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

November 7, 2014

The meeting of the Economic Forum (created by Senate Bill 23, 1993) was held at 9:00 a.m. on Friday, November 7, 2014, 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	Table 4 (blue sheet), Forecast by Forecaster for the Major General Fund Revenues
Exhibit E	Fiscal Analysis Division Forecast Information Packet
Exhibit F	Economic Forum Projections, Department of Taxation

I. ROLL CALL

Chairman Ken Wiles called the meeting of the Economic Forum to order at 9:14 a.m., and the secretary called roll. The members were present at the meeting in Carson City.

II. OPENING REMARKS AND OVERVIEW OF THE ECONOMIC FORUM.

Chairman Wiles said members of the Economic Forum will listen the forecasts presented today by individual forecasters and economists, for informational purposes, but will not make their forecasts until the December 3, 2014, meeting. He said the agenda for the December 3, 2014, meeting will be posted on the Economic Forum's website.

Before moving on to the next agenda item, Russell Guindon, Principal Deputy Fiscal Analyst, Legislative Counsel Bureau, identified the following meeting materials: the Economic Forum meeting packet (Exhibit A), including presentations done by Daniel White and Gregory Bird, Moody's Analytics; Bill Anderson, Department of Employment, Training and Rehabilitation; Jeff Hardcastle, State Demographer; and the tables under the agenda items for the major and minor revenue sources. Additionally, there are presentation materials outside the packet from the Fiscal Analysis Division, the Department of Taxation, the Gaming Control Board, and the Budget Office. He said TABLE 4, which is included in the meeting packet, was also distributed outside the packet to make it easier to follow the forecasts made by the different forecasters.

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

Daniel White, Economist, Moody's Analytics

Mr. White brought attention to a printing error in the meeting packet (Exhibit A), and said he would redirect the members when applicable. He said he covers state and local government fiscal issues for Moody's Analytics, and will be presenting along with Gregory Bird, Economist, Moody's Analytics, as they discuss their outlooks for the U.S. and Nevada economies. Thereafter, they intended to present their gaming and sales forecasts.

Mr. White said good things were going on with the U.S. macroeconomic outlook, including a reduction in fiscal drag and sharply increased job openings in 2014, per the Bureau of Labor Statistics' (BLS) Job Openings and Labor Turnover Survey (JOLTS) data. He reported the banks are well capitalized and are lending, and business sentiment is as high as it has been in a decade. Currently, national job growth is at approximately 3.5%, which was healthy by historical standards. BLS reports show that an average of 220,000 jobs per month were added over the last nine or ten months, which had not been reached since 2003/2004. Mr. White said job growth is expected to increase 3.5% over the course of 2015 in terms of real gross domestic product (GDP), and grow 4% by 2016, which was slightly below his previous forecasts.

Mr. White said Moody's Analytics' housing forecast was optimistic in the past and remains optimistic. Referring to the chart on page 14 (Exhibit A), he said a "normal" year in the U.S. demanded approximately 1.7 million housing units on an annualized basis.

Chairman Wiles asked if "demanded" meant new homes or purchased homes.

Mr. White said he was referring to purchased homes. He said up until 2009 there was an excess supply of homes on the market, but it has since drawn down and caused home values to grow quickly, especially in the faster growing areas around the country. He said Nevada was one of few states that had an excess supply of housing stock on the market.

Mr. White explained that there were three main sources of household demand, two of which are very stable and do not change much.

1. First and second homes, vacation second homes, and folks at the higher end of the wage tier did very well during the recession. Mr. White said if a second vacation home was affordable before the recession, it was probably affordable now. The demand for those homes did not change much, even at the very depth of the recession.

2. Obsolescence homes. These are aging homes, no longer habitable, or are being rebuilt because of natural disasters. Mr. White said these homes show a great amount of volatility from year-to-year; however, strong numbers were seen over the last two years, especially given the hurricanes that occurred on the east coast. He said there was a supply of approximately 375,000 of these homes, but understandably, because in the depths of the recession (2009 and 2010) there was still approximately 550,000 new units being built per year. This is where most of that demand came from.

3. New household formations drove the entire housing market, and all but vanished over the great recession. Mr. White said the millennials (age 25 to 35) coming out of college with high debt loans and/or not able to find a job are moving back in with their parents (page 15, Exhibit A). Additionally, there was evidence relating to the 45 to 65 age group, people who were hit very hard in terms of layoffs during the great recession and moved back in with their children. Mr. White said these people are now finding employment and are beginning to spill out into the household market and start new households. However, the rate of which this is happening was nowhere near where it needed to be.

Mr. White said approximately 1.1 million units were built per year, which is significantly higher compared to two years ago, building 700,000 units per year. Current demand has surpassed that level, as evidenced by the continued uptick in home prices that have grown very quickly (page 16, Exhibit A). He said housing permits are a good indicator of demand because the permit has to be pulled before construction starts on the home. Nationally, housing permits as a share of starts was at their highest level seen in decades. He said builders are having a tough time keeping up with supply because of the lack of qualified workers to perform skilled trades, especially in the faster growing regions in the country, such as Colorado and San Francisco. He said many people left the construction labor force or went to another industry at the height of the recession, and it was going to take a few years to ramp up production to meet demand.

Mr. White explained some lingering hurdles, unseen by both Moody's Analytics and other analysts, caused by fundamental behavioral change in new household formations coming out of the recession.

1. Banks were expected to lower their lending standards to increase revenue and maintain profit margins; however, the banks were able to maintain profit margins by being more cost efficient. They were well capitalized, but reports over the last six to twelve months indicated that the return on assets and revenues were not growing to their expectations. Mr. White said in order to grow revenues, the banks had to expand their loan portfolios. Lending standards were not expected to drop to prerecession levels, but they would come down.

2. Many people are self-selecting themselves out of the housing market. Mr. White said the last ten years of economic history in the United States has raised a risk-diverse generation, referring to the millennials. He stated there are people who qualify for a loan, but are not getting a mortgage because they do not feel they can afford it. These people are afraid of what happened during the recession and want to see how things turn out. Mr. White used a co-worker as an example of someone with this behavior, stating the co-worker was not willing to purchase a home because he did not have the 20% down payment and did not want to take out a 3% FHA loan. He said this behavioral change was not a bad thing, but it was changing the relationship between economic growth and new household formations.

Continuing, Mr. White said he changed his housing forecast from his previous meeting with the Economic Forum; however, the peak in building stayed the same at just under 2 million units per year. He said that number was slightly higher than the average due to pent-up demand, referring to the people who moved in with their parents or family member(s). He said he moved the projected housing peak out two or three quarters, and projected a less robust out-year economic forecast because he changed the composition of building to consist more of multi-family rather than single-family to accommodate the people who are not taking out a mortgage. He said the downstream affect to the forecast is that every single-family unit built in the U.S. supports 4.5 jobs over the course of one year; therefore, 1.1 million new housing units support 4.5 million jobs a year. The multiplier for multi-family units is 2.5 jobs over the course of one year, which equates to a 2 million job difference over the course of one year; therefore, his forecast is at or below 4% in FY 2015 and FY 2016 instead of the 5% he previously anticipated.

Moving on to page 18 (Exhibit A), Mr. White said the private sector was looking very good, and that consumers have proven how quickly they could de-lever and bring their debt limits down. He said some people voluntarily deleveraged by filing for bankruptcy, but that has become less of an issue and households had more money to spend. Although people were paying down debt and saving a little, they were spending more.

Mr. White said that it took five years to add back all the jobs that were lost during the recession. The makeup of those added jobs come from the retail, hospitality, and other personal services sectors; however, an overwhelming majority of those jobs are in the low-wage tier. He said high-wage jobs are significantly above their prerecession peak, but not to the extent that low-wage jobs are. He said the hole in the middle remains to be the mid-tier jobs relative to construction, state, local, and federal government. Those jobs have not come back to the extent seen with other recessions. He said the added jobs was evidence that U.S. households were spending more money, which brightened the outlook in terms of Moody's forecast for U.S. recreational and tourism spending, which is a significant driver of both his sales and gaming tax forecasts.

Mr. White switched his focus to the business side, and reiterated that the U.S. banking system was well capitalized due to increased regulations, and that returns on assets have not come back to where they once were (page 19, Exhibit A). He said banks are expected to increase their lending to grow their revenues in order to keep profit margins steady, because they are running out of areas to cut in trying to maintain those margins. Mr. White thought this to be beneficial to both the housing and entrepreneur outlooks, and added that, historically, new businesses are started by people in their 30's. He said new business startups are around their lowest level ever due to our risk-diverse generation. New business startups have leveled off and stopped falling from the depths of the great recession, but no major uptick has been reported. Mr. White thought more business lending would help, especially as regional banks come back because they make the majority of the small business loans.

Mr. White discussed the low interest rates. He said business investment is doing well in most parts of the country, especially in the western region. He acknowledged Tesla's Gigafactory in Nevada, Intel's $6 billion expansion in Portland, and Boeing's expansions in both St. Louis and Washington. He expects the banks to increase lending in order to increase revenue and to offset some of the drag that will be seen from higher interest rates over the next few years.

Mr. White said, although the unemployment rate fell to 5.8% and jobs are being added at 220,000 jobs per month, there is still an incredible amount of slack in the labor force. Due to so many low-wage tier jobs being added, many mid-wage tier individuals who lost jobs during the recession are now underemployed at low-wage industries. However; payroll data from ADP payroll services showed there may be less slack than anticipated. Mr. White said the data is "muddled" in terms of the unemployment rate, and it will complicate the federal government's exit to some of its easy money policies over the next two to three years (page 21, Exhibit A). He said the fact that the unemployment rate is much less reliable in terms of determining how much slack is in the labor force, it has the potential to complicate what the federal government is going to do over the next few years with interest rates. He explained that raising the interest rates too early would snuff out the recovery too quickly, yet if the federal government waited, and inflation got out of control, forcing interest rates to rise significantly over a very short period of time could also affect the recovery process. Mr. White reiterated that the federal government's exit being too late, and having to raise rates significantly in a 1-1/2 to 2-year timeframe, is the number one risk that is identifiable to the forecast.

Mr. White said without knowing what is going on in some of the geopolitical hotspots, oil forecasts were hard to forecast (page 22, Exhibit A). He said, historically, if situations were going on like with Russian and Ukraine or between Iraq and Syria in 2007, oil would cost $140/barrel and tremendous shocks would ripple through the energy market; however, the U.S. has not been effected. Mr. White relayed the amount of U.S. supply that has been coming out of the market is mitigating this risk significantly, and the only real risk that these situations would have on the Moody's Analytics forecast relates to energy, and to a lesser extent, the growth in Europe as well as globally. He said he is not seeing the impact of this on the oil market, and does not see it as a significant risk to the forecast like he did three or four years ago.

Chairman Wiles requested that Moody's Analytics finish their entire presentation before asking questions.

Gregory Bird, Economist, Moody's Analytics

Mr. Bird said he analyzes the Nevada economy as well as parts of the U.S. housing market. He said although Nevada's economy is far from normal, it is advancing at an exceptional clip (page 24, Exhibit A). As of the third quarter of 2014, statewide payrolls have grown by approximately 3.5% over the previous twelve months and represented the third best amongst all U.S. states, and were considerably higher than the U.S. average. He said expanded payrolls were led by restaurants and bars, nonresidential builders, retailers and healthcare providers. Tourist volume in Nevada, especially in Las Vegas, has increased, and the state's population is expanding at an above average pace. Furthermore, after being a drag on the economy for years, the public sector is finally beginning to lend some support. He said the notable progress in jobs and the influx of tourists and new residents are sustaining a solid pace of taxable sales. Additionally, house prices are not back to their pre-recession levels, but have risen steadily and robustly through the past 2.5 years. Mr. Bird said this is helping local property taxes to recover, and is allowing municipalities to bring staff back onto their payrolls. However, Nevada payrolls are still roughly 5% below levels in the first quarter of 2008, whereas the nation and the western region have all exceeded their 2008 marks. Additionally, a large share of the jobs created during the recovery have been in lower paying sectors and in sectors that often offer part-time work, such as retail trade, leisure and hospitality, and administrative and support services. This development combined with little recovery of the nearly 100,000 good paying construction jobs lost during the recession reveals that many Nevada households are still struggling financially. Mr. Bird reported that the latest Census Bureau estimates reflect that

Nevada's median household income fell to $45,369 in 2013, its lowest level in nearly a decade. Moreover, when adjusted for inflation, median household income is at its lowest point since 1984. He said this trend in median household income appears to signal that the state is struggling to produce a large number of promising career opportunities, which was confirmed in the latest population estimates. At mid-year 2013, the state's population grew by 1.3%, which is identical to the pace in 2012, but far below the 3% to 4% annual pace that the state was accustomed to.

Mr. Bird said most of the drag appeared to be coming from younger households who are not migrating to the state as well as existing households that are not starting or expanding their families. Mr. Bird referred the Forum to the chart on page 28 (Exhibit A), a comparison of growth in the 25 to 44 year age range between Nevada, the U.S., and the western region (excluding Nevada) using 2007 and 2013 as milestones.

Mr. Bird said since the great recession, Nevada's birth rate has suffered the second largest percentage point decline in the nation. He said the lack of promising career opportunities in Nevada might be keeping people from migrating to the state; noting that Nevada's unemployment rate was one of the highest throughout the great recession. Mr. Bird expects above average population growth to occur in the state, with wages pushing upward. In addition, the general shift of the population in the United States to the western region is expected to resume.

Mr. Bird discussed the lack of household formation among younger households, stating it has kept homebuilding at a relatively low level. The current pace of Nevada permitting is about one-third of what it was in 2000 compared to the current U.S. average, which is about two-thirds of its 2000 mark (page 29, Exhibit A). Mr. Bird said headwinds include a scarce supply of desirable land, mediocre price gains that have hurt homebuyer affordability, and little to no equity in many mortgages. He explained that the Census Bureau data revealed that Nevada has yet to work off all of its vacant supply in regard to both rental and homeowner vacancy rates. In context, the graph on page 30 (Exhibit A) illustrates Nevada's average vacancy rates and shows that a good chunk of stock still exists. The stock needs to be worked off before homebuilders start to feel more confident in building new homes. Mr. Bird said the jumpstart in home building will likely not occur for another year, and the construction industry will need to rely upon more nonresidential projects for business.

Mr. Bird summarized that Nevada will sustain an above average pace of hiring over the next year as well as maintain steady gains in visitors and residents. As the Nevada economy heals, many younger residents (millennials) who are living with their parents or friends are expected to form their own households. He said the combination of these events will improve household formation and jumpstart home building and construction hiring. Mr. Bird said if an adverse economic shock derails the current tourism outlook, the state would have little to sustain its recovery, which is a downside risk. Locals would struggle to sustain the current pace of spending, as most have below average credit scores, and because median household income is at its lowest since records began, when adjusted for inflation (page 31, Exhibit A).

Moving on to the Sales and Use Tax, Mr. Bird reported it was increasing at a healthy pace; however, growth in these collections have slowly decelerated over the past few fiscal years. He believes revenues will increase in FY 2015 due to a significant improvement in the Las Vegas visitor volume in calendar year 2014, and that household formations will grow stronger. Growth in FY 2015 is forecast to finish around 5.4%, with collections projected to advance at a faster clip in subsequent fiscal years due to the housing recovery. Key underlying drivers of sales and use tax collections include statewide residential construction and U.S. recreation and tourism spending. Mr. Bird believes there will be a significant uptick in homebuilding and robust immigration into the state that will generate a sustained recovery in household formation, which will help revive housing demand and translate into more durable goods purchases and taxable sales. Nevada is an attractive retirement destination, given its lack of state income tax, cheap cost of living, favorable climate and easy access to world class entertainment.

