

**MINUTES OF THE MEETING OF THE  
ECONOMIC FORUM  
(NRS 353.226 – NRS 353.229)  
June 8, 2018**

The meeting of the Economic Forum (created by Senate Bill 23, 1993) was held at 9:00 a.m. on Friday, June 8, 2018, in Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with videoconference to 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada.

**ECONOMIC FORUM MEMBERS PRESENT IN LAS VEGAS:**

Linda Rosenthal, Chair  
Craig Billings, Vice Chair  
Frank Streshley  
Marvin Leavitt  
Jennifer Lewis

**ECONOMIC FORUM MEMBERS PRESENT IN CARSON CITY:**

None

**ECONOMIC FORUM MEMBERS ABSENT:**

None

**STAFF:**

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division  
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division  
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division  
Judy Lyons, Committee Secretary, Fiscal Analysis Division  
Susanna Powers, Economist, Governor's Finance Office

**EXHIBITS:**

([Exhibit A](#)) Meeting Packet and Agenda  
([Exhibit B](#)) Tables 1 - 7  
([Exhibit C](#)) Commerce Tax and Commerce Tax Credits – Summary Statistics by Business Category

**I. ROLL CALL.**

The meeting of the Economic Forum (Forum) came to order at 9:09 a.m. and the secretary called roll. The members attended the meeting in Las Vegas.

Mr. Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, suggested the agenda be taken out of order and the committee advance to Agenda Item IV to elect a chairperson and a vice chair. He indicated that all five members of the Forum were starting a new two-year term, and that former Chair Ken Wiles and former Vice Chair Matt Maddox were no longer serving on the committee.

***The next agenda item was taken out of order.***

#### **IV. ELECTION OF CHAIRPERSON AND VICE CHAIRPERSON**

MR. CRAIG BILLINGS MOVED TO ELECT MS. LINDA ROSENTHAL AS CHAIRPERSON OF THE ECONOMIC FORUM.

MR. MARVIN LEAVITT SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

MS. JENNIFER LEWIS MOVED TO ELECT MR. CRAIG BILLINGS AS VICE CHAIR OF THE ECONOMIC FORUM.

MR. MARVIN LEAVITT SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

***The next agenda item was taken out of order.***

#### **II. OPENING REMARKS.**

Chairwoman Rosenthal welcomed all in attendance and proceeded to the presentations.

#### **III. PUBLIC COMMENT.**

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

#### **V. APPROVAL OF THE MINUTES OF THE DECEMBER 8, 2017, MEETING.**

MS. LEWIS MOVED FOR APPROVAL OF THE MINUTES FROM THE DECEMBER 8, 2017, MEETING.

MR. LEAVITT SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

## **VI. OVERVIEW OF THE ECONOMIC FORUM AND THE TECHNICAL ADVISORY COMMITTEE ON FUTURE STATE REVENUES (NRS 353.229).**

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

Mr. Guindon explained that the Economic Forum (Forum) was statutorily created by the Legislature during the 1993 Legislative Session, and generated its first forecasts in Fiscal Year (FY) 1995. The Forum consists of five members that are appointed by the Governor, with the Speaker of the Assembly and the Senate Majority Leader each nominating one member. Each member serves a two-year term. The Forum is responsible for preparing and approving General Fund revenue forecasts for each biennium budget period on or before December 3 of even-numbered years and on or before May 1 of odd-numbered years. The December forecast is required to be used by the Governor in preparation of The Executive Budget that is submitted to the Legislature for consideration during that legislative session. The odd-numbered year forecast is used by the Legislature in developing the legislatively approved General Fund budget, which is also approved by the Governor.

Mr. Guindon stated, prior to the FY 2019 Legislative Session, the Forum will hold meetings in October, November and December. The October meeting will include presentations from state agencies and specific outside organizations relative to current state and national economic indicators that can be taken into consideration by the Forum as they move forward into the next forecasting cycle. Additionally, staff to the Forum will report on actual State General Fund revenue collections for FY 2018 compared to the Forum's May 1, 2017, forecast. He indicated that discussion will occur relative to the Commerce Tax and the Modified Business Tax (MBT) with regard to the potential for a tax rate adjustment to the MBT, depending on how actual collections compare to the forecast (approved during the 2017 Legislative Session). The November meeting will consist of preliminary forecasts of future State General Fund revenues for the 2019-21 biennium, presented by the various entities that prepare forecasts, which will not require approval at that time. At the December meeting, the Forum will hear forecasts presented by the various entities that prepare forecasts, and will be required to adopt an official forecast of unrestricted General Fund revenues for the biennial budget cycle (2019-21), which will be submitted in report form to the Governor and the Legislature for budget purposes.

Mr. Guindon stated the Forum breaks out several of the larger unrestricted General Fund revenue sources, also known as "major" General Fund revenues. Separate forecasts are prepared by staff in the Fiscal Analysis Division (Fiscal); the Budget Division (Budget) of the Governor's Finance Office; and the Executive Branch agencies that are responsible for collecting and administering each specific revenue source, including the Department of Taxation (Taxation) and the Gaming Control Board (GCB), as well as a forecast for the Sales and Use Tax and the Gaming Percentage Fees Tax prepared by Moody's Analytics. The rest of the unrestricted General Fund revenues, also known as the "non-major" General Fund revenues, are handled by the Technical Advisory Committee (TAC) on Future State Revenues, which is a statutory body that supports the Forum.

The members of the TAC are not appointed by an elected official, they are statutorily specified in the law and are standing positions. Mr. Guindon said those positions are the Senate and Assembly Fiscal Analysts of the Fiscal Analysis Division, the Director of the Budget Division of the Governor's Finance Office, the State Demographer, the Vice Chancellor for Finance of the Nevada System of Higher Education, the Chief Economist for the Research Analysis Division of the Department of Employment, Training and Rehabilitation, and the chairperson of the Committee on Local Government Finance.

Mr. Guindon indicated that the Forum directs the TAC to come up with a consensus forecast for all of the non-major General Fund revenue sources. The process works the same in the sense that the various forecasts are independently prepared by staff from Fiscal, Budget, and the Executive Branch agencies that are responsible for collecting and administering each of those revenue sources. He said staff from Fiscal and Budget work together and create a reasonable consensus forecast to present to the TAC, but ultimately the TAC has the authority to alter or change any of the forecasts that were brought forward for their consideration. The final consensus forecast approved by the TAC is subsequently brought forward to the Forum at their November, December and May meetings for consideration. The Forum can approve the consensus forecast for the non-major General Fund revenue sources brought forward by the TAC or alter and change it as they see fit. Mr. Guindon indicated that the Forum holds only one meeting during session, which is required to be held on or before May 1. He emphasized the Forum is required to hold meetings by certain dates by law, which sometimes becomes very difficult when coordinating around the TAC meetings, holidays, weekends, and when data becomes available from Taxation and the GCB. He made it clear to the members of the Forum that the December meeting needs to be scheduled for Monday, December 3, 2018, due to meeting logistics.

The 2011 Legislature passed Assembly Bill (A.B.) 332 that requires the Forum to hold two additional meetings on or before December 10 of odd-numbered years and on or before June 10 of even-numbered years. Mr. Guindon communicated that the meetings were added mainly to get status updates on how the Economic Forum's forecasts were tracking against actual collections, as well as to receive updates from various state agencies or local entities in regard to the economy, population, housing, development, etc. or private sector entities that present information on economic indicators or statutory programs that are being administered that can affect the economy, and thus directly or indirectly affect the revenues that the Forum is required to forecast. Mr. Guindon noted the June meeting is held in the interim, and is considered to be the first meeting of the forecast cycle. It allows the new members to appoint a chair and vice chair and get acquainted with business and proceed into the actual forecast cycle.

Mr. Streshley asked if the committee members would receive monthly or quarterly updates on collections prior to the October meeting.

Mr. Guindon shared that the tables submitted under Agenda Item X are updated quarterly for better accuracy, based on a decision made by the Forum, because depending on the revenue source, collections are either due monthly or quarterly. He explained that the state is on a biennial budget process (2017-19), where the first year began July 1, 2017,

and the second year will begin July 1, 2018. At the December meeting, the Forum will produce a revised forecast for FY 2019, which is called the current year forecast, along with a 1-year ahead forecast for FY 2020, which is the first year of the next biennium, and a 2-Year Ahead forecast for FY 2021, which is the second year of the next biennium. He said preliminary, actual revenue collections for the third year of Commerce Tax (FY 2018) will be available in December 2018, so it will be important for staff and the members to get their mind around it for forecasting purposes.

