it would fall to the Department of Taxation.

Mr. Maddox asked if the LET revenue source would decline.

Mr. Lawton replied it would not; however, the revenue would fall under LET-Nongaming.

Mr. Guindon added that the LET-Gaming revenue is bifurcated between live entertainment occuring at licensed gaming establishments, which is under the jurisdiction of the Gaming Control Board by statute.

Mr. Maddox asked where the LET-Nongaming revenue was accounted for in the forecast.

Mr. Guindon explained it is a minor General Fund revenue source that the TAC forecasts.

Mr. Maddox asked if the LET-Nongaming forecast was showing declines in revenue, considering the AEG Arena would be a large venue.

Mr. Guindon directed the Forum to page 193 (Exhibit A), TABLE 6, G.L. 3031NG, and stated there was a one-time deposit in FY 2014 compared to FY 2015; therefore, growth for that revenue source was only projected at 1.3% in FY 2015. He pointed out that LET-Nongaming is forecast to grow 4.3% in FY 2016 and FY 2017.

Mr. Maddox focused on the GCB's LET-Gaming forecast (TABLE 8, Exhibit E). He compared the $122 million forecast for FY 2017 versus the $140 million forecast made December 3, 2014, and questioned what portion of the $17 million decline was due to the exclusion of the AEG Arena from the LET-Gaming revenue stream.

Mr. Lawton said he did not have that breakdown with him; however, he said it did impact the revised forecast along with the current trend lines that he was seeing. He said discussions within the industry indicated that Celine Deon was returning, but the auditorium was not completely unused during her absence.

Mr. Maddox repeated his question, and asked what portion of the decline was related to the AEG Arena revenue collections being redirected to the LET-Nongaming revenue source.

Mr. Lawton stated some of the decline in his forecast was related to the loss of the AEG Arena. Mr. Maddox asked Mr. Lawton to be more specific. Mr. Lawton said it was hard to say.

Chairman Wiles voiced his concerned whether the revenue from the AEG Arena was picked up in the LET-Nongaming revenue forecast, realizing it was a small number.

Mr. Guindon agreed it was a small revenue source.

Mr. Maddox asked what the tax rate was on the LET-Nongaming.

Mr. Guindon explained that entities with over 7,500 seats (like the AEG Arena) will be taxed 5%, which did not include food and beverage, only admissions. He said entities below 7,500 seats will be taxed 10% on admissions plus food and beverage. He said the relationship between food, beverage, and merchandise compared to admissions swamped admissions for some shows.

Mr. Maddox asked if LET-Nongaming accounted for enough money for the MGM Grand Garden Arena.

Mr. Guindon replied that, because the LET-Nongaming forecast was generated in a public meeting, he was reluctant to share any information pertaining to a private business. He stated he could not explicitly say how much was added to the LET-Nongaming revenue source for the AEG Arena versus how much was taken out of the LET-Gaming revenue source.

Mr. Maddox replied the LET nongaming tax could be estimated by multiplying the number of events by the number of seats, multiplied by the number of attendees, multiplied by the ticket price, multiplied by 5%.

Mr. Guindon responded that calculation was not included in the current LET-Nongaming forecast.

Mr. Maddox reiterated that he believed the LET-Nongaming forecast was short.

Mr. Lawton said he was uncertain if the TAC for the Economic Forum was aware that revenue from the AEG Arena would be collected as a LET-Nongaming revenue source.

Mr. Maddox said it was obviously missed. He estimated that approximately $5 million out of the $17 million decline in LET-Gaming revenue forecasted by the GCB for FY 2017 was related to the AEG Arena, and that it was not picked up in the LET-Nongaming category. He suggested the TAC look at their forecast again for that revenue source.

Mr. Guindon calculated the nongaming LET by dividing the increase from FY 2016 to FY 2017 (approximately $800,000) by 5%, which amounted to approximately $16 million in admissions revenue, and excluded food and beverage sales. Historically, the LET-Nongaming revenue source was relatively flat, but has recently seen growth. Mr. Guindon noted that there are other venues that host events subject to the LET on nongaming establishments that could be cannibalized by the AEG venue. Thus, the question is what is the net effect on the market from the opening of a new venue like the AEG arena. A new venue opening in the market does not always add total new capacity of the market, because events hosted at an existing venue are now held at the new venue.

Mr. Maddox expressed his concerns that if the AEG project cannibalizes a large segment of the entertainment market, then the forecasts for the other revenue sources are wrong. He felt that the growth being projected in sales tax, hotel rates, visitation numbers, and other indicators that the LET-Nongaming forecast was off by around $5 million in FY 2017.

Chairman Wiles stated if the LET-Nongaming revenue source becomes more significant, it would need to be paid more attention to going forward. To put into perspective, he said the magnitude of $5 million would be a complete offset for something such as the Education Tax Credit for the following year. He questioned the forecast process, and stated if the transfer of revenue is expected, then a noticeable decrease should be recognized in LET-Gaming along with a noticeable increase in LET-Nongaming.

Moving toward the adoption of a LET-Gaming forecast, Mr. Maddox said he leaned toward the GCB's forecast. He stated it was a little conservative, and he was not confident that it was offset by the LET-Nongaming forecast; however, he pointed out there was a difference of approximately $20 million over the biennium between the GCB forecast and forecasts provided by the EBO and Fiscal.

Mr. Guindon clarified that outdoor concerts are exempt from the LET unless they are on the premises of a licensed gaming establishment. He said many of the events coming online are not part of the tax base for the LET-Nongaming.