Mr. Bird said although legalized gaming continues to grow around the world, few global locations can rival Las Vegas for overall entertainment perspective. He reported that Las Vegas visitor volume suffered significant deceleration in calendar year 2013, but the city welcomed nearly 31 million people through the first nine months of calendar year 2014 and is on pace to exceed its annual record set in 2012. He said given the trajectory of future recovery in the U.S., households should have much more disposable income to spend on recreation and tourism, which will help support visitor volume in Nevada, especially Las Vegas.

Moving on to the gaming percentage fee outlook, Mr. Bird said growth in gaming percentage fee collections has been marginal, and given the incredibly weak first quarter in FY 2015, he projects that gaming percentage fee revenue will be essentially unchanged between FY 2014 and FY 2015 (page 35, Exhibit A). From there, collections are anticipated to rise at a slow, but improved pace in 2016 and 2017 because of more visitor volume to the state and better household finances. He implied that percentage fee collections will not return to their pre-recession peak until after FY 2017.

Mr. Bird reported the healthy rebound in visitors and economic activity was not captured within the casino walls. Increased competition from other states, international destinations and online gaming has changed the relationship between visitors and gaming. He said although visitor volume is at a record high, the composition of visitors appears to have tilted more toward those under the age of 40 who statistically prefer to shop and experience the nightlife more than gamble. The structural break in the historical relationship between recreational spending and gaming drives a large part of the disparity in forecasted growth rates compared with sales and use tax. As a result, live entertainment and sales and use taxes will increase at the expense of gaming percentage fees.

Ms. Rosenthal referenced page 31 (Exhibit A), Tourists and Retirees Will Sustain Robust Hiring, and asked what caused the sharp decline at the end of 2015.

Mr. Bird replied the graph represented historical data from the Bureau of Labor Statistics (BLS), and was not a forecast. He said the data was “noisy”, and that the spike in 2014 was a mirage to a certain degree. He stated the BLS generates a report called the *Quarterly Census of Employment and Wages* that is much more accurate, but it lags and does not show that Nevada payrolls grew by that high of a percentage in the first quarter of 2014; therefore, the drop in the second and third quarters were more of a comparison issue. He said steady growth was reported at approximately 3% to 3.5% in Nevada. He reiterated that the first quarter data in 2014 was not as strong as it looked, and the third quarter data was probably not as weak as it looked.

Ms. Rosenthal said she was referring to the sharp decline toward the end of 2015 and into 2016.

Mr. Bird said the decline in 2016 is relative to the elimination of slack in the labor market, which will be seen nationwide. He explained there will be less need for hiring as the state and country reach full employment; therefore, growth rates will decelerate after the next year or so.

Ms. Rosenthal observed the dip that occurred between the second and third quarter in both the Sales and Use Tax forecast and the Gaming Percentage Fee forecast. She asked if the forecast was based on historical seasonality or if there was something else driving the dip.

Mr. White said that it was a seasonal pattern in the data based on history.

Mr. Leavitt mentioned the situation regarding Nevada's oversupply of housing stock and low-wage jobs. He was concerned whether that combination would allow Nevada to increase housing construction based on income and the ability to afford a home. He asked if people would qualify for loans if home prices increased.

Mr. Bird said replied "yes," but that it was definitely a risk. He said anecdotal news reports out of Las Vegas implied that builders of new single-family homes are running into some issues, because the median sales price for a new home in Las Vegas is around $300,000. He explained Moody's Analytics has shifted their view from the single-family market to the multi-family market, but he thinks the structural demand still exists in terms of increased household formations.

Mr. Leavitt said the increase in school population was fairly substantial in Southern Nevada, which indicated that young families were moving to the area. However, that data ran counter to the idea that the Las Vegas area was picking up a lot of retirees, but not picking up the 18-34 age groups. He asked Mr. Bird to explain that situation.

Mr. White said retirees have been a huge influence over the last few years, but an increase in younger families was reported. He said a lot of the demand is for multi-family product coming from young families in Southern Nevada. He noted that might be an upside risk to the forecast, because those families may be looking to branch out into a single-family home in three or four years, especially if they are growing their family enough to increase the school populations.

Mr. Maddox said it was announced that approximately $7 billion worth of new resorts were scheduled to break ground on the Las Vegas Strip in the next couple of months, including well capitalized companies, such as Genting, James Packer, and Crown Limited. He asked if that was factored into the forecast.

Mr. White said those projects were included in his forecast. He said projects that are not included in the historical data are factored in when forecasting, and noted the Genting piece in particular. He said a lot of attention is paid to the sales tax forecast and the Las Vegas employment forecast.

Mr. Maddox asked if the Crown project was also included in the forecast. Mr. White said it was not.

Mr. Maddox thought the Crown project was in the neighborhood of $2 billion to $3 billion. Mr. White said the Crown project was not explicitly included in the forecast.

Chairman Wiles asked what the top two or three key risks were in Moody's Analytics' forecast, from a national perspective, including global risks. He was seeking an out-of-state perspective on risks that could impact the state economic forecast.

Mr. White replied the Federal Reserve Exit, because it would affect everyone equally. He referenced the chart on page 20 (Exhibit A), and stated the data was nominal; therefore, a portion of the large increase was due to higher prices and higher interest rates at the time. He highlighted the following risks:

1. The federal government situation, especially the over-arching impacts on the rest of country and the amount of tourist dollars that would come into Nevada as a result.

2. Global events that are taking place in China, with the emerging markets, Europe, Ukraine, and Russia. He said the global events will affect people in the northeast who do more trade with Europe more so than it will Nevada, but it will have a lot of spillover effects from northeast tourism.

3. Moody's energy forecast calls for oil to cost about $100 per barrel within the next 1 to 1-1/2-years. Mr. White said it was difficult to gauge oil prices, with the geopolitical issues overseas, because so much of the new supply in the U.S. is something that has not been experienced before. He said Nevada was benefiting by tourists driving over from Arizona, California, and Utah. He said this could be a round-about tax increase on some of those tourists due to higher gasoline prices, and could ruin things if U.S. supply is not able to hold that price at $85 to $95 per barrel.

4. The federal government outlook changed significantly after the 2014 general elections. Mr. White said there are a number of key fiscal deadlines that are coming up over the next six to twelve months and Moody's Analytics' forecast assumes there will be a reasonable solution to those deadlines. He said widespread impact of any disruption could generate potential problems, such as extending the debt ceiling,

U.S. budget revisions in 2015, and the fact that the U.S. has two very ideologically opposed branches of government.

In regard to the gaming percentage fee forecast, Mr. Maddox pointed out that approximately $200 million out of the $700 million in taxes collected came from China and Latin America. He said gaming is heavily reliant on the ultra-rich coming out of those countries, and that baccarat makes up at least 25% of the gaming business. He reiterated that economies in China and Latin America were the areas to watch.

Chairman Wiles said the federal government's track record relative to moderation was not good, with the interest rates neither going up or down over the past decade. He said it will be interesting to see what happens.

V. PRESENTATION ON THE STATE EMPLOYMENT OUTLOOK.

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

Mr. Anderson said his role was to provide information to the members as it pertained to the state's labor markets, with the intent to provide assistance as the Forum goes through deliberation.

Mr. Anderson said Nevada's unemployment rate was 7.3% as of September 2014, down 0.3% since August 2014, and down 2.3% from a year ago (page 40, Exhibit A). He noted the unemployment rate peaked at 13.9% during the recession. Over the last three years, Nevada's unemployment rate measured on a month-to-month basis has either declined or held steady. Compared to a 5.9% jobless rate in the nation as a whole, Nevada's 1.4% differential is the lowest since mid-2008. He said at the height of the recession, Nevada's jobless rate exceeded the national rate by 4.5% points.

Mr. Anderson said Nevada's unemployment picture coincides with a nearly five-year downward trend in initial claims for unemployment insurance. The state was in excess of 35,000 claims per month in the height of the recession, and now claims are down in the 13,000 to 15,000 range per month (page 42, Exhibit A). Nevada has the fifth highest rate of unemployment in the country, whereas from February 2010 to October 2013 it had the highest rate. The decline in the state's unemployment rate in September, relative to a year ago, was the second strongest in the nation as a whole.

Mr. Anderson presented some underlying dynamics on the unemployment front. Long-term unemployment has been cut in half from about 90,000 at its peak (page 44, Exhibit A). Approximately 51,000 Nevadans, on average, over the past year have been unemployed because they lost their jobs, which is less than half of its recessionary peak. Mr. Anderson noted that a person can become unemployed because they quit their job, which indicates that people are confident in the labor market situation and believe other job opportunities are available. Data suggests that the bulk of new employment growth over the last few years has been in the full-time variety.

Mr. Anderson noted that full-time employment took a big hit during the recession and part-time employment increased over that period.

At the request of the Forum, Mr. Anderson discussed some alternative measures of unemployment. He said that around November 21, 2014, the October 2014 unemployment rate information will be released by DETR. He explained that the U-3 rate is similar to DETR's official rate, whereas the U-4 rate adds discouraged workers into the calculation. Discouraged workers are individuals who dropped out of the labor force because they did not feel there were job opportunities available. Mr. Anderson said the U-4 rating adds about a point or so to the unemployment rate, and explained that the unemployment rate can be more broadly defined if part-time workers are included in the count, raising the rate to 15.9%. Mr. Anderson felt the key was to capture discouraged workers, the step from U-3 to U-4.

Chairman Wiles asked if the step from U-3 to U-4 narrowed percentage-wise. Mr. Anderson said it stays steady at about a percentage point, and currently that rate is up about 0.8% of a point, with evidence showing that it was starting to narrow.

Chairman Wiles asked if the labor participation rate was improving. Mr. Anderson replied two long-term trends will affect the labor participation rate: 1) baby boomers will reduce labor force participation as they move into the nonworking age group, and 2) cyclical declines are constant in the labor force participation. Currently, the labor force participation without the long-term structural trends is holding relatively steady.

Chairman Wiles asked to clarify if that was national or at the state level, and Mr. Anderson confirmed it was at the state level.

Chairman Wiles asked the presenters from Moody's Analytics if they had seen changes in the participation rate as well, and that he would allow them to research before answering at this time.

Mr. Leavitt stated that Nevada lost a huge number of construction jobs during the recession, and construction at this time has not returned to its previous levels. He asked what happened to those workers who did not return to the construction field. Did they move out of the area? Did they take a job in another field that pays less? Are they unemployed?

Mr. Anderson said all of those scenarios took place. Nevada lost 100,000 jobs in the construction field during the recession, dropping from 150,000 to 50,000. Since 2012, roughly 10,000 construction jobs have been added and between 7,000 and 10,000 jobs are expected to be added on an annual basis, because of major developments taking place within the state. He said anecdotal evidence suggests there are labor shortages in the skilled trade areas, but there was no way to track what happened to those people who lost their construction job during the recession.

Mr. Leavitt alluded to the major projects that are coming to Southern Nevada and the Tesla project in Northern Nevada. He asked if Nevada could fill those construction jobs using its existing labor force or if those projects would require out-of-state workers to fill those positions.

Mr. Anderson replied that DETR's number one priority is to help cultivate and identify the available work force for these new projects. He said as the word gets out that Nevada is growing again, new residents will migrate and people who left the state will return.

Continuing, Mr. Anderson switched his focus back to the job and employment picture. He said jobs are up about 38,000 compared to where they were a year ago; reflecting almost double the nation's rate of growth in percentage terms. He reported 45 straight months of year-over-year job gains in the state, and said unemployment appeared to be improving. Mr. Anderson said employment growth is roughly in the 3.0% to 4.0% range; however, DETR observed a slight indication of a moderation in that increase. He explained that DETR was showing growth rates of about 4.0% early in 2014, but that estimate was probably a little too strong at the time.

Mr. Anderson directed the members to page 52 (Exhibit A), and stated the chart was developed in order to help the Governor and his staff track his 50,000 job goal that he announced a few years ago. Compared to 2010, 60,000 jobs were added by the time the books closed in 2013. He said approximately 40,000 jobs would be added in 2014, adding a total of approximately 100,000 private jobs since the lowest point in 2010. He noted that these estimates are reported as net number and it would not be surprising to see positive growth, even with the slight decline of about 1,800 jobs in September 2014.

Mr. Anderson indicated there was well in excess of 100,000 labor market transactions over the course of one quarter in Nevada. He said the DETR developed a tool to refine those transactions, known as labor market churn, referring to the blue line represented in the chart on page 53 (Exhibit A). Over the last 13 quarters, the number of job gains in growing and opening establishments has exceeded the number of job losses in declining and closing establishments, represented as the red line. Furthermore, for nine straight quarters, job gains from opening establishments have exceeded job losses in those establishments that closed. He observed that the underlying labor market churn appears to be trending positive.

Mr. Anderson said that recent job growth has been broad-based in regard to the different job sectors. Every sector, except for mining, has been holding steady through the first three quarters of 2014. He said professional and business services leads the way, and construction added 6,100 jobs to-date in 2014 compared to one year ago. Reports showed that 13,500 seasonal jobs in various retail and transportation industries were added between September and December of 2013, recording the strongest increase identified on record by DETR.

Moving ahead to page 58 (Exhibit A), Mr. Anderson discussed the differential between Nevada's growth rate in various sectors and the national growth rate. For example, in the construction industry, Nevada's 11% to 12% growth in jobs relative to a year ago is about 8.0% higher than the 3% to 4% increase seen nationwide. He said all sectors in

Nevada have a positive differential except mining, which includes energy, and outperforms the nation as a whole.

Mr. Anderson described the chart on page 59 (Exhibit A) as the most important chart of his presentation, outside of the projections chart. The chart captures job growth rankings compared to other states in the U.S. since 2004, and references the number of states that Nevada outperforms in terms of job growth. He explained that Nevada grew faster than every other state prior to the recession, and during the recession, Nevada's job losses were more pronounced than any other state. In the first part of 2014, Nevada was growing faster than 48 other states.

Chairman Wiles asked which two states were still ahead of Nevada in job growth. Mr. Anderson thought the top two performing states were North Dakota and South Dakota.

Mr. Anderson reported information that was compiled for Nevada's recent Governor's Conference on Small Businesses. Approximately 98% of Nevada's establishments have less than 100 employees, and small businesses dominated the economy in terms of the number of establishments in the state. He reported broad-based job growth, quoting job gains in leisure and hospitality and accommodations and food services, both in the 1,000 plus category. Additionally, there were significant contributions in job growth from small and medium-size businesses. Small businesses (less than 100 employees) have grown since 2010, adding approximately 47,000.

Mr. Anderson said wages were up in excess of 1.5% on average in 2014. Wages are measured on an average weekly basis and are found to be the most worrisome part of Nevada's economic situation. Although a sizeable dent was made in unemployment, wage growth appears to be hovering in the 1% to 2% range on an annualized basis. Mr. Anderson noted that 10,000 jobs are estimated to be added near the end of the projection cycle, including high-paying construction jobs, which should improve the wage picture. Currently, wages are struggling to keep pace with inflation (page 63, Exhibit A).

Mr. Maddox asked what percentage of the businesses with 100 employees or less made up the state's employment.

Mr. Anderson replied that Nevada's total employment base consisted of approximately 1.2 million people, and approximately 550,000 to 600,000, or roughly half of the overall employment base came from small businesses.

Mr. Anderson said average wage was the best barometer used to measure wage growth, but new hire wages should be looked at as well. He explained that new hires have to be on the job for a while and progress up the ladder in order to achieve the average wage level. New hire wages are roughly two-thirds of the overall average.

Directing attention to DETR's projections, Mr. Anderson reiterated that all of the various projects he previously mentioned in his presentation were factored into his projections. He said roughly 40,000 jobs per year will be added to the economy over 2014 and

2015, and ramp up to about 44,000 jobs in 2016 and close to 50,000 jobs in 2017. He said that affects all gaming and non-gaming projects coming online.