## **VII. PRESENTATION ON THE STATE EMPLOYMENT AND UNEMPLOYMENT OUTLOOK.**

***David Schmidt, Chief Economist, Research and Analysis Bureau,  
Department of Employment, Training and Rehabilitation***

Mr. Schmidt stated things are going very well in the state as he drew attention to the department's recovery scorecard on page 40 ([Exhibit A](#)) of the meeting packet. He reported that 263,000 jobs were added since bottoming out during the recession. Through the third quarter of 2017, year to date (YTD), Nevada had the fastest growing private sector in the nation. Other state successes included the addition of numerous small business jobs, record-high number of employers, steady growth in average weekly wages, and an unemployment rate below 5% and holding steady. Nevada's unemployment insurance claims have dropped, which helped build the unemployment insurance trust fund to a record-high balance of \$1.3 million.

Nevada added 45,300 jobs year-over-year since April of 2017, reaching total employment of 1,376,000. Mr. Schmidt reported that year-over-year job gains since April 2017 grew 3.4% and outpaced national growth for 69 straight months. The state's unemployment rate has been stable at 4.9% since August of 2017, down from its recessionary peak of 13.7%. Total unemployment in the state measured approximately 73,000 individuals, down from a peak of 186,000.

Mr. Schmidt indicated that Nevada's employment has seen steady growth since 2012, adding approximately 40,000 jobs year-over-year with a growth rate between 3.0% and 3.5% (page 42).

Mr. Leavitt asked if Nevada's employment was growing consistently across all counties within the state, and if not, which counties were lagging.

Mr. Schmidt replied employment growth has been observed around the state in varying degrees. Recently, job gains in the Reno and Carson City areas measured 4.0% to 5.0% and Las Vegas displayed growth of 2.8 to 3.0%, which was slower than the other areas of the state, but well above the nation's growth at 1.6%.

Mr. Leavitt inquired about job growth in Nevada's mining counties.

Mr. Schmidt stated the mining counties showed the lowest unemployment rates in the state, with the softest being Lyon and Nye counties, which are outlying areas of major metro areas.

Mr. Schmidt directed the members to page 45 ([Exhibit A](#)) of the meeting packet, a chart that compared unemployment rates in Nevada and the U.S., during the recession, to current rates. Nevada's unemployment rate has been steady at 4.9% since August of 2017 while the nation showed a similar pattern at about 4.1%. More recent months showed the national unemployment rate at 3.9% in April and 3.8% in May.

Mr. Schmidt discussed alternative measures of labor underutilization that are published by the Bureau of Labor Statistics (BLS). He noted that the BLS defines measures from U-1 to U-6; however, his chart on page 46 only referenced measures U-1 through U-5. He said the U-1 and U-2 measures are different from the other three because they focus more narrowly on unemployed people rather than the official rate published by DETR, which is similar to the BLS's U-3 measure. He explained that U-1 refers to people who have been unemployed for 15 weeks or more; U-2 looks at job losers as opposed to those who left their job; U-3 is similar to the official rate; and U-4 adds in discouraged workers, people who have not looked for work in four months from the time they were surveyed, but have looked for work in the last year. The U-5 category adds to U-4, and includes other people who are marginally attached to the labor force, such as students who are going to school instead of looking for work. U-6 adds to U-5, and includes a special class of people who are currently working part time, but would be working full time if they thought there were jobs available for them. Mr. Schmidt noted that the U-6 measure in Nevada is slightly higher now than it was before the recession. He said this measure bottomed out in 2006/2007 at approximately 20,000 people; whereas through the end of 2017, nearly 60,000 people fell in that category. Mr. Schmidt said he broke out involuntary part-time employment (U-6) on a different slide (page 47), because if the rate was added to the U-5 measure, it would push that unemployment rate up to 10.4%. He noted that sometimes people see 10.4% and think it is the real unemployment rate, and it loses the nuance that people in this category are working, they are just not working as much as capable.

Mr. Billings asked if Nevada was better, worse or equal to national statistics with respect to the U-6 measure.

Mr. Schmidt conveyed that Nevada has one of the highest U-6 rates in the nation, which is unusually high. The BLS highlighted Nevada as having the largest gap in the nation between the U-5 and the U-6 rates.

Activity in the unemployment insurance program serves as another form of measure for unemployment. Mr. Schmidt noted that DETR uses survey-based unemployment data versus BLS data in their statistics. He said unemployment insurance only represents a subset of the total people who are unemployed. Currently, approximately 18,000 individuals claim unemployment insurance benefits per week compared to 73,000 individuals who are unemployed. The difference is attributed to ineligibility for unemployment benefits or disqualifying reasons.

Mr. Schmidt reported the 12-month average for people filing unemployment claims was virtually flat (page 48, [Exhibit A](#)), and claims were down 5.1% from the previous year. Other measures of unemployment insurance activity, including the percentage of people who exhausted their benefits and the average number of weeks that people were in the system, have also declined and are close to their prerecession levels. He said, typically, eligibility lasts up to 26 weeks, but the average number of weeks used has dropped to 13 to 14 weeks.

Mr. Schmidt said the total number of employers active in the unemployment insurance system hit a new high of 70,600 in the first quarter of 2018, and exceeded its prerecession peak by almost 10,000 employers. He indicated that in the 2015 Legislative Session, a law was passed that deemed the client company of an employee leasing company to be the employer of the employees it leases for purposes of unemployment compensation, which triggered a spike in the 2015/2016 time frame.

Mr. Schmidt said there was broad growth YTD across all of Nevada's industry sectors, and summarize the following statistics: Construction was the largest contributor to new jobs, adding 7,500 jobs through April of 2018; Manufacturing was the fastest-growing industry at a rate of 14.3%, with durable goods manufacturing growing at nearly 20%; and Education and Health Services added 6,000 jobs for a growth rate of 4.6%. He said the Information sector was the only sector that lagged, which was attributed to a decline in things like print media (page 50, [Exhibit A](#)).

Mr. Schmidt communicated that although Northern Nevada employment has been growing at a fast pace, the number of workers still have not caught up to prerecession levels. Las Vegas has been growing at a slower pace; however, Las Vegas has already reached the total number of workers it had before the recession and is pushing forward, whereas Northern Nevada is still recovering jobs lost during the recession. He noted that Northern Nevada is adding jobs in new areas that did not previously exist.

Nevada is currently leading the nation in private sector job growth, as it did prior to the recession, and has been consistently ranked a top-four state over the last four years. During the recession, Nevada had the largest job losses in the private sector.

Mr. Schmidt reported a significant decline in average weekly wages, year over year, for the third quarter of 2017 because of a shift that occurred in 2016 from the normal seasonal pattern. He justified that, typically, year-end bonuses are paid out in the fourth quarter of each year; however, in 2016 that activity seemed to have taken place in the third quarter instead, which made the third quarter look strong and the fourth quarter look weak. He assumed that with the third quarter in 2017 appearing weak, the fourth quarter would come in strong. Mr. Schmidt reported Nevada's current average weekly wage is \$914, up 8.8% from a few years ago. Observations over a longer horizon have shown steady wage increases in the 3% range.

Mr. Streshley asked what the average wage growth measured from 2016 to 2017, and how that compared to the U.S. average.

Mr. Schmidt replied it is hard to measure over one year because of the weird quarterly affect; however, the second quarter came in at approximately 3% and the first quarter was slightly higher. He thought wage growth in the U.S. was in the 2 to 3% range, but could not confirm it.

Mr. Billings asked what the denominator was in the average weekly wage calculation.

Mr. Schmidt stated that DETR receives its average weekly wage information from the Quarterly Census of Employment and Wages (QCEW) program. Total wages are reported to the state through unemployment insurance companies that are eligible to report, which is divided by total employment covered by unemployment insurance. The average is divided by 52 to convert from an annual average to a weekly average.

Mr. Billings asked if total employment referred to people or hours.

Mr. Schmidt replied total people.

Mr. Schmidt indicated that DETR has not updated their projections since the last Forum meeting held in December 2017, but shared the following comments:

- Increased growth was expected in agricultural employment, which was not reflected in prior projections.
- Construction growth is expected because of large projects underway and a hot housing market.
- Manufacturing is still being driven by the Tesla Gigafactory and the companies that are involved with it, as well as other activity in industrial parks around the state.
- Growth is projected in the Information sector driven by data centers in both Northern and Southern Nevada, such as Switch and Apple.
- An aging population demands more health services.