Ms. Rosenthal asked how the Forum would go about proposing a change to a minor General Fund revenue forecast. She asked if it was only a matter of amending the TAC's forecast by a certain amount.

Mr. Guindon concurred, and clarified the Economic Forum sat above the TAC, as the TAC is directed by the Economic Forum to provide a consensus forecast for the minor General Fund revenues. He said it is the right of the Economic Forum to make changes to any of the minor General Fund revenue sources as part of their deliberations and decisions. Mr. Guindon said the Forum could address both the LET-Gaming and LET-Nongaming forecasts as one action or they could adopt a LET-Gaming forecast now and wait until Agenda Item XII to approve the LET-Nongaming minor General Fund revenue source.

Mr. Maddox asked the forecasters to estimate the AEG Arena's financial impact to LET-Gaming, and to provide it by the end of the meeting. He questioned if $5 million was a good estimate. He repeated the GCB's forecast was conservative, but agreed there would not be a lot of growth in the LET-Gaming revenue source given the current trend in entertainment at this time.

Mr. Guindon said the Economic Forum could pass on adopting a forecast for the LET-Gaming revenue source unless they were comfortable adopting the LET-Gaming forecast now before finalizing discussions relative to the LET-Nongaming.

Mr. Maddox said it would be helpful to pass on adopting LET-Gaming at this time.

Mr. Guindon clarified the Economic Forum's decision to pass on adopting the LET-Gaming forecast at this point in the meeting, and that it would be readdressed prior to commencement of the meeting.

Chairman Wiles concurred.

C. STATE 2% SALES TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser reported five years of positive growth relative to taxable sales, and identified continued strength in industries such as food services, motor vehicles and miscellaneous retail. She said the Department of Taxation (Taxation) recently closed its February 2015 reporting period, which comprised eight months of fiscal year-to-date of FY 2015 and showed taxable sales in February were up 9.1%, or 7.1% for FY 2015. She said the sales and use tax in the first six months of FY 2015 year was tracking below the current forecasts; however, reported growth in January and February was above the forecasted amount. Ms. Maser said Taxation revised their December 3, 2014, forecast to show increases throughout the 2015-17 biennium, from $988 million to $999 million for FY 2015; from $1.051 billion to $1.057 billion for FY 2016; and from $1.112 billion for $1.114 billion for FY 2017.

Susanna Powers, Economist, Department of Administration, Budget Division

Ms. Powers reported the following positive growth factors: continued improvement in sales and use tax collections, along with a recovering economy; job growth at one of the fastest paces in the country; widespread job gains among different industries; and increased population (second fastest in the nation in 2014). She said visitation to Las Vegas set a record in 2014, and visitation was up 2% fiscal year-to-date. Ms. Powers said employment, gaming drop, and retail activity are tightly linked in the econometric model used in her forecast. She said the EBO forecast model assumes that a typical visitor comes to Nevada with a fixed budget, of which a growing portion is spent on nongaming activities. She explained the nongaming portion of the budget is captured by using national retail sales as a proxy for what the average visitor spends in Nevada. The gaming portion of the budget is captured by the gaming drop, which has a negative coefficient with estimated retail sales. Additionally, the model includes Nevada employment and the amount of income Nevadans have, while accounting for the impact from the locals. Furthermore, she said residential construction is related to durable goods purchases, which is captured via the employment effect and single family home permit data in the EBO's econometric model. Major construction projects increase employment, which in turn affect the sales and use tax via the spending channel. Ms. Powers said the EBO updated the econometric model and revised their forecast to reflect 7.4% growth in sales and use tax for FY 2015; 5.7% growth in FY 2016; and 5.9% growth in FY 2017.

Mr. Leavitt said he heard the Federal Reserve was planning to increase the interest rates toward the end of calendar year 2015. He asked how that would affect sales tax, particularly as it related to money from construction and similar type industries.

Ms. Powers said she heard comments suggesting an action by the Federal Reserve was expected in the fall of 2015. In her opinion, she said it probably was not likely to happen until 2016, in terms of the timing. She said first-quarter growth nationally was very weak, and thought the economy had to strengthen before the Federal Reserve would increase rates. Ms. Powers said an early rate hike would be a downside risk in her forecast, because it would negatively impact wage growth and discretionary spending. She said she did not have anything specific in her models that related to construction, but could look into it for future forecasts.

Mr. Leavitt said he assumed interest rates would have an effect not only on construction, but also automobile sales and larger items which most people buy through credit. He noticed when doing an industry comparison that the sales tax increase was universal among the industries over the last several months, except in eating and drinking establishments. He asked what the cause was, specifically because it was tied to visitor population in Nevada.

Ms. Powers said food service and drinking places are top-ranked in the State of Nevada relative to statewide taxable sales by industry. She conveyed that February 2015 data posted a 4% year-over-year change in taxable sales in food services and drinking places, with the prior month at 9.3%, before that at 7.7%, and prior to that at 4.4%. She said month-to-month comparisons in that industry can be volatile; therefore, her forecast focused on overall trends, which are very consistent with her forecast.