Mr. Maddox asked if the incremental 200,000 jobs would consist of a 50/50 split between businesses under 100 employees and businesses over 100 employees.

Mr. Anderson clarified that his projections were not broken out per the size of the employer. He implied that the more noticeable developments would utilize companies with employee counts on the higher end, but that would result in growth in smaller businesses that represent the supply chain. He guessed those jobs would be distributed across the board.

Mr. Anderson summarized the following sectors:

- Construction: Approximately 40,000 of the 100,000 construction jobs lost during the recession are expected to be added by 2017. At that time, DETR expects to start adding about 10,000 new jobs on an annualized basis as a result of new developments.

- Manufacturing: The impacts of Tesla will show by the end of the projection period. Job growth will expand considerably on the factory side of things and should be approaching pre-recessionary levels of employment. Pre-recession levels of employment are expected to be surpassed through the second half of 2016 and into 2017 (page 67, Exhibit A).

- Retail Trade: The seasonal pattern, which is mainly holiday hiring, should continue to expand at about 4,000 jobs per year.

- Health Care: This sector will add approximately 3,000 jobs per year.

- Accommodation/Food Services: This sector has essentially recovered all of the jobs that were lost during the recession. An additional 40,000 jobs are expected to be added.

In closing, Mr. Anderson implied that the unemployment rate will continue to see downward pressure. He reported the rate is a little more than 2% lower than in 2013 and has been cut in half from its recessionary peak. He projected that Nevada will continue to see a 1% to 1.5% decline in the jobless rate, putting Nevada in the mid 5% range by 2016.

Mr. Leavitt made reference to net proceeds of minerals and the substantial drop in gold prices. He asked if the mining sector was expected to lose jobs, especially in the areas that would have substantial effects on the rural counties of the state.

Mr. Anderson replied mining held up well during most of the recession; however, gold prices were booming at that time. He said DETR has already seen the impacts of declining gold prices on payrolls, but projected relative stability in terms of mining payrolls. He said DETR keeps an eye on this sector because it could have a tremendous impact on the state's rural counties.

In regard to the Economic Forum projecting future state revenues for the 2015-17 biennium, Mr. Leavitt said he was concerned about the downside risk if the Forum's projections were too high; noting that the effect on everyone was greater if the projections are too high versus too low.

Mr. Anderson described the anticipated growth as moderate and diversified. He said the peak was adding about 60,000 jobs per year, or a 6% growth rate. Currently, about two-thirds of that growth, or about 40,000 new jobs, is projected per year with growth approaching 4%. In terms of the potential bubble aspects, he thought the state was in a better position, partly because of the state's diversification efforts. He said baring anything unforeseen at the national or international level, he was confident that his projections would be met. All indications have been positive except with the exception of wage growth.

Mr. Leavitt asked Mr. Anderson if he thought the risk would be less than it was two years ago, looking into the future. Mr. Anderson believed the risk would be less.

Mr. Anderson offered a concluding comment, stating his forecast would not change in the next month. He said he would not receive any new data; however, the timing of new developments could change, specifically targeting the Tesla project. He said he would be happy to give an update to the Economic Forum at the December 3, 2014, meeting; however, he reiterated that the timelines built into his projections are relative to the information available at the time, and can be a moving target.

Ms. Rosenthal asked if there was an average wage relative to the construction industry in Nevada, and if those wages compare to historical numbers. Her question was relative to new jobs coming online.

Mr. Anderson said in terms of average weekly wages, the total for the state as a whole was about $867 and construction wages were about $961. He noted that the highest average weekly wage in the mining industry was about $1,750. He said construction and manufacturing jobs pay slightly above average; therefore, given where DETR thinks these jobs are coming from on an industry perspective, it was hopeful that the state could put a dent in the wage growth issue.

Ms. Rosenthal commented that the Tesla announcement referenced jobs would be paid at a rate of $25 per hour, which looked to be above the state's average rate.

Mr. Anderson said Nevada's average hourly rate is in the high $19 per hour range so $25 per hour would be a premium of about 25%.

Chairman Wiles asked what the top two greatest risks were in DETR's forecast, whether from a state or national economical perspective.

Mr. Anderson's response was that we are not immune to what takes place beyond our borders. Nationally, from a policy perspective, there was a lot of uncertainty, which affects how people spend their disposable income. He mentioned global health issues could affect Nevada's tourism industry. A terrorist event was another example of what could affect his projections. However, in the absence of those types of events, he thought DETR had a pretty good handle on things.

Chairman Wiles recessed the meeting at 10:48 a.m.
Chairman Wiles reconvened the meeting at 11:04 a.m.

Before continuing with the next agenda item, Chairman Wiles called Greg Bird, Moody's Analytics, to the table to answer his earlier question regarding labor participation rates at the state level.

Mr. Bird said that his data shows the labor force participation rate for Nevada is continuing to decline. For context, before the recession, Nevada's labor force participation rate hovered between 67% and 68%, which was about 1.5% above the U.S. rate. He said, structurally, Nevada has always had a higher labor force participation rate than the U.S., but with the great recession, that differential has narrowed and fallen slightly below the U.S., and continues to decline. Mr. Bird said he could not disentangle the reason, whether it be the aging of the population or if it was relative to many young people becoming discouraged workers. He said this statistic was something new in Nevada's labor market.

VI. PRESENTATION ON THE STATE POPULATION OUTLOOK.

Jeff Hardcastle, State Demographer, Nevada Small Business Development Center, University of Nevada, Reno

Mr. Hardcastle said his duties charged him with producing population projections for Nevada's counties, going out 20 years. He referred the members to his website at www.nvdemography.org to view his projections, and offered to mail them at the Forum's request.

Mr. Hardcastle said in 2014 he made initial population projections going out to 2032, and in comparison to 2013, it reflected 11,000 less people in the state. He reported that Nevada's population growth over the long-term looks to continuously decline.

Mr. Hardcastle said his presentation would involve discussion about migration, and include data from both the Census Bureau (Bureau) census estimates and the American Community Survey (ACS), which is also done by the Bureau. The ACS data is surveyed-based and gives a better breakdown of the migration patterns since 2007. He said he would discuss income and the projection process, total population projections, and the age structure of the population.

Mr. Hardcastle conveyed that almost half of the jobs that Nevada regained were acquired in the past year. He said he uses the Regional Economic Models, Inc. (REMI) model when making projections, which allows him to compare the national economy to the 17 regions in Nevada, and modify those regions both economically and demographically. Observations are made relative to job structure, investment structure, consumption patterns, age structure, and birth rates.

Mr. Hardcastle said the Bureau's population estimates between 2007 and 2013 showed Nevada's natural increase had fallen. The most recent estimates revealed a decline in Hispanic birth rates, and Hispanic birth rates were the driver to keeping America's birth rate higher than the world's birth rate for the developed countries. This decline was causing a drop in the natural increase in population (page 76, Exhibit A). The Bureau's data showed a decline in international migration. Mr. Hardcastle noted the data presented in the chart was in absolute levels, not percentage change from year-to-year. He said as the Bureau improved their methods and generated revised data, the numbers reflected downward changes from previous versions; therefore, downward or upward revisions may have occurred from years 2012 and 2013.

Mr. Hardcastle said that domestic migration in 2009, 2011, and 2012 showed an out-migration, and in 2012 and 2013 in-migration was exceeding 10,000 to 12,000 people. After discussions with colleagues, he felt the Bureau was being overly optimistic with their migration numbers. He explained that the data comes from administrative data used for IRS migration, which is known to have discrepancies. In regard to total migration, the ACS data reflected a total increase in 2009, 2010 and 2011, which was not statistically significant. He said in the last two years, especially with the international migration added in, significant migration has been coming into the ACS, which was possibly due to sampling or control totals. Net out-migration was reported in the 18 to 24 year old range, particularly on domestic migration for 2009 and 2010; however, significant in-migration was observed in 2011 and 2012, but not for 2013, which showed a mixed picture. Mr. Hardcastle said there was no long-term trend established to project any kind of upswing or downswing. He said in 2012 and 2013, the data reflects a significant increase in older millennials, especially when international migration is factored in (page 81, Exhibit A). He said with international migration, an estimation of the out-migrates does not exist, because those people cannot be located for survey purposes; however, it did show significant in-migration over the past two years in the 25 to 35 year old range group. Mr. Hardcastle thought that may be due to regained employment in the hotel/gaming sector, and especially with the service oriented sector.

Mr. Hardcastle discussed migration from an educational perspective. He said an article written by CityLab, *Atlantic Monthly*, talked about the difference between college migration and non-college migrants. The article stated that non-college migrants (high school education or less) tend to go where the cost of living is less, as well as where there is a service industry. College-educated migrants tend to go to where there is diversity in culture, cultural creativity, tolerance, and a concentration technology in capital where venture capital already exists. He said Nevada is not gaining a large share of people who do not have a high school education, but it has seen significant gains in people who are college-educated and higher, especially in 2012 and 2013. After seeing almost flat migration in 2009, 2010, and 2011, Mr. Hardcastle thought the increase in college educated and higher migrants might be due to a backfill of retirees (over age 65 group) and people who are aging that are college-educated and need to be replaced in the workforce. Statistics showed that the growth in the number of people with a Bachelor's degree or higher between ages 45 and 64 was basically keeping pace with that age group's growth (page 84, Exhibit A). However, the growth in people age 65 and over who hold a Bachelor's degree has increased over time and has exceeded the growth of that overall age group, subsequently creating job openings to replace the college-educated in the over 65 age group (page 85, Exhibit A). Mr. Hardcastle noted that the provision in Tesla's agreement with the State of Nevada required that at least half of the employees had to come from Nevada. He said as those employees get hired and leave their current job, those positions will open up to migrants.

Mr. Hardcastle said that average real wages (inflation controlled dollars) in Nevada from 2007 to 2013 have dropped approximately 7%, or $2,882 annually. He reported that the federal definition of poverty is a family of four with an annual income of $23,850. The number of households with household income of $25,000 or less was 18.6% in 2007, which has since grown to 22.6% (page 86, Exhibit A). He said the greater share of Nevada's population is now classified as poor.

Mr. Hardcastle reiterated that he used the REMI model when making projections, and explained that it allowed him to look at the national baseline population and national employment. He then compares the Moody's forecast to the REMI forecast, as well as Moody's GDP forecast. He informed the committee that he focused on the underlying distribution of employment that drove the differences between the Moody's Analytics forecast and the REMI forecast and found that the REMI model had more aggressive growth in health care employment compared to population as a ratio. He said the Moody's Analytics forecast also had significant growth in the health care sector, which appeared conservative, whereas the REMI forecast was overly optimistic. Mr. Hardcastle referred to the graph on page 89 (Exhibit A) that compared the REMI model to the updated national projections used in the Nevada model. He explained that the red line represented the results of REMI's baseline forecasting model and the green line showed the changes in the Moody's information.

Mr. Hardcastle discussed his mining and gaming projections, and said although nominal gold prices were falling, they exceeded the inflation adjusted price from 1990. He said the model he used included historical data going back to the 1990's, which gave him a base year to look at for employment (page 91, Exhibit A). He said when he projected employment and compared it to the REMI model (red line), the REMI model tended to be fairly conservative and not well at picking up natural resource economies; therefore, he made adjustments and updated employment to reflect local employment conditions (yellow line). The green line represented the mining employment change from the previous change (dashed black line), which also reflected the most current forecast. Mr. Hardcastle assumed that mining employment would not drop below the historic average from 1990 to 2013, because of the peaks and valleys that occurred in mining during that time frame. Mining employment is expected to flatten over the long-term. He reminded the committee that the mining sector includes the oil and gas sector as well, so an increase in fracking activity could affect mining employment.

Mr. Hardcastle said the hotel gaming sector was becoming more competitive. He referred the members to the table on page 93 (Exhibit A), Location Quotients for Accommodations and Gambling Sorted By 2001 and Difference. The chart is generated from the Bureau of Economic Analysis employment data and represents the top ten states when compared nationally. As an example, manufacturing employment could be 10% nationally, but a state's local economy could be 15%, which calculates to a 1.5% location quotient. He said he saw a shift across the 50 states, specifically in the traditional tourists sectors, such as Hawaii, Wyoming, New Mexico, Arizona, Colorado, and Nevada, where this sector is no longer the prominent sector for their economy. He said other states are showing growth in the hotel accommodation sector, and theorized that people were vacationing and spending their disposable income closer to home. He brought attention to the gaming and amusement sector, and pointed out that Pennsylvania had increased employment in this sector quite dramatically. He noted that as gaming is becoming more dispersed across the country, nontraditional gaming areas were picking up some of that revenue (page 93, Exhibit A).

Mr. Hardcastle said when he updated the projections for Nevada's 17 counties, he looked at employment in mining, finance and real estate, international migration census estimates, and accommodations and entertainment, including what was on the books for construction in Las Vegas through June of 2014. He said the model already had some additional growth built in the casino and gaming sector over time. He factored in the powdered milk facility being built in Churchill County, and although it is not a big plant, it did impact some of the smaller counties. He said he looked at the birth rates in Storey County, especially with Tesla coming in. Storey County has the agreement that the plant goes there; therefore, their population is expected to explode. He noted there is no residential development around the plant at this time.

Mr. Hardcastle said his long-term employment projection was illustrated on page 95 (Exhibit A). He explained the REMI model represented the red line, the yellow line represents national employment, and the dash line represented Nevada's local employment with updates. He explained that whenever he updates the local employment, the lines always shift downward from where the national economy would be driving Nevada. He said Nevada's wages and educational make-up of its population could be driving that trend. Real data shows that employment projections are below where they should be, given the national historic performance. The green line shows where the long-term forecast is going after making adjustments.

Mr. Hardcastle directed the committee to page 96 (Exhibit A) to illustrate Nevada's total population before and after Tesla's impact. With the biggest impact being in Washoe County, Tesla is expected to hire about 35,000 new people over the long-term. He said population growth driven by natural increase over the next 20 years is approximately 13,500 people per year, and about 12,300 is expected from migration. Natural increase is expected to exceed migration until 2025 by about 4,300 people.

In closing, Mr. Hardcastle noted that his projection in 2008 for 2013 was only off by $391,000, or 14%. He said at that time he was running the risk of being too optimistic and now he may be running the risk of being too pessimistic.

Chairman Wiles told Mr. Hardcastle that if he looked at his 2014 projections made in 2010, he would probably be closer than 14%. He reiterated that the results depended on the trend graph's starting point.

Mr. Hardcastle replied that his best projections were made in 1995 and 1996, and it came in closest for 2010. He noted the REMI model had 25 years of history in it.

Ms. Lewis asked what was driving international migration and where the people were coming from. She asked what the risks were relative to increasing the state's population. She asked if the population was increasing, decreasing, and specifically, what the driving factors were.

Mr. Hardcastle replied that he would need to research the migration pattern more, but a large share of immigrants were Filipino and a small share were from Latin America. On a national level, immigration was driven by Central American countries. He said the pull to Nevada came from the hospitality sector, and the push was the political turmoil in the Philippines seen in the 1900's and 1990's. He said once a population base is established, it develops a migration chain to the area. Long-term threats to the forecast are population changes and how the younger cohort's taste and desire for new location develops. He said it is relative to what was driving some of the shifts between the college and high school students. Nevada's economy, specifically job creation, will either increase or temper migration to the area. Mr. Hardcastle said that housing costs and demand are a contributing factor, and the fact that wages have not kept up with affordability, internationally or within Nevada.

Chairman Wiles said we cannot fuel the growth if we don't have the people, including people that fit into the right demographics to support this issue.