Mr. Schmidt said the state is looking to continue the employment trend that has been fairly stable since 2012, and continues to see growth through 2019 in total employment numbers. He elaborated on the following industries, beginning on page 56 ([Exhibit A](#)):

Construction: Approximately 150,000 people worked in the construction field prior to the recession, which fell to about 50,000 construction jobs during the recession. Today approximately 100,000 people hold a job in the construction industry.

Mr. Leavitt asked if the growth in construction jobs was responsible for the increase in average weekly wages, because those wages are typically high paying, as opposed to general overall growth in wages.

Mr. Schmidt replied that construction jobs make up approximately one-fourteenth of total employment in the state as a whole. He agreed that somewhat higher wages would bleed through a little bit; however, most of Nevada's employment is in other job sectors. For example, mining has a large affect in small counties where wages average \$80,000,



but because there is such a large concentration of high-paying industries within a small area, it does not bleed out as much into the larger counties.

Mr. Leavitt said historically when construction hit a high level in this state it was followed by a substantial drop and a recession. He questioned DETR's concern in regard to construction jobs sitting below prerecession levels and construction projects escalating to high levels.

Mr. Schmidt stated there are arguments on both sides. On one hand, construction was about 11% of the economy during the housing boom, a significantly higher concentration than the nation as a whole. He said there is a point where you have construction representing, not necessarily investment in building out the capacity of the state, but investing in a broader base of something more narrowly focused that becomes harder to sustain. On the other hand there is pent up demand, which results in very low housing inventory (particularly in Northern Nevada), specifically in Northern Nevada where less investment occurred because of the housing crash, low prices and the difficult incentives for people to invest in building new homes. Mr. Schmidt explained that if construction is taking place to help alleviate some of that backlog, there could be a higher concentration that is sustained by underlying fundamental growth and not just necessarily speculative investment. However, speculative investment itself is not necessarily a bad thing, because there needs to be people looking ahead and investing in where the demand is to avoid playing catchup. Mr. Schmidt stated the low-level construction jobs compared to the high-level construction projects was a potential concern; however, there are underlying fundamentals that support that increased investment.

Mr. Leavitt commented on the several large construction projects contributing to Nevada's sales tax. He voiced concern for when those projects end, and if new projects in similar size were not in the queue, it would cause a significant drop in sales tax revenue.

Manufacturing: The 14.3% growth in this industry is accredited to Tesla's gigafactory, which is in line with DETR's expectations.

Retail Trade: This industry is projected to add approximately 2,000 jobs per year.

Healthcare and Social Assistance: Employment in this industry has the most stable trend of all industry groups. There was a small dip in jobs during the recession, but it has recovered and exceeds prerecession levels. Continued growth in the state's population, as well as an aging population, supports an increase of 4,000 jobs per year.

Accommodation and Food Service: This industry is expected to continue the trend that it established in 2010/2011 and add approximately 15,000 jobs by the end of 2019.

Moving away from employment, Mr. Schmidt stated Nevada's gross domestic product (GDP) has been higher than the nation as a whole in 6 of the last 10 quarters, thus Nevada's economy has expanded in each of the past 17 quarters.

Personal income in Nevada has also increased in 30 of the last 31 quarters. Mr. Schmidt reported the growth rate in the fourth quarter of 2017 was unusually high at 6.4%, but

attributed the rate to a weak comparison period from 2016. He expected growth to continue at the 3% to 4% rate as comparison periods extend over a longer range. Personal income is income received by all persons from all sources, including net earnings, property income and transfer receipts. Mr. Schmidt directed the members to the table on page 63 ([Exhibit A](#)) that looks at personal income by area (per capita personal income) in 2016. Douglas County has the highest per capita personal income at approximately \$65,000, which more than doubles the counties with the lowest personal income, specifically Pershing and Lincoln counties, which are at about \$30,000. Most of the counties, as well as the largest counties in the state, are in the \$40,000 to \$50,000 range, including Clark, Washoe and Elko counties.

Ms. Rosenthal asked why Nevada's U-6 category was so much higher than the nation's.

Mr. Schmidt said there is a lot of speculation, but not a lot of details to support it. He theorized that, because Nevada is a more transient state, there could be people with lower skills migrating to the state, trying to get their start in a new area. Another reason could be related to people who are working part time who want to work full time, but have other obligations and need flexibility in their schedule. He thought the U-6 category might be clouded by information that cannot be explained in the survey.

Mr. Rosenthal inquired about the population survey, asking who it is given to and how often.

Mr. Schmidt stated the information he provided came from the Current Population Survey done by the BLS, which is a national survey that includes about 1,000 households in Nevada. He said when DETR presents more detailed numbers using this survey, they report 12-month moving averages to smooth out some of the volatility. Additionally, DETR uses resources such as unemployment insurance in their methodology, because although it is a smaller piece of data, an accurate count of people is used versus using the survey to try and estimate Nevada statistics.

Mr. Billings assumed that, because the U-6 category is determined using BLS data, and not state data, the results could not be categorized by industry.

Mr. Schmidt said there is some publicly-available microdata that may be referenced by industry. He said it would be difficult to track by industry because the unemployed population also includes people who have never worked in an industry before. Mr. Schmidt then realized that Mr. Billings was inquiring about part-time workers, and tracking those industries.

Mr. Billings said if the new jobs were incremental, it would create a little different pattern than if they were full-time jobs that became part-time jobs. He said it would be one thing if the U-6 rate was indicative of the "gig" economy, but if it was related to a specific movement from full-time to part-time work, it would be a different concern.

Mr. Schmidt replied he did not believe the U-6 rate included the gig economy, because the U-6 category included people who are working for wages from an employer as opposed to the atypical contractor relationship. He said full-time jobs have declined from

82% at the peak prior to the recession to approximately 78% a year ago. More recently, another shift has taken place, adding full-time jobs and losing some part-time jobs. He testified that full-time jobs are still by far the largest type of employment that people have, but the concentration has changed over the last year or so.

Mr. Billings asked if the 4% gap in the U-6 measure was similar to the trough to where we are now.

Mr. Schmidt indicated that the number of people working part time, involuntarily, is 4%, where 6.4% is the most recent U-5 number and 10.4% is the U-6 number.

## **VII. PRESENTATION ON THE STATE POPULATION OUTLOOK.**

***Jeff Hardcastle, State Demographer, Department of Taxation***

Mr. Hardcastle said the intent of his presentation was to talk about the role of the State Demographer's Office, present an overview of the 20-year and 5-year projections, and discuss the components of change for Nevada's growth, migration, and its aging population.

The Nevada State Demographer's Office is funded by the Nevada Department of Taxation and is responsible for producing annual population projections for Nevada's counties, cities and unincorporated towns, which are used to allocate tax revenues to those counties and governments within them. The population projections are performed annually for each county and include a 5-year projection, which is released March 1 and is tied to recent activity and based off the most recent population estimate, and a 20-year projection that is issued October 1. Mr. Hardcastle noted the 5-year projection released on March 1, 2018, was tied to the July 1, 2017, estimate and the 20-year projection released on October 1, 2017, was based off the 2016 population base; hence there is a timing issue with how data becomes available and how data can be released. He conveyed the 5-year projection is pertinent to the Forum's efforts to study near-term changes and determine potential impacts relative to the population growth for near-term budget considerations.

Mr. Hardcastle explained the methodology of his estimates and projections. He said population projections are produced at the county level as an average of two independent estimates consisting of a housing unit based estimate and a regression based estimate. In those two independent estimates, the population is averaged together to establish each county's total population. That population total is shared amongst the cities and towns based off the housing unit estimate, and the population estimates are subject to appeal by the local governments, which comes into play because of the fiscal impact due to the distribution of the Consolidated Tax Distribution (CTX). Mr. Hardcastle said he uses the Regional Economic Model Inc. (REMI) model to look at the structure of an individual county to capture the population and the makeup of wages and jobs between industries, and links that data to the nation as a whole and surrounding counties. He further explained that for Nevada-specific results, he operates with a 17-county model that relates the state's 17 counties to each other and to the nation as a whole, which is used in his 5-year and 20-year projections.