Mr. Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Before proceeding with Fiscal's State 2% Sales Tax forecast, Mr. Guindon added that growth in taxable sales in food services and drinking places is weaker than in other categories; however, other categories have special factors that drive specific growth rates, which are not always consistent. He agreed that eating and drinking is more visitor driven; however, that category also included Nevada residents. He reported the food and beverage stores category is up 5%, clothing and clothing accessories is up 2.7%, sporting goods/hobby is up 6.1%, and general merchandise is up 3%. Mr. Guindon noted significant growth in the motor vehicle parts category of 9.2% compared to 9.4% growth a year ago due to strong growth in auto sales.

Moving on to the State 2% Sales Tax forecast, Mr. Guindon referred the members to TABLE 1 on page 63 (Exhibit D) of Fiscal's Forecast Information Packet. He pointed out that Fiscal's taxable sales forecast in December 3, 2014, showed a 5.9% growth rate for FY 2015; however, that was revised to 6.5% growth along with a 0.7% difference in sales tax collections. He said sales tax collections off that 6.5% growth are projected to grow 7.2%. He reported taxable sales from July 2014 through February 2015 were up 7.1% versus collections being up 7.6%. He explained that fiscal year-to-date, May through June of 2014 (FY 2014) taxable sales were up 6%; therefore, the forecast for FY 2015 had to average 6% on that 6% in order to hit the taxable sales forecast for the last four months of FY 2015. Mr. Guindon said the Fiscal Division's taxable sales forecast was revised to 5.8% for FY 2016 versus 5.7% in the December 2014 forecast, and is projected to grow stronger in FY 2017 with projected growth of 5.7% versus 5.4% in the December 2014 forecast due to a stronger employment forecast. Relative to sales tax collections, he reported 7.2% growth in FY 2015; 6.1% growth in FY 2016; and 5.8% growth in FY 2017. Mr. Guindon turned his presentation to TABLE 2 on page 64 (Exhibit D), which illustrated quarterly forecast data. He said the table reflects a gap between taxable sales and actual collections that occur due to abatements related to economic development. He explained the reporting section by fiscal year (bottom of page 64, Exhibit D), and pointed out the gaps in FY 2013, FY 2014, and part of FY 2015 that were contributed to renewable energy and other abatement programs. He noted the gaps are forecast to decline over the forecast horizon. Mr. Guindon said Fiscal revised its December 3, 2014, State 2% Sales Tax forecast up by approximately $5.8 million in FY 2015, $7.9 million in FY 2016, and approximately $12 million in FY 2017 (TABLE 8, Exhibit E).

Mr. Leavitt said visitor volume and the employment situation (e.g. wages) contributed to sales tax, which looked really good. He said State 2% Sales Tax is the largest revenue source; therefore, the positive growth from all of the industries made him feel good about the forecast.

Chairman Wiles said the four forecasts had virtually the same estimates in FY 2015 and FY 2016, but Moody's forecast had a significant divergence in FY 2017. He stated Moody's was not present to discuss the dramatic increase, but he was confident in the presenters who were in attendance and closest to the estimates.

To seek clarification, Mr. Maddox directed the members to page 64 of the Fiscal forecast packet (Exhibit D). He questioned if total taxable sales was approximately 35% of the gross domestic product (GDP). Mr. Maddox stated that he thought Nevada's GDP was around the $140 billion range with approximately 66% of it coming from the services sector.

Mr. Guindon replied it was closer to a 60:40 split; services versus tangible personal property.

Mr. Maddox said State 2% Sales Tax represented roughly 40% of Nevada's economy. He referred back to TABLE 2 on page 64 (Exhibit D) and drew attention to FY 2012 through FY 2014 to make his point. He said total statewide taxable sales numbers showed growth, yet the growth rates were decelerating. In FY 2012, the percent change in actual collections was 7.6%; in FY 2013 it was 5.2%; and in FY 2014 it dropped to 4.9%. He emphasized the GDP only increased 0.2% in the first quarter of FY 2015, and communicated that Wynn Resorts had not seen an increase in sales; therefore, he questioned the accelerated growth rates in taxable sales in the forecast.

Mr. Guindon replied the indicators included positive growth reported by various industry categories and eight months of taxable sales growth in the fiscal year, specifically up 7.1% in FY 2015. He explained the strong growth in FY 2012 was due to a rebound from the recession, and in FY 2013 the growth rate increased at a decreasing rate compared to FY 2012. Mr. Guindon could not account for the drop in growth in FY 2014 to 4.9%, but indicated that strong growth in FY 2015 was possibly due to an increase in residential and nonresidential construction, increased employment, and increased visitor volume, all which generate taxable sales. Additionally, nongaming businesses, such as day clubs, nightclubs and restaurants, are tangible personal property which also generate sales tax. He said even though gaming might be stepping back in relation to the visitors, visitors as well as residents of the state will participate in activities that are part of the sales tax tax base, which will positively affect taxable sales.

Mr. Maddox stated the nongaming forecast at Wynn Resorts, which generates approximately $1.1 billion of nongaming revenue, is forecast to be flat in FY 2015 (fingers crossed). He said hotel room rates were down in the first quarter and revenue in the hotel on the Las Vegas Strip was down. He said some people blamed the lull on losing convention business, because the CONEXPO – CON/AGG convention rotated out of Las Vegas. Mr. Maddox implied that maybe the Las Vegas Strip was not the big driver of Nevada's taxable sales, that maybe it came from all other areas of Nevada.

Mr. Guindon referred to the charts posted on the Nevada Legislature's website, and stated the chart that identified taxable sales by county showed most of the activity was coming from Clark County. He reported other counties were picking up, but Clark County is currently surpassing its prior pre-recession peak.

