MINUTES OF THE MEETING OF THE
ECONOMIC FORUM
(NRS 353.226 – NRS 353.229)
May 1, 2017

The meeting of the Economic Forum (created by Senate Bill 23, 1993) was held at 9:00 a.m. on Monday, May 1, 2017, in Room 4100 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
Judy Lyons, Committee Secretary, Fiscal Analysis Division
Susanna Powers, Executive Branch Economist, Governor's Finance Office

EXHIBITS:

(Exhibit A)	Meeting Packet and Agenda
(Exhibit B)	TABLE 4, Forecasts for the Major General Fund Revenues: FY 2017, FY 2018 and FY 2019
(Exhibit C)	TABLE 8, Major General Fund Revenue Forecast for FY 2017, FY 2018, and FY 2019
(Exhibit D)	Gaming Control Board – Gaming and Live Entertainment Forecasts
(Exhibit E)	Department of Taxation Forecast
(Exhibit F)	Executive Budget Office Forecast
(Exhibit G)	Fiscal Analysis Division – Forecast Information Packet
(Exhibit H)	Live Entertainment Tax (LET) – Gaming and Nongaming: Actual and Forecast by Forecaster for FY 2017, FY 2018, and FY 2019.

(Exhibit I)	Commerce Tax - Summary Statistics by Business Category for FY 2016 Current Information to Date
(Exhibit J)	Commerce Tax Due Estimates for FY 2017, FY 2018, and FY 2019
(Exhibit K)	General Fund Revenues – Economic Forum's Forecast for FY 2017, FY 2018, and FY 2019 Approved at the May 1, 2017, Meeting
(Exhibit L)	Economic Forum General Fund Revenue Forecast Comparison: May 1, 2017, Forecast Versus December 6, 2016, Forecast

I. ROLL CALL.

Chairman Wiles called the meeting of the Economic Forum (Forum) to order at 9:15 a.m. and the secretary called roll. The members were present at the meeting in Carson City.

Chairman Wiles requested the agenda be taken out of order, and directed the members to Agenda Item III, Public Comment.

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.

Chairman Wiles requested the agenda be taken out of order, and directed the members to Agenda Item II, Opening Remarks.

II. OPENING REMARKS.

Chairman Wiles stated estimates for General Fund revenues will be reviewed and approved, which will be provided to the Governor and the 79th Legislature. He confirmed this is the final forecasting meeting for the 2017 Legislative Session.

Chairman Wiles requested the agenda be taken out of order, and directed the members to Agenda Item IV, Approval of the Minutes of the October 7, 2016, meeting.

Chairman Wiles requested that Agenda Items IV, V and VI be grouped as one item, and be approved under one motion.

IV. APPROVAL OF THE MINUTES OF THE OCTOBER 7, 2016, MEETING.

V. APPROVAL OF THE MINUTES OF THE NOVEMBER 10, 2016, MEETING.

VI APPROVAL OF THE MINUTES OF THE DECEMBER 6, 2016, MEETING.

MR. LEAVITT MOVED FOR APPROVAL OF THE MINUTES FROM THE OCTOBER 7, 2016, MEETING; THE NOVEMBER, 10, 2016, MEETING; AND THE DECEMBER 6, 2016, MEETING.

MR. MADDOX SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

Chairman Wiles complemented staff on the quality of the meeting minutes, stating they were remarkably detailed and well written, and exceptionally helpful before each meeting.

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

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

Mr. White teleconferenced from his office in Philadelphia, Pennsylvania. He emphasized his position as an economist with Moody's Analytics (Moody's), which is a separate company from Moody's Investors Service, and stressed that his comments should not be misconstrued as having any bearing on past, current or future ratings actions.

Mr. White stated a lot has happened since he last spoke to the members of the Forum on November 10, 2016, especially relating to federal fiscal policy. He said focus on underlying fundamentals shows a strong economy, including an unemployment rate around 4.5%, steady growth of approximately 2.0% in the gross domestic product (GDP), and increased wage growth of approximately 4.0% for the first time since the recession. He attributed wage growth to the tremendous amount of pent-up demand that sat idle for the last six or seven years, and noted that many jobs regained during the recovery were not the same jobs lost during the recession. He directed the members of the Forum to the wage growth chart on page 150 of the meeting packet (Exhibit A), and said low-wage and high-wage jobs surpassed the pre-recession peak several years ago, but mid-wage jobs that make up a tremendous part of the overall economy, especially in terms of consumer spending, are still about 250,000 to 300,000 jobs less than they were before the recession. He reported mid-wage jobs are starting to fill, wage growth is starting to come back, and the labor market is much tighter, all good for wages and consumer spending. Mr. White pointed out that consumer prices are escalating, which is important for sales taxes because they are based on a nominal value, and as consumer prices go up, the overall taxable value of consumer goods increase. As consumers buy more, they are buying more at higher price points, which translates into higher sales tax collections.

Mr. White said wage growth typically kicks into a higher gear as the business cycle approaches its peak. He speculated the U.S. is nearing the peak of the current business cycle given the growth in jobs and wages.

Mr. White reported the country is eight years into the current business cycle expansion, the third longest expansion since World War II. It is one of the slowest expansions and one of the longest. He clarified the chart on page 151 (Exhibit A) is conveyed in federal fiscal years, which is only about three months off from the state fiscal year. He said if the U.S. can get beyond federal FY 2019 without another recession, it would be the single longest period of expansion in modern American history. Experience over the last 20 to 30 years shows recessions are usually self-inflicted. He said the risk of recession over the next four years is much higher than it was the previous four, and asserted that fiscal policy assumptions made now in the forecast could make a difference. Elaborating on the business cycle, he voiced if the assumption exists that nothing will happen in terms of fiscal policy, and no major changes occur, then the next recession is expected sometime around 2019 or 2020, mostly as a result of the normal contours of the business cycle. A ten-year expansion is considered quite long, and the downslope of that business cycle is likely in 2019 or 2020. Mr. White implied that many things proposed by the current administration and members of Congress are stimulus in nature, such as tax cuts and increases in infrastructure spending. He said if those policies pass, the real economic impact would not be felt until the end of 2018 or early 2019, precisely when the U.S. should be hitting the downslope in the business cycle. Furthermore, if those stimulus measures take effect during that downslope, the net result would be an extension of the business cycle out past 2020. He said Moody's baseline forecast assumes that some type of tax reform along with an infrastructure package will take place in the next two years. However, those assumptions are much smaller than the plan released by the White House in late November or early December of 2016 that is expected to cost approximately $2.0 trillion over the next ten years. Mr. White clarified that, in terms of tax proposals and net fiscal cost, Moody's forecast does not assume any personal income tax reforms, for they will be assumed neutral at best. In terms of corporate income taxes, Moody's assumes a relatively large corporate tax credit of about $500 billion to $600 billion over the next ten years.

Mr. White highlighted some risks. He said if the plan put out by the current administration and Congress doesn't happen, there is a much greater risk for a recession to occur sometime in 2019. He recognized his forecast as a short-term forecast, stating that beyond the short-term forecast, if there is a significant increase in the deficit in order to pay that fiscal stimulus, then the next recession will probably be much larger than it otherwise would have been. He said most of the risks in terms of fiscal policy, whether there are major changes or not, really applies to the forecast beyond 2019, so beyond the auspices of this particular tax forecast, he did not see a lot of fiscal risks in FY 2018 and FY 2019. In terms of how that relates to the next budget cycle will be very important over the next year or two.

Mr. White moved to page 152 (Exhibit A), a table that identifies the movement of the U-6 unemployment rate. He argued the U-6 unemployment rate is what many people determine to be the true unemployment rate, because it includes people who left the labor force or stopped looking for a job. He said even though the unemployment rate has been relatively low over the last two years, it would have been difficult for it to drop much lower because there was not a lot of pent-up demand for jobs from the discouraged workers who stopped working and left the labor force. He expressed the

U-6 unemployment rate, or true unemployment, is expected to drop because a great number of those discouraged workers returned to the labor market over the last six to nine months. He noted it would take a while to get back to pre-recession levels, or even the early 2000's levels; however, the labor force is expanding at the fastest rate since 2006.

Mr. White acknowledged the low vacancy rate in housing (page 153, Exhibit A). He relayed that approximately 3.5 million households were not formed during the great recession, which made a big difference in terms of consumption and economic growth as well as the housing market. Mr. White reported that by Moody's estimates, every new single-family home built in the U.S. generates enough economic activity to support four jobs over the course of the year, which has a tremendous amount of economic spillover throughout the rest of the economy. The housing market has a major influence on sales taxes considering all the major durable goods purchases that go into building a house. Mr. White conveyed that approximately 1.5 million of those households have formed since the great recession, leaving approximately 2.0 million unformed households yet to spill out into the housing market. He said that will likely change in the next two years as wage growth increases. On the flip side, housing vacancies are at the lowest rate since the mid-1990's. Demand is coming back strong while supply is struggling to keep up, which is causing strong growth in home prices despite being eight years out from the last recession. He communicated that housing completion estimates have dropped significantly over the last few iterations of Moody's forecasts for Nevada. He said strong housing demand is apparent in Nevada, especially for new housing units in Northern Nevada, but the supply side lacks the skilled workforce needed to build homes. He elaborated there is high activity in large commercial construction projects where private contractors are able to bid high rates for qualified labor, making it more difficult for homebuilders to obtain the skilled labor they need for their projects. As a direct result of those supply constraints, which are expected to play out over the next several years, Moody's continues to project a much slower growth rate in housing completions,

Mr. White emphasized that Nevada's housing demand was not just good for housing, but also for the entire Nevada economy. He reported Nevada's migratory patterns have returned to a normal pattern, or the pattern expected before the great recession (page 155, Exhibit A). Nevada was the second fastest growing state in the West in 2016, brought on by the increased job market and retirees moving to the area, given Nevada's lower cost of living compared to California and parts of Arizona. Development in Northern Nevada was a major draw. He said Reno really turned it on since 2015, specifically in the second half of 2016 as Tesla and surrounding companies and ancillary services companies started hiring; it pushed Reno to the forefront in job growth in Nevada. He said Las Vegas is still doing quite well, having a record year in visitor volume in 2016, but Reno has taken the torch and run with it in terms of a more diversified industrial mix, paying dividends not only in job growth, but in the quality of those jobs as well.

In terms of high-tech employment, Mr. White repeated that Nevada was the second fastest growing state in the West, behind Montana, in 2016. Nevada did very well competing with Utah, Washington and Idaho, all frontrunners of the Mountain West tech renaissance over the last five or ten years. He said tech centers in Washington and Northern California are becoming too expensive for smaller companies or startups to thrive and survive, which explains the consolidation of very large companies in Northern o, Utah and Idaho. Reno is hoping to take over some of that mantle as well. He expressed there was a lot of opportunity, a lot of upside risk to the forecast for Nevada, Reno in particular, as the Mountain West develops and presents themselves as more cost-efficient alternatives than Silicon Valley, Seattle and the Puget Sound area.