Mr. Hardcastle directed the members to a chart on page 69 that was presented to the Forum at their December 8, 2017, meeting that reviews the history of all the projections that have been produced by the State Demographer's Office since the office first started producing projections. He said since the recession, the long-term projections continue to decrease in rate of growth and level of population. In December 2017, the 5-year horizon showed 1.2% annualized growth from 2016 to 2021. The 2017 20-year population projection showed 325,850 in potential population growth over the long term to 2035, which was a decrease from the 2016 20-year projection (370,072) for 2035. He attributed part of the decrease in population to Faraday Future and its cancelled plans for the North Las Vegas factory. The 5-year projection showed 1.4% annualized growth, which was slightly higher than the 20-year projection, primarily due to recent estimates for Clark County. He explained that recent estimates over the last 4 or 5 years exceeded what he projected for population growth, so he adjusted Clark County and statewide near-term projections, which triggered a slightly higher growth rate than what was reported in December 2017 (page 71, [Exhibit A](#)).

After comparing the Census Bureau's population estimates, Nevada's population estimates, active electric hookups and housing units over the last ten years, results showed the rates of change for Clark County and Washoe County were not moving in sync (page 72, [Exhibit A](#)). Over the long term, on a compound rate, the estimates for Clark County somewhat exceeded the growth in active utility accounts and housing units. In Washoe County, the estimates were a little more in balance and moved together over that compound rate. He said the reason the population growth rate was higher than projected in Clark County could be due to overestimating near-term growth.

Mr. Hardcastle said he looked at time periods from 1990 to 1997; 2000 to 2007; and 2010 to 2017 and observed that the rate of migration growth slowed down, and the makeup of that growth shifted between periods. In the 2010 to 2017 period, more of Nevada's growth was driven by natural increase and international migration compared to the period between 2000 and 2007. He pointed out that domestic migration decreased over time, estimated at 380,000 between 1990 and 1997; 370,000 between 2000 and 2007; and 145,000 between 2010 and 2017. He noted even though a large amount of domestic migration came into the state, it totaled less than half of the previous two time periods (1990 to 2007) at 37.5%.

Relative to job creation, Nevada benefited in many ways from the rolling recessions of the 1980s and early part of the 1990s. Mr. Hardcastle reported job growth in Nevada was consistent over time, even during recessionary periods that were hitting other parts of the country, such as with the defense sectors on the East and West Coast, the savings and loan debacle, the Farm Belt and Rust Belt issues, and energy booms and busts in the 1990's.

Besides jobs drawing people to Nevada, wages were also able to compete against other regions in the country. Mr. Hardcastle reported that through 1994, Nevada's wages were comparable to the rest of the nation, if not higher than its neighboring regions in the Southwest and Rocky Mountains, and just under the wage rate for the Far West region, including California, Alaska, Washington, Oregon and Hawaii. Since 1994, Nevada's

wages began to flatten out, and during the recession, wages dropped and continue to fall below other parts of the country (page 76, [Exhibit A](#)).

Mr. Hardcastle reported that the biggest source of migration into Nevada over the last ten years came from California; however, it fluctuated. Research shows that the average number of migrants from California favor Nevada third behind Texas and Arizona (page 78).

Mr. Hardcastle said Nevada's population consists of a large number of people who were born in this state; however, Nevada is also recognized as a state with the fewest native-born residents. He identified the Far West and international migration, specifically Asian descent, as large contributors to Nevada's population.

Nevada's population going forward is aging, which has an impact on the consumption of goods and services. Mr. Hardcastle referenced the table on page 80 ([Exhibit A](#)) that identified a sample of selected consumer expenditures in 2016 by age cohort.

Nevada has a number of counties that are aging much more rapidly than both the state as a whole and the nation as a whole, primarily in rural counties. Some counties are entering into a situation of natural decrease where deaths are exceeding births. Mr. Hardcastle reported that Washoe County's aging population is increasing much more quickly than the nation as a whole, and its head of households that are 65 and older grew 5.0% compared to Clark County at 2.1% (page 82, [Exhibit A](#)). He noted Washoe County is aging much more quickly than Clark County, which drives some of the housing issues seen in Northern Nevada.

**IX. PRESENTATION ON NEW AND EXPANDING BUSINESS DEVELOPMENT IN THE STATE BASED ON ECONOMIC DEVELOPMENT ACTIVITIES OF THE GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT, LAS VEGAS GLOBAL ECONOMIC ALLIANCE, AND THE ECONOMIC DEVELOPMENT AUTHORITY OF WESTERN NEVADA.**

***Paul Anderson, Executive Director, Governor's Office of Economic Development***

***Jonas Peterson, Chief Executive Officer, Las Vegas Global Economic Alliance***

***Mike Kazmierski, President/CEO, Economic Development Authority of Western Nevada***

***Paul Anderson, Executive Director,  
Governor's Office of Economic Development***

Mr. Anderson reported that the Governor's Office of Economic Development (GOED) was created in the 2011 Legislative Session. At that time, Nevada struggled with the highest unemployment rate in the nation (nearly 14%), the highest foreclosure and bankruptcy rates, and the highest number of homes under water, hence a significant shift in economic development policy needed to take place. He said the state recognized its dependency

on two major industries, but realized the need to diversify the economy. Governor Sandoval looked at the possibilities; sanctioned a new study that looked at the state as a whole, including its strengths and weaknesses and opportunities and threats; and determined that GOED and its toolsets needed to be restructured. In 2011, Governor Sandoval moved GOED out from under the Lieutenant Governor's Office, made it a cabinet-level position, and developed measureable goals. Mr. Anderson indicated that from 2011 to today, Nevada has gained back all 184,000 jobs that it lost, plus another 100,000, totaling 284,000 jobs. The jobs pay higher wages and include better benefits and more diverse sectors of the economy. He stated the core mission of GOED is to remove barriers for companies in order to create primary jobs. GOED deciphers which companies are creating those jobs by the amount of products or services they export. Mr. Anderson communicated that in order to obtain an incentive package, a company has to export 51% or more of their products or services, thereby importing dollars, creating jobs and expanding the state's economy. Companies that offer indirect jobs, such as restaurants or retail stores that are not direct primary job creators, are not incentivized. He said part of removing those barriers includes workforce, tax policy, incentive packages, and matchmaker service. Mr. Anderson explained that GOED is a "one stop shop" in partnership with Regional Development Authorities (RDAs) and municipalities to make sure that businesses looking to move to Nevada have access and resources that they need to make those decisions.

Mr. Anderson realized that his position with GOED was fairly recent, beginning in January 2018; however, he was very familiar with GOED's policies, as he served three terms in the State Legislature and assisted during the 2013, 2015 and 2017 Sessions, along with Special Sessions, creating a lot of the policy enacted today. He said it was very rewarding to be on both the policy making side and the execution side, and to see good policy in action.

Mr. Anderson said non-incentivized companies in Nevada are not tracked unless their information pertinent to jobs created, wages and investments is captured through working with an RDA or GOED prior to opening their business. He said that information is tracked to provide a better understanding of the differences between incentivized and non-incentivized companies. Mr. Anderson referred the members to the chart on page 86 ([Exhibit A](#)) and reported there were 74 companies assisted in 2017, a 23% increase over 2016. The average number of companies receiving economic development assistance since 2009 is 66. GOED has board meetings every other month, at which dozens of applications are reviewed for abatements and incentives. He said the March and May board meetings had 12 applications to review and the July board meeting was expected to receive 11 applications, submitted by a diverse group of companies. Mr. Anderson also reported that out of the other companies receiving economic development assistance in 2017, 35 were incentivized and 39 were not. Four of those companies could be tracked in relation to job wage and investment information. Most of the non-incentivized companies voiced they would not have moved to Nevada if it were not for the team of economic development professionals that helped them. In 2018, economic development agencies across the state assisted an additional 35 companies, of which 25 were incentivized and 10 were not. That number was expected to increase.



Mr. Anderson indicated there were 74 assisted companies in 2017 that were asked to provide DETR (during the application process) with a two-year and a five-year benchmark relative to job levels, which reflected 6,014 initial jobs (two-year) and 9,861 jobs by the five-year build-out. He compared those job levels to the numbers produced in 2014, the most successful year on record, which amounted to 6,597 jobs (two-year buildout) and 14,284 jobs (five-year buildout). The difference between the jobs in 2014 and 2017 was that 2017 brought on a more diverse set of companies in different sectors of industry. He noted, with only one-third of the information available for 2018, job levels are well on track to meet or exceed the 2017 activity—currently 2,295 initial jobs along with 4,958 build-out jobs.