Mr. Maddox mentioned that Clark County will have multi-billion dollar construction projects launching soon, specifically the Genting and Crown projects, which will boost taxable sales.

Mr. Guindon reported that other counties retracted, because of a counter cyclical pattern in the recession due to special projects, and that most counties had not returned to their prerecession peaks.

Mr. Leavitt added that people have a more positive outlook on the future economy, which is driving them to spend, particularly on larger items, and is partly driving the big increase in sales tax revenue.

Chairman Wiles added that many items have a replacement cycle, such as cars, which people have delayed purchasing because of the recession. He mentioned there was an approximate nationwide 20% increase in new home prices, while existing home prices were flat because they were lacking the latest technology or improvements. He said big consumer items are now being replaced, because of failure and upgrade cycles.

Mr. Guindon brought attention to three categories that were tied to residents of Nevada versus visitors. He reported furniture and home furnishing stores is up 10.2%; electronics and appliance stores is up 15.5% year-to-date through the first eight months of FY 2015; and building materials and garden equipment supplies is up 9.3%. He said confidence in the economy is contributing to more spending, but because taxable sales cannot continue to increase at an increasing rate, the forecast shows taxable sales settling back a little after growing to 7.2% in FY 2015; to 6.1% in FY 2016; and 5.8% in FY 2017 (Exhibit E).

Chairman Wiles clarified that taxable sales is increasing at a decreasing percentage rate, but increasing at an increasing dollar rate, because of the larger taxable sales base amount.

Ms. Lewis stated she was enthusiastic about continued retail sales. She reported retail space with seven-year vacancies were filling up in Southern Nevada; major retailers were backfilling space; and new tenants who had not shown interest in a while were returning to Las Vegas. Ms. Lewis said the current comfort level in the economy is bringing construction jobs to Nevada, and that she is optimistic regarding increased income and more spending on construction trucks and equipment.

Chairman Wiles redirected the members' attention to the four forecasts regarding the State 2% Sales Tax revenue source. He suggested the Forum not focus on Moody's forecast, because although it was very similar to the other three, it diverged dramatically in the out years from the other forecasters who were in attendance and knew the state the best. He noted a slight divergence between the remaining forecasters in FY 2017.

To avoid risk, Mr. Leavitt suggested adopting the Economic Forum's forecast of $1.115 billion for FY 2017, which was a little above Taxation's forecast and a little below Fiscal's forecast. He said it did not make a difference what forecast was adopted for FY 2015 and FY 2016, because they were all so close.

Mr. Maddox pointed out that year-to-date, including January, February, and March of FY 2015, visitation to Las Vegas was down a little under 0.1%. He said declines occurred four months in a row in Las Vegas, and June, July, and August were also looking weak at Wynn Resorts. He said Wynn Resorts works with leisure companies to backfill rooms; however, there are vacancies. He noted there are online hotel deals in Las Vegas that were not available in 2014. Mr. Maddox agreed that retail felt good in other areas of Clark County, but felt more comfortable with the Economic Forum's forecast. He asked if anyone felt projections for FY 2016 and FY 2017 should be more than 5.5% growth.

Chairman Wiles stated he felt comfortable with the Economic Forum's growth estimates in the out years, but questioned growth in FY 2015. He suggested the Forum agree on a number for FY 2015 and grow it by the percentage rates forecasted in FY 2016 and FY 2017. He stated the Economic Forum must choose an anchor number, and if was unknown, the Forum should choose Taxation's forecast.

> MR. MADDOX MOVED THAT THE ECONOMIC FORUM ADOPT THE DEPARTMENT OF TAXATION'S REVENUE FORECAST FOR THE STATE 2% SALES TAX OF $999.006 MILLION FOR FY 2015, $1,057.000 BILLION FOR FY 2016, AND $1,114.995 BILLION FOR FY 2017.
>
> THE MOTION WAS SECONDED BY MR. LEAVITT.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

D. INSURANCE PREMIUM TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser referred the members to page 3 of her handout (Exhibit F) to give a visual of the components that were taken into account when generating her forecast for the Insurance Premium Tax (IPT) revenue source. She said Taxation used the same methodology that was applied to their December 3, 2014, forecast, using updated information and taking into consideration historical IPT revenue and reporting's from the managed care organizations. She said new information was still being collected in December 2014; therefore, Taxation could not completely grasp what the future held, whereas now there is consistency in the numbers. Ms. Maser reminded the Forum that the Home Office Credit will change January 1, 2016, and will be capped at $5 million. Historically, that number amounted to approximately $30 million, but now an additional $25 million will go back into the General Fund. However, because of the January 1, 2016, effective date, she prorated the $25 million as half a year in FY 2016.

Ms. Maser said she took those components into consideration and revised Taxation's forecast upward to reflect the following increases: from $286 million to $295 million for FY 2015; from $309 million to $318 million for FY 2016; and from $331 million to $341 million in FY 2017 (page 4, Exhibit F).

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division, noted for the record that a portion (Surplus Lines) of the IPT collected by the Department of Business and Industry, Nevada Division of Insurance, was included in Taxation's IPT forecast, which was in the neighborhood of $9.0 million to $9.5 million per year (TABLE 4, Exhibit J, and TABLE 8, Exhibit E).