Mr. White said, although the labor market showed a lot of instability at the end of 2016 due to high reliance on construction and leisure hospitality in particular, Nevada is almost always one of the most revised states when the Bureau of Labor Statistics (BLS) releases its annual jobs data. He indicated that Nevada is significantly outperforming the U.S. average, and is by far the fastest growing area of the country. In terms of job growth and the quality of jobs being added in Nevada, Nevada is at a very good point in its business cycle, which is expected to continue for the next two to three years.

Chairman Wiles thanked Mr. White for his presentation and proceeded to Agenda Item X without questions.

Mr. Guindon requested the agenda be taken out of order so Mr. White could present his forecasts, since he was attending the meeting via teleconference, for the following major General Fund revenue sources: State 2% Sales Tax (Item C) and Gaming Percentage Fee Tax (Item A).

Mr. Guindon directed the members to page 164 (Exhibit A), TABLE 1: State 2% Sales and Use Tax and page 165, TABLE 2: Gaming Percentage Fee Forecast (Exhibit A).

X. REVIEW AND APPROVAL OF FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2017, FY 2018, AND FY 2019.

C. State 2% Sales Tax

Mr. White said he was very happy with the way the model used in his forecast performed with the FY 2016 data, which resulted in minimal change to Moody's sales and use tax forecast. He relayed Moody's forecast became more cyclical with their latest assumptions in terms of tax policy and the national economic outlook, but very strong growth was still expected over the second half of FY 2017 while prices increase more earnest as wages rise nationally. Moody's made minor tweaks to their sales tax equation to help better grasp the trend with underlying consumer prices, because that was one area that Moody's over-forecasted in previous quarters. Mr. White said a large portion of growth relates to the strength from housing in FY 2017 and FY 2018. While Moody's downgraded their forecast for housing completions, the large amount of housing completions coming into place is expected to play a significant role. Mr. White said another reason for strong growth in FY 2017 and FY 2018 came from upgrading their forecast for U.S. recreational services spending, the amount that people nationally spend on vacations and leisure in general, which has been a very good proxy for tourism in Nevada and proven successful in predicting previous years' sales taxes. The first quarter of FY 2017 revealed a strong increase in recreational services spending, which fits very well with disposable personal incomes, and with disposable personal incomes up due to strong wage growth, that number is expected to continue. A downside risk in terms of international tourism is if the dollar continues to strengthen and more Americans decide to spend their money overseas or take longer vacations. Mr. White noted that Nevada does well when the dollar is not so strong, because people are willing to take vacations closer to home, benefiting Las Vegas in particular. He said the housing portion of the forecast poses the biggest downside risk; however, it is more or less in line with what has been seen in the past.

A. Gaming Percentage Fee Tax

Mr. White indicated that a tremendous amount of volatility exists with the gaming percentage fee forecast. There are many factors that drive this revenue source, making it difficult to forecast. He said the biggest factor is the national recreational spending. Looking at U.S. recreational service expenditures, coupled with the strong history that exists, Moody's recognizes a much stronger near-term trend, which supports strong growth in FY 2017. Mr. White said he expects things to cool off in FY 2018 and FY 2019, arguing that if his current base line assumptions hold, the U.S. will probably be on the downside of the national economic business cycle in FY 2019, which explains the weaker growth further into his forecast.

Chairman Wiles requested the agenda be taken out of order, and directed the members to Agenda Item VIII, Presentation on the State Employment Outlook.

VIII PRESENTATION ON THE STATE EMPLOYMENT OUTLOOK.

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

Mr. Anderson thanked the Forum for the opportunity to present an overview of future labor market conditions in Nevada. He communicated that the Department of Employment, Training and Rehabilitation's (DETRs) current labor market overview, which includes year-to-date numbers through MARCH 2017, is posted on the Nevada Legislature's website.

Summarizing historical trends, Mr. Anderson guided the members to a recovery scorecard on page 170 (Exhibit A) that outlines the following recovery statistics:

- Nearly 186,000 jobs were lost during the recession, but approximately 212,000 jobs were added back since late 2010, taking the state to a record-high level of employment.

- Nevada has the fourth fastest growing private sector in the nation. Nevada suffered the most pronounced job losses in the nation at the height of the recession (2009 -2010).

- 100,000 small business (businesses with less than 100 workers) jobs were added, exceeding 600,000 small business jobs for the first time.

- The number of employers participating in Nevada's unemployment insurance program is at a record high with close to 68,000 employers. Nearly 12,000 employers were added since the recession ended.

- Average weekly wages are at an all-time high in Nevada and have grown in 13 of the last 14 quarters.

- The jobless rate is down almost 9.0 percentage points over the course of the recovery. Nevada's jobless rate peaked at 13.7%, and now sits at 4.8% as of March 2017. He said DETR likes to track their ranking in terms of the unemployment rate. From 2009 to 2015, Nevada was never better than the third or fourth highest unemployment rate in the nation. During that period, there was a stretch of 41 or 42 consecutive months where Nevada had the highest unemployment rate in the nation. Nevada began making up ground in late 2015, and now its 4.8% unemployment rate is lower than that in 16 other states, including the District of Columbia. In comparison to the U.S. the gap decreased from approximately 4.5 points and to 0.3 of a point during that six-year period.

- Unemployment insurance claims are down since peaking during the recession by about 60%.

Mr. Anderson relayed that two weeks ago DETR presented to the Governor's Workforce Development Board and summarized how Nevada's job picture compared to the U.S. He reported that during the recession, Nevada's job losses were about 14.3% from May 2007 to September 2010, whereas nationally, the decline in jobs was less than one half of that, about 6.3%. However, since the recovery took hold, job levels in Nevada grew 19.0% compared to national growth of 12.0%. Because the U.S. was not hit quite as hard as Nevada, job levels measure approximately 5.4% higher than they did at their pre-recessionary peak, whereas Nevada job levels are about 2.0% higher.

Mr. Anderson said all evidence points to an economy that is operating on all cylinders. DETR is seeing very broad base, diverse, sustainable growth, and what they see in the pipeline will allow them to continue to grow going forward. Mr. Anderson said job growth through 2019 is anticipated to average approximately 38,000 to 40,000 per year in absolute numbers. By the end of 2019, the pre-recessionary peak is expected to be exceeded by more than 125,000 jobs.

Mr. Anderson gave insight on how DETR's forecast was tracking. He explained that only two additional quarters worth of data was received since they last reported to the Forum on November 10, 2016. DETR's job numbers are coming in slightly higher than what was expected with the same general pattern. He said his forecast going out 2.5 years is off by approximately 33,000 jobs out of an employment base of roughly 1.35 million. DETR is very pleased with how their projection was unfolding to-date.

Mr. Anderson provided the following summary regarding DETR's projections:

Projections are made by first identifying some historical underlying trends, and then adjustments are made according to known data pertaining to projects in the pipeline. Growth across all sectors is analyzed. Manufacturing growth is being driven by the Tesla project in Northern Nevada and construction has been broad base in both the North and the South. There has been increased growth in the information sector from companies such as Switch and Apple, expanding their operations in Nevada.

Mr. Anderson named the following key industries driving DETR's forecast:

- Construction – approximately 100,000 construction jobs were lost during the recession, going from about 150,000 jobs to about 50,000 jobs, and about 54,000 construction jobs are expected to be added back by the end of 2019.

- Manufacturing - mostly driven by the Tesla project, close to 15,000 new jobs are expected to be added by the end of 2019. If this pattern holds, record-high manufacturing jobs will be met.

- Retail Trade - driven by Nevada's visitor volume and population growth, the retail trade sector continues to expand. Nevada's population grew about 1.95% in 2016, achieving the second fastest growth rate in the nation, which is fueling Nevada's retail spending.

- Health Care – driven by population growth, continues to grow, and held up relatively well during the recession. This sector is projected to grow approximately 4,000 jobs per year.

- Accommodation and Food Services – including restaurants, drinking establishments, hotels, and casinos. This sector is projected to add about 15,000 jobs over the next few years.

Mr. Anderson said positive or steady growth has been observed in the approximately 20 sectors tracked by DETR. Approximately 40,000 new jobs are expected to be added per year.

Mr. Leavitt asked Mr. Anderson how he would approach the revenue estimates that were approved by the Forum December 6, 2016, given the changes that have occurred since, speaking in general terms and how it relates to the economy as a whole.

Mr. Anderson replied that things have improved since the Forum's December 6, 2016, meeting, including new projects in the pipeline and some major projects touched on by the Governor in his state-of-the-state address in mid-January. Things have improved to the extent that Nevada's revenue structure is driven by the underlying labor market and economic fundamentals. He admitted the ramp up gave him a degree of comfort, but ultimately it was the Forum's decision. He reiterated that economics have improved, hence would support bumping up the December 6, 2016, revenue projections.

Chairman Wiles asked if Tesla was on track to achieve its hiring expectations.

Mr. Anderson replied he was not privy to that kind of confidential information, but they were ramping up considerably. He said many job fairs in Northern Nevada advertise jobs with Tesla; however, he was not at liberty to discuss because of his access to certain private records. He indicated that not only did Tesla hire construction jobs, but DETR has seen a bump in their manufacturing job numbers as well.

Chairman Wiles asked Mr. Anderson if his expectations and information was reflected in the graph he presented.

Mr. Anderson concurred.

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

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

Mr. Guindon announced that the tax and gaming charts pertaining to this agenda item were updated since the December 6, 2016, meeting, and were posted on the Nevada Legislature's website. He said the slides were accessible during the meeting, if needed.

X. REVIEW AND APPROVAL OF FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2017, FY 2018, AND FY 2019.

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

F. Real Property Transfer Tax
G. Commerce Tax
H. Cigarette Tax

Mr. Guindon invited Mr. Lawton from the Gaming Control Board (GCB) and Ms. Susanna Powers from the Budget Office to come forward to present their forecasts. He identified the following information: TABLE 4 (Exhibit B); TABLE 8 (Exhibit C), which shows the major General Fund revenue forecasts, by forecaster, for November 10, 2016, December 6, 2016, and May 1, 2017; TABLE 9 (page 205, Exhibit A), which shows actual collections year-to-date for the major General Fund revenue sources for FY 2015, FY 2016 and FY 2017; as well as the FY 2017 forecast and average growth requirements needed to achieve the FY 2017 forecast for each forecaster.

A. GAMING PERCENTAGE FEE TAX

Michael Lawton, Senior Research Analyst, Gaming Control Board

Mr. Lawton updated the members on gaming win, taxable gaming win, and percentage fee collections fiscal year-to-date (FYTD). At the Forum's December 6, 2016, meeting, he reported gaming win through October 2016 was up 5.2%. Through March 2017, with only two months remaining in the fiscal year, gaming win was $9.6 billion, up 3.5% or $327.6 million (page 2, Exhibit D). At this same time in 2016, gaming win was up 0.1%.