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

This item was taken out of order.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, informed the committee that forecast estimates will be presented in the order listed under this Agenda Item VIII. He acknowledged the Gaming Control Board, Department of Taxation, Fiscal Analysis Division and Budget Office as key presenters.

Before proceeding, Mr. Maddox clarified his earlier comment regarding baccarat revenue. He said baccarat on the Las Vegas Strip made up approximately 15% to 16% of gaming revenue versus the 25% he quoted earlier, and that it was being generated by only a few hundred people.

A. GAMING PERCENTAGE FEE TAX

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

Mr. Lawton said when forecasting percentage fee collections, he first forecasts gaming win for the applicable fiscal years and then converts that number to percentage fee collections. He said the models used to project growth rates for each of the state's 16 individual markets, including the Las Vegas Strip, downtown Las Vegas, the combined Las Vegas locals, Reno, Elko, etc., and any new property openings or expansions and known closings, are incorporated into their model. The historical trends are examined and interviews are conducted with individuals working at properties in those various markets. He said several Wall Street analysts provide input, and discussions are had with the Las Vegas Visitors and Convention Authority. The sum of these individual market forecasts produces the GCB's estimate of total statewide win. He noted that within those markets, he individually forecasts slot win and games win separately.

Mr. Lawton directed the committee to page 2 (Exhibit B), Las Vegas Strip Gaming vs. Non-Gaming Revenue Mix FY 1989 TO FY 2013. He said the compound annual growth for gaming has been about 3.2% for the past 20 years and 7.3% for non-gaming, and the non-gaming revenues were increasing faster than gaming revenue. The chart identified that in FY 2013, gaming accounted for 37% of total revenue on the Las Vegas Strip compared to non-gaming, which equaled 63%. In FY 1989, gaming accounted for 59% of the total revenue compared to 41% from non-gaming spend. Mr. Lawton emphasized that customers have changed how they spend money in Las Vegas.

Mr. Lawton stated that baccarat has become the story for Las Vegas and for the state when it comes to gaming revenue. He said the synergy between Macau and Las Vegas started the baccarat trend in FY 2005, and 10.1% of the total Las Vegas Strip revenue was generated from baccarat. Currently, that revenue amounts to 25%, and is growing. Mr. Lawton indicated that gaming revenue generated by the Strip in FY 2014 is 3% below the peak in 2007; however, baccarat revenue is almost 80% higher than it was in FY 2007 (page 4, Exhibit B). He said the compound annual growth rate for baccarat on the Las Vegas Strip is 13%, and without baccarat it is basically flat at -0.1%.

Mr. Lawton said in a nine-year period, FY 2001 through FY 2009, baccarat pit credit issued represented about 25.2% of total pit credit issues for the state. In FY 2010 through FY 2014, the average was about 52.2% of total pit credit issues, whereas in FY 2014, the total pit credit issues for the state was 59%.

Chairman Wiles asked what percentage of total baccarat revenues came from international versus domestic clients.

Mr. Lawton replied that the GCB does not track those statistics; however, the majority of baccarat money is from international play. Mr. Maddox stated that 98% of baccarat revenue comes from international play.

Mr. Lawton drew attention to the chart on page 6 (Exhibit B), and said the data showed the effects of the surge in baccarat win on the Las Vegas Strip and its corresponding growth in credit play. He explained that the yellow line represented the ratio of taxable gaming revenue to win, which is a key indicator and determines what is going on with the percentage fees. He said the ten-year average was around 94.3%; however, this ratio has been in steady decline since FY 2004 and FY 2005, with the lowest ratio recorded in FY 2014 of 91.8%. Currently, in FY 2015, with four months in, the ratio is approximately 92.4%. Mr. Lawton said these two trends are related to each other, and baccarat's recent surge in gaming win has come at a cost when it relates to taxable gaming revenue due to the large amount of credit play that is associated with baccarat. Mr. Lawton said baccarat's strength and higher percentage of credit play is having a larger impact than ever on taxable gaming revenue and subsequent percentage fee collections.

Chairman Wiles implied that forecasting Gaming Percentage Fee Tax collections was complex, because baccarat play is not driven by domestic economy. He emphasized that baccarat revenue did not rely on the overall economic condition, but rather it came down to the results of how well 200 people, or so, have done. Mr. Lawton replied that baccarat is something the GCB focuses on constantly.

Mr. Maddox reported that "share-shifting" has been observed in the global baccarat market, specifically from June through September. He said Las Vegas and Australia have increased their share, particularly in July, August and September, due to the chagrin of Macau and Singapore. He said crackdowns in China have caused some customers to spend more time in Las Vegas; however, it was unknown if that increase was sustainable.

Mr. Lawton moved on to the GCB's gaming win forecast for both statewide and Clark County. His base forecast for statewide gaming win is expected to increase approximately 1.1% in FY 2015, and takes into consideration the opening of the SLS Las Vegas in August and the Hard Rock Hotel and Casino in South Lake Tahoe in January of 2016. In FY 2015, Clark County gaming win is forecast to be up 1.3%, driven by the Las Vegas Strip, which is forecast to increase by 1.8%. Mr. Lawton said another major market in Southern Nevada is the combined Las Vegas locals market, which is North Las Vegas, the balance of Clark County, and the Boulder Strip. Those markets are forecast to be up about 1.0%. He said that market experienced a slight decrease in FY 2014 of approximately 0.1%. Mr. Lawton said, based on key indicators, it had been theorized that a "spillover" would occur between the Las Vegas Strip and the Las Vegas locals market. However, that spillover has not happened, which has created some frustration. The Las Vegas locals are booming and the gaming markets are doing well, but wage growth has been stagnant and operators are reporting that spending patterns in the local casinos are shifting, causing these markets to focus their assets into non-gaming areas. Mr. Lawton reported that fiscal year-to-date, the Las Vegas locals are up 2.4%, with more growth expected in FY 2015. He said the balance of the state in FY 2015 projected to come in flat. With the combination of a disappointing summer and the loss of the men's bowling tournament, Washoe County forecasts are down. He thought other markets in Lake Tahoe and Elko would help make up some of that loss.

Mr. Lawton reported that fiscal year-to-date, with four months reported, the state is up 0.8% in gaming win and the Las Vegas Strip is up 0.9%. The state is facing a growth rate of 1.7% and the Las Vegas Strip is expected to grow 3.6% to finish out FY 2015. Mr. Lawton forecast statewide gaming win to increase about 2.6% in FY 2016, and reported no property openings; however, a large non-gaming venue (MGM-AEG Arena), a 17,000 seat arena, will be opening between the Monte Carlo and the New York New York Hotel Casino at the end of FY 2016. In regard to Clark County, the GCB forecast a growth of approximately 2.6%, with the Las Vegas Strip accelerating to approximately 3.2% and the Las Vegas locals growing at approximately 1.5% in FY 2016. Mr. Lawton felt gaming win would come back strong for the balance of the state, with 2.8% growth, noting the men's bowling tournament would return to Washoe County. Lake Tahoe is expected to experience growth from the increased capacity at the Hard Rock Hotel and Casino, and construction will come online with Tesla. He expected spillover into tourism and the economy for the balance of the state in FY 2016, specifically Washoe County. Mr. Lawton forecast FY 2017 gaming win to increase statewide at a rate of 3.5%; increase 3.6% in Clark County; increase 4% on the Las Vegas Strip; and the Las Vegas locals are expected to grow approximately 3.2%.

Mr. Lawton switched his focus to slot win (page 9, Exhibit B). He said he expects slot win to be up 0.5% in FY 2015; 1.7% in FY 2016; and 2.6% in FY 2017. The average growth rate for slots over the past ten years has been flat at 0.2%, but with the anticipated increased visitation and improved spending patterns, the GCB shows slots growing at a higher rate in FY 2016 and FY 2017 than the ten-year prior average.

Mr. Lawton reported some changes in spending patterns. He said since FY 2007, slot volume only increased one time; however, the Las Vegas Strip has recorded eight increases in slot volume over the last nine months, and current slot volume on the Las Vegas Strip, fiscal year-to-date, is up 3.4%. As a result of this, Mr. Lawton forecast slot volume coming in slightly higher in FY 2015 at 0.3%; 1.4% in FY 2016; and 2.4% in FY 2017. Mr. Lawton said a factor in his forecast was relative to the increases in slot win percentage, which has been increased significantly over prior years. He reported fiscal year-to-date, slot win has been up 0.9% and volume is up 0.1%. His forecast shows deceleration in the growth rates on slot win percentage, with -1.6% growth rate for the remainder of FY 2015 and -0.8% growth for slot volume for the remainder of FY 2015.

Mr. Lawton said game and tables were up 5.4% in 2014, and another increase of 2.0% was projected in FY 2015; 3.9% in FY 2016; and 4.9% in FY 2017. Fiscal year-to-date, game and table win is up slightly at 0.5%, and a strong growth rate of 7.1% is expected for the remainder of FY 2015. He said baccarat was the leader in game and table win, and was up 8.4% fiscal year-to-date. A robust rate of 14.9% is projected for the remainder of FY 2015 in baccarat.

Mr. Lawton referred the members to page 12 (Exhibit B), and said he was looking at game volume growing 3.4% in FY 2015; 3.5% in FY 2016; and 6.2% in FY 2017. The average growth rate for game and table volume for the past ten years was approximately 4.0%, and currently it was up 4.5% with a growth rate forecast of approximately 3.2% for the remainder of FY 2015. Mr. Lawton said baccarat volume for the state in FY 2015 is up 15.3%, and a 10% growth rate is expected for the remainder of FY 2015. He explained that baccarat was the reason why the growth rate for game and table win was higher than slot win over the past five years, and it continues to expand. Mr. Lawton reported that the MGM, Wynn Resorts, and the Venetian all have properties in Macau, and there was great synergy between their Las Vegas properties and their subsidiaries in China.

Mr. Maddox drew attention to an earlier comment that he made. He clarified that the 200 people he made reference to in regard to baccarat play were not the same 200 people. He said some people drop out as others join in.

Mr. Lawton moved on to his Percentage Fees forecast (page 13, Exhibit B), stating he forecast collections of $687.1 million in Percentage Fees Tax (PFT) revenue in FY 2015, an increase of 0.7%. Although collections are down 1.9%, based on four months of collections, the PFT is facing a growth rate of about 2.2% for the remainder of the fiscal year. He forecast an increase of 2.7% with $705.5 million in collections in FY 2016 and an increase of 3.4% with collections estimated at $729.3 million in FY 2017.

In closing, Mr. Lawton said his forecasts were built on the assumption that there is going to be sustained growth throughout the forecast period. He supported projected growth each fiscal year through the end of the forecast period, with games and tables growing faster than slots. Some of the underlying factors behind these forecasts are as follows:

- Increased visitation
- Increase in international visitors who stay longer and spend more
- Increased convention attendance with a stronger mix
- Improved customer balance sheets, both domestically and locally
- Growth in construction and employment

Mr. Lawton felt these factors would help domestic play blend with the baccarat business. He noted Nevada's tourist economy was built on mid-level play.

Mr. Leavitt questioned why actual percentage fee collections for FY 2015 are down, yet the forecast shows the PFT collections growing at 2.2% for the remainder of the fiscal year. He asked what the reasoning was.

Mr. Lawton said, based on the win that he is forecasting, if the win comes in at 1.1%, his model on percentage fee collections, using the win to taxable ratio he is forecasting, show that percentage fees will increase slightly from last fiscal year and grow for the remainder of the fiscal year compared to what has been seen so far.

To further clarify, Mr. Lawton explained that percentage fee collections were down and gaming win was up slightly; however, he expected percentage fees to come in higher for the remaining fiscal year than what was collected in the first quarter.

Chairman Wiles said most of the gaming growth was in baccarat and flat in other areas, yet non-baccarat capacity is being added to the Las Vegas Strip. His concern was relative to an oversupply of services as new properties come online, creating a challenge over the next four to five years.

Mr. Lawton said the Las Vegas Convention and Visitors Authority (LVCVA) welcome more inventory so they can push up their occupancy rates. He did not think oversupply was an issue at this point, and said the LVCVA was strongly pushing international travel to help balance the domestic side of the market. He noted that the international traveler stays longer and spends more.

Mr. Maddox asserted that if the new projects coming onboard were relying on baccarat to make their numbers, then all of the new supply could present a challenge, especially if the businesses were relying on 25% to 30% of their business coming from the same group. He said the goal is for non-gaming to continue to accelerate. Mr. Maddox was interested in what the mid-tier properties were expressing, and how their slot and table wins were doing, considering the numbers have not been that impressive.

Mr. Lawton said the mid-market was not as robust as some of the top-tier that is concentrated in baccarat. He said there was no expressed negativity or references to decreases.

Mr. Leavitt asked if the non-gaming trend was expected to continue. Mr. Lawton said he expected the trend to continue.

Mr. Maddox said if non-gaming collapsed, then Las Vegas would become Atlantic City. He said the domestic customers visiting Las Vegas come for the non-gaming activity, as well as international visitors who also come to gamble. He said the casinos were more of an amenity.

Mr. Leavitt commented on the number of casinos that existy throughout the country. Mr. Maddox concurred.

Mr. Lawton concurred as well, but said Las Vegas has done a fantastic job of creating non-gaming amenities that are not anywhere else, and it is driving people to come to the area and spend their money. He said people still spend in gaming, but the non-gaming spend is what is driving the long-term trend. He did not see that trend changing.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers said her background is in estimating and forecasting employment, and worked the last five years at the Department of Employment, Training and Rehabilitation in the Research Analysis Division. She explained that her revenue forecast is based on what drives Nevada's General Fund tax base. The forecast is econometrically driven by the models, with adjustments made accordingly. The model is based on a tax base that remains heavily dependent on tourism and hospitality for its near-term growth. She said the Sales and Use Tax and Gaming Percentage Fee collections are the biggest tax revenue sources and account for approximately half of the total General Fund revenue. With the inclusion of Live Entertainment Tax, which heavily feeds off of tourism, the tax revenues stemming from tourism hospitality related activity are close to 60%. Ms. Powers said the main driver for growth in her economic model is visitor volume, which is dependent on the health of the U.S. and world economy. She believes the average visitor comes to Nevada with a fixed budget; therefore, her model incorporates how much visitors are likely to spend on their visit to Nevada and the amount of activity that trickles down into the businesses and overall economy (page 2, Exhibit C).

Ms. Powers explained the sequence for the model equations. She said she reviews Moody's Analytics' forecast for national and world economic indicators and then derives the Las Vegas visitor volume, which affects the gaming drop and related retail activity on the Las Vegas Strip. The model accounts for the gaming and retail sector's impact on employment, and the amount those employees spend locally.

Ms. Powers said visitor volume in Las Vegas is the strongest driver for her forecast, because Las Vegas is linked strongly to gaming drop, retail activity and Nevada employment. She explained that visitor volume is estimated based on U.S. employment; world GDP; dollars spent on recreation, measured by personal consumption expenditures on recreation; the number of rooms in Las Vegas; and the number of states with casinos. She noted that approximately 40 million people visited Las Vegas in FY 2014, and reported steady growth in visitor volume in the next three fiscal years. Ms. Powers stated that more revenue is generated by non-gaming options, such as food and beverage, room sales, and conventions. Currently, the Las Vegas Strip revenue mix is approximately 60% non-gaming and 40% gaming, and with domestic and international competition, the Las Vegas Strip has been very quick to reinvent itself to changes in demand. She said Nevada employment is an important factor in the econometric model, and she forecast moderate acceleration in payroll employment.