The weighted average wage paid by assisted companies in 2017 came in at \$19.48 per hour. Mr. Anderson said that companies applying for incentives are required to meet or exceed the state average wage, which is \$21.95 per hour. He noted that incentivized companies paid on average \$8.53 per hour more than non-incentivized companies, and explained that the large incentivized spike in 2015 was attributed mainly to Fidelity National Financial, which brought in 20 jobs with an average wage of \$305 per hour. Year to date, the 2018 numbers show incentivized average hourly wages coming in at \$29.07 per hour and non-incentivized wages at \$27.87 per hour.

Mr. Anderson indicated that capital investment by assisted companies is healthy, as shown in the chart on page 89. He explained that investments from large-scale solar companies, data centers, aviation and advanced manufacturing facilities, such as Boulder Solar, Apple, and Tesla, contributed to the high volume of capital investment in 2012, 2014 and 2015. He said if those large-scale projects were removed, 2017 capital investments would be slightly below average compared to the previous eight years; however, he also pointed out that just as many jobs were created in 2017 with less capital investment. Year to date, 2018 assisted company capital investment measured \$534 million, or \$133 million above the 2017 levels, with only about one-third of the 2018 performance metrics collected.

GOED and its partnering agencies are able to compare an incentivized company's announced jobs to the actual jobs it created by matching its federal employee identification number (EIN) to quarterly data collected by DETR's Research and Analysis Division. Mr. Anderson conveyed that, because DETR only tracks the number of jobs a company currently employs, GOED can only make comparisons to the number of jobs a new incentivized company says they plan to bring online. However, this tracking method has proven to be a reliable indicator of how companies contracted with GOED actually perform. Mr. Anderson referred the members to the chart on page 90 ([Exhibit A](#)) of the meeting packet and pointed out that for every year on the chart, except for 2016 and 2017, the number of actual jobs exceeded contracted jobs. He explained that once a company receives approval from GOED's board, their application is put into contract form and they are required to fulfill their projected number of contracted jobs in exchange for abatement approvals. Mr. Anderson noted that actual jobs measured in 2016 and 2017 were a little bit behind; however, some companies take more time to ramp up; therefore, an increase in actual jobs is expected in 2018.

Mr. Anderson presented a chart on page 91 ([Exhibit A](#)) that illustrated projected jobs from assisted companies. He noted that the 6,329 jobs projected in the fourth quarter of 2018 reflected the initial jobs that assisted companies in 2017 expected to bring online, and the 9,681 jobs projected in the fourth quarter of 2022 reflected the number of jobs expected to be in place once the assisted companies are fully built out.

To be clear, Mr. Billings questioned if the chart on page 91 was a representation of four cohorts of assisted companies in 2017 that included the number of jobs projected to be created and a projection of how those jobs would roll out.

Mr. Anderson concurred.

Mr. Billings asked if that projection was based on trends from previous years, and if it was normal to take five years to reach the maximum build out before leveling out.

Mr. Anderson expressed uncertainty, and said the trend depends upon which sector is growing at what time. He explained that the advanced manufacturing tends to have a longer ramp-up period, because of the capital investment piece, versus a distribution center that can ramp up in six to nine months and are fully employed at that point. He said earlier years saw a longer ramp-up period, especially in Northern Nevada, because of the big swing in the advanced manufacturing sector. GOED has observed steady gains in jobs from assisted companies due to the more refined abatement process; however, the assisted companies are creating fewer bulk jobs when compared to Tesla or Apple or some of those bigger names that Nevada recruited in previous years.

Mr. Billings questioned GOED's strategy with respect to outreach versus inbound interest and managing the marketing side of business.

Mr. Anderson said GOED and its partners focus on policy, audit and compliance that occurs on the back end. He said most of the outreach originates from the Regional Development Authorities (RDAs), such as the Las Vegas Global Economic Alliance (LVGEA) and the Economic Development Association of Western Nevada (EDAWN) via conventions or site selectors. He said companies that contact GOED directly may engage with GOED for a short period of time to locate some sites statewide, but once those sites are narrowed down, those companies are turned over to the RDAs in those pertinent locations.

Mr. Anderson stated that prior to 2011, GOED maintained a very passive office compared to today's proactive organization. He recognized GOED's partners, LVGEA and EDAWN with having a focused approach when targeting key sectors and having a good understanding of what Nevada has to offer compared to other competing states.

***Jonas Peterson, Chief Executive Officer, Las Vegas Global Economic Alliance***

Mr. Peterson reported that Nevada is the fastest job-producing state in the country (page 95, [Exhibit A](#)). Relative to Southern Nevada's economy, it is becoming stronger and more diverse. The Education and Healthcare industry sectors are leading the way in



job creation, and current employment levels have exceeded prerecession peak levels by nearly 60,000 jobs. He noted the Construction sector is still down 37,000 jobs from prerecession numbers, but employment levels have exceeded the prerecession peak for over 20 consecutive months.

The LVGEA has supported over 19,000 assisted jobs, trending consistently higher job creation year after year since 2012. Mr. Peterson indicated the jobs are not low-value companies, as the LVGEA focuses on companies that pay above-average state wages. He noted incomes are up over 20% since 2007 (page 100, [Exhibit A](#)).

Mr. Peterson communicated that, according to third-party data, the return on investment (ROI) generated by the LVGEA totals nearly \$100 of economic impact for every dollar invested.

Mr. Peterson highlighted the following rankings:

- Forbes lists Nevada as the #2 state in the country for what they call the “American Dream Index,” which measures change in economic development. The ranking showcases Nevada’s ability to create middle-income jobs.
- Nevada ranks #3 in the country for economic growth potential. Mr. Peterson found this interesting since Nevada was already ranked the fastest job-producing state in the country, and yet still receives a high ranking for remaining economic growth potential.

The LVGEA is planning for growth with focus on target industries, and is in collaboration with the private sector to outline a strategy and to get key players in the economy to move forward with that strategy together. Mr. Peterson reported that Southern Nevada is constantly in the top five metro areas of the country for population growth, and survey results show Southern Nevada is a top location for people entering the market due to job opportunities. Wages and household incomes are up, and the average age of its growing population is down. Southern Nevada’s housing market is increasing in value rapidly, as well as their income levels.

Mr. Anderson communicated that tremendous investment is happening throughout Southern Nevada. The top ten projects over the next ten years are estimated to bring in over \$13.0 billion of capital investment to the area, including: 10. Park MGM investing \$450 million into creating a new luxury property; 9) the Palms renovation investing \$485 million; 8) Extreme Sports Park investing \$700 million; 7) Project Neon, the largest transportation investment in the history of Nevada, worth over \$1.0 billion of capital investment; 6) Switch committed to a series of investments totaling \$1.2 billion; 5) Henderson’s Union Village, a master plan health care complex, totaling \$1.2 billion; 4) the Convention Center is moving forward with a \$1.4 billion project; 3) Wynn Paradise Park, a \$1.5 billion project; 2) the Las Vegas Stadium, nearly \$2.0 billion; and at the top of the list; 1) Resorts World Las Vegas, the single largest master plan mega resort on the strip in a decade, a \$4.0 billion project.

Ms. Lewis commented on other projects located in Las Vegas that were not mentioned, such as the Raiders practice field, the Palace Station modernization project and the Las Vegas Ballpark stadium in Summerlin for the Las Vegas 51's.

Mr. Peterson indicated that LVGEA has a list of the top 100 projects that he would be happy to share with the Economic Forum. Comparative analysis with markets across the country show the level of capital investment in Southern Nevada is incredibly strong.

***Mike Kazmierski, President/CEO,  
Economic Development Authority of Western Nevada***

Mr. Kazmierski said Northern Nevada's economy is different from Southern Nevada's, as it is not based on tourism and gaming. EDAWN's focus is to bring primary jobs to Northern Nevada, which are jobs that create secondary jobs. EDAWN's priority is to attract high-paying jobs, corporate headquarters, and technology companies, such as Internet of Things (IoT) and Blockchain. Advanced manufacturing has been EDAWN's focus for the last several years, as nearly 70 manufacturing companies have been added in Northern Nevada. Mr. Kazmierski said advanced manufacturing growth is an important part of the region's move toward technology, because manufacturing requires technology such as robotics, software engineers, and programmers to allow a company in the 21<sup>st</sup> century to be cost effective.

EDAWN places a major emphasis on site visits, which serves as a key metric to EDAWN's performance. Mr. Kazmierski said many people think Reno is a suburb of Las Vegas, so by getting companies to visit the area to see what it offers has successfully resulted in a relocation rate of 75% to 80%. He said EDAWN has increased their target rate of prospect visits from four companies per month to eight to ten companies per month.