Mr. Lawton communicated that taxable gaming revenue fiscal year-to-date was $9.1 billion, up 3.2% or $287.8 million. In December 2016, taxable gaming revenue was up 4.8%. At this same time in 2016, taxable gaming revenue was up 2.4%.

Mr. Lawton moved to percentage fee collections on page 4 (Exhibit D), currently sitting at $622.3 million, up 4.6% or $27.3 million. In December 2016, percentage fee collections were up 8.9%, and in 2016 at this this time, collections were up 2.9%. FYTD collections on percentage fees are 1.1% or $6.9 million above the December 6, 2016, forecast.

Mr. Lawton gave the following updates and forecasts on slot win, gaming table win and baccarat win, which are charted on pages 5 through 13 (Exhibit D):

- Statewide Slot Win FYTD – statewide slot win fiscal year-to-date is currently at $6.0 billion, up 3.2% or $180.6 million through March 2017, with every major market in the state in positive territory. Slot win was up 4.6% in December 2016 and up 3.2% a year ago at this time. Slot volume, which is currently up 1.5% FYTD, was down 0.5% a year ago at this time. Statewide slot volume increased seven out of ten months in FY 2017, and currently only two markets are in negative territory. Slot hold has continued to increase, sitting at 6.73% FYTD compared to 6.65% a year ago at this time.

- Statewide Slot Win Forecast - the GCB revised their slot win forecast up from a 2.7% increase to a 3.0% increase in FY 2017, with $7.3 billion in slot win. To meet the forecast of $7.3 billion, slot win needs to increase by 2.3% over the remaining two months of the fiscal year, facing a soft comparison of a 0.5% decrease in the last two months. In FY 2018, the growth rate was adjusted down from 3.1% to 2.9% with $7.5 billion in slot win; and in FY 2019, the growth rate was adjusted down slightly from a 3.4% increase to a 3.3% increase with $7.7 billion in slot win.

- Game and Table Win FYTD – game and table win fiscal year-to-date sits at $3.5 billion, up 4.2% or $140.8 million through March 2017. Game win was up 6.4% in December 2016 and down 4.8% a year ago at this time. Game and table volume is currently down 3.2% FYTD (Las Vegas Strip down 4.5%), and down 7.4% from a year ago at this time. Statewide game and table volume has only increased three times in FY 2017. Table game hold percentage is sitting at 14.03%, a historically-high hold percentage for table games that has not been this strong since FY 2004, compared to approximately 13.07% a year ago at this time. Table game win is benefitting from a strong hold percentage as opposed to a an increase in volume, generating the following major game results: twenty-one is up 12.1%, craps is up 0.3%, roulette is up 15.1% and baccarat is up 0.6% or $6.0 million, statewide.

- Baccarat Win FYTD - baccarat win fiscal year-to-date is at $1.1 billion, up 0.6%. Baccarat only experienced six increases in four of the first ten months of FY 2017; however, those increases were significant. Baccarat betting volumes were down 8.7% fiscal year-to-date, or $704.8 million, and recorded declines in eight of the first ten months of FY 2017. Baccarat hold, rather than volume, is driving the numbers, which is currently at 14.2% compared to 12.91% a year ago at this time. Baccarat volume in FY 2016 was down 14.6% through ten months and finished down 13.3% for the fiscal year, whereas volumes for baccarat this time last year were down 17.9% and finished down 18.8%. Mr. Lawton noted that the anti-graft campaign in China is still having an impact on the Las Vegas Strip, even though Macau has started to recover. There is still a level of uncertainty with regard to baccarat win and its performance on the Las Vegas Strip.

- Statewide Game and Table Win Forecast - primarily due to hold percentages, the GCB forecasts were revised up from what was presented to the Forum at their December 6, 2016, meeting. The growth rate for FY 2017 increased from 1.6% to 3.7% with $4.2 billion in game and table win, whereas during FY 2016, game and table win decreased 5.5%. In order to meet the GCB forecast, game and table win needs to increase by 1.2% over the remaining two months of the forecast period against a soft comparison of an 8.8% decrease in total table and gaming win and a 5.5% decrease in baccarat. For FY 2018, the growth rate was adjusted down from a 2.1% increase to a 1.3% increase with $4.2 billion in win, with the anticipation that the hold percentage will likely drop in FY 2018. In FY 2019, the growth rate was adjusted up slightly from a 2.2% increase to a 2.3% increase with $4.3 billion in win.

- Las Vegas Strip Gaming Win FYTD - the Las Vegas Strip, fiscal year-to-date, is currently up 4.2% or $219.3 million. In December 2016, gaming win on the Las Vegas Strip was up 6.4% and was down 1.8% a year ago at this time. Other gaming markets in Clark County include the following results, fiscal year-to-date: Downtown is up 9.1% compared to up 6.9% a year ago; Laughlin is up 2.1% compared to up 1.2% a year ago; and the Las Vegas locals market is up 1.2% compared to up 2.8% a year ago, which accounts for approximately 19.4% of statewide total win.

- Washoe County Gaming Win FYTD - Washoe County, fiscal year-to-date, is up 3.0% after surviving a brutal winter. During this same reporting period a year ago, Washoe County was up 2.3%. Mr. Lawton reported Elko County was up 1.0% compared to being up 0.8% a year ago at this time, and South Lake Tahoe is up 5.6% compared to being up 0.1% a year ago at this time.

- Statewide Gaming Win Forecast – the GCB's total win forecast reflects a revision to the growth rate in FY 2017, adjusted up from 2.3% to 3.3% with $11.4 billion in total win. In FY 2016, total gaming win decreased by 0.5%; therefore, in order to meet the forecast for gaming win, it needed to increase by 1.9% over the remaining two months of FY 2017 with a 3.5% decrease as a comparison. In FY 2018, the growth rate was adjusted down from a 2.8% increase to a 2.3% increase with $11.7 billion in win; and in FY 2019, the growth rate was increased from 2.95% to 3.0% with $12.0 billion in total gaming win.

In closing, Mr. Lawton presented the GCB's percentage fee tax collections forecast. He said the forecast for FY 2017 was adjusted up from an increase of 3.4% to an increase of 4.3% with $730.9 million in percentage fee collections. In comparison, FY 2016 percentage fees increased by 1.0%. Mr. Lawton said he felt confident that the ratio between taxable gaming revenue (TGR) and gaming win would come in close to what he forecasted at 95.7%, partially driven by baccarat's continued decreases in credit play, which was down 10.5% fiscal year-to-date. Currently, the TGR to win ratio is at 95.5%, whereas last year was at 95.8% and finished up at 95.9%. The last two months combined is expected to reflect gaming win to increase 1.9%, with a corresponding increase of 1.7% in percentage fee collections over the last two months. Mr. Lawton stated the comparison for gaming win is soft, a decrease of 5.5% for baccarat and 3.5% for total gaming win. To meet his forecast for percentage fee collections, collections will need to increase by 2.7% over the remaining two months. The comparison for percentage fees collections is soft, a decrease of 7.9% or $9.7 million, which is due to a significant decrease in the estimated fee adjustment (EFA) of about $8.5 million. He relayed that the FY 2018 growth rate was revised down slightly to a 2.2% increase with $746.8 million in total collections; and in FY 2019, the growth rate was adjusted down slightly from 3.0% to 2.9% with $768.7 million in total collections. Mr. Lawton said the GCB's longer-term thesis of continued gradual growth in gaming win and percentage fees is still intact, driven by continued increases to visitation, increased international visitation, continued increases to convention business with an improved mix and a stronger mass-market gaming spend, which will help offset the uncertainty in the baccarat business.

Ms. Rosenthal asked Mr. Lawton if the upward revision to his table games forecast (primarily due to hold) was triggered by actual results, and if it was lowered again over the forecast period.

Mr. Lawton replied that he kept the table games forecast where it was at, because of the chance that it could drop some in two months, but then dropped it slightly going out into the forecast period due to the anticipated reduction in the hold percentage. He expects some of the difference will be made up by game and table volumes, creating a wash. He reported gaming win for FY 2017 is coming in hotter than expected, driven by a higher-than-normal hold percentage. As an example, April 2017 gaming win was significantly impacted by sports wagering, where basketball held 9.0%, or $21 million of the $60 million increase in win, and the percentage hold in baccarat was 14%.

Mr. Maddox clarified that growth percentages may drop to historical levels, but overall the percentage fee forecast is expected to increase. He asked what the hold impact was for blackjack (twenty-one).

Mr. Lawton replied the twenty-one hold percentage is currently at 12.1% fiscal year-to-date.

Mr. Maddox recalled Mr. Lawton's earlier statement relative to table game win benefitting from a strong hold percentage as opposed to a an increase in volume, with twenty-one being one of those games.

Mr. Lawton clarified that games in general were holding more than normal. Not just baccarat, but non-baccarat games as well.

Mr. Maddox asked Mr. Lawton if he thought the higher hold was a result of rule changes. He said the hold percentage at Wynn Resorts was up 50% in twenty-one because of rule changes on the main floor.

Mr. Lawton responded that baccarat is the game especially concerning as to when the other shoe might drop with the hold percentage.

Mr. Maddox agreed that baccarat is more volatile, but reiterated the rules were changing in mass-market games and we should start to see higher hold.

Mr. Lawton confirmed the higher hold percentage pattern, but thought it jumped more than the GCB's expectation.

Susanna Powers, Economist, Budget Division, Governor's Finance Office

Ms. Powers summarized some of the changes made to her December 6, 2016, gaming percentage fee forecast that are reflected in her May 1, 2017, forecast (pages 3 – 9, Exhibit F).

- Higher table games win; total drop is up slightly; and the hold percentage is higher, which is the main reason for the increase in her May 1, 2017, forecast.
- Slot volume is expected to see steady gains from Las Vegas visitation and Nevada employment. Improvement in wage growth should provide some support for improvement in slot volume.
- Slot win is projected to increase over the forecast horizon Win-to-drop ratio has steadily increased over time.
- The games and tables volume chart includes baccarat. The weakness in baccarat play is the main reason for the decline in FY 2016. From FY 2017 through FY 2019, a moderate improvement is expected in this category.
- Games and tables win includes baccarat. Weaker baccarat volumes is expected to put downward pressure on games and table win.

- Total statewide gaming volume remains flat since the economic recovery began; however, there has been steady improvement. Recent trends point toward more improvement in total volume driven mostly by slot volume.

- The improvement in gaming collections has come from increased hold and increased taxable gaming revenue, and because less credit play is being offered due to weaker baccarat play. Total gaming win is up 3.5% fiscal year-to-date, and is forecast to be in the mid-2.0% range in the out years.