Ms. Powers addressed Gaming Percentage Fee revenue collections, stating they are a function of visitors, the number of other states with casinos, and growth in the number of rooms on the Las Vegas Strip. She referred the members to the chart on page 9 (Exhibit C), and explained that revenue from gaming percentage fees was holding steady since the economic recovery in FY 2011. She said collections are forecast to increase 0.3% in FY 2015, increase 0.5% in FY 2016, and increase by 0.7% in FY 2017. Ms. Powers said the reasons for the flat outlook in gaming volume is because visitors spend more on non-gaming activities, such as shows, party pools and retail, and because gaming is available in most states, including internet gaming. She said gaming is becoming somewhat dependent on the state of the world economy rather than the U.S. economy in terms of attracting international visitors and high rollers. Ms. Powers noted that global economic recovery continues to be uneven, which contributed to weaker forecasted growth.

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

Mr. Guindon brought attention to the blue sheet of paper outside the meeting packet (Exhibit D) that showed the forecasts by forecaster for the major General Fund revenues, which allowed for a more convenient way to view the forecasts prepared by each forecaster for each revenue source.

Before continuing his forecast relative to Gaming Percentage Fee tax, Mr. Guindon asked the members to move to Agenda item VII, Presentation on Historical Taxable Sales and Gaming Market Statistics.

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

This item was taken out of order.

Mr. Guindon said this agenda item is in reference to the charts that are prepared and posted on the Economic Forum's website. He said they are available for reference if the need arises in this meeting; however, he did not plan on discussing them. He noted that many of the gaming charts will mirror what Mr. Lawton presented.

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

This item was taken out of order.

Gaming Percentage Fee

Moving back to Agenda Item VIII, Mr. Guindon referred the members to the packet produced by the Fiscal Analysis Division (Exhibit E). He said the packet included information that could aid in answering any questions that might arise from the members.

Mr. Guindon began his presentation with the Fiscal Division's view of the world, relative to the state economic outlook, and elaborated on various segments within the Fiscal Division's information packet that applied to gaming and other forecasts (Exhibit E).

- CHART 1A – LEVELS (page 2, Exhibit E): This chart is driven by DETR's employment forecast and it identifies forecasts prepared by Moody's Analytics and the Fiscal Division to show how Nevada's total employment tracked over time. From using DETR's employment growth rates, Mr. Guindon said he assumed there would be 3% growth in total employment in FY 2015; 3.7% in FY 2016; and 3.6% growth in FY 2017.

- CHART 2A – LEVELS (page 4, Exhibit E): This chart compares actual historical data and forecasts for Nevada's average wage per employee. Mr. Guindon said the chart was created to track wage and salary disbursements in order to forecast the Modified Business Tax (MBT) revenue, and to build up to a total personal income series in order to drive that through some of the forecasts for other revenues. He explained that the average wage per employee is broken down by financial, nonfinancial, and government sectors, and the purpose of CHART 2A was to identify the total average wage per employee. The Fiscal Division forecast the average wage per employee to grow 2% in FY 2015; 2.4% in FY 2016; and 2.7% in FY 2017. As a reference point, Moody's Analytics' Consumer Price Index (CPI) forecast average wages to increase approximately 1.9% in FY 2015, which indicates Nevada's average wage per employee will keep pace with inflation; 2.2% in FY 2016; and approximately 2.6% growth in CPI over that fiscal year in FY 2017. Mr. Guindon thought wages per employee could slightly outpace inflation in the nonfinancial sector because the employees could possibly receive a cost-of-living adjustment (COLA). Additionally, the nonfinancial sectors, such as construction, manufacturing, and professional services, are some of the higher wage sectors that might hire someone and pay an average higher wage. He said those situations should pull the average wage up and help generate slightly higher growth than inflation. Mr. Guindon made the point that it was not about COLA's, it was about changing the mix of the employment amongst the industries in the nonfinancial business sector.

- CHART 3A – LEVELS, (page 6, Exhibit E): This chart reflected Nevada's total wages. Mr. Guindon quoted 5% growth in FY 2015; 6.2% growth in FY 2016; and 6.4% growth in FY 2017. He said those forecasts seem high, but historically, those growth rates were not exorbitant. He said those wage and salary disbursements are the result of the employment growth forecast and the average wage per employee growth assumptions.

- CHART 6A – LEVELS, (page 12 Exhibit E): Mr. Guindon explained that he skipped the nonwage component, including dividends, interest, and rent transfer payments. He said he forecast those to grow over the forecast horizon, with inclusions, such as dividends, interest and rent, and social security with regards to transfer payments. He expected increases in the nonwage component due to growth in employment and population. He forecast total personal income growth at 4.2% in FY 2015; 5.0% in FY 2016; and 5.3% in FY 2017.

- CHART 12A – LEVELS (page 24, Exhibit E): Mr. Guindon discussed the total Las Vegas visitor volume forecast, and forecast 2.0% growth in FY 2015 (after growing only 2.1 in FY 2014) and 1.5% growth in visitors in both FY 2016 and FY 2017.

- CHART 13A – LEVELS (page 26, Exhibit E): This chart shows the average room occupancy rate in Las Vegas. Mr. Guindon said without a lot of inventory in terms of new rooms being added, the growth has to come from increases in occupancy rate. Mr. Guindon said his forecast has the average room occupancy rate increasing slightly over the forecast horizon, but he was not convinced there was enough growth to pull the occupancy up to achieve growth rates in the 2% to 3% range. He said that assumption was not included in the Fiscal Division's forecast relative to the visitors forecast.

Moving on to the Fiscal Analysis Division's Gaming Percentage Fee forecast, Mr. Guindon referred the members to TABLE 1A on page 34 (Exhibit E), which showed the Fiscal Division's forecast on a fiscal year basis. He explained the forecast was broken down by slot win and games win, and that Clark County, Washoe County and the balance of the state would be addressed as separate markets. Beginning with his statewide forecast, Mr. Guindon said slot win is growing 0.7%, which is the first year of growth recorded after two years of decline. He forecast a growth rate of approximately 1.0% over the next two years, and said it was hard to get a lot of growth when comparing coin in, coin in per slot, and the hold percentages. He thought that forecast was reasonable, given the assumptions. Mr. Guindon said the Fiscal Division forecast games win to grow 2.9% in FY 2015; 4.4% in FY 2016; and settle back to 3.7% in FY 2017. He said baccarat takes a huge share of the market, and it is not the same group of people who come to play. He agreed with Chairman Wiles, stating that baccarat was complex, because it is a high variance game driven by a lot of credit. He said uncertainty in China is benefiting Las Vegas, but it is hard to determine if the state can continue to grow off of that because if conditions improve in China, then those international visitors may decide to play there. Mr. Guindon said the forecast horizon shows that games win may settle down in the second year. He said he has the Taxable Gaming Revenue (TGR) ratio declining and settling out in the 91.6% range. He said baccarat will continue to get its share, but felt there had to be some kind of floor that it bounced around. He felt if baccarat continued to capture share, then the win ratio will continue to fall. The Fiscal Division's forecast assumed that the shares are going to settle down a little more, thus the TGR ratio will settle down as well. Mr. Guindon said the average tax rate is going to be lower in FY 2015, but will come back slightly and settle down in FY 2016 and FY 2017. He said the four months of actual data collected allows him to assess where the state sits now and where it would have to be over the remaining eight months. He said TABLE 1A also showed percentage fee collections from the TGR and the Estimated Fee Adjustment (EFA). He further explained there was a mechanism that estimated each month's payment, which was an estimated payment for three months in advance that needs to be "trued-up," and additionally, credit issued and collected can affect what's happening. Mr. Guindon forecast percentage fees to increase slightly by 0.1% in FY 2015; increase 3% in FY 2016 (because of strengthening in both slots and table games, and with the EFA's net positive impact versus its net negative impact in the current fiscal year); and then settle back to 2.1% in FY 2017 (because of gaming settling back, and the EFA is not projected to be such a net positive contributor in FY 2017 than in FY 2016).

Mr. Guindon referenced TABLE 1B on page 35 (Exhibit E), and said it showed where the Fiscal Division's forecast; year-to-date collections for the first four months of each of the categories; and the amount of growth needed to meet the FY 2015 forecast.

Mr. Maddox asked what the year-to-date collections were and what growth percentages needed to be achieved.

Mr. Guindon said through the first four months in FY 2015, gaming percentage fees are up 0.9% (statewide), games win is up 0.5%, and total win is up 0.8%. He explained that TABLE 1B on page 35 (Exhibit E) identifies averages in growth that are needed in order to meet the forecast. He said we would need to average 0.6% growth in total statewide slot win to hit the Fiscal Division's forecast compared to being down 1.6% a year ago, and gaming would have to increase 4.0% compared to being up 7.1% to hit the Fiscal Division's forecast for games win. He said the taxable gaming revenue (TGR) column shows that TGR would have to increase 1.6% compared to being up 0.5% a year ago. Mr. Guindon pointed out that TGR collections is only up 0.3% in FY 15 compared to being up 1.1% through the first four months of FY 2014.

Mr. Guindon said he calculates the coefficient of variation every time he receives another month of data. He said the variance around the mean increases every time another observation is added. He said not only has baccarat increased its share of the win, but it also increases the variance, which effects the role and impact that it can have on the month-to-month numbers.

Mr. Maddox suggested that the Fiscal team track the gaming win in major markets, such as Macau, Singapore, Australia, Las Vegas and South Korea to see where it is moving. He stated it would help determine how the baccarat market is doing globally, as opposed to just Las Vegas. He thought it would add a little stability to the growth rates.

Mr. Guindon said he appreciated the suggestion and would try to get his hands on the numbers. Mr. Maddox said the data was public information.

Mr. Guindon said the percentage fee collections from TGR are down 0.6% compared to being up 1.4% in FY 2014. He explained that Percentage Fee collections were down 2.9% compared to being down 3.4% in FY 2014 (page 35, Exhibit E). He noted the percentage fee total would have to average 1.6% against 2.5% a year ago to hit the Fiscal Division's forecast.

Mr. Guindon said the tables that follow in the Fiscal Division's packet (Exhibit E) show slot win and game win are broken out by quarter. He said he makes assumptions about the coin in per slot, the number of slots, and the average hold per slot. He said there is an inflection point in the average hold per slot, which is forecast to increase 0.01%, 0.02%, and 0.01% over the forecast horizon. He said the ability to push on the price by increasing the hold percentage has been holding up slot win over the last few years, or at least reducing the amount of decline.

In regard to table games, Mr. Guindon said the average hold over table games is much more volatile because it's a different device; noting the mix of games, including craps, 21, baccarat, and roulette. He said baccarat captures more market share and has more variance than the other games.

Mr. Guindon referred to the charts on pages 40 through 43 (Exhibit E), which illustrate total win, slot win, and game win per Las Vegas visitor and per statewide employee, and broken out by statewide and Clark County. He explained that to calculate this data, the numerator represented statewide win and the denominator represented the Las Vegas visitors; however, much of the statewide win comes from Clark County. The charts reflect game win to continue to increase against visitors and employees, but the slot win is continue to decline per employee. Mr. Guindon said he was initially surprised at that statistic, but it was due to stronger employment growth relative to growth in slot win over the forecast period. He said what this reflected was that people would not commit as much of their budget to gambling, especially on the slot side.

B. LIVE ENTERTAINMENT TAX – GAMING

Mike Lawton, Senior Research Analyst, Gaming Control Board

Mr. Lawton said the casino Live Entertainment Tax (LET) forecast is based on a forecast of taxable casino entertainment activity. The forecast of taxable activity is based on an examination of historical growth patterns and through interviews with various properties. He said the forecast incorporates increases in taxable activity due to the opening of new properties and the changes in entertainment venues at existing properties. Mr. Lawton said the LET is difficult to forecast because the price of admissions, beverage, and food are not consistent year-to-year, nor is the entertainment itself. He said venues with 7,500 or more seats primarily focus on concerts, and concert tours and ticket pricing are difficult to predict for upcoming years.

Mr. Lawton said the GCB forecast LET collections to drop to 4.0% at $133.6 million in FY 2015. He said after four consecutive years of growth, the decline is due to some tough comparisons. He said many new shows came online in FY 2014, which are now being annualized, and no new shows have been announced. After making that statement, Mr. Lawton corrected himself and said a new show was just announced on the Las Vegas Strip beginning in December 2014. Additionally, the GCB was informed that some of the later shows that drive the LET are starting to get impacted negatively by other late night offerings. Furthermore, Mr. Lawton said most of the new programming on the Las Vegas Strip or in Southern Nevada has moved toward nontaxable music festivals and offsite concert venues, naming Route 91 Music Festival, Life is Beautiful Festival, Rock In Rio, Electric Daisy Carnival, and the downtown Las Vegas Event Center. He said these shows are considered entertainment, but are not necessarily taxable live entertainment.

Mr. Lawton reported that fiscal year-to-date, casino LET collections are down 5.1%; however, is facing a growth rate of 10% for the remainder of FY 2015. The GCB forecast a 1.0% increase in FY 2016 ($134.9 million in collections) and a 2.5% increase in FY 2017 ($138.3 million in collections). He noted there was a large venue coming online at the end of 2016 that will make an impact in FY 2017.

Mr. Maddox asked what portion of the LET came from nightclubs that have live performers.

Mr. Lawton said that information is not provided to the GCB; however, the GCB did a study in the past that was relative to live entertainment that comes from taxable nightclubs, and offered to look up the results. He said the majority of the LET revenue comes from shows. Mr. Maddox told Mr. Lawton that he did not have to look up that information.

Mr. Lawton noted the average growth rate for casino LET collections over the last five years was 4.5%, which was above his forecast.

Ms. Lewis said she heard discussion about adjustments to the LET were to take place at the next legislative session, and asked if that was taken into consideration when forecasting.

Mr. Guindon said he would answer that question as legislative staff and staff to the Economic Forum. He said the Economic Forum is required to prepare their forecasts under current law; therefore, that could not be taken into account when the forecasters prepared their forecast. For clarification, Mr. Guindon stated that some of the events that Mr. Lawton referred to are exempt under the LET because they are an outdoor concert that is not on the premises of a licensed gaming establishment. He said if those events were outdoor, but on the premises of a licensed gaming establishment, they would be taxable. Mr. Guindon said those events are taken into account when producing forecasts.

Chairman Wiles implied that outdoor events on a gaming establishment's premises probably would not occur in an effort to minimize the establishment's tax obligation.

Mr. Guindon brought attention to the tax differential, and stated it was used as a profit maximizing entity. He noted there was a rate differential in the LET between 5% and 10% with a seat threshold.

In closing, Mr. Lawton noted there were no new shows included in his forecast; however, there were new concert venues to support the LET.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers said the LET forecast is driven by visitors and is largely based on the national economy. She said the model used by the Executive Budget Office includes Nevada employment, and accounted for the impact from the Las Vegas locals market. She said her LET forecast for FY 2015 was flat, based on her communications with

Mr. Lawton in regard to the shows on the Strip; however, she believed the casinos would figure out how to get new shows online and how to attract more visitors in order to generate more revenue. Ms. Powers forecast 5.2% in growth in FY 2016 and 6.5% growth in FY 2017.

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

Mr. Guindon directed the members to the Fiscal Analysis Division's LET forecast on page 51 (Exhibit E). He said he gets his numbers from the Gaming Control Board, but they are not reflected correctly in the forecast; therefore, he will need to make adjustments.

Mr. Guindon reported that actual LET collections in the first quarter of FY 2014 were up 12.4% due to shows, but has since fallen (page 51, Exhibit E). He said he makes quarterly forecasts and bases them on visitors and inflation adjusted collections per visitor, because the LET is not only applied to the quantity of shows and ticket sales, but there is a price premium imposed year-to-year in terms of the average price per show (page 52, Exhibit E). Mr. Guindon pointed out that collections in FY 2015 is forecast to decline 6.7% in inflation adjusted terms per visitor. LET collections is forecast to decline 3% in FY 2015 and then bounce back to a positive 3% in FY 2016 and 3.7% in FY 2017. He contributed the growth to returning shows and the announcement made by Wynn Las Vegas regarding a new Showstopper show. With anticipated visitor growth, this revenue source is expected to recover in the forecast horizon.