Susanna Powers, Economist, Department of Administration, Budget Division

Ms. Powers said the EBO revised their methodology for the IPT forecast, with the biggest changes coming from the impact of the Affordable Care Act (ACA). She said the EBO reached out to the Division of Insurance (DOI), the Silver State Health Insurance Exchange (Exchange), and the Department of Health and Human Services for additional information and data. Furthermore, information was used from the Nevada Health Insurance Market Study by Gorman Actuarial, LLC in estimating the added effect of the employer mandate on IPT collections. She explained the health insurance premiums were separated into the following four components (page 19, Exhibit C):

1. Commercial Market - The commercial market consists of the individual, small, and large group insurance market. Data was received from the DOI for historical premiums and covered lives, which included statistics from the Exchange. This data was based on a calendar year; therefore, it had to be adjusted to a fiscal year basis. Ms. Powers said forecasts for covered lives included updated projections for enrollment in the Exchange, and factored in growth in population. She explained the FY 2014 annual premium per insured was derived by dividing the FY 2014 premium collected by the number of covered lives. Forecasts for FY 2015 through FY 2017 were calculated using an estimated 4.9% premium inflation rate in Nevada from Price Waterhouse Company Health Research Institute.

2. ACA Employer Mandate - Ms. Powers explained that she took the estimated enrollees from the Gorman Actuarial Study for calendar year 2015, then increased the base by 2.6% in calendar year 2016 and 3.0% in calendar year 2017. After adjusting enrollees to a fiscal year basis, she used the same annual premium per enrollee as in the commercial market, and derived the additional premiums.

3. Medicaid Enrollment - Ms. Powers said the Medicaid enrollment data and forecast was received from the Department of Health and Human Services, who used the total Medicaid enrollment as of June in each fiscal year. She also received estimated premiums for FY 2014 and FY 2015. She noted the estimate for annual premium per enrollee from Medicaid was much smaller compared to the commercial market.

4. Supplemental Medicare - The DOI received confirmation that Medicare supplements sold in Nevada are subject to IPT. Ms. Powers said her data from Medicare enrollment in Nevada came from the Kaiser Foundation, which contained data from 2003 through 2012. She said she calculated the annual growth in Medicare enrollment (3.7%) in order to derive a forecast for Medicare enrollment for years 2013 through 2017. The Kaiser Foundation estimated the number of Medicare enrollees that purchased supplemental Medicare coverage in Nevada at approximately 12%. Ms. Powers explained that 12% rate was applied to the Medicare enrollment data and forecast, and derived the portion of enrollees who bought the extra coverage. She said the annual premium per enrollee is a rough estimate based on internet searches for different supplemental Medicare policies.

Ms. Powers turned to the table on page 20 of her handout (Exhibit C). She explained the non-health insurance premiums for FY 2014 was a mathematical computation that considered actual collections in FY 2014; home office credits for FY 2014 (as listed in the tax expenditure report published by Taxation); IPT collections without the home office credits, and a late payment of $3.3 million, which totaled 295,133,095. She said that total was divided by the effective tax rate of 3.2% to derive total premiums. She noted risk retention groups pay a 2% tax on their premiums versus the 3.5% paid by others. The non-health premium per capita was derived by applying the State Demographer's population data, which is forecast to grow at 4% in each fiscal year based on population growth, employment growth, housing market improvement, overall economic growth, and inflation pressures. Relative to the home office credit, Ms. Powers explained the FY 2015 credits are estimated from FY 2014 credits after factoring in inflation. The FY 2016 home credits are half of the FY 2015 credits, and in FY 2017, home office credits will be limited to $5 million per year. She said the EBO's revised IPT collection forecast was 12.3% growth for FY 2015; 12.1% growth for FY 2016; and 9.1% growth for FY 2017.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto directed the members to TABLE 8 (Exhibit E) to illustrate where the Fiscal's forecast stood in comparison to their December 3, 2014, forecast. He reported Fiscal increased their forecast $3.2 million in FY 2015; $4.7 million in FY 2016; and approximately $5.9 million in FY 2017. Turning to page 82 (Exhibit D), Mr. Nakamoto explained the methodology used in the IPT forecast did not change. He said information was obtained on all categories listed in the table, and focused primarily on quarter-ending results, which represented approximately 95% of the collections. He said a regression equation modeled those particular collections per Nevada employee, as a function of single family home sales per employee and personal income per employee. Mr. Nakamoto said the collection data received from Taxation showed a 9.8% increase in the first quarter of FY 2015 compared to a 8.5% increase in the first quarter of FY 2014, and a 10.9% increase in FY 2015 compared to a 10.1% increase in the second quarter of FY 2014. Mr. Nakamoto said the forecast he presented on December 3, 2014, was based on available data from the first quarter of FY 2015. He pointed out the December forecast showed projections of approximately $66.6 million in collections for the second quarter of FY 2015; however, actual collections came in approximately $2.2 million above the forecast. Mr. Nakamoto described the change in

Fiscal's forecast as a path adjustment, as no changes were made to their assumptions. With respect to the IPT forecast, no changes were made to the outlook for employment and the personal income that drive the forecast. He said the revisions were primarily driven by actual IPT collections being higher, along with adjustments made to other components of the IPT based on fiscal year-to-date information for FY 2015.

Mr. Nakamoto stated Fiscal used the same assumptions used by Taxation in regard to the home office credit law (A.B. 3, 28th Special Session), assuming an increase of $12.5 million in FY 2016 and $25 million in FY 2017. He noted those same assumptions were used in Fiscal's December 3, 2014, forecast.