- The rate of growth in gaming percentage fee collections is predicted to decline as the TGR ratio is projected to decrease slightly over the forecast horizon. FY 2017 collections are forecast to increase by 4.2%, followed by a 2.2% and 2.0% increase in FY 2018 and FY 2019, respectively.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon directed the members to TABLE 8 (Exhibit C) and page 36 of the Fiscal Analysis Division's (Fiscal) Forecast Information Packet (Exhibit G), which compares Fiscal's May 1, 2017, gaming percentage fees forecast to their December 6, 2016, forecast. He acknowledged the additional information that was received FYTD, and reported third-quarter percentage fee collections came in lower than the forecast, but partial fourth-quarter collections were really good, specifically in March, hence the upward adjustment made to the last quarter, which also increased the EFA compared to the December, 6, 2016, forecast. The Fiscal May 1, 2017, forecast for percentage fee collections in FY 2017 was revised up by 1.2% in growth, or approximately $8.1 million. Looking at the different forecasts, Fiscal is the outlier when looking at FY 2018 with only the 1.0% growth compared to the Forum's current forecast of 1.4% and over 2% growth for the other forecasters. He explained that the approximately negative $2.0 million swing in the EFA in FY 2018 was partially responsible for driving down his forecast from 2.3% growth in December 2016 to 1.0% now (page 36, Exhibit G). The EFA is estimated to be a net $26 million in the current forecast for FY 2018 compared to $4.6 million in the December forecast. In FY 2019, there was not much change, because the underlying forecast assumptions or path were not changed.

Mr. Maddox said he understood the glide path of Fiscal's forecast, but questioned the downward revision in FY 2018 if results were better in FY 2017.

Mr. Guindon said percentage fee collections were better than anticipated in FY 2017; however, nothing led him to believe that he should change any assumptions to the growth path in May that he had in December relative to the underlying holds and coin in per slot in FY 2018 compared to FY 2017. He relayed that March was much better than what he projected in his forecast, which pulls March up; however, if the path did not get adjusted upward, then the growth rate would drop in the out years.

Mr. Maddox said to ignore the growth rate, the dollars went down. He asked what was learned to make Fiscal project collections to drop in FY 2018.

Mr. Guindon said the percentage fees from the TGR actually went up by approximately $940,000 in Fiscal's May 1, 2017, forecast, but the change in the EFA resulted in a decrease in collections by $1.1 million compared to Fiscal's December 6, 2016, forecast.

Mr. Maddox recalled the Forum's December 6, 2016, meeting when the committee asked the forecasters to pull their numbers up, because the members were more optimistic. He noted he was personally more optimistic about the future now than he was in December. He voiced his concern that the Forum's current forecast was too low and did not suggest revising it downward. He thought the GCB and the Budget Division forecasts made more sense with 2.0% to 3.0% growth rates, and called out the GCB's May 1, 2017, forecast as the most optimistic and not that far off from the Forum's forecast.

> MR. LEAVITT MOVED THAT THE ECONOMIC FORUM APPROVE THE GAMING CONTROL BOARD'S GAMING PERCENTAGE FEE TAX REVENUE FORECAST OF $730.974 MILLION IN FY 2017, $746.753 MILLION IN FY 2018 AND $768.683 MILLION IN FY 2019.
>
> THE MOTION WAS SECONDED BY MR. MADDOX
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

B. LIVE ENTERTAINMENT TAX - GAMING

Mr. Guindon introduced another handout that included TABLES 1 and 2, Live Entertainment Tax (LET) – Gaming and Nongaming: Actual and Forecast by Forecaster for FY 2017, FY 2018, and FY 2019 (Exhibit H), requested by Mr. Maddox at the December 6, 2016, meeting of the Forum. He reminded the Forum that the LET-Nongaming revenue source is considered a "minor" General Fund revenue source for which forecasts are approved by the Technical Advisory Committee (TAC) on Future State Revenues.

Michael Lawton, Senior Research Analyst, Gaming Control Board

Mr. Lawton referred to the chart on page 15 (Exhibit D), and reported Live Entertainment Tax - Gaming collections, fiscal year-to-date, were at $75.3 million, down 11.5% or $9.8 million, and 6.9% or $5.6 million below the December 6, 2016, forecast. The reason for the significant drop in LET-Gaming collections for the first three months of FY 2017 was due to the change in the LET law, and comparing new law to old law. He said Nevada is averaging $8.4 million per month in LET-Gaming collections through the first nine months of FY 2017. Mr. Lawton explained that when building his forecast, assumptions were made based on information provided by licensees to the Gaming Control Board regarding attendance at production shows, specifically the later shows. It was communicated that attendance was being negatively impacted by more compelling entertainment that may or may not be taxable. Additionally, the majority of the new programming has been geared toward music festivals or other venues that may not fall into the LET-Gaming collections revenue source. He said, based on this information, the following adjustments were made to the GCB's LET-Gaming forecast:

- The current growth rate was adjusted down from a decrease of 5.0% to a decrease of 9.2% with $101.7 million in collections. He said to meet the forecast, collections can decrease by an average of 1.7% over the remaining three months of FY 2017, averaging $8.8 million per month.
- In FY 2018, the growth rate was revised from an increase of 3.1% to a 4.8% increase with $106.7 million in collections, averaging $8.8 million per month.
- In FY 2019, the growth rate did not change – an increase of 2.6% with $109.4 million in collections, or a $9.1 million monthly average.

Susanna Powers, Economist, Budget Division, Governor's Finance Office

Ms. Powers said, with three months left to collect LET-Gaming revenue for FY 2017, a 3.6% growth rate was needed in collections to obtain her $102.2 million revenue forecast in FY 2017, or an average of $8.9 million per month (page 11, Exhibit F). She said this growth rate was stronger compared to a year ago; however, there were more venues to annualize against, including the Monte Carlo Park Theater. She said her Las Vegas visitation forecast increased by approximately 1.0% in each of the upcoming fiscal years. She noted the new arenas tend to attract higher-revenue events, which increases competition and can cannibalize revenue among existing facilities. Additionally, many of the big events are being captured on the LET-Nongaming side, and for those reasons she forecasted a 2.5% growth rate in collections for FY 2018 and a 2.0% increase for FY 2019.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon directed the members to the Fiscal Analysis Division's LET-Gaming forecast on page 53 of Fiscal's Forecast Information Packet (Exhibit G), as well as to page 2 of TABLE 8 (Exhibit C). He explained that with more months of data, Fiscal has a better picture of the gaming side versus the nongaming side of the LET. The Technical Advisory Committee (TAC) revised the LET nongaming forecast upward by approximately $8.0 million per year primarily because of the T-Mobile Arena (a nongaming establishment). He said there is live entertainment that you might think is covered on the gaming side, but instead is being picked up on the nongaming side, such as the Electric Daisy Carnival, Burning Man and Life is Beautiful. Mr. Guindon relayed that his LET-Gaming forecast was revised down because of the actual information received.

Chairman Wiles asked if the members would hear a report on LET-Nongaming.

Mr. Guindon replied that, in TABLE 2 (Exhibit H), the LET-Nongaming forecasts are listed by forecaster, as well as by the TAC, which is the average of all three forecasters (Agency, Fiscal and Budget), and is the consensus forecast that was approved to bring forward to the Economic Forum. He restated that an approximate $8 million upward revision was made to the TAC's forecast compared to the December 6, 2016, forecast, by year, because the monthly averages in actual revenue were shifting — the LET-Gaming side was lower than the previous trend that was observed in December 2016 and the LET-Nongaming side was much stronger.

Chairman Wiles asked if he was correct by saying the Economic Forum is being asked to forecast three things: the level, the allocation and the growth rates within both the gaming and nongaming categories of the LET due to law changes that moved revenue from gaming venues to nongaming venues.

Mr. Guindon agreed. He wondered if removing food and beverage from the LET-Gaming side was the growing component for both sides, specifically on the gaming side. Additionally, the information provided by the Department of Taxation gave staff a chance to observe more on the nongaming side, particularly a cycle of new events that were picked up in the tax base, such as Burning Man and Electric Daisy Carnival, allowing them to access yield information to better project that revenue source going forward. He clarified the gaming side is driven more by live entertainment events that are scheduled by hotels/casinos.

Chairman Wiles asked if it would make sense to aggregate LET-Gaming and Nongaming and look at the numbers in total.

Mr. Guindon concurred with Chairman Wiles, but said they would still have to be forecasted separately for the next Forum cycle. However, both LET-Gaming and LET-Nongaming together could be considered a major General Fund revenue source, which was something the Forum could clearly discuss at a future meeting.

Chairman Wiles reaffirmed his desire to forecast General Fund revenue based on the combined totals of the LET–Gaming and the LET-Nongaming revenue going forward.

Ms. Rosenthal stated the Budget forecast for LET-Gaming appeared a little aggressive based on Ms. Power's comment that collections have to reach $8.9 million per month for the next three months to meet the forecast, which has not been done in several months, and because of the downward trend projected in LET-Gaming per TABLE 1 (Exhibit H). She referred to the GCB and the detailed analysis they do for each venue, knowing what shows are coming on, phasing out, and going dark versus using an econometric model. She said she leans toward the GCB's forecast for all three years of the biennium, because she believes they get more specific information in forecasting this tax.

MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM APPROVE THE GAMING CONTROL BOARD'S REVENUE FORECAST FOR THE LIVE ENTERTAINMENT TAX-GAMING OF $101.737 MILLION IN FY 2017, $106.663 MILLION IN FY 2018 AND $109.398 MILLION IN FY 2019.

THE MOTION WAS SECONDED BY MS. LEWIS.

THE MOTION WAS UNANIMOUSLY APPROVED

C. STATE 2% SALES TAX

Sumiko Maser, Economist, Department of Taxation

Ms. Maser said she revised her sales and use tax forecast by taking into account data through February 2017 and historical collections. Taxable sales are currently up 6.4% for FY 2017 and continuous growth is foreseen in the coming years. She said her forecast was revised upward to reflect $1,094.704 billion in FY 2017; $1,146.464 billion in FY 2018; and $1,198.224 billion in FY 2019.

Mr. Leavitt asked if the larger projects, such as the Raider's stadium and the Las Vegas Convention and Visitors Authority (LVCVA), are subject to sales tax.

Ms. Maser said she could only discuss growth seen in construction categories, which was up 2.4% statewide; however, the drivers of that growth came from Washoe, Storey and Nye counties.

Mr. Guindon clarified that the Las Vegas Convention and Visitors Authority and the stadium projects are publicly owned versus privately owned, and a law change from the 2015 Session requires those public projects to pay sales tax on the materials that go into construction.