Mr. Kazmierski referred to the chart on page 125 ([Exhibit A](#)) and pointed out the bottom bar (black) showing the five-year average of job announcements and the yellow bar representing year-to-date announcements. He said EDAWN lowered their job number goal which helped increase the average wage over the last two years for the jobs they announced.

Unemployment is down across the state and sits below 4%, which has triggered the demand for higher wages from existing employees. Mr. Kazmierski said there are almost 250,000 employees in the region, and although Northern Nevada is thrilled with Tesla locating its gigafactory to the area, bringing its name and its ability to rebrand the area, it is still only a fraction of the workforce.

Manufacturing continues to be the dominant industry relocating to the area (page 129, [Exhibit A](#)). Mr. Kazmierski reported approximately one of five or six of these companies have some relationship or desire to be near Tesla, but in many cases, especially with food manufacturing companies, there is no connection. He said EDAWN projected several years ago that 50,000 new jobs would be added to the Northern Nevada region over a five-year period, and subsequently, that trend line is right on track with that estimate. EDAWN not only focuses on attracting great companies to the area, but also

supports existing companies by visiting all of its primary employers and working with them to help promote their success. Mr. Kazmierski said workforce challenges are the current issue, so EDAWN is working with the state and many partners to train and upgrade the skills of the existing workforce, including those in the Sacramento area, to meet the needs of Northern Nevada's growth, especially on the higher education side. He recognized 8 institutions of higher education in California, and stated for every graduate at UNR, these institutions had 12 graduates (page 134, [Exhibit A](#)).

Mr. Kazmierski stated entrepreneurial growth is one of the most important components of economic development and is oftentimes overlooked at the state level because it does not draw big press conferences or visibility, but ultimately it grows jobs. He explained it is important to set up an ecosystem where these companies can grow, where they can acquire lower-level funding and commercialize their ideas. Mr. Kazmierski referred to page 137 ([Exhibit A](#)) and identified examples of companies that EDAWN has been working with. He noted five new start-up companies were announced at a recent press conference, projecting 125 jobs with an average wage of \$77,000 per year.

Mr. Kazmierski indicated EDAWN is driven by a dashboard that is linked to their strategic plan, which measures success in key areas such as job attraction, job retention/workforce, workforce development, entrepreneurial growth, and financial status. Reports generated from this dashboard are distributed to the board and GOED, as well as the public, to monitor the program's success.

In closing, Mr. Kazmierski identified the following areas of need:

- Funding for workforce development
- Support reset upon sale legislation to help fund local governments and schools
- Support for entrepreneurs
- Support for affordable housing
- Support funding for economic development

Mr. Streshley brought up Tesla and the requirements tied to earning transferrable tax credits. He said, based on an earlier slide, it appeared the employment component would exhaust that portion of the tax credit, and asked what the status was of the two requirements related to capital expenditures.

Mr. Guindon replied there are two tax credit streams coming from the Tesla Gigafactory project that were approved based on the legislation done during the 28<sup>th</sup> (2014) Special Session; one through capital investment and one through the number of qualified jobs. He said Tesla is very close to hitting the \$3.5 billion in capital investment expenditures, which was the amount of the terms when GOED did the contract. The tax credits earned for jobs are not calculated until the end of each fiscal year, because the contract requires an individual to be employed at least the last three months of a fiscal year to be considered a qualified employee in order to be awarded the \$12,500 for qualified employees. He indicated that Tesla added a lot of jobs, according to the latest audit, but the total amount of qualified employees will not be known until the end of FY 2018, as well as when those credits will be awarded and taken.

Mr. Streshley asked if the employment portion was based on adding 6,000 to 6,500 jobs.

Mr. Guindon concurred and pointed out that Tesla's agreement with the state only requires the capital investment (\$3.5 billion) criterion. No matter if Tesla adds 6,000 jobs or not, over any period of time, it will not matter with regards to them not complying with the terms of the agreement, and there would be no clawback provisions kicking in. Mr. Guindon stated that Tesla is probably ahead of schedule, and there are multiple years left in their agreement before we would even be looking at whether they met the criteria.

Chair Rosenthal called for a recess at 10:58 a.m.

The meeting reconvened at 11:13 a.m.

**X. REPORT AND DISCUSSION OF FY 2018 YEAR-TO-DATE ACTUAL COLLECTIONS COMPARED TO THE ECONOMIC FORUM MAY 1, 2017, FORECAST, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2017 SESSION.**

***Michael Nakamoto, Deputy Fiscal Analyst,  
Fiscal Analysis Division, Legislative Counsel Bureau***

Mr. Nakamoto referenced the handout outside the meeting packet that included Tables 1 through 7 ([Exhibit B](#)). These tables include quarterly updates as part of the update for actual revenues compared to the forecasts.

TABLE 1 shows FY 2017 actual collections for the General Fund as well as the FY 2018 forecast that was approved by the Forum at the May 1, 2017, meeting, and the total General Funds these revenue sources comprise. Mr. Nakamoto referenced the Major General Fund Revenues section in TABLE 1, which included the revenue sources for which the forecasts were directly prepared and presented to the Economic Forum at the December and May meetings by the Agency, Budget, and Fiscal, as well as Moody's Analytics for the Gaming Percentage Fees Tax and the Sales and Use Tax. Beneath those revenue sources is a list of Select Non-Major General Fund Revenue Sources, with the exception of the Cigarette Tax, and forecasts prepared by the Agency, Fiscal and Budget that were presented to the Technical Advisory Committee (TAC) for their review and approval, and ultimately submitted to the Economic Forum for their approval. Mr. Nakamoto noted that during the last forecast cycle, the Cigarette Tax was considered a major revenue that was approved by the Economic Forum. However, a discussion as to whether the Cigarette Tax will continue to be a major revenue or become a non-major revenue source again will be part of the discussion as the Forum moves through the agenda. He said, relative to this meeting, the Cigarette Tax is listed as a non-major revenue source. He said TABLE 7 lists all of the components of the State General Fund, ranging from revenue sources in the hundreds of dollars to those in the billions of dollars.

Further down TABLE 1, Mr. Nakamoto highlighted the rows labeled Total: General Fund Revenues - Before Tax Credits, which represents the State General Fund for FY 2017 actual collections and the FY 2018 forecast before tax credits, and Commerce Tax

Credits. The Commerce Tax allows a business who pays the Commerce Tax to take a credit of up to 50% of what they paid in Commerce Tax in the prior fiscal year against their Modified Business Tax in the current fiscal year. For FY 2017, the actual amount of credits taken was \$43.7 million, which is subtracted off the total General Fund, and the forecast for FY 2018 is approximately -\$88.8 million. Mr. Nakamoto explained that rows highlighted in blue represent tax credit programs, of which three are transferrable, including the Film Tax Credits, the Economic Development Tax Credits and the Catalyst Account Tax Credits. He said when these credits are issued they can be transferred by the person who receives them to another entity. All three of those tax credit programs can be used against one of three different taxes: the Gaming Percentage Fee Tax, the Modified Business Tax or the Insurance Premium Tax. Additional tax credit programs highlighted in blue include the Nevada New Markets Jobs Act Tax Credits, the Education Choice Scholarship Tax Credits and the College Savings Plan Tax Credits. The New Markets credits can only be taken against the Insurance Premium Tax (IPT), and the Education Choice Scholarship and the College Savings Plans credits can only be taken against the Modified Business Tax (MBT).

Mr. Nakamoto explained that the yellow columns on TABLE 1 represent FY 2017 actual collections, the actual percentage change compared to FY 2016, and the forecast percentage change.

The orange columns are relevant to the FY 2018 forecast that was approved by the Economic Forum, the forecasted change in FY 2018 compared to the Economic Forum's May FY 2017 forecast, and the FY 2018 percentage change based on FY 2017 actual collections. Mr. Nakamoto noted that that when the Forum approved the forecasts for FY 2018 on May 1, 2017, not all information for FY 2017 was available, and in fact, the Forum was doing a forecast for FY 2017 at the same time.

The green columns on TABLE 1 show the percentage of the total General Fund either based on actual collections for FY 2017 or the forecast for FY 2018.