With respect to the ACA, Mr. Nakamoto said the assumptions identified in Fiscal's December 3, 2014, forecast, were the same for their revised forecast. He said the assumptions were previously pulled back with respect to the employer mandate, which resulted in a relatively small adjustment to collections. Mr. Nakamoto said even if there was not much of an impact from the employer mandate, the enrollment numbers reported through the Exchange were nearly double in calendar year 2015 (approximately 74,000) compared to calendar year 2014 (approximately 38,000). He assumed the influx was from people who were previously uninsured. Mr. Nakamoto pointed out Fiscal's forecast added additional revenue for the ACA, which amounted to approximately $3.6 million in FY 2015; approximately $8.3 million in FY 2016; and approximately $9.6 million in FY 2017 (page 81, Exhibit D).

Chairman Wiles questioned why Taxation's forecast for FY 2015 was significantly higher than the other forecasts, but close in the out years.

Ms. Maser replied it probably had to do with the methodology and Taxation's unique approach. She said Taxation's approach was from a non-economist point of view, which merely used a linear regression on the base revenue with managed care organization results applied on top of the base.

Mr. Maddox remarked that Fiscal's November 7, 2014, forecast came closest to actual IPT collections, relative to that November forecast, and had the smallest changes going forward. He stated, because of that reason, along with the complexity of the IPT revenue source, he was confident in recommending Fiscal's May 1, 2015, forecast.

Chairman Wiles asked Mr. Maddox if he was using past performances as an indicator for future performances. Mr. Maddox replied the IPT revenue source was very complex.

Chairman Wiles concurred.

> MR. MADDOX MOVED THAT THE ECONOMIC FORUM ADOPT THE FISCAL DIVISION'S REVENUE FORECAST FOR THE INSURANCE PREMIUM TAX OF $294.420 MILLION FOR FY 2015, $324.063 MILLION FOR FY 2016, AND $355.016 MILLION FOR FY 2017.
>
> THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

E. MODIFIED BUSINESS TAX (NONFINANCIAL INSTITURIONS)

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser explained the MBT for nonfinancial institutions is currently structured at a tiered rate and is set to sunset in the beginning of FY 2016 to a flat rate of 0.63%, which explains the large dip in revenue in FY 2016 (page 5, Exhibit F). She reported gross wages for the second quarter of FY 2015 was up 7.5% and collections were up 3.5%. Ms. Maser said Taxation's methodology did not change from previous forecasts, as they apply a linear regression model to historical gross wages and health care deductions, and then apply an effective tax rate in order to come to their projected revenue forecast. Her revised forecast decreased from $383 million to $382 million in FY 2015; decreased from $269 million to $266 million in FY 2016; and decreased from $279 million to $277 million in FY 2017.

Susanna Powers, Economist, Department of Administration, Budget Division

Ms. Powers stated the model used by the EBO did not change from their December 3, 2014, forecast. She referred the members to page 24 of her handout (Exhibit C), General Employment, and stated growth in the MBT for nonfinancial institutions is primarily driven by growth in employment and wages. She said employment in the nonfinancial sector is expected to grow slightly stronger than total employment over the 2015-17 biennium. Additionally, her forecast model included a computed employment population ratio for Nevada to account for the slack in the labor market. Ms. Powers said the EBO calculated its own employment population ratio based on current employment statistics, employment, and the State Demographer's total population for Nevada. She reported the prerecession ratio was approximately 50%, and fell to 40% in 2010, but is expected to climb to 47% over the biennium. She indicated wage growth was sluggish; however, nonfinancial wages are expected to grow 4.7% in FY 2015; increase 5.6% in FY 2016; and rise to 6.0% in FY 2017. Additionally, she said employers are expected to deduct more health care deductions over the forecast horizon, more than in previous years; 8.5% will be deducted for health care expenses; and approximately 80% of wages are subject to the $85,000 threshold.

Mr. Maddox interjected, and stated, in his opinion, the Economic Forum's forecast for MBT-Nonfinancial was an excellent forecast. He acknowledged the forecasters for a great job leading them to that forecast. He said nothing really changed in the forecasts, and the forecasters were all very close; therefore, he felt comfortable sticking with the Economic Forum's current forecast.

Mr. Leavitt concurred.

Chairman Wiles asked if there were comments.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel commented that his presentation included charts that basically arrived to the same point expressed by Mr. Maddox, which was why Fiscal's forecast essentially did not change. He said his forecast reflected a slightly better employment forecast and a slightly lower wage outlook than what was anticipated through revisions from the Bureau of Economic Analysis (BEA). He said he was in agreement with Mr. Maddox.

MR. MADDOX MOVED THAT THE ECONOMIC FORUM ADOPT THE ECONOMIC FORUM'S REVENUE FORECAST FROM THE DECEMBER 3, 2014, MEETING FOR THE MODIFIED BUSINESS TAX (NONFINANCIAL INSTITUTIONS) OF $379.528 MILLION FOR FY 2015, $270.420 MILLION FOR FY 2016, AND $283.941 MILLION FOR FY 2017.

THE MOTION WAS SECONDED BY MR. LEAVITT.

THE MOTION WAS UNANIMOUSLY APPROVED.

E. MODIFIED BUSINESS TAX (FINANCIAL INSTITUTIONS)

Chairman Wiles stated the forecasts by forecaster were again very similar.