Susanna Powers, Economist, Budget Division, Governor's Finance Office

Ms. Powers directed the Forum to page 13 (Exhibit F) of her presentation, the percentage change in the Consumer Price Index (CPI) and 2% sales and use tax collections since FY 2011. Additionally, the chart shows percentage changes in the Budget Division's sales tax forecast and the CPI forecast by Moody's Analytics. As with Mr. White, she also concluded that rising inflation will benefit sales taxes, which is represented in the chart. She said, besides inflation, Nevada's sales tax base is eroding to reduce spending on taxable goods versus increased share of spending on services that are not captured by the State 2% Sales Tax; however, she saw improvement in sales tax growth as a result of expected increases in overall inflation that will be passed on to retail consumers. Ms. Powers made upward revisions to her forecast for FY 2018 and FY 2019 to 5.4% and 5.6% growth, respectively.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon referred the members to page 65 of Fiscal's information packet (Exhibit G) and TABLE 8 (Exhibit C) to discuss Fiscal's state sales tax collections forecast. He said a 0.9% downward revision, or $9.8 million, was made in their state sales tax collections forecast for FY 2017 compared to their December 6, 2016, forecast. Additionally, a revision was made to Fiscal's taxable sales growth for FY 2017, increasing from 6.1% to 6.2%, and their sales tax collections forecast, revised downward from 5.8% growth to 4.9% for FY 2017. Mr. Guindon explained that Fiscal's revisions stemmed from the increased pace of capital investment and spending at Tesla at the end of 2016 and early 2017. He elaborated, for FY 2017, fiscal year-to-date (July through February), taxable sales statewide with Storey County included were up 6.4%; taxable sales without the inclusion of Storey County were up 4.4%; and state 2% collections were up 4.8%. In FY 2016 (July through February), taxable sales statewide with Storey County included was up 4.7%; taxable sales without the inclusion of Storey County were up 4.9%; and state 2% collections were up 4.4%. Looking at only January and February of FY 2017, taxable sales were up 8.2% including Storey County, up 4.6% without Storey County, and state 2% collections were up 4.4%. Compared to January and February of FY 2016, taxable sales including Storey County were up 2.7%, up 2.6% without Storey County, but yet state 2% collections were up 3.3%. Mr. Guindon reiterated that growth was occurring in taxable sales, but not yielding the same increases in collections.

Mr. Guindon directed the members to page 66 (Exhibit G), TABLE 2. He focused on the first quarter (Q1) of 2017 and pointed out the -$10.0 million difference between actual state 2% sales tax collections and the imputed 2% state sales tax collections from taxable sales. He dropped to the bottom of page 66 and highlighted FY 2017 where Fiscal's forecast shows a loss of almost $31.0 million in terms of the gap between the forecast for taxable sales and actual collections due to abatements occurring through the projects. However, he projected that difference to phase out going forward as activity at Tesla tapers off. Mr. Guindon noted there are also data center and air craft businesses that can affect taxable sales, but do not affect the 2% collections; however, they can affect other local sales tax rate collections. He confirmed that activity related to the Tesla project will not record state 2% sales tax collections going to the State General Fund; but reported taxable sales will be reported.

Mr. Guindon said Fiscal's taxable sales forecast was revised upward slightly in FY 2018 due to the anticipated decline in Tesla activity. He reported taxable sales growth rates of 5.0% growth in December 2016 and 4.6% in FY 2017; however, the growth rate in collections is forecast to increase in FY 2018 from the 5.4% forecast in December 2016 to 6.2% in FY 2017. He said by FY 2019, the Tesla abatement effect will be annualized compared to FY 2018.

Ms. Rosenthal was confused as to why Fiscal revised their forecast for FY 2017, which was attributed primarily to the timing of the acceleration of the project and the rebates, if the rebates were already taken into consideration when the Forum adopted the December 6, 2016, forecast.

Mr. Guindon replied the information that he had regarding the Tesla project on December 6, 2016, was year-to-date data; however, he now had additional months of actual collections showing a larger loss. He reiterated the reason he provided the data with the inclusion of January and February collections was to show the Forum the nearly 3.6% difference in the taxable sales growth statewide, with or without Storey County, but yet the state 2% sales tax collections lined up with the growth rate in taxable sales without including Storey County. He said it was obvious that some of Tesla's capital investment had to be tangible personal property that the sales tax attached to.

Ms. Rosenthal found it illogical that Mr. White (Moody's Analytics) and Mr. Anderson (DETR) reported a strong and growing economy yet Fiscal's sales tax forecast shows a decline.

Mr. Guindon argued that Fiscal's taxable sales forecast for FY 2017 was revised only slightly from 6.1% growth in December 2016 to 6.2% in his May 1, 2017, forecast. For FY 2018, growth dropped by 0.4% and was unchanged for FY 2019. He said Tesla was a major contributor to the firing economy, particularly their manufacturing jobs. He confirmed his forecast included those jobs, and stated Fiscal uses total employment to forecast wages which then goes into personal income, and personal income is one of the variables in the equation as well as construction employment. He maintained the equation was picking up some of that economy firing; however, some of the firing did not generate tax collections due to the abatements.

Mr. Leavitt eluded to the large taxable projects coming online in Southern Nevada, which made him feel more optimistic in regard to projecting higher sales tax revenue estimates in the out years, considering the employment and wages coming from the construction of those projects. He said he was not sure about the forecast for FY 2017, but recommended keeping the Economic Forum's forecasts for FY 2018 and FY 2019 or going with Moody's Analytics' forecast.

Mr. Maddox said he too was optimistic; however, Moody's forecast of almost 9.0% and 8.0% growth was aggressive.

Mr. Leavitt agreed with Mr. Maddox and suggested adopting the Economic Forum's or Fiscal's estimates for FY 2018 and FY 2019.

Ms. Lewis agreed with Mr. Leavitt. She argued a lot of activity will be triggered by new projects coming online and, combined with residual income and higher wage growth, people will have more money to spend. She said she was not opposed to the Economic Forum's forecast, but was willing to listen to what the other members thought.

Chairman Wiles noted that the Economic Forum approved Fiscal's forecast on December 6, 2016, and although Fiscal made adjustments and updates based on current information, the out years were not substantially different. He asked the members if they wanted to consider the Department of Taxation's forecast.

> MR. LEAVITT MOVED THAT THE ECONOMIC FORUM APPROVE THE FISCAL DIVISION'S MAY 1, 2017, REVENUE FORECAST FOR THE STATE 2% SALES TAX OF $1,087.212 BILLION IN FY 2017, $1,154.724 BILLION IN FY 2018 AND $1,214.518 BILLION IN FY 2019.
>
> THE MOTION WAS SECONDED BY MS. LEWIS.
>
> THE MOTION WAS UNANIMOUSLY APPROVED

D. INSURANCE PREMIUM TAX

Sumiko Maser, Economist, Department of Taxation

Ms. Maser said her Insurance Premium Tax (IPT) forecast included one more quarter of actual data, which resulted in an upward revision. She emphasized that her forecast did not include the surplus lines that are administered by the Division of Insurance. Ms. Maser quoted forecasts (before credits) of $370 million for FY 2017; $382 million for FY 2018; and $397 million for FY 2019.

Mr. Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division noted that Taxation's forecasts on TABLE 4 (Exhibit B) or TABLE 8 (Exhibit C) do include the surplus lines insurance that is collected by the Insurance Division, which is approximately $9.0 million per year, hence the difference between Ms. Maser's slide on page 3 (Exhibit E) and TABLE 4 and TABLE 8 mentioned above.

Susanna Powers, Economist, Budget Division, Governor's Finance Office

Ms. Powers stated her IPT forecast also had an upward revision, but there was still some uncertainty around the health insurance market. Although premiums are higher, she anticipates less participation than previously expected due to lack of enforcement of the Affordable Care Act (ACA) mandates. She reported that non-healthcare premiums have benefited from the improving economy and the housing sector. FY 2017 collections showed strength over FY 2016; however, some of that growth was due to a reduction in home office credits. Based on current law for FY 2018 and FY 2019, steady gains in IPT collections is expected.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto located the start of Fiscal's IPT forecast on page 77 of Fiscal's information packet (Exhibit G), but directed the committee to page 79. He said the Fiscal forecast has been revised slightly downward, since the December 6, 2016, forecast, after taking into consideration one additional quarter of actual revenue. He said Fiscal staff dropped their estimate slightly for FY 2017, but dropped it even more for FY 2018 and FY 2019 by approximately $2.7 million and $6.4 million, respectively. He recalled a discussion point at the Economic Forum's December 6, 2016, meeting, regarding the uncertainty of what the Trump Administration would do with respect to the ACA, and stated that level of uncertainty still exists given the administration's initial attempts. He acknowledged the law change surrounding the home office credit and its one-year existence, and how staff has a better handle on what that means for revenues going forward. Mr. Nakamoto recalled the Economic Forum's November 10, 2016, meeting when the Division of Insurance (DOI) provided statistics on the health insurance market in Nevada through calendar year 2015. He said he asked the DOI to provide an update of similar information through calendar year 2016, which revealed net premiums increased by 6.0%, the average premium per covered life went up by 7.0%, from just under $4,000 to $4,272 per person, and covered lives in 2016 went down by 0.9%. Fiscal's December 6, 2016, forecast produced growth rates in the mid- to upper-5.0% range, but after running the equations using the updated data, the output was closer to the mid- to high-4.0% range. Taking all of that into account, particularly the decrease in covered lives, provided a comfort level with pulling the forecast down. Mr. Nakamoto expects premiums to continue to increase, but probably not as high as originally thought given the decrease in covered lives.

MS. ROSENTHAL MOVED TO APPROVE THE BUDGET DIVISION'S MAY 1, 2017, REVENUE FORECAST FOR INSURANCE PREMIUM TAX OF $378.200 MILLION IN FY 2017, $395.753 MILLION IN FY 2018; AND $410.610 MILLION IN FY 2019.

THE MOTION WAS SECONDED BY MR. MADDOX.

THE MOTION CARRIED UNANIMOUSLY.

E. MODIFIED BUSINESS TAX - NONFINANCIAL

Sumiko Maser, Economist, Department of Taxation

Ms. Maser announced the Department of Taxation has collected one more quarter of Modified Business Tax (MBT) - Nonfinancial data since the Forum last met December 6, 2016. She said there was continued growth, but not as strong as the department anticipated, which resulted in an increase in collections in her forecast for FY 2017 and a reduction in the out-years forecast to reflect flatter growth than originally estimated.