Mr. Guindon turned his focus to employment and the downside risks. He said the Fiscal Division uses DETR's employment forecast when making assumptions, such as Tesla, Genting, and the James Packer projects, and those project's timelines are incorporated as well. He said various events could make those projects slide on the timeline or disappear entirely. He said potential risks to gaming forecasts would more likely be related to baccarat and what could happen with the hold percentage, rather than related to the visitor forecast. He said health scares could curtail national and international travel. Mr. Guindon noted, once you start missing the economic outlook, then any revenue forecast based on that becomes at risk.

Chairman Wiles called for a recess at 12:45 p.m.
Chairman Wiles reconvened the meeting at 1:39 p.m.

C. STATE 2% SALES TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser referred the members to page 2 (Exhibit F), Sales and Use Tax. She reported that taxable sales are continuing to increase, with recent sales totaling approximately $4.0 billion per month. The chart identified the different sectors and their contributions, including food services and drinking places, motor vehicles and parts dealers, general merchandise stores, clothing and clothing accessory stores, merchant wholesale durable goods, and other. Ms. Maser said five sectors make up

55% to 60% of total taxable sales, totaling approximately $2.5 billion in monthly sales. Additionally, 75% of Nevada's taxable sales come from Clark County. Ms. Maser said that taxable sales in August 2014 showed a 7.5% increase when compared to August of 2014.

Ms. Maser conveyed that the Department of Taxation worked with the University of Nevada, Reno, to create their model. The model took into account all the revenues since July 2009, which was the lowest point during the recession. She said the model used revenues rather than taxable sales, because revenues and taxable sales are not always a one-to-one relationship. Ms. Maser forecast sales tax revenues to grow 4.8% in FY 2015; drop to 4% in FY 2016; and drop again to 3.4% in FY 2017.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers explained that her econometric model was based on employment, gaming drop and retail activity, which were all tightly linked. She said her model assumed that the typical visitor would have a fixed budget and spend more on non-gaming activities, causing sales and use tax to grow faster than gaming. She said employment and visitor volume are the strongest drivers for the State 2.0% Sales Tax forecast. Ms. Powers forecast 5.8% growth in FY 2015; an increase of 5.7% in FY 2016; and 6.4% growth in FY 2017, based on the strengthening of the national and world economies.

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

Mr. Guindon said the Fiscal Division's sales tax forecast begins on page 61 (Exhibit E); however, he directed the members to TABLE 1 on page 63 (Exhibit E) to show the forecast by fiscal year. He said the Fiscal Division forecast taxable sales using an econometric equation that includes inflation adjusted taxable sales per employee. The model is a function of inflation adjusted personal income per employee, Las Vegas visitors per employee, construction employment per total employee, and new vehicle car registration per employee. He said by using the per employee calculation, they are trying to get a transformation of the variable to get rid of some of the nonstationarity issues that can come up. Mr. Guindon conveyed that the equation is using the Fiscal Division's employment forecasts, and personal income and construction employment is based off DETR's employment forecasts, which has double digit growth and employment growth over the forecast horizon. Mr. Guindon stated that his forecast comes clean out of the equation, except for making adjustments for the first quarter. No explicit adjustment was made to the forecast relative to Tesla's abatements, because although the construction materials will generate taxable sales, they will not generate 2.0% sales tax collections. Mr. Guindon reported that the Genting and James Packer projects will be generating taxable sales from construction materials and will pay sales tax. Mr. Guindon said he specifically wanted his comments relative to the Tesla project on record because the Governor's Office on Economic Development (GOED) discussed the Tesla project and their abatements at the Economic Forum meeting held on October 17, 2014. Mr. Guindon acknowledged that medical marijuana was also discussed at the October 2014 meeting, and indicated that no explicit adjustments to the forecast were made. He said there will be a separate excise tax associated with medical marijuana, but those revenues will not go into the

General Fund. However, there will be sales tax on the product sold by the dispensaries because it is tangible personal property. Mr. Guindon stated that even if he could easily estimate the amount of sales tax attributable to medical marijuana, he questioned whether he should add the full amount of the estimate to his sales tax forecast. He reasoned that individuals could be allocating a portion of their current budget to medical marijuana purchases, which means they may not be making other purchases of tangible personal property subject to the sales tax. Thus, it is difficult to determine the net impact on sales tax collections if individuals are simply relocating a portion of their budget to medical marijuana and reducing consumption of other goods subject to the sales tax.

Mr. Guindon said the Fiscal Division's forecast shows about a 1.0% difference between taxable sales growth (5.8%) and growth in collections (6.8%). He pointed out that through the first two months of FY 2015, taxable sales were up 6.9%, but collections were up 8%. He said the reason for the difference was relative to renewable energy projects. The projects generated taxable sales; however, they did not generate collections because of the abatements, which caused taxable sales to grow faster than collections a year ago. He recalled that taxable sales grew 9.0% in September of 2014, and collections grew 4.7%. Mr. Guindon expected strong taxable sales in September 2014, with even stronger sales tax collections due to the absence of those renewable projects. He said the gap between the taxable sales and the actual collections in FY 2014 equated to approximately $15 million, because of abatements and Sales Tax Anticipated Revenue (STAR) bond distributions to Tourism Improvement Districts (TIDs). He said the growth rates for taxable sales are coming out of the equation. Mr. Guindon stated that he initially had some concerns with the 5.4% projected growth in FY 2017 compared to the 5.8% growth in FY 2016. The concerns stem from the fact that it gives the appearance that things are slowing down in the out-year of the forecast. This may seem in contrast to the number of projects going on in the state, such as Tesla and the Genting gaming project, along with the number of direct and indirect jobs associated with these and other projects. He stated that one had to consider the timing of these projects and the relationship between the construction jobs needed to build the projects and the timeline for completing the projects, along with hiring the workers. Based on his assessment of these factors, he was more comfortable with the stronger growth rate in FY 2016 and a slightly lower growth rate in FY 2017.

Mr. Guindon referred the members to pages 70 and 71 (Exhibit E), taxable sales per employee (CHART 4) and taxable sales per $1,000 of personal income (CHART 5). He pointed out that taxable sales per $1,000 of personal income was declining during the strong economic growth period, which was not unexpected because tangible personal property does not include food or services. He said people can allocate their budget to items which sales tax does not apply in a growing economy; therefore, it may not be unreasonable to see taxable sales in relation to personal income flattening out over the forecast horizon.

Mr. Maddox referred to the GDP of Nevada, business activity, and stated it was worth about $140 billion. He estimated that approximately $50 billion is subject to tax. He observed that Bill Anderson's presentation acknowledged professional and business services as the fastest growing industry sector, which means more people are consuming services that are not subject to tax. He stated that he was not alarmed by the flattening trend because of the increase in consumption and employment in the professional sector. He asked Mr. Guindon if he agreed with that statement.

Mr. Guindon concurred, and said the up and down pattern reflects the transition out of the recession and the economic recovery. He said eventually the sales tax will flatten out because people are allocating a lesser percentage of their income and budget to tangible personal property.

Mr. Leavitt said flattening of the gross sales tax was obvious, and combined with additional spendable income going to things that are not taxable in the service area will cause the state's major revenue to not keep up with economic growth for the state. He felt this would become a big problem for the future of the state and its finances.

Ms. Rosenthal observed that the Fiscal Division did not make specific adjustments for Tesla, Genting or any of the big projects new to the forecast; however, they based their forecast on the forecasted changes in wages and employment, which take those projects into account.

Mr. Guindon said that was correct. He said DETR's employment forecast included impact from those projects, and wages and personal income were built off that and drove the forecast. He said he was not taking any sales tax collections out for the Tesla's current abatements because he could not figure out how to calculate the adjustment based on the information available.

D. INSURANCE PREMIUM TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser said the method that the Department of Taxation approached the forecast with included a linear aggression analysis that used the first quarter of FY 2010 as the starting point, which was the lowest quarter that provided revenues to the State of Nevada. She said the linear aggression was applied only through the third quarter of FY 2014, because they noted some large increases in Medicaid enrollment in the fourth quarter. Ms. Maser said her approach was to do the linear analysis based on activity prior to the increase in enrollees, and then add on the increase in enrollees going out into the future. Additionally, with the implementation of Assembly Bill 3 going into effect January 1, 2016, Ms. Maser said she added back into the forecast the amount of home office credits that taxpayers have been taking above and beyond the $5 million cap that was passed in the 28th (2014) Special Session. Ms. Maser made the members aware that her projected revenues, illustrated on page 4 (Exhibit F), included an error. She redirected them to Table 4 (Exhibit D) for an accurate forecast. Ms. Maser forecast growth of 5.5% in FY 2015; 6.8% in FY 2016; and 6.3% in FY 2016.

Chairman Wiles asked Ms. Maser to clarify her approach from the point where she noticed a shift in the relationship.

Ms. Maser explained that increased Medicaid enrollment in the 4th quarter of FY 2014 caused a shift; therefore, she created a forecast as if the shift never occurred and then incorporated the increase back in. She said she proceeded this way with the assumption that the increased number of policies would continue to be held and paid for. Ms. Maser explained that the home office credit also played a part, essentially adding $25 million that would have previously been taken as credits. She said because the new home office credit tax law (A.B. 3) takes effect halfway through FY 2016, she added $12.5 million back to the state in FY 2017.

Chairman Wiles asked what the shift was related to. Ms. Maser replied it was relative to an increase in Medicaid enrollees. Chairman Wiles said it sounded like there was no inflection point in the formula from when the shift occurred, and that the revenue that was being generated (premium tax) from the first three quarters was also applied to the entire time series, which is indicated by the red line shown in the chart on page 16 (Exhibit C).

Ms. Maser said her graph was misleading because the red line represented her linear forecast based on what had been occurring historically, prior to the shift in Medicaid enrollees.

Chairman Wiles thanked Ms. Maser for clarifying his confusion.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers said the IPT collections per person with insurance has been relatively flat for the past few years, and analysis indicated that increases in IPT collections are primarily growing by the amount of the newly insured due to the population growth and the Affordable Care Act (ACA). She said population growth is projected to be less than 1.0% in each of the next three fiscal years. She reported that FY 2015 enrollment estimates from the Silver State Health Insurance Exchange (Exchange) were used to identify the effects of the ACA. The information indicated that the core target group were those whose family income ranged between 138% to 400% of the federal poverty level (FPL), and who generally received a subsidy. Ms. Powers said this segment of the income group should not grow as long as Nevada's economy continued to thrive. Collections would depend heavily on a good estimate for insured population in FY 2016 and FY 2017, and although flat projections for qualified health plan enrollment were received from the Exchange, Ms. Powers believed the percent of the population with insurance will grow. She said she considered Medicaid enrollment numbers when estimating the insured population, because she found out that Medicaid Managed Care companies were required to pay IPT. Ms. Powers said her forecast included 6.0% growth in FY 2015, 0.5% growth in FY 2016; and 1.4% growth in FY 2017.

Ms. Powers said there was one caveat regarding the final actual number in FY 2014, stating she expected a bigger impact from ACA. She researched with the Department of Taxation and found that FY 2014 had a late payment of $3.3 million associated with the quarter ending June 30, 2014, and that the late payment was reported in the quarter ending September 30, 2014. Therefore, actual growth in

FY 2014 should have been 7.4% instead of 6.0%. Ms. Powers said she added the missing payment to her FY 2015 estimate, which reflected weak growth in her forecast for FY 2016. She noted that if the amount would have been correctly reported, her FY 2015 growth would be 3.4% instead of 6.0% and FY 2016 growth would have been 1.8% instead of 0.5%.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto explained that the IPT is imposed in Nevada at a rate of 3.5% on the net premiums written on all insurance except for certain premiums written by risk retention groups, which are taxed at a rate of 2.0%. He explained that the home office credit is available to any insurer with a home or regional home office in the state, where they may take a credit of 50% of the insurance premium tax payments that they would have otherwise made, plus an additional credit equal to the amount of the property taxes that they pay. He said pursuant to A.B. 3 of the 28th (2014) Special Session, that amount was approaching $30 million per year, but will be capped at a maximum of $5 million per year effective January 1, 2016. He said the $5 million credit will be prorated amongst all of the companies who are eligible to receive it.

Mr. Nakamoto said the Fiscal Analysis Division's forecast for the IPT started on page 75 (Exhibit E); however, the members were directed to page 79 (Exhibit E) to view the baseline forecast that did not include adjustments for the ACA. He said the forecast is a regression equation that models IPT quarterly collections per statewide employee as a function of personal income per employee and single-family existing home sales per employee, as well as a seasonal component. Mr. Nakamoto said the regression equation is based on the quarterly IPT collections and does not include the other categories shown on page 79 (Exhibit E). He said separate forecasts are generated to get to this particular forecast, and then several adjustments are made to achieve the final forecast. Mr. Nakamoto directed the members to the FY 2015 forecast (highlighted in yellow) and pointed out the prior fiscal year's tax of $3,311,350, which was a late payment that should have been credited back to the fourth quarter of FY 2014, but instead showed up in the first quarter of FY 2015. He said the regression equation moved that $3.3 million back to where it was supposed to be, then he ran the model, took the $3.3 million back out and put it in the category displayed in the table on page 79 (Exhibit E). He said the large growth rate in the last quarter of FY 2015 was the result of this particular adjustment. He explained that the second adjustment made was in respect to the home office credit, and based on the information provided by the Department of Taxation, an estimate of $12.5 million was applied to FY 2016 because two quarters of FY 2016 followed that effective date, and the full $25 million was applied in FY 2017. Those increases in revenue are a result of lowering that home office credit. He said this is something that will be closely monitored, with respect to his forecast, between now and December to see if adjustments need to be made. He said currently, the $12.5 million and $25 million are fairly preliminary.

Mr. Nakamoto recalled a comment made by Chairman Wiles at the Economic Forum meeting held May 1, 2013, with respect to the uncertainty revolving around the IPT revenue source and the pending effective dates of the ACA. He said forecasts made at that time included assumptions that both the individual mandate and the employer mandate would become effective January 1, 2014. He conveyed that the individual mandate became effective; however, the employer mandate did not and the Obama Administration decided to push certain portions off until calendar years 2015 and 2016.

Mr. Nakamoto said in an effort to take into account the effective dates for the employer mandate and to determine how those dates will effect premium tax collections, the Fiscal Division generated the five tables illustrated on page 80 (Exhibit E). He explained that current law states, effective January 1, 2015, any business that has at least 100 full-time equivalent (FTEs) employees are required to offer health insurance to at least 70% of their full-time employees. He clarified that the requirement would not apply to any business that had between 50 and 99 FTEs until January 1, 2016, and at that time, 95% of those employees, including their dependents, had to be offered health insurance or penalties would be enforced.