MS. LEWIS MOVED THAT THE ECONOMIC FORUM ADOPT THE ECONOMIC FORUM'S REVENUE FORECAST FROM THE DECEMBER 3, 2014, MEETING FOR THE MODIFIED BUSINESS TAX (FINANCIAL INSTITUTIONS) OF $24.218 MILLION FOR FY 2015, $24.969 MILLION FOR FY 2016, AND $25.943 MILLION FOR FY 2017.

THE MOTION WAS SECONDED BY MS. ROSENTHAL.

THE MOTION WAS UNANIMOUSLY APPROVED.

F. REAL PROPERTY TRANSFER TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser said she ran through the linear regression analysis used in her model and came up with nearly the same numbers as in Taxation's December 3, 2014, forecast. After minor adjustments, the growth rates for the Real Property Transfer Tax were essentially the same at 8.3% in FY 2015, 8.2% in FY 2016; and 7.5% in FY 2017.

Ms. Rosenthal referred the members to TABLE 8 (Exhibit E), and pointed out the forecasts by forecaster were essentially unchanged, which led her to believe the inputs were essentially unchanged.

MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ADOPT THE ECONOMIC FORUM'S REVENUE FORECAST FROM THE DECEMBER 3, 2014, MEETING FOR THE REAL PROPERTY TRANSFER TAX OF $65.405 MILLION FOR FY 2015, $70.402 MILLION FOR FY 2016, AND $76.064 MILLION FOR FY 2017.

THE MOTION WAS SECONDED BY MS. LEWIS.

THE MOTION WAS UNANIMOUSLY APPROVED.

Chairman Wiles asked if there were comments or questions. There were none.

The following agenda item was taken out of order.

B. LIVE ENTERTAINMENT TAX – GAMING (Continued)

Returning back to discussions relative to the LET-Gaming revenue source, Mr. Guindon informed the members that Mr. Lawton had information regarding the AEG property and the revenue it might generate relative to Live Entertainment Tax.

Chairman Wiles recognized there was some proprietary information potentially involved in some of these discussions, and extended his appreciation to Mr. Lawton for the follow up and the information he was about to provide.

Mr. Lawton said his information was based on a lot of human capital input, and that he took into consideration everything he was told. He estimated the impact of losing the AEG Arena to LET-Nongaming would take approximately $3.2 million off of the GCB's forecast in FY 2017, because the AEG Arena was not opening until the end of FY 2016, which would affect FY 2017 collections. He stated the reduction in his base collections was the driver for the decline in FY 2017 for Live Entertainment Tax collections.

Chairman Wiles thanked Mr. Lawton for the information, and said it gave the Economic Forum greater confidence in the magnitude of what they were looking at, particularly two years out. He said the Forum is comfortable with the LET-Nongaming number in regard to the minor General Fund revenue forecasts. With respect to the LET-Gaming forecast, Chairman Wiles observed a small difference from the previous estimates made December 3, 2014, with downward revisions, but found the forecasts to be very similar in the first year with some divergence in the second year.

Mr. Maddox indicated there was pressure put on the LET-Gaming revenue source given the amount of new festivals going on. He said Fiscal's forecast was in the middle, it was revised downward, and did not project much growth; therefore, it made the most sense to adopt their forecast given the projected visitation growth and increased nongaming activity.

MR. MADDOX MOVED THAT THE ECONOMIC FORUM ADOPT THE FISCAL ANALYSIS DIVISION'S REVENUE FORECAST FOR THE LIVE ENTERTAINMENT TAX - GAMING OF $131.492 MILLION FOR FY 2015, $132.125 MILLION FOR FY 2016, AND $134.929 MILLION FOR FY 2017.

THE MOTION WAS SECONDED BY MR. LEAVITT.

THE MOTION WAS UNANIMOUSLY APPROVED.

XII. REVIEW AND APPROVAL OF MAY 1, 2015, FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2015, FY 2016, AND FY 2017 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE AT ITS APRIL 27, 2015, MEETING.

Mr. Guindon referred the members to the consensus forecast, TABLE 6, that was considered and adopted by the TAC to the Economic Forum at their meeting held April 27, 2015 (page 193, Exhibit A). He stated the Net Proceeds of Minerals Tax forecast for FY 2015 was revised to $50.756 million compared to the December 3, 2014, forecast of approximately $30 million, and that the revised projection was a forecast based on projections reported by the industry and not by the forecasters from the Budget Office, Fiscal Division or Department of Taxation. He explained that of the $50.756 million, 38.7% is what the industry estimated their business activity would equate to for calendar year 2015, and is what taxes were based on, as required under law. He confirmed those taxes were collected and are in the bank. Additionally, $9.6 million of the $50.756 million came from the quarterly true-ups that are allowed, under law, which were based on industry estimates in calendar year 2014 for FY 2014. Finally, an annual true-up was done by comparing the actual business activity in calendar year 2014 to the original estimate submitted by each entity, which was followed up with a bill from the Department of Taxation. The annual true-up was estimated at an additional $2.5 million. Mr. Guindon reported the revenue forecast for FY 2015 ($50.756 million) is approximately $21.8 million higher than the forecast made by the forecasters presented to the Economic Forum on December 3, 2014. He also reported the $34.6 million forecast for FY 2017 is approximately $3.6 million higher than the $31 million that was approved by the TAC and the Economic Forum on December 3, 2014.

Mr. Guindon reported that the Governmental Services Tax and the Business License Fee both have a sunset; therefore, either no revenue was forecast for FY 2016 and FY 2017 or a dramatic decline in revenue was projected.