Mr. Nakamoto turned to TABLE 2 (page 2, [Exhibit B](#)), and stated it was the most relevant table when comparing State General Fund revenue actual collections versus the forecast, because it represented year-to-date collections for each of the revenue sources that were listed on TABLE 1. The Revenue Source column references the number of periods or months that actual collections have been reported fiscal year to date. He explained that many of the taxes that are collected monthly by the Department of Taxation, namely Sales and Use Tax, Transportation Connection Excise Tax, Live Entertainment Tax, Liquor Tax, Cigarette Tax, etc., capture nine months of collections whereas the Insurance Premium Tax, the Modified Business Tax, and the Real Property Transfer Tax are collected quarterly and capture three out of four quarters. He noted the fourth quarter will not be released until August 2018, and will be available for the Forum's meeting in October. Mr. Nakamoto said the taxes that are collected by the Gaming Control Board, including the Percentage Fees Tax and the Live Entertainment Tax, are collected monthly, but because of their reporting and collection methods, those capture 11 months of actual collections. For the rest of the taxes that are collected by other agencies, such as the Secretary of State and the Department of Motor Vehicles, those taxes are collected monthly and reflect 11 months of actual collections. The All Other General Fund

Revenues line item represents revenues pulled from the Controller's System as of May 31, for both 2017 and 2018, and includes 11 out of 12 months for most revenue sources, if not all of them.

The yellow columns in TABLE 2 are the FY 2017 YTD statistics based on those periods that are reflected with each of the revenues. The orange column represents FY 2018 actual YTD amounts and the green columns represent FY 2018 forecast YTD, including the fiscal year-to-date forecast for each revenue source and the dollar difference (actual less forecast), and the percent difference relative to the forecast. Mr. Nakamoto pointed out that, with nine months of collections, the Sales and Use Tax revenue is approximately \$8.7 million below the forecast, whereas the Percentage Fees Tax revenue is \$7.9 million above the forecast. The total for all major General Fund revenues year to date is approximately \$27.2 million above the forecast.

Mr. Nakamoto said the same exercise is applied to the non-major General Fund revenue sources, resulting in a year-to-date total of approximately \$5.8 million above the FY 2018 Forecast YTD. The All Other General Fund Revenues that are not specifically listed in TABLE 2 total approximately \$28.1 million above the forecast, with the bulk of this amount coming from Net Proceeds of Minerals. Mr. Nakamoto noted that total General Fund revenues, before tax credits, amount to approximately \$61.1 million above the FY 2018 Forecast YTD.

TABLE 3 (page 3, [Exhibit B](#)) illustrates actual collections for the remainder of FY 2017 as well as the forecast going forward for FY 2018. Mr. Nakamoto indicated that for the state to hit the General Fund revenue forecast for FY 2018, remaining collections for FY 2018 can be down 1.9% to hit the Economic Forum's May 1, 2017, forecast.

Mr. Nakamoto communicated that TABLE 4 (page 4, [Exhibit B](#)) tracks the same information as TABLE 1, but applies the tax credits that were allocated to specific revenue sources. Mr. Nakamoto brought attention to the blue columns at the bottom of the table and pointed out that the Nevada New Markets Job Act Credits, the Education Choice Scholarship credits and the College Savings Plans credits have been zeroed out for FY 2017 and were applied specifically to the Percentage Fees Tax, Insurance Premium Tax or the Modified Business Tax line items above, reducing those revenue sources as applicable compared to TABLE 1. The credits were also applied to the forecasts for the Economic Forum as well.

TABLE 5 compares actual FY 2018 YTD collections to the FY 2018 Forecast YTD, after the allocation of tax credits. Mr. Nakamoto said the bottom line is the number does not change, as it is part of the methodology used for the allocation of the credits. He said staff treats the forecasts for the credits the same as the actual so it does not, for the YTD number, affect the bottom line. He said at the end of the year the forecasts and the actuals balance out, which then shows the difference between the forecast and the actual for the revenues after the allocation of tax credits. Until that point, those numbers are the same.

TABLE 6 shows FY 2018 actual collections compared to the forecast for each revenue source impacted by tax credit programs. Mr. Nakamoto explained that when the tax credit



forecasts are prepared by the Forum, the credits are not allocated to any particular tax source, especially for the transferrable tax credits. An aggregate amount is taken off the bottom line, and as the year progresses and gets close to the end of the fiscal year, the credits are accounted for in the individual revenue sources for which they were taken. The credits are balanced at the end of the year based on how the credits were taken against a particular revenue source. He referred to the MBT on TABLE 6 and pointed out the tax credits that were taken to date, highlighted in blue. Mr. Nakamoto identified each column heading on TABLE 6, including the FY 2017 Actual Forecast; the FY 2018 Forecast; the FY 2017 Actual YTD (actual credits taken year to date through the first three quarters of FY 2017); the FY 2018 Actual YTD (actual credits taken year to date through the first three quarters of FY 2018), the FY 2018 Forecast YTD, the FY 2018 Actual less Forecast, and the Percent Difference Relative to Forecast.

Mr. Nakamoto indicated \$12.5 million of the Education Choice Scholarship Credits for FY 2018 were taken within the first three quarters of FY 2018 compared to the \$4.3 million taken in the first three quarters of FY 2017. He said, for FY 2017, the amount of Education Choice Scholarship credits that could be taken for FY 2018 was approximately \$5.5 million; however, legislation during the 2017 Session increased that amount of credits that could be taken in FY 2018 by \$20 million, to \$26 million. Mr. Nakamoto pointed out that tax credits amounting to \$50,000 were taken against the MBT-Financial both in FY 2017 and FY 2018 through the first three quarters.

Mr. Nakamoto moved ahead to the top of TABLE 6, page 7 ([Exhibit B](#)), which illustrated the tax credit programs taken against the gaming percentage fees. Under the FY 2017 Actual YTD column, the table shows approximately \$3.9 million was taken against the Film Tax Credits and approximately \$25.6 million was taken against the Economic Development Transferrable Tax credits (Tesla). Mr. Nakamoto indicated that in FY 2018 YTD, no credits were taken against the Film Tax Credits, but approximately \$73.8 million was taken against the Economic Development Transferrable Tax Credit program (Tesla). Mr. Nakamoto referred back to TABLE 1 (page 1, [Exhibit B](#)) and pointed out the FY 2018 forecast, which showed an allocation of approximately \$31.1 million to the Economic Development Transferrable Tax Credit program, which was a difference of \$40 million when compared to TABLE 6, both the FY 2018 Forecast YTD and the FY 2018 Actual YTD of \$73.8 million. (Mr. Nakamoto recalled the \$61 million above the FY 2018 forecast that he alluded to earlier in his presentation). Additionally, \$355,000 in Catalyst Account Transferrable Tax Credits had been taken against the Percentage Fees Tax, which are credits that GOED can give out as incentives to certain businesses relocating within the state.

Relative to the Insurance Premium Tax, Mr. Nakamoto reported the New Markets Job Act Tax Credits were the only credits applied to the revenue source totaling approximately \$15.7 million through the first three quarters of FY 2018 compared to the \$17.7 million taken through the first three quarters of FY 2017. TABLE 6 (page 7) also provides a summary of tax credit program totals year to date. Through the first three quarters of FY 2018, approximately \$102.5 million of credits were taken compared to a forecast of \$94.9 of credits for FY 2018.

Mr. Nakamoto said pages 8 and 9 ([Exhibit B](#)) reference footnotes relating to Tables 1 through 6, which summarized legislation enacted by the Legislature that has affected the revenue sources, as well as provides an explanation of the tax credit programs that have been approved by the Legislature.

TABLE 7 (page 10, [Exhibit B](#)) showed a summary of year-to-date collections for FY 2017 and FY 2018 for revenue sources that impact the General Fund. Mr. Nakamoto directed the members to page 14 and announced that total General Fund revenue for FY 2018, year to date, before tax credits, totaled \$3,136,001,782 or 4.0% above the FY 2017 year-to-date collections through May 31, 2017. \$54.5 million of Commerce Tax credits have been taken year to date through May of FY 2018 compared to \$40.4 million taken year to date through May of FY 2017. He said the FY 2018 forecast for tax credits was in the mid \$80 million range (TABLE 1), and unless a lot of credits are taken at the end of FY 2018, the forecast will be off considerably. Because these are credits, having fewer credits taken than were actually forecasted will be a net positive to the State General Fund. If the pace continues, there will be approximately \$30 million in additional revenue in the State General Fund, meaning actual collections will be above the forecast. Mr. Nakamoto explained that the net total General Fund revenues for FY 2018, year to date, after Commerce Tax credits, is showing approximately \$3,081,517,718 or 3.6% above FY 2017 YTD totals. He relayed approximately \$102.4 million in tax credits has been taken year to date, and net collections (after Commerce tax credits and all other credits are taken) total approximately \$2.979 billion or 1.9% above FY 2017 YTD collections.