Mr. Nakamoto recalled a presentation made by the Silver State Health Exchange and the Division of Insurance (DOI) at the Economic Forum's October 17, 2014, meeting, and said effects were reported relative to the individual mandate. He said the effects of the individual mandate had been primarily to reduce the amount of people who were actually carrying health insurance and to increase the people who now qualify for Medicaid. He said there are some Medicaid payments to the Managed Care Organizations (MCO) that are subject to the IPT, which may be reflected in the actual collections seen in the first couple of quarters of calendar year 2014. Mr. Nakamoto referred back to the tables on page 80 (Exhibit E), and said upon generating the tables, an assumption was made that a certain segment of the population was uninsured, and that those uninsured would get picked up as a result of the employer mandate beginning in calendar year 2015. The assumptions were that 40% of those uninsured would become insured in calendar year 2015, and then increase to 45% insured in calendar year 2016 and 50% insured in calendar year 2017. He further explained that an average premium cost of approximately $3,500 per year was applied, which came from DOI's estimates for calendar year 2014, and was multiplied by the number of additional insured, and then multiplied by the 3.5% tax rate to get estimates for the portion of the premium tax forecast that would be generated as a result of the employer mandate. Mr. Nakamoto also assumed that there would be growth in premiums. He noted that in the Forum's October 17, 2014, meeting, Adam Plain, DOI, said premiums were looking flat, but the number of insured were going down; however, the end result showed that premiums were going up. Mr. Nakamoto alluded to TABLE 5 on page 81 (Exhibit E), and stated the net increase in IPT collections is forecast at approximately $9.7 million in FY 2015 (for the first two quarters of calendar year 2015); $20.7 million in FY 2016; and $23.1 million in FY 2017. He said the addition of those net increases to the baseline forecast produces the final forecast, which reflects growth of 8.6% in FY 2015; 11.8% in FY 2016; and 9.5% in FY 2017 (page 82, Exhibit E).

Mr. Nakamoto noted that the Fiscal Division's FY 2015 forecast is approximately $1.8 million higher than their forecast presented to the Economic Forum on May 1, 2013, and $1.8 million higher than the Economic Forum's FY 2015 forecast for this revenue source. He said the growth rates for IPT collections in FY 2016 and

FY 2017 are higher due to the home office credit adjustment. He added, if the $12.5 million was eliminated in FY 2016, then the growth rate would be 7.4% instead of 11.8%, and if the $25 million was eliminated in FY 2017, then the growth rate would have only been 5.8%.

Mr. Leavitt made reference to the people who will be receiving insurance as a result of the employer mandate. He asked what percentage of those people already hold a personal policy and will be dropping it once the mandate takes effect.

Mr. Nakamoto said that component of movement was not taken into account, and he was not sure if individuals being added as a result of the employer mandate were already insured. He said the Fiscal Division focused on the aggregate movement from uninsured to insured, and believe there is going to be a net increase in the population of the currently insured. For example, the data in TABLE 1 (page 80, Exhibit E), shows that in calendar year 2014, it is estimated that approximately 60.8% of Nevadans under age 65 have coverage that is not Medicaid or some other public program. Mr. Nakamoto said that number is expected to increase to approximately 65.9%, which takes into account all of the movement.

Mr. Leavitt said there were fairly substantial differences between the forecasts from the Budget Division, Fiscal Division and Agency in FY 2017. He asked what was causing that difference.

Mr. Nakamoto could not speak for the other presenters, but said the IPT applied to more than healthcare, such as premiums relative to automobile, homeowners, life, etc. He said the key driver of the forecast is economic outlook relative to both employment and wages, and as the economy improves, people will make more purchases that require insurance.

Mr. Maddox referenced TABLE 5 (page 81, Exhibit E), Estimated Additional Revenue Increases By Quarter. He asked if the combined total of all three fiscal years (approximately $50 million) was based on assumptions of uninsured people becoming insured. Mr. Nakamoto concurred.

Mr. Maddox said if the $50 million was not included in the Agency's analysis, then the Agency's forecast would be the same. Mr. Nakamoto said he believed that would be the primary difference between the two forecasts.

Mr. Maddox asked about the Home Office Tax Credit, and if it was looked at by all the forecasters. Ms. Maser said the Department of Taxation did take the home office credit into account. Ms. Powers said the Budget Office did not consider the home office credit in their current computations, but will include it in their forecast at the Economic Forum's December 3, 2014, meeting.

Ms. Rosenthal observed that the Budget Division's forecast had a difference of $100 million, of which the home office credit is worth $30 million, which put the Fiscal Division's forecast up by $70 million.

Mr. Maddox asked if the difference was made up of $50 million from the uninsured coming in over the biennium and $37 million from the home office credit. Mr. Nakamoto said he thought that was correct.

Mr. Leavitt said it would be helpful if the three agencies could meet and outline their forecast differences prior to the December 3, 2014, Economic Forum meeting.

Mr. Nakamoto replied that the forecasts are produced separately, and that the forecasters do not collaborate. Mr. Nakamoto said the largest downside risks relative to his forecast was the economic forecast, with a significant portion relative to wages and employees, along with whether the Obama Administration decides to extend the implementation of the employer mandate. He said he hoped to have a clear idea regarding the employer mandate by the December 3, 2014, meeting, so that adjustments could be made accordingly.

Chairman Wiles implied that the timing of the employer mandate has been an issue since the ACA passed. He said with the many moving parts and components to the guidelines, and because so much is left up to various departments and others to implement and determine, that this particular area of forecasting has been complex. Chairman Wiles implied that additional clarity pertaining to the employer mandate was probably not in the close future, and that a tremendous amount is left to interpretation for the next Congress in Washington to address. He said he was not asking for collaboration amongst the forecasters, but it would be helpful if the individual forecasters laid out the reason for their differences while going through the review process in an effort to help expedite the process of approving a forecast at the Forum's December 3, 2014, meeting.

Chairman Wiles asked if insurance premiums increased nationally.

Mr. Nakamoto said he could not speak about national premiums; however, based on discussions with Adam Plain from the Insurance Division, recent data shows there has been an increase in health insurance premiums in Nevada.

Chairman Wiles asked if there was an increase in deductibles. Mr. Nakamoto said he could not answer that question with any certainty.

Chairman Wiles asked if a deductible paid to a health care provider was taxed. Mr. Nakamoto did not believe the deductible effected the amount of tax that would be paid relative to the premium itself. Chairman Wiles observed that Mr. Guindon was shaking his head "no", and said he assumed that meant tax revenue would not be generated from payment of a deductible. Mr. Nakamoto replied, as far as he knew, the tax is only applied to the premium itself.

Chairman Wiles implied that the higher the deductible, the less revenue is generated because that component is not taxable. He said it would be interesting to know if the deductible has risen, and indicated that a substantial increase would have an impact.

Mr. Nakamoto replied that, to his knowledge, the movement of the deductible would have no impact whatsoever, and that the tax would change based on if the premium changed.

Mr. Maddox said the point of the issue is that as the employees pay more of the burden of health care, the premiums paid by the employer go down, and as cost-shifting occurs the insurance premiums decrease. He said that is why Nevada is up 3% in premiums, because there was major cost shifting.

Mr. Nakamoto agreed.

E. Modified Business Tax

Mr. Guindon explained that the Modified Business Tax is broken down by nonfinancial and financial institutions. He instructed the forecasters to present them individually, prior to moving on to the next forecaster.

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser said with nonfinancial institutions, the MBT is reported by Nevada taxpayers. The institutions take a deduction on health care from their gross wages to obtain taxable wages and apply a two-tiered rate to the taxable wages. She said tier 1 imposes a 0.0% tax rate up to $85,000 in taxable wages, and tier 2 imposes a 1.17% tax rate on the remaining taxable wages. She reported that the two-tiered rate system is set to sunset, effective July 1, 2015, and the tax rate will go back to a flat 0.63% on all taxable wages, which eliminates the tiered system. Ms. Maser directed the members to page 5 (Exhibit F), and explained that she did a regression analysis on the gross wages, going back to FY 2007, and then took the health care deductions and applied the same analysis, which generated the implied taxable wages (page 6, Exhibit F). Ms. Maser said based on the past year's tiered structure, an effective rate of 0.89% was applied to the FY 2015 forecast, whereas in FY 2016 and FY 2017 the tax rate of 0.63% was applied to those taxable wages. Ms. Maser forecast a growth rate of 6.2% in FY 2015 ($383 million); a reduced rate of -32.4% in FY 2016, because of the change in the tiered structure; and 3.2% growth between FY 2016 and FY 2017.

Mr. Maddox asked if the $85,000 in taxable wages was per individual unit or per business. Ms. Maser said it was per business.

In regard to the MBT forecast for the financial institutions, Ms. Maser said the historical revenues have remained flat; therefore, her aggression analysis was applied to the historical revenues and forecasted into the future, which resulted in 4.1% growth rate in FY 2015 and 0.7% growth in both FY 2016 and FY 2017.

Chairman Wiles asked what time series was used by the Department of Taxation when producing their forecast.

Ms. Maser said she used a 10-year timespan to forecast the financial portion of the MBT, and noted that no major impacts in revenue were detected during the recession. She explained that she did not want to take into account large growths or dips, prior to the recession, when forecasting other revenues.

Chairman Wiles asked what the MBT rate was for financial institutions, and Ms. Maser replied that it was 2%.

Relative to the MBT – Financial, Chairman Wiles observed a substantial drop from the second quarter to the fourth quarter in FY 2014, a decline of $8 million to $5 million. He asked if she was concerned with that trend and expected it to bounce back or if she thought it was seasonal. He said that a linear regression can be done assuming the historic relations are going to remain the same, but the last two data points showed a significant drop. He asked if a shift occurred, and advised Ms. Maser to pay close attention to that dip. He said a longer time series can be used to mask the impact of a structural shift.

Ms. Maser said she would review the data prior to the next forecast meeting in December.

Chairman Wiles referred to the General Fund revenues chart on page 8 (Exhibit F), and asked if the blue line represented the actual revenues that are coming into the state. Ms. Maser replied that the blue line represented the General Fund revenues.

Ms. Rosenthal asked to clarify if the blue line represented tax revenues from the MBT, and Ms. Maser confirmed it was revenue from the MBT, financial institutions.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers said her computations for nonfinancial institutions MBT are based on the nonfinancial sector wages forecast, which is largely driven by employment, and includes a computed employment population ratio for Nevada to account for the slack in the labor market. She indicated that growth in the MBT for nonfinancial institutions is primarily driven by wage growth. She said the assumption for allowable deductions for health insurance is 8.0%, based on five years of historical data. Ms. Powers estimated that approximately 80% of wages are subject to the $85,000 wage threshold in FY 2015, based on FY 2014 quarterly taxes and data. She said after deducting the allowable health care deductions and applying the 1.17% tax rate to taxable wages above the $85,000 threshold in FY 2015, the estimate is 4.8% growth over FY 2014. In FY 2016 and FY 2017, the tax rate sunsets to a 0.63% rate applicable to all nonfinancial taxable wages; therefore, in FY 2016, tax collections are projected to decline by 29.2% over FY 2015. Ms. Powers said, because of the sunset in law, FY 2017 projections represent a 5.1% increase in collections over FY 2016.

Ms. Powers said the computations applied to the MBT financial sector are based on a wages forecast. The wage forecast model is largely driven by employment, but also includes the computed employment population ratio to account for the slack in the labor market. She said growth in MBT for financial institutions is primarily driven by growth in employment and wages. Almost 7% is deducted from the wages for health care expenses based on a 5-year average, and after deducting the health care expenses, the remainder is taxed at 2%. Collections are projected to increase by 2.2% in FY 2015; increase 3.1% in FY 2016; and increase 3.9% in FY 2017.

Mr. Leavitt asked what the estimated difference in MBT revenue would be between now and when the employer mandate goes into effect.

Ms. Powers responded that FY 2014 did not show much change in the historical relationship; therefore, she did not change her model.

Mr. Leavitt assumed that with the employer mandate, the employer will get a heath care deduction for the MBT, which will cost the state revenue.

Ms. Powers said she will reconsider how much impact the employer mandate might have on health care expenses when preparing her forecast for the Forums' December 3, 2014, meeting.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel said the Fiscal Division's forecast for the MBT for nonfinancial institutions starts on page 87 (Exhibit E), but referred the members to page 92, TABLE 2B. He said the first column represents the actual wage and salary disbursements reported by the Bureau of Economic Analysis. The last actual reported wage growth in FY 2014 was 5.4% in total wage growth on top of 3.1% in FY 2013. Based on assumptions for employment and wages, the Fiscal Division forecasts total wage growth to increase 5.7% in FY 2015, and grow 7.0% in both FY 2016 and FY 2017. Mr. Reel said the Fiscal Division's employment forecast is based on DETR's employment and reflects continuous growth in the nonfinancial sector by 3.3% in FY 2015; 4.1% in FY 2016; and 4.0% in FY 2017. Included in that forecast are assumptions for the average wage per employee. He pointed out that the actual wage growth in FY 2014 was 2.0%, and although Bill Anderson said wage growth was lagging, the Fiscal Division's forecast shows the average wage per employee increasing from roughly $45,000 per year to $49,000 per year by the end of the forecast, based on wage per employee assumptions. The annual growth rates are projected to be 2.3% in FY 2015; 2.7% in FY 2016; and 2.9% in FY 2017. He said those rates slightly outpace the rate of inflation, and forecast inflation adjusted annual wage growth at 0.3% in FY 2015; 0.5% in FY 2016; and 0.3% in FY 2017 for nonfinancial wages.

Mr. Reel directed the members to the Fiscal Division's forecast on page 93 (Exhibit E), with focus on the column labeled Nonfinancial Taxable Wages Actual and Forecast. He drew attention to the 2.6% taxable wage growth in FY 2013 and 3.9% growth in FY 2014. The Fiscal Division forecasts growth rates for nonfinancial wages at 5.7% in FY 2015 and 7.0% in the out-years.

Turning to MBT collections for nonfinancial institutions, Mr. Reel pointed out a decline of 0.6% in FY 2014 ($361 million). He said although wages grew by 3.9%, collections dropped by 0.6%. This decline in collections was due to the tax change that went into effect in FY 2014 relative to the revised tax structure in the wage exemption threshold ($85,000). In FY 2013, the wage exemption was at $62,500; therefore, an additional portion of the tax base was exempt in FY 2014, roughly causing a 2% decline in the total taxable wages. He pointed out the average effective tax rate in FY 2013 was 0.987%, and dropped to 0.945% in FY 2014. Mr. Reel said the same effective tax rate was carried through in his forecast for FY 2015, growing by 5.7% ($381.7 million), and was revised for the remaining forecast due to the tax structure changing back to .63%, to show a negative 28.7% ($272.1 million) in FY 2016 and growth of 7% ($291.3 million) in FY 2017.

Referring again to TABLE 2C on page 93 (Exhibit E), Mr. Reel explained the columns shaded in grey show adjustments for amnesty collections and other one-time factors in the nonfinancial sector. He said those adjustments are backed out before growth rates are applied; however, there has not been a one-time event occur since FY 2012, so that table was irrelevant at this time. The columns on the far right of TABLE 2C are used to show historical changes in the tax structure over time.

Mr. Reel switched his focus to actual and forecasted wages and employment relative to the MBT and the financial sector (page 102, Exhibit E). He said the financial drivers behind the Fiscal Division's financial forecast was wage disbursements. In FY 2014, actual wage growth was 4.6% on top of a 7.9% growth in FY 2013. The financial sector supports a stronger wage growth; therefore, the Fiscal Division forecast total wages to grow by 3.5% in FY 2015; 4.6% in FY 2016; and 4.5% in FY 2017. He said his employment assumptions based off of DETR's forecast included 1.8% growth each year. Mr. Reel said the strongest sectors relative to employment in this area include finance and insurance and real estate; however, the DETR forecast considered the real estate portion, but not the finance and insurance sector.

Mr. Reel quoted the Fiscal Division's average wage assumptions at 1.6% growth in FY 2015; 2.7% growth in FY 2016; and 2.6% growth in FY 2017. He said the forecast shows wages running below inflation in the FY 2015, slightly above inflation in FY 2016, and keeping up with inflation in FY 2017.