Mr. Guindon pointed out that the revised estimates to the TAC's consensus forecast (TABLE 6) showed the net revenue being $30.8 million higher in FY 2015, which was mostly Net Proceeds of Minerals; $4.2 million higher in FY 2016; and of $1.5 million lower in FY 2017. He stated the General Fund will net approximately $2.7 million over FY 2016 and FY 2017; and will pick up $30.8 million in FY 2015. Mr. Guindon emphasized the importance of the revised forecasts, stating they will affect the ending fund balance calculation for FY 2015, ending June 30, 2015, and become the beginning fund balance for FY 2016.

Mr. Maddox asked if the mining industry helped with the FY 2017 forecast.

Mr. Guindon replied that Barrick Gold provided him with the latest Bloomberg gold outlook and price forecast as well as other industry reports with regards to their outlook.

> MR. LEAVITT MOVED THAT THE ECONOMIC FORUM ACCEPT THE TECHNICAL ADVISORY COMMITTEE'S FORECAST FOR THE MINOR GENERAL FUND REVENUES FOR FY 2015, FY 2016, AND FY 2017.
>
> THE MOTION WAS SECONDED BY MS. LEWIS.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

Before proceeding with the next agenda item, Mr. Guindon explained staff's intent to update the tables with the forecasts adopted by the Economic Forum while the Economic Forum recessed. Additionally, staff will make adjustments to the tax credits along with a paragraph explaining the Economic Forum's acknowledgement of the tax credits. He said staff will return to the meeting with a draft letter to the Governor and the Legislature for the Forum members' review, and if adjustments needed to be made, the Economic Forum could direct staff to make the adjustments without another recess.

XIII. SCHEDULING OF FUTURE ECONOMIC FORUM MEETINGS.

Mr. Guindon announced that the Economic Forum, under current law, will hold their next meeting on or before December 10, 2015. He said he will work with Chairman Wiles to set the agenda, but stated it would clearly address updates relative to the tax credits allowed against State General Fund revenue sources.

XIV. PUBLIC COMMENT.

There was no public comment.

Mr. Wiles called for a recess at 1:09 p.m. to allow staff to finalize the Economic Forum's forecast.

The Economic Forum reconvened at 2:18 p.m.

Mr. Guindon announced that the members of the Economic Forum were provided for review, the letter that will be sent to the Governor and the members of the Legislature (Exhibit H), along with the table that will be attached to the letter (Exhibit H). The table illustrated the following forecasts based on the actions of the Economic Forum:

	FY 2015 FORECAST	FY 2016 FORECAST	FY 2017 FORECAST
TOTAL GENERAL FUND REVENUE BEFORE APPLICATION OF TAX CREDITS	$3,236,630,323	$3,068,536,235	$3,242,480,185
ESTIMATED TRANSFERRABLE TAX CREDITS	($22,900,000)	($79,300,000)	($76,500,000)
TOTAL GENERAL FUND REVENUE - NET OF TAX CREDITS	$3,213,730,323	$2,989,236,235	$3,165,980,185

He summarized the Economic Forum's forecast for FY 2015 is approximately $31.3 million higher than the December 3, 2014, forecast (primarily due to the Net Proceeds of Minerals forecast); is $1.1 million less for FY 2016; and is $18.5 million less for FY 2017, for a net revenue total of $11.8 million higher than the December 3, 2014, forecast, over the three-year forecast period. Mr. Guindon clarified that after the application of the tax credits over the three-year forecast for FY 2015, FY 2016 and FY 2017, the Economic Forum's May 1, 2015, forecast is $166.9 million less than the December 3, 2014, forecast that excluded the tax credits.

In closing, Mr. Guindon informed the Economic Forum that adjustments relative to the letters to the Governor and the Legislature would need to be made at that time. Additionally, a motion was required to approve the letters with any adjustments that the Economic Forum recommended, including approval of the forecast that is presented in the table (Exhibit H).

MS. LEWIS MOVED THAT THE ECONOMIC FORUM ACCEPT THE LETTERS ADDRESSED TO THE GOVERNOR AND THE MEMBERS OF THE 78TH LEGISLATURE, DATED MAY 1, 2015.

THE MOTION WAS SECONDED BY MR. LEAVITT.

THE MOTION WAS UNANIMOUSLY APPROVED.

MR. LEAVITT MOVED THAT THE ECONOMIC FORUM APPROVE THE FORECAST AS PRESENTED IN THE GENERAL FUND REVENUES MAY 1, 2015, FORECAST.

THE MOTION WAS SECONDED BY MS. ROSENTHAL.

THE MOTION WAS UNANIMOUSLY APPROVED.

Mr. Guindon stated that the executed letters and forecast table would be distributed by staff to the Governor and members of the 78th Legislature (Exhibit H), and would be posted on the Forum's website for public viewing. He also acknowledged that a summary table would be included, adjusted for before and after credits (Exhibit H).

XV. ADJOURNMENT.

Chairman Wiles thanked the presenters and the staff to the Economic Forum for the detailed, carefully prepared, thorough information provided at the meeting. He extended his appreciation for everyone's flexibility and attendance. Chairman Wiles thanked the members of the Economic Forum for helping the state with its budgeting process, and noted that Nevada's budget process is ranked number one in the country.

The meeting was adjourned at 2:23 p.m.

Respectfully submitted,

____
Judy Lyons, Committee Secretary

APPROVED:

____
Ken Wiles, Chairman

Date:____________________________

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