Susanna Powers, Economist, Budget Division, Governor's Finance Office

Ms. Powers reported a steady outlook for general business growth in the forecast period (page 18, Exhibit F). Each year the Bureau of Labor Statistics (BLS) estimates an annual employment benchmark, which revealed more jobs than previously estimated and triggered a revision to the Budget Division's employment forecast. Ms. Powers estimated that more than 30,000 jobs per year would be added in FY 2017, FY 2018 and FY 2019. Relative to general business wages, the Budget Division uses DETR wage data to predict movements in MBT-Nonfinancial wages, which also signifies improvement. Ms. Powers said her May 1, 2017, MBT–Nonfinancial forecast supports an upward revision in collections from her December 6, 2016, forecast, driven by an upward revision in employment. Since there was a revision to employment, there was a revision to wages as well.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel referred the committee to the MBT-Nonfinancial industry wage charts on pages 100 and 101 of Fiscal's Information Packet (Exhibit G). He said the change in Fiscal's forecast was driven by the benchmark revision to both employment and wages. He acknowledged the big growth spike in calendar year 2016 (Q3), which was taken into effect in Fiscal's revised forecast. He attributed the spike to a one-time event; therefore, he did not grow off it, which is reflected in the growth chart a year later (page 101, Exhibit G) showing a decrease for that particular quarter. He stated the path for Fiscal's wage assumption did not change.

Chairman Wiles asked if this was a one-time event.

Mr. Reel replied the spike is associated with a particular taxpayer, and identified the incident as a one-time event that would not repeat itself.

Mr. Maddox commented on the rare, but large, discrepancy between the three MBT-Nonfinancial forecasts that calculates to more than a $100 million difference when comparing the three years combined. He questioned why the Department of Taxation's forecast was so conservative and the reason for their downward revision.

Ms. Maser replied that her forecast was very simple and straight forward. She took historical data and estimated the future based off the history.

> MR. MADDOX MOVED THAT THE ECONOMIC FORUM APPROVE THE MAY 1, 2017, MBT-NONFINANCIAL REVENUE FORECAST PREPARED BY THE BUDGET DIVISION OF $558.908 MILLION FOR FY 2017, $587.972 MILLION FOR FY 2018, AND $615.734 MILLION FOR FY 2019.
>
> THE MOTION WAS SECONDED BY MS. LEWIS.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

E. MODIFIED BUSINESS TAX - FINANCIAL

Sumiko Maser, Economist, Department of Taxation

Ms. Maser acknowledged the one additional quarter of collections for the MBT-Financial revenue source since the December 6, 2016, forecast. She projected slight downward revisions in collections of $27.7 million for FY 2017; $29.0 million for FY 2018; and $30.3 million for FY 2019.

Susanna Powers, Economist, Budget Division, Governor's Finance Office

Ms. Powers said her MBT - Financial forecast was tracking well so she did not make any changes. Her outlook for employment in the financial sector of services industry is stable with moderate increases expected over the next three fiscal years. In regard to wages, trends point toward increasing demand for financial skills and continue to drive salary growth in this industry through FY 2019.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel led the members to Fiscal's MBT-Financial forecast on pages 108 and 109 (Exhibit G). He explained the charts showed comparisons between historical average wage data and forecasts, including growth rates, for the financial industry. Since the December 6, 2016, forecast, everything was tracking as anticipated, but because of increased movement in wage growth, minor upward revisions were made to Fiscal's MBT-Financial forecast of $118,000 in FY 2017; $205,000 in FY 2018; and $34,000 in FY 2019.

Chairman Wiles indicated the Economic Forum adopted the Department of Taxation's December 6, 2016, forecast, which looked roughly like the average of the other three May 1, 2017, forecasts.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ADOPT THE ECONOMIC FORUM'S DECEMBER 6, 2016, MBT-FINANCIAL REVENUE FORECAST OF $28.224 MILLION FOR FY 2017, $29.819 MILLION FOR FY 2018, AND $31.372 MILLION FOR FY 2019.
>
> THE MOTION WAS SECONDED BY MR. LEAVITT
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

E. MODIFIED BUSINESS TAX - MINING

Sumiko Maser, Economist, Department of Taxation

Ms. Maser clarified that her May 1, 2017, MBT-Mining forecast included one more quarter of data, which justified upward revised totals of approximately $22.0 million in FY 2017; $22.4 million in FY 2018; and $22.9 million in FY 2019.

Susanna Powers, Economist, Budget Division, Governor's Finance Office

Ms. Powers directed the members of the Forum to the chart on page 26 (Exhibit F), Metal Ore Mining Employment, which follows a trend of gold prices and subsequent production. She said gold production is up and explorations are on the rise amidst domestic and global uncertainties. Additionally, she was recently made aware of Newmont Mining Corporation's gold mine in Elko County, Long Canyon which adds to the employment base. As a result of these changes, she made corresponding changes to mining wages. Relative to collections, Ms. Powers said she made a slight upward revision to her May 1, 2017, MBT-Mining forecast, compared to her December 6, 2016, forecast, to reflect these changes.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel referred the members to his MBT-Mining employment chart on page 116 (Exhibit G). He said the employment revision is driving his changes. He said mining employment has stopped declining, and a slight increase was reported in the last quarter; therefore, Fiscal's revised forecast in terms of employment registers a slight increase. However, Fiscal lowered the average wage assumption for the mining industry, so when combined with stronger employment, the result triggered an increase in Fiscal's revised forecast for this revenue source, primarily reflected in FY 2019.

Chairman Wiles reminded the members that when they adopted the December 6, 2016, MBT-Mining forecast, they adopted Fiscal's forecast for FY 2017 and FY 2018 and the Budget Division's forecast for FY 2019. He noted Budget's out-year forecasts are higher than Fiscal's.

Mr. Leavitt suggested there was some risk associated with being too optimistic on mining; therefore, he recommended adopting Fiscal's forecast for all three years of the forecast period.

> MR. LEAVITT MOVED TO ADOPT THE MBT-MINING REVENUE FORECAST PREPARED BY THE FISCAL DIVISION OF $22.234 MILLION FOR FY 2017, $22.775 MILLION FOR FY 2018, AND $23.403 MILLION FOR FY 2019.
>
> THE MOTION WAS SECONDED BY MR. MADDOX.
>
> THE MOTION CARRIED UNANIMOUSLY.

F. REAL PROPERTY TRANSFER TAX

Sumiko Maser, Economist, Department of Taxation

Ms. Maser mentioned the additional quarter's worth of actual collections received and quoted slightly downward revisions to her Real Property Transfer Tax (RPTT) forecast totaling approximately $80.0 million in FY 2017; $85.0 million in FY 2018; and $90.0 million in FY 2019.

Susanna Powers, Economist, Budget Division

Ms. Powers said her revised forecast for the RPTT was based on fiscal year-to-date data, and highlighted the following activity:

- Existing home sales have been trending downward since FY 2012 (page 30, Exhibit F) and are particularly scarce in the resale market, thus benefiting new home market sales.

- Single-family permits are improving; however, the permit activity used for forecasting did not match the 1990's; therefore, reverted back to the late 1980's data. News articles imply that builders are optimistic, but cautious.

- The Federal Housing Finance Agency's home price index shows strong increases in home prices, which are expected to stabilize to historical trends.

- RPTT collections show a small upward revision in Budget's May 1, 2017, forecast. With affordability being a key driver to Budget's forecast, Ms. Powers used Moody's forecast for Nevada's affordability index as a resource, which predicts a decline to the 2008 level over the forecast horizon. Additionally, the Budget Office's forecast assumes that the Federal Reserve will start to normalize the monetary policy, which is expected to have a cooling-off effect on the housing market.

- There is uncertainty associated with the current administration and the Dodd-Frank regulations, spiking interest as to whether regulations will be loosened. Ms. Powers noted that if the market does loosen, she did not expect to see easy credit access like what was observed during the housing boom.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto referred to Fiscal's forecast packet, stating the Fiscal Division's RPTT forecast began on page 123 (Exhibit G). Turning to page 125, he explained that the counties are required to remit this tax on a monthly or quarterly basis, and they were supposed to do it the month after the end of the quarter; therefore, his forecast is based on actual information for the second quarter of FY 2017 and partially the third quarter. At the time of preparing the forecast, 14 of the 17 Nevada counties had reported, except for Esmerelda, Pershing and White Pine counties. He said the third-quarter forecast for FY 2017 was $18.9 million, which was very close to actual collections. Mr. Nakamoto expressed that rough guesses were made based on those last three counties that did not report, which ended up resulting in a $20,000 deficit mainly because of White Pine County being down 68.6%. He did not move his forecast because he thought the difference could be made up in the last quarter.

Mr. Nakamoto announced that, barring any last minute revisions, the approximately 17.0% growth forecast in the third quarter of FY 2017 would likely occur, which was part of the reason for the upward revision to Fiscal's May 1, 2017, forecast. He said even though home prices are rising, the availability is not; homebuilders are not building to pre-recession levels. Mr. Nakamoto pointed to CHART 10A – LEVELS on page 20 (Exhibit G) that charts Fiscal's forecast for home completions, which shows a lower projection than their November 10, 2016, forecast. He explained information is available regarding residential activity, such as prices, completions and home sales, whereas information regarding non-residential activity is not. He implied growth in non-residential collections is driving Fiscal's forecast, because otherwise with the market as tight as it is, collections would be down. Additionally, with year-over-year changes pushing toward 0% in a single quarter, there had to be something else driving the forecast. Mr. Nakamoto reported that Fiscal's revised forecast for FY 2017 increased by $2.2 million based on actual year-to-date collections; FY 2018 increased by $48,000, or 5.8%; and FY 2019 was revised to grow 5.3% instead of the 3.3% forecast made December 6, 2016, which adds about $1.8 million over the three-year forecast.

Chairman Wiles noted that in December 2016, the Economic Forum adopted the Budget Division's forecast. With the Budget Division's revised May 1, 2017, forecast, they now fall roughly between the Taxation and Fiscal forecasts in the first two years of the forecast period.

Ms. Lewis voiced her support for the Budget Division's May 1, 2017, forecast. She said there is a problem with getting houses built affordably and quickly enough to meet the demand, as well as land concerns and other components. She said relative to permits in FY 2018, the subdivisions have been processed, but FY 2019 gets dicer as things come along.

> MS. LEWIS MOVED THAT THE ECONOMIC FORUM APPROVE THE BUDGET DIVISION'S MAY 1, 2017, FORECAST OF THE REAL PROPERTY TRANSFER TAX REVENUE OF $82.042 MILLION FOR FY 2017, $86.628 MILLION FOR FY 2018, AND $89.723 MILLION FOR FY 2019.
>
> THE MOTION WAS SECONDED BY MR. MADDOX.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

Mr. Nakamoto requested the agenda be taken out of order, and directed the members to Agenda Item X(H), Cigarette Tax.

H. CIGARETTE TAX

Sumiko Maser, Economist, Department of Taxation

Ms. Maser said her revised forecast for cigarette tax revenue was based on actual fiscal year-to-date data and the number of packs of cigarette sold, resulting in upward revisions to collections totaling approximately $174 million for FY 2017; $172 million for FY 2018; and $170 million for FY 2019.