Moving to the MBT forecast for financial institutions on page 103 (Exhibit E), relative to financial taxable wages and the collections, Mr. Reel pointed out that the last actual data reported for FY 2014 showed a decline of 0.6% in taxable wages with collections up 1.8%. He directed the members to the shaded columns on the right hand side of TABLE 3C (page 103, Exhibit E), and explained there were amnesty issues (reporting issues) in terms of what information was provided to the Department of Taxation from FY 2009 to FY 2014 (bolded data). Mr. Reel summarized that an additional $380,000 was deposited in FY 2013 that made FY 2014 look weaker. The financial taxable wages listed in the grey shaded area showed growth of 8.7% in FY 2013; 1.1% in FY 2014; 3.5% in FY 2015; 4.6% in FY 2016; and 4.5% in FY 2017. In regard to collections, Mr. Reel quoted the Fiscal Division's forecast in FY 2015 reflected 0.2% growth at $23.8 million. He said although the MBT is a 2% tax, the average affected tax rate has been running over 2.1%, which he did not think was normal; therefore, his forecast is based off a 2.085% effective tax rate. The Fiscal Division's forecast shows growth of 0.2% ($23.8 million) in FY 2015, 4.6% ($24.9 million) in FY 2016, and 4.5% ($26 million) in FY 2017.

Chairman Wiles asked how a 2% tax can be charged at more than 2%.

Mr. Reel explained that audits and late payment penalties can make an impact. He directed Chairman Wiles' question to Sumiko Maser, Department of Taxation, for further clarification. Ms. Maser confirmed that late filers pay a penalty and interest, which increase revenue.

F. Real Property Transfer Tax

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser explained that Real Property Transfer Tax (RPTT) is a tax on the transfer of real property, and is collected by the County Recorder and reported to the Department of Taxation. The only real data received by the Department of Taxation is related to the number of total transfers, both taxable transfers and transfers that are exempt from taxation. She said the total taxable transfers between FY 2013 and FY 2014 remained flat; however, revenues increased by 9.1%, which implies that the price of property had increased (pages 9 and 10, Exhibit F). Ms. Maser said the method used for forecasting the RPTT revenues was a linear regression analysis, using data from the third quarter of FY 2009. She forecast growth of 5.8% in FY 2015; 4.3% in FY 2016; and 4.1% in FY 2017.

Chairman Wiles described Ms. Maser's forecast as "bullish," because it indicated a 30% increase in RPTT between FY 2010 and FY 2016. He asked if she was comfortable with that forecast. He observed the bump that occurred in the last couple of years, and hoped that it was not a case where a couple of outlier points drove a significant increase in the slope. He said the challenge with linear regression is that a couple of outliers, especially on a shorter time series, have a big impact on the forecast.

Mr. Leavitt relayed the RPTT can be significantly impacted by an individual sale of a huge piece of commercial real estate or a mass sale of bank owned properties.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers said her forecast is estimated with a simple econometric model. She said home prices have been decelerating, investment properties are snatched up, and houses are becoming less affordable. She said her outlook for wage growth is not strong enough to support robust growth in the housing sector in the near-term, and home permits are trailing at levels seen in the 1980's. The recent trend in permits is not expected to increase because the population outlook has flattened and loan qualification for a mortgage is difficult. Additionally, relative to loan approval, she said banks like to see a steady job history, which is a challenge for many new-hires.

Ms. Powers said her model forecasts home sales based on the Case-Schiller price index for Las Vegas, single-family permits for Nevada, and existing single-family home sales in Nevada. Additionally, home sales data is used to forecast real property transfer tax. Ms. Powers forecast RPTT collections to increase by 4.3% in FY 2015; 6.3% in FY 2016; and 9.3% in FY 2017, due to growing employment. Currently, lending standards are tight. To put lending standards into context, Ms. Powers noted that Ben Bernanke (former Chairman of the Federal Reserve) could not get his home refinanced. She expect to see some easing in the lending standards by 2017.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto referred the members to the Fiscal Division's forecast for the RPTT on page 111 (Exhibit E). He said the only information he can get regarding the RPTT is related to where it is collected and for how much, as well as the transfers that occur. Without having the entire picture, the Fiscal forecast primarily looks at the residential side of the real estate market. Mr. Nakamoto referenced the actual historical data and forecasts for single-family home sales in Nevada to show history going back to the first quarter of calendar year 2000 (page 18, Exhibit E), CHART 9A - LEVELS. The chart shows upward and downward shifts, primarily driven by the recession and investors purchasing REO's, foreclosures, and bank owned properties. Information provided by Dennis Smith, Homebuilder's Research, Inc. (Southern Nevada) and Brian Bonnenfant, University of Nevada, Reno, was used in Fiscal's forecast to project the housing market. Mr. Nakamoto said the Fiscal Division projects the market to level off or possibly come back slightly.

Mr. Nakamoto touched on new single-family home completions, and said they mimicked the same pattern as single-family home sales (page 20, Exhibit E). He said building activity was occurring in Nevada; however, it was nothing like what was seen in the beginning of the last decade.

Mr. Nakamoto acknowledged his forecast for the Case-Shiller House Price Index for Nevada, used as his price variable. Prices are expected to flatten out in the near-term, backed by anecdotal evidence out of Clark County. He said the Las Vegas Sun printed an article reporting that median home prices were expected to drop below $200,000 in Las Vegas. The Las Vegas Review Journal reported that Signature Homes was offering homes in the Solano Terrace Development at below $150,000. Mr. Nakamoto said it was unknown if other homebuilders are going to follow suit, but it made him wonder just how much downward pressure there will be on pricing, at least in the near-term.

Continuing, Mr. Nakamoto presented his forecast for RPTT (page 112, Exhibit E). He explained that he used a regression equation that models seasonally adjusted RPPT collections on a quarterly basis as a function of the variables that he previously addressed. He explained forecasted collections in the third quarter of calendar year 2014 ($15,924,000) was based on information obtained from the State Controller's Office, and at the time his forecast was presented, 15 of the 17 counties had reported their first quarter RPPT collections. Lincoln and Mineral counties were assumed to account for approximately $10,000 worth of additional collections, but their actual collections amounted to $13,000; therefore, the Fiscal Division's forecast on December 3, 2014, will increase by $3,000. Mr. Nakamoto said a reassessment of the housing market could also result in adjustments to the forecast. The Fiscal Division RPTT forecast is stronger than the other forecasts, reflecting growth of 8.9% in FY 2015; 7.6% in FY 2016; and 8.0% in FY 2017.

Mr. Nakamoto called attention to page 113 (Exhibit E), CHART 1 – RPTT, a chart of historical collections. He said the RPTT revenue sources date back to the fourth quarter of calendar year 2003, represented by the blue line. Prior to that a RPTT rate of $0.65 was collected by the local governments for the benefit of local governments, and was distributed to the local governments for the consolidated tax distribution.

Mr. Nakamoto said the housing bubble manifested in FY 2004, and the General Fund received $88 million from the RPTT. In later years, the General Fund received $148.7 million in FY 2005; $164.8 million in FY 2006; and $120.4 million in FY 2007. He mentioned that a dissimilar pattern in growth rates was observed from the third quarter of 1998, when the rates started to rise, and a pattern similar to that timespan was included in his forecast. He said "price" was the primary driver in his forecast for the near-term. He explained that home prices have been increasing at levels that are significantly higher than they were one or two years ago, and with prices leveling off, homes will be more in demand.

Chairman Wiles asked if there were estimates of shadow inventory held by banks, specifically statistics regarding the number of foreclosures.

Mr. Nakamoto responded that he did not have information pertaining to shadow inventory, nor Its movement; however, there was information available with respect to the notices of default that are filed by the banks, because there is a fee that is imposed and deposited into the State General Fund. It was unknown as to how many of those defaults actually turn into foreclosures and go through the foreclosure process.

Ms. Lewis added that shadow inventory is tracked by the number of houses that do not have connection to water or power, which was thought to be around 30,000. She said she did not know if anyone could speculate what the banks were going to do with those houses.

Mr. Nakamoto mentioned that risks in the Fiscal Division's forecast pertaining to housing activity and housing prices depended on their general economic outlook. He said if his assumptions did not come to fruition, such as higher paying jobs and lower lending standards, then his forecast becomes a risk. Mr. Nakamoto pointed out there is also a resource risk, and that Northern and Southern Nevada are constrained by water, with severe drought conditions. He said if drought conditions worsen, there could be a dampening effect on new construction or cause an impact on migration to the area.

IX REVIEW AND DISCUSSION OF FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2015, FY 2016, AND FY 2017 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE ON FUTURE STATE REVENUES (NRS 353.229) AT ITS OCTOBER 29, 2014, MEETING.

Mr. Guindon reported that the Technical Advisory Committee on Future State Revenues (TAC) met Wednesday, October 29, 2014, and that Bill Anderson, Chairman of the TAC, was in attendance at today's meeting to answer any questions. He clarified that staff for the Economic Forum are also staff to the TAC.

Continuing, Mr. Guindon directed the members to TABLE 5 on page 115 (Exhibit A). He said the table listed some of the larger minor General Fund revenue sources and the different forecasts by the Agency, which could be the Department of Taxation or the Secretary of State or another Executive Branch agency that collects that revenue source, such as the Treasurer's Office that manages unclaimed property. He noted that the Technical Advisory Committee line is the consensus that the Forum adopted.

Mr. Guindon referenced page 117 (Exhibit A), TABLE 6, the actual consensus forecast that was approved by the TAC at their meeting on October 29, 2014. He discussed the Net Proceeds of Minerals Tax (NPMT) revenue forecast, specifically the sunsets regarding prepayment and health care deductions. Effective FY 2016, the NPMT will be based on the preceding calendar year versus the current prepayment method. Mr. Guindon explained that calendar year 2015 is being taxed in FY 2015 under the estimated basis, but in FY 2016, the law will require to tax calendar year 2015 as actual proceeds, which could require a true-up. He said in FY 2017, the tax payment will be based on actual proceeds for calendar year 2016. Due to the forecast error that occurred in FY 2014, and the issue related to over payments and credits, the forecast is now $26.4 million.

Mr. Guindon explained that the Department of Taxation, the Budget Office and the Fiscal Analysis Division generated independent forecasts that were put into a table to allow the members of the TAC to see the common elements of each forecaster's forecast. Those elements included the price of gold, the production level and the net to gross ratio. He said the TAC received presentations by staff from the various forecasters who prepared and deliberated those forecasts, and today the members of the Forum are seeing an average of the forecast, prepared by the Fiscal Analysis Division and the Department of Taxation. Mr. Guindon pointed out that Barrick Gold representatives met with staff from the Department of Taxation, the Fiscal Analysis Division and the Budget Office twice since the June 2014 meeting, and prior to the forecast prepared for the TAC's October 29, 2014, meeting. Those representatives presented their outlook for some of Barrick Gold's mining operations in Nevada. He said the meeting content was confidential and could not be discussed at meetings relating to the TAC or the Economic Forum. He said the outlook included reports relative to the world gold market and Barrick Gold's projections on gold prices, and that the information was taken into account by the forecasters when producing their forecasts. He noted that Barrick Gold makes up approximately 45% to 50% of the gold production in Nevada.

Mr. Maddox acknowledged that he was absent from the Economic Forum's October 17, 2014, meeting; therefore, he missed the mining presentation. He asked if public record showed what itemized deductions could be taken relative to the NPMT.

Mr. Guindon replied he was not aware of any public record. The NPMT is the one tax that is reported by gross and net income, by mine; therefore, it would allow insight to the gross amount of deductions, but not itemized deductions. He said the deductions are specified by statute and are clarified as necessary in regulations. Mr. Guindon noted that it was difficult to estimate the health care deduction, and that it had not been allowed until 2009.

Mr. Maddox asked if an income statement existed that identified gross revenues.

Mr. Guindon said there probably was, and he called Terry Rubald, Department of Taxation, to the table. He redirected the question to Ms. Rubald.

Mr. Maddox asked if it was possible to see some type of income statement that shows gross, less expenses, net, etc.

Terry Rubald, Deputy Director, Division of Local Government Services, conveyed that her department is charged with the administration of the NPMT. She confirmed that the taxpayers report by line item for each type of deduction, and she could provide the Forum with a summary by deduction type; however, she was concerned about releasing individual taxpayer reports.

Mr. Maddox responded that he would never want individual taxpayer reports. He thought the summary Ms. Rubald offered would be helpful in an effort to see what the leverage is on the price of gold, fixed expenses compared to the revenue line.

Ms. Rubald said that was referred to as the gross ratio. She said around 2012, the net to gross ratio was about 43% and Taxation's forecasts were projecting about 24% at that time. The net gross ratio depended on the quality and grade of the gold being mined.

Mr. Maddox offered an example, and asked if $100 gross today equaled $24 net. Ms. Rubald concurred. Mr. Maddox thanked Ms. Rubald for offering the summary.

Mr. Guindon said those assumptions were built into the forecasts prepared by the different forecasters, and that the net to gross ratio was in the 23% to 25% range over the forecast horizon.

Mr. Guindon referred the members to page 117 (Exhibit A), TABLE 6, ECONOMIC FORUM – GENERAL FUND REVENUE FORECAST. He said the Governmental Services Tax (GST) will only be forecast for FY 2015, but not for FY 2016 and FY 2017 because of a sunset. He explained that the Business License Fee looks similar to the MBT, where it declines in FY 2016 and comes back in FY 2017, because it is currently a $200 fee that will drop to $100, effective FY 2016.

Mr. Guindon explained the forecast review process prior to submittal to the TAC. He said the Executive Branch agencies responsible for collecting Minor General Fund revenue sources remit a forecast to the Budget Office and Fiscal Analysis Division, where they are reviewed by Budget and Fiscal divisions for reasonableness, accuracy, and conformance to changes in law. Those forecasts are then brought forward to the TAC meeting where they are reviewed.

Ms. Rosenthal made reference to TABLE 6 (page 119, Exhibit A), GL 4794, GST Commissions and Penalties/DMV. She observed that a forecast is referenced in FY 2015, but not forecasted previously or post. She asked if that was due to a legislative tax that only applies for one year.

Mr. Guindon confirmed that the tax applied to FY 2015 only. He said there was no money for FY 2014 so, under the law, it will not be utilized in FY 2016 and FY 2017 as a General Fund revenue source.

In closing, Mr. Guindon said a lot of the Minor General Fund revenue sources probably will not change much, but explained that staff will verify data from the Controller's Office, relative to the forecast, to determine if a true-up is required due to additional postings. He said the next TAC meeting is scheduled for November 26, 2014, and forecasts from that meeting will be brought forward to the Economic Forum for consideration at the December 3, 2014, meeting. The Economic Forum body can either approve or adjust those forecast as they feel necessary.

X. INSTRUCTIONS TO TECHNICAL ADVISORY COMMITTEE ON FUTURE STATE REVENUES (NRS 353.229) CONCERNING THE NEXT MEETING.

Mr. Guindon said forecasting instructions to the Technical Advisory Committee on Future State Revenues will not change relative to forecasting Minor General Fund revenue sources.

Mr. Guindon said he will work with Chairman Anderson to finalize the agenda for the next TAC meeting.

XI. SCHEDULING OF FUTURE ECONOMIC FORUM MEETINGS.

Mr. Guindon confirmed that the next Economic Forum meeting is scheduled for December 3, 2014, at 9:00 a.m. He said he will work with Chairman Wiles to finalize the agenda, and have it approved by the Legal Division and posted under the open meeting law. He reminded the members of the narrow window between now and the December 3, 2014, meeting, taking into consideration the processes leading up to and after the November 25, 2014, TAC meeting and preparation for the December 3, 2014, Economic Forum meeting. He said the electronic meeting packet may arrive just prior to the meeting.

XII. PUBLIC COMMENT.

There was no public comment at either location.

XIII. ADJOURNMENT.

The meeting was adjourned at 3:30 p.m.

Respectfully submitted,

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Judy Lyons, Committee Secretary

APPROVED:

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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.