Susanna Powers, Economist, Budget Division

Ms. Powers also tracked cigarette consumption measured by the number of packs or stamps recorded by the Department of Taxation (page 35 (Exhibit F). She said the recent cigarette tax hike in California will temporarily benefit Nevada's border sales, at least until people in California get used to paying the higher price. She reported that fewer new smokers are expected in FY 2018 and FY 2019 due to the popularity of e-cigarettes, changes in marijuana laws, and increased awareness of health concerns about smoking. Ms. Powers presented her revised forecast for cigarette tax collections, quoting an increase of 15.6% or approximately $176.8 million for FY 2017, followed by declines in subsequent years by 1.9% and 2.1%, respectively (page 36, Exhibit F).

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto guided the members to page 132 (Exhibit G) of Fiscal's forecast packet that displays a chart of historical actual collections and the average number of cigarette packs sold per month based on Fiscal's cigarette tax revenue forecast. He said the downward trend in sales has been going on for years as fewer stamps are sold, generating fewer taxes. As a result of a cigarette tax increase in June of 2015, from $0.80 per pack to $1.80 per pack, a lot of stamps were presold in late FY 2015, but cigarette wholesales were not buying them then in early FY 2016. He said it has taken nearly two years to return to a more normal pattern of cigarette sales; however, actual observations of the number of packs sold per month are still pretty messy. In order to hit Fiscal's forecast, average growth for the last several months needed to be about -5.9%. Mr. Nakamoto said his forecast increased by $2.2 million for FY 2017, increased $3.1 million for FY 2018, and increased $3.2 million for FY 2019. He repeated Ms. Powers account of California's cigarette tax rate increase effective April 1, 2017, from $0.87 to $2.87 per pack, and pointed out that a carton of cigarettes in Nevada is $10 cheaper than in California; thereby necessitating more packs and triggering the increase in revenue in FY 2018 and FY 2019. However, per capita cigarette consumption is forecast to decrease by nearly 3.0% in FY 2019.

Chairman Wiles noted that the Economic Forum chose the Fiscal Division's forecast in December 2016. He pointed out that the Department of Taxation's forecast fell in the middle of the Taxation and Fiscal forecasts.

> MR. MADDOX MOVED THAT THE ECONOMIC FORUM ACCEPT THE DEPARTMENT OF TAXATION'S MAY 1, 2017, FORECAST FOR CIGARETTE TAX REVENUES OF $174.999 MILLION FOR FY 2017, $172.577 MILLION FOR FY 2018, AND $170.155 MILLION FOR FY 2019.
>
> THE MOTION WAS SECONDED BY MR. LEAVITT.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

Chairman Wiles requested the agenda be taken out of order, and directed the members to Agenda Item X(G), Commerce Tax.

G. COMMERCE TAX

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon introduced the following handouts:

1. Commerce Tax - Summary Statistics by Business Category for FY 2016 Current Information To Date (Exhibit I): This table is produced by the Fiscal Analysis Division and is based on taxpayer data that the Department of Taxation provided to the Fiscal Analysis Division. Taxpayers had until mid-February to file within the six-month grace period that was approved during the 2015 Legislative Session; however, this information could change due to amended or late returns.

2. TABLE 1 – Estimates Based on Fiscal Year Activity Period – May 2017 Estimates (Exhibit J): This table provides different scenarios under alternative growth rates for the Commerce Tax. Staff from the Budget Office, Fiscal Analysis Division and the Department of Taxation examined these scenarios on a per capita basis or in relation to population growth, personal income growth, GDP growth, etc, and felt comfortable with a 4.8% growth rate in FY 2017, FY 2018 and FY 2019, which was approved by the Economic Forum at their December 6, 2016, meeting.

Mr. Guindon referenced the column shaded in grey on TABLE 1, page 1 (Exhibit J), and pointed out the $169,393,847 Commerce Tax estimate (based on fiscal year activity period) for FY 2016. He explained that number included the actual amount that was collected and deposited in FY 2016 ($143,507,593) for the FY 2016 reporting period, and FY 2016 reporting period collections that were deposited in FY 2017 ($25,886,254). He noted that staff only missed the estimate by approximately $4.0 million in their December 6, 2016, forecast of approximately $165 million. To obtain the forecast by fiscal year for FY 2018 and FY 2019, the 4.8% growth rate was applied to the $169.4 million.

Mr. Guindon reminded the members that money collected for the FY 2016 business activity period, but deposited in FY 2017, belonged to FY 2017. This led him to the forecast (based on collections from fiscal year activity) on page 2 (Exhibit J). He located the column shaded in grey and explained that actual collections in FY 2016, for the FY 2016 business activity period, totaled $143.5 million. The approximately $25.9 million that was collected in FY 2017 for the FY 2016 activity period was added to the $177.5 million forecast for FY 2017, based on the fiscal year business activity basis, to reach the $203.4 million forecast for FY 2017, which accounts for the 41.7% growth rate. He noted the other numbers translate over from TABLE 1 as the forecast for FY 2018 and FY 2019. Mr. Guindon clarified that, because the six-month grace period is no longer in affect, more of FY 2017's business activity should be recorded in FY 2017. He noted that late tax payments will be assessed with penalties and late fees. He said although a full cycle of the Commerce Tax has not yet occurred, looking at the economic scenarios and the data received from Taxation, staff from the Budget Office, Fiscal Analysis Division and the Department of Taxation remain comfortable with 4.8% growth per year in Commerce Tax revenue.

Chairman Wiles paraphrased "we think it might be better, but we don't know enough yet, and so we are leaving all the forecasts the same."

Mr. Guindon agreed that was an honest assessment. He explained the forecast was higher because 4.8% growth was added to the higher actual amount for FY 2016 ($169,393,847). He referenced the forecasts on TABLE 8 (Exhibit C) to compare against the other forecasts, including the Economic Forum's forecast. He said the growth rates did not change from what he presented to the Forum on December 6, 2016; however, more dollars were added to the forecast because the Commerce Tax base increased by approximately $4 million.

Mr. Leavitt believed staff's approach to forecasting the Commerce Tax was consistent with forecasting sales tax. He thought the Commerce Tax forecast was reasonable.

Chairman Wiles stated the December 6, 2016, forecast did not change; therefore, there was no revision to the May 1, 2017, forecast.

Mr. Guindon stated that the forecasts approved by Economic Forum on December 6, 2016, did change, and that the revised forecasts were reflected on TABLE 2 (Exhibit J).

Chairman Wiles clarified that he was referring to the basis of the forecast.

Mr. Guindon recommended, if the members of the Forum wanted to keep the existing 4.8% growth rate forecast, to make a motion to approve the forecasts listed in TABLE 2 (Exhibit J) of $203,411,000 for FY 2017; $186,046,000 for FY 2018; and $194,976,000 for FY 2019. He confirmed the forecasts in TABLE 2 use the same structural approach, but makes adjustments for the additional information.

> MR. LEAVITT MOVED THAT THE ECONOMIC FORUM APPROVE THE FISCAL ANALYSIS DIVISION, BUDGET DIVISION AND DEPARTMENT OF TAXATION FORECAST OF COMMERCE TAX REVENUE BASED ON TABLE 2 (EXHIBIT J) OF $203.411 MILLION FOR FY 2017, $186.046 MILLION FOR FY 2018, AND $194.976 MILLION FOR FY 2019.
>
> THE MOTION WAS SECONDED BY MS. LEWIS.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

Mr. Guindon suggested discussing the tax credit process relative to the Commerce Tax at this juncture in the meeting. He reminded the Forum that the credit forecast for the current year was 50% of the Commerce Tax for the preceding fiscal year. He said, based on available information, staff from the Department of Taxation, the Budget Division and the Fiscal Analysis recommended that the Forum stay with the 50% credit of the fiscal year estimates as the credit back against the MBT for FY 2017; FY 2018 and FY 2019. Reason being, because a full cycle had yet to be completed, hence there was not enough information to suggest otherwise. He said staff from all three agencies have been trying to match the taxpayers and MBT against the Commerce Tax and found some entities have already taken 100% of their 50% credit and some have taken none at all. Mr. Guindon reported that if a taxpayer takes the credit in the fourth quarter, but their credit is too much, they could file amended returns to take it; however, that was not a justifiable reason to drop the credit to less than 50%. He said some entities might not have an MBT, because the business could be making revenue in Nevada, but not have enough employees in the state to generate MBT liability. However, those cases have not been clearly identified. Mr. Guindon said staff came to the conclusion that, most likely, once FY 2017 is closed out, the total amount of credits taken will not be equal to the 50% limit, but based on available information, staff is reluctant to guess at a number and use that to extrapolate out into the next biennium.

Mr. Maddox said he understood taking the 50% credit in FY 2018 and FY 2019, but he questioned the reasoning behind assuming 50% credit in FY 2017 if current information implies less credits will be taken.

Mr. Guindon stated there are still two quarters left in the fiscal year for entities to take the tax credit or file an amended return for FY 2017 and take their credit against the MBT. He referenced TABLE 1 (Exhibit J), and pointed out that through the first two quarters, data shows approximately $38.5 million of the available credits have been taken out of the $84.7 million (50% of $169.7 million) that was assumed in the forecast for FY 2017, which is about 23% of the total liability, not 50%.

Chairman Wiles asked what the timeframe was for filing an amended return.

Ms. Maser replied she had to check the statute of limitations, but she believed the taxpayer had two to three years to file an amended return.

Chairman Wiles asked if the number of people filing the Commerce Tax was increasing, and if people knew the Commerce Tax provided a credit to the MBT liability.

Mr. Guindon said there is a record of the MBT taxpayers, which matches up to almost all of the $38.5 million against the Commerce Tax base; however, data shows there is approximately $30.0 million in the MBT and the Commerce Tax base that have not taken credits. He elaborated that adding the $29.0 million to the $38.5 million would justify approximately 40% of the 50% credit total. Mr. Guindon implied that entities should know about the Commerce Tax, because it is a line on the MBT tax return. He acknowledged there are other taxpayers that staff has not been able to match between the MBT and the Commerce Tax, and there are foreign entities that may be earning revenue in Nevada that do not have a MBT liability. In response to Mr. Maddox's question regarding the Commerce Tax credits taken in FY 2017, Mr. Guindon thought there could be 10% potentially not taken; however, he was not certain that 10% would stay in place in FY 2018 and FY 2019. He hoped to know more when the Forum reconvenes in October, November and December of FY 2018.

Mr. Maddox agreed that the credit from the Commerce Tax revenue to be used toward the MBT liability for FY 2018 and FY 2019 should stay at 50%, but he suggested lowering the estimate for FY 2017 to 45%. His thought was, to make up the 10% ($16 million) difference in the forecast, the credit would be too difficult to claim to get to that level.

Mr. Guindon agreed it would be hard to reach the 50% level at this time.

> MR. MADDOX MOVED THAT THE ECONOMIC FORUM APPROVE USING 45% CREDIT OF THE COMMERCE TAX REVENUE AGAINST THE MODIFIED BUSINESS TAX IN FY 2017, AND 50% CREDIT OF THE COMMERCE TAX REVENUE AGAINST THE MODIFIED BUSINESS TAX IN FY 2018 AND FY 2019 OF THE PRECEDING YEARS' ESTIMATES TO GENERATE THE CREDIT AMOUNTS.
>
> THE MOTION WAS SECONDED BY MS. LEWIS.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

XI. REVIEW AND DISCUSSION OF FORECASTS OF MINOR GENERAL FUND REVENUES AND TAX CREDITS FOR FY 2017, FY 2018, AND FY 2019 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE ON FUTURE STATE REVENUES (NRS 353.229) AT ITS APRIL 25, 2017, MEETING.

Mr. Guindon reported the Technical Advisory Committee met Tuesday, April 25, 2017, as directed by the Forum, to reconsider all the General Fund revenue sources that the Forum does not independently forecast, and approved the consensus forecast found on page 211 (Exhibit A), TABLE 6. He summarized the following details relative to some select revenues forecast by the TAC on page 209, TABLE 5:

- Governmental Services Tax (GST) - only 50% of the GST revenue will be allocated to the General Fund for FY 2017, under current law, whereas nothing will be allocated to the General Fund in FY 2018 and FY 2019.

- Transportation Connection Tax - also known as the Uber/Lift Tax, but applies to more than just them. In the even-numbered years, the first $5.0 million of that tax goes to the Highway Fund, so that's why TABLE 5 shows the forecast drop considerably in FY 2018 and jump back up in FY 2019.

- Net Proceeds of Minerals Tax - in FY 2017, the approximately $18.8 million forecast is referred to as a "billed" number, meaning the mining companies actually filed their returns, but the Department of Taxation did an internal audit to project what was owed based on actual 2016 collections compared to what was estimated. Because this was a transition year, going from the prepayment system to basing the tax off the preceding calendar year earnings, no revenue was expected in FY 2017. However, because many taxpayers underestimated, money was actually being collected, and this is the billed amount that they owe based on the true up. The estimates for FY 2018 and FY 2019 are the estimates developed by the Department of Taxation, Budget and Fiscal that were presented to the TAC.

- Live Entertainment Tax – Nongaming – this tax was revised up by approximately $7.8 million in FY 2017; $8.2 million in FY 2018; and $8.8 million in FY 2019.

- There were slight adjustments to the tax credits on page 215 (Exhibit A), based on updated information that Steve Hill, Executive Director, Governor's Office of Economic Development provided and subsequently presented to the TAC. Adjustments were made to the Film Credits that moved amounts from FY 2017 to FY 2018, because the credits could not be take before the end of FY 2017.

Mr. Guindon brought attention to an error relative to the Economic Development Transferable Tax Credits listed at the bottom of TABLE 6, page 215 (Exhibit A). He stated the amount referenced in FY 2017 should be $36,475,946, or $1.1 million less than the $37,575,946 listed. He made clear that when the Economic Forum takes action on this revenue source, the clarification will need to be part of the action.

Mr. Guindon explained that the TAC's adjustment, net of all the changes, resulted in upward revisions of approximately $17.7 million for FY 2017; approximately $12.3 million for FY 2018; and approximately $20.2 million for FY 2019, which is approximately $51.0 million over the forecast period. He elaborated the adjustments averaged approximately $17.0 million per year on a $4.0 billion number, or less than half a percent.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ACCEPT THE TECHNICAL ADVISORY COMMITTEE FORECAST FOR THE MINOR GENERAL FUND REVENUES AS PRESENTED IN TABLE 6 (EXHIBIT A) WITH THE REVISION TO THE ECONOMIC DEVELOPMENT TRANSFERRABLE TAX CREDIT IN FY 2017 TO BE $36,475,946.
>
> THE MOTION WAS SECONDED BY MR. MADDOX.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

XII. SCHEDULING OF FUTURE ECONOMIC FORUM MEETINGS.

Mr. Guindon announced the next meeting of the Economic Forum would be held in December of 2017. He was hopeful that all of FY 2017 will be recorded on the books at that time, and that staff will be able to present more information relative to the Commerce Tax so the Forum can further direct staff on how to proceed going forward in terms of presentation. Mr. Guindon acknowledged the direction received from the members regarding LET data and how it should be incorporated into the tables for future presentations.

Chairman Wiles asked for the data to be combined on a historical basis as well.

Mr. Guindon concurred.

Chairman Wiles called for a recess at 12:05 p.m. to allow staff to finalize the Economic Forum's forecast.

The meeting reconvened at 1:16 p.m.

Mr. Guindon relayed that each member of the Economic Forum was provided a copy of the Economic Forum's report to the Governor and the members of the 79th Legislature on future state revenues. The letter summarizes the results of the tables that were reviewed by the Forum and explains the revisions made between the December 6, 2016, forecast and the May 1, 2017, forecast.

Mr. Guindon introduced a table familiar to the Forum that lists the unrestricted General Fund revenue sources that the Forum forecasts by revenue source, and by fiscal year for FY 2017, FY 2018 and FY 2019 (Exhibit K). He clarified that the Economic Forum forecasts gross estimates for major General Fund revenue sources, meaning before the application of any tax credits. The tax credits are then subtracted off the bottom of each revenue source to get to the net amount, which is also approved by the Forum, and represents the dollar amount available for the Legislature to use for the legislatively approved General Fund budget.

Mr. Guindon introduced a new table (Exhibit L) used to help the Forum and members of the public and Legislature understand the comparisons between the approved December 6, 2016, forecast and the May 1, 2017, forecast, before and after tax credits. He summarized the columns represent the Economic Forum's revenue forecasts for FY 2017, FY 2018, and FY 2019, along with the actual collections for FY 2016, and the biennium amounts and the total three-year amounts for FY 2017, FY 2018 and FY 2019. The middle block of the page shows the Economic Forum's December 6, 2016, forecast and the bottom block displays the difference between the May 1, 2017, forecast and the December 6, 2016, forecast.

Mr. Guindon stated the Economic Forum's approved gross forecast for FY 2017 is approximately $3.961 billion before tax credits and approximately $3.813 billion after tax credits (Exhibit L). The May 1, 2017, forecast is approximately $44.2 million higher, after tax credits, than the December 6, 2016, forecast. The forecast for FY 2018 is approximately $4.075 billion before tax credits and approximately $3.921 billion after tax credits, approximately $45.9 million higher than the December 6, 2016, forecast. The forecast for FY 2019 is approximately $4.231 billion before tax credits and approximately $4.062 billion after tax credits, which is approximately $49.8 million higher than the December 6, 2016, forecast.

The Economic Forum's May 1, 2017, forecast for the 2015-17 biennium, after tax credits ($7.507 billion), came in approximately $44.2 million higher than the December 6, 2016, forecast. For the 2017-19 biennium, the May 1, 2017, forecast after tax credits of $7.983 billion came in approximately $95.7 million higher than the December 6, 2016 forecast of $7.983 billion.

Mr. Guindon reported the net add to the May 1, 2017, forecast compared to the December 6, 2016, forecast, is approximately $140.0 million, after tax credits, for FY 2017, FY 2018, and FY 2019 combined, which is a 1.2% upward revision (Exhibit L). Mr. Guindon noted the total General Fund revenues forecast is close to $4.000 billion per fiscal year, so something around the $40.0 million to $50.0 million range is only 1.0% of that number.

MR. LEAVITT MOVED TO ACCEPT THE ECONOMIC FORUM'S MAY 1, 2017, FORECAST AS PRESENTED.

THE MOTION WAS SECONDED BY MS. ROSENTHAL.

THE MOTION WAS UNANIMOUSLY APPROVED.

XIII. PUBLIC COMMENT.

Chairman Wiles opened the meeting for public comment. There was no public comment in Las Vegas.

Mr. Ray Bacon, Nevada Manufacturer's Association gave testimony in Carson City and expressed the following comments:

1. Many tax abatements apply to businesses located in Storey County and the Apex Industrial Park in Las Vegas. He said when you take a look at those things, they show up on your forms as taxable revenue, but they are only taxable at the 2%, which cannot be abated. Consequently, the difference that Mr. Guindon was talking about is the difference between that 6.75% versus the 2% that is making the numbers look goofy. He expressed that the Governor's Office of Economic Development (GOED) should know what they are abating, so the Forum can get a reasonable handle on what that difference is on the commercial side between sales tax versus taxable sales.

2. Relative to the Real Property Transfer Tax rate, contacting the National Association of Industrial and Office Properties (NAIOP) South, NAIOP North, the Tahoe Reno Industrial Center, and the Apex Industrial Park would provide 90% of the commercial number. Mr. Bacon stated the numbers on the residential side were close, but suspected that making phone calls to those four entities would produce a much more solid number. He noted the numbers would not be exact, because there are transactions that take place in real estate that involve swapping stock and playing games that will skew the numbers.

3. In regard to the Commerce Tax, Mr. Bacon stated, "you are never going to get 50% on the credit from the MBT." As a representative from the manufacturing sector, he indicated many manufacturing companies bring their products into the state, which is subject to the Commerce Tax; however, they do not have any employees in Nevada. As an example, General Motors brings cars into this state that are made in Canada, Mexico and Nevada, but they only have about 200 employees at that parts distribution center in Stead so they cannot get anywhere near the full credit. He said Nevada is a major distribution center for the entire Western Region of the U.S., so many manufacturers bring their products into Walmart, Amazon, etc., making them subject to the Commerce Tax, provided their gross revenue exceeds $4.0 million. Those manufacturers do not have any employees in Nevada; therefore, are not associated with Nevada's Modified Business Tax. He emphasized the large scale of goods that are brought into the state directly from manufacturers, distributing to grocery stores, Amazon, and those types of operations. Mr. Bacon communicated that, because of the way the Commerce Tax was put into place, the numbers will get progressively screwier as we get down the line. He said the Economic Forum had a less than 1.0% error rate on the MBT every year since the MBT was imposed in 2005, but claimed those days are gone and the Forum's life just got tougher!

XI. ADJOURNMENT.

In conclusion of the meeting, Chairman Wiles said he is encouraged by the improved economy both nationally and in Nevada, and attributed the success to the people and businesses in Nevada. He stated Nevada was one of the hardest hit states during the recession, and has come back stronger than most states. He said the forecasts are made under the umbrella of a somewhat uncertain fiscal and monetary environment coming out of Washington D.C., and those uncertainties include everything from health care to fiscal stimulus and regulatory environment. Chairman Wiles expressed his gratitude to the presenters and members of the Forum for the time they committed to this meeting, and particularly to the staff for the tremendous amount of effort and energy spent to pull together the data and forecasts.

The meeting was adjourned at 1:30 pm.

Respectfully submitted,

____
Judy Lyons, Committee Secretary

APPROVED:

____
Ken Wiles, Chairman

Date:_________________________

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