Mr. Leavitt stated the Sales and Use Tax is the largest revenue source and probably the greatest indicator of economic activity; however, it was underperforming in FY 2018 compared to the forecast. He asked Mr. Nakamoto if he could identify the cause.

Mr. Nakamoto replied the latest month of collections received from the Department of Taxation was through March 2018. He said he did not have the opportunity to take an in-depth look at the data, and deferred the question to Mr. Guindon

Mr. Guindon pointed out that Sales and Use Tax revenue for Clark County was only up 2.4%, which was slightly over the inflation rate, and statewide taxable sales was up 0.4%. Although that appeared weak, he reminded the Forum of the abatement programs that have been contracted with companies such as the Tesla Gigafactory, various data centers, aircraft companies, and other economic development. He said the comparison to the same month a year ago was driving the decrease. He said staff was aware of the negative revenue, and would have a better explanation during the fall forecast process.

Mr. Leavitt acknowledged the large, current construction projects, all in early phases. He offered to assist with analyzing the sales tax portion of those projects. He asked if staff was aware of any decreases related to medical insurance that would cause a negative impact to the Insurance Premium Tax.

Mr. Nakamoto indicated staff was keeping an eye on discussions pertaining to the Affordable Care Act (ACA) as the 2018 elections approach. He noted there was legislation approved during the 2017 Legislative Session that increased the minimum



thresholds for auto liability insurance effective July 1, 2018; however, many of the insurance companies that write auto policies in the State of Nevada started phasing out those lower liability policies beginning January 1, 2018, in anticipation of the change. He said it was unclear at this time if their actions had anything to do with strong IPT collections year to date. Nevertheless, it would be looked at by staff going forward. Mr. Nakamoto said that the Division of Insurance and the Silver State Health Insurance Exchange would be asked to present to the Forum in the fall of 2018.

Mr. Leavitt commented on the healthy collections from the Real Property Transfer Tax (RPTT). He said it is difficult to determine what drives it because of the way it is collected by the various counties. He questioned if the growth stemmed from the residential side or the commercial side of real property transfers.

Mr. Nakamoto stated that information reported to staff regarding the RPTT only shows where the money is collected and the amount collected, and that property type or individual components driving it are not defined. He said resources show that residential demand or pricing is not in any danger of abating at any point, and as long as those two factors continue, the RPTT should continue to be strong.

Ms. Lewis speculated that many of the real property transfers are attributed to sizeable apartment transactions, because several large apartment complexes in the \$30 million to \$50 million range were changing hands, as well as land acquisition transactions. She said she did not know at what threshold people would buy the entity versus paying the RPTT, but suspected that was a big driver of the increase in RPTT revenue.

Mr. Billings questioned the missed forecast related to the Economic Development Transferrable Tax Credits. He said, per the footnote [TC-2] on page 8 ([Exhibit B](#)), the forecast for tax credits used in FY 2018 was \$31,087,500; however, an overage occurred in FY 2018 that would chew up remaining tax credits. He asked if the credits would have been redeemed at some point, just not during this period.

Mr. Guindon said Mr. Billings was correct. He explained that staff receives information from GOED, who receives projections directly from Tesla relative to capital investment and qualified jobs, and based on that information, tax credits are estimated and presented to the Technical Advisory Committee for approval and brought forward to the Forum. Mr. Guindon clarified that Tesla is allowed to make more capital investment than their forecast, which subsequently can affect the timing of when the tax credits are taken. He said Tesla is expected to take a lot more tax credits in FY 2018, which will result in the Forum's forecast being too high for FY 2019. However, over the biennium, the Forum's forecast should be ok.

Mr. Billings asked if credits taken were recorded as accrued or used. His assumption was they could be accrued at one point and used at another point.

Mr. Guindon explained that after a tax credit is declared against a revenue source and transferred to the taxpayer that is going to use it, that credit can be taken at a later period; however, records show that exchange has been almost instantaneous. He said what is actually being reported and tracked is the liability incurred by the state that is literally

taken against the state's revenues by a gaming taxpayer against their Gaming Percentage Fees Tax.

Mr. Guindon referred to the Commerce Tax line on the page 2, TABLE 2 ([Exhibit B](#)), and pointed out approximately \$12.5 million in actual collections was received for FY 2018, yet the forecast was zero. He explained the reason for no forecast is because the FY 2018 Commerce Tax is applied to business activity from July 2017 through June 2018, and the Commerce Tax for FY 2018 is not due until 45 days after the end of the fiscal year. The revenue shown on TABLE 2 represents revenue from preceding fiscal years, possibly for FY 2016, predominantly FY 2017, as late returns for FY 2017 that were booked in FY 2018. He said that happens for other revenue sources as well, because although the state finishes a fiscal year on June 30<sup>th</sup>, the books do not officially close for that fiscal year until about the third Friday in September of each year, thus two fiscal years are open at the same time. However, once the books are closed, but revenue still comes in for a particular revenue source, that revenue gets posted under the state's modifiable accrual basis into the year that it was booked. He noted that actual collections currently appear above the forecast, but the numbers will true up by the next time staff reports to the Forum in October 2018.

Mr. Billings asked if there was a forecast for late receipt translation. He asked if the late revenue was forecast in a previous year, but not received until now.

Mr. Guindon replied that when the Economic Forum approved the May 1, 2017, forecast for FY 2017, it was known that some of the revenue posted in FY 2017 was actually for FY 2016 business activity, so staff added that to the forecast as business activity. However, for FY 2018, the May 2017 forecast was based on projections for the business activity period from July 1 through June 30 with no expectation of a carryover for FY 2017 payments. He noted that adequate information does not exist at this point in time to estimate the amount of spillover, but was hopeful to have more knowledge after seeing the third observation of actual data on the Commerce Tax released in the fall of 2018.

Mr. Guindon communicated that the Economic Forum made the decision to forecast State General Fund revenue in gross terms (TABLE 2), before tax credits, due to the lack of information available for some of the tax credit programs and because it is hard to know what revenue sources the transferrable tax credits will be taken against. He explained that each major revenue source is forecast in gross terms (before credits) so the forecaster and the Economic Forum can approach each revenue source as they bear in mind their view on the economy and the forces driving their forecast versus trying to forecast gross revenue and gross tax credits to get to a net revenue. He noted the Gaming Control Board and the Department of Taxation both report and post in the state's controller system net amounts; therefore, staff has to contact the Department of Taxation and Gaming Control Board to retrieve tax credit information, which is then added to those net amounts to achieve gross revenue based on actual collection terms. He indicated that Tables 1 through 7 ([Exhibit B](#)) have worked well in regard to keeping tabs on the Forum's accuracy and tracking revenues that drive the budget.

In regard to the tables ([Exhibit B](#)) that itemize the Commerce Tax credits separate from the other tax credit programs highlighted in blue, Mr. Guindon explained that, per statute,

a taxpayer that has both a Commerce Tax liability and a Modified Business Tax liability are allowed 50% credit of every dollar of Commerce Tax due against the MBT. The other tax credit programs are geared toward economic development or specific programs or purposes. He said the Commerce Tax credits are a product of tax code versus what is happening to the tax credit programs that are, in a sense, outside the tax code for those specific taxes when a business is computing its tax liability and remitting that amount to the state.

**XI. REPORT ON THE COMMERCE TAX STATISTICS BY BUSINESS CATEGORY FOR FY 2016 AND FY 2017 AND THE TAX CREDITS TAKEN AGAINST THE MODIFIED BUSINESS TAX IN FY 2017 FOR COMMERCE TAX PAID IN FY 2016.**

***Kile Porter, Economist, Department of Taxation***

Mr. Porter referred to Tables 1 through 5 located outside the packet ([Exhibit C](#)). He began with Table 1, Commerce Tax – Summary Statistics by Business Category for the FY 2016 Tax Year, and briefly explained what the data represented in columns A through Q. Mr. Porter reported 6,542 taxpayers filed Commerce Tax returns for FY 2016, based on information through June 5, 2018, that met the \$4 million gross revenue threshold. He said taxpayers are still filing amended returns for FY 2016, which can be submitted up to three years after the business activity period.

Mr. Porter acknowledged Column M, Commerce Tax Due, and stated approximately \$172.4 million in Commerce Tax was collected for economic activity in FY 2016. Moving to Column Q, he pointed out the effective tax rate as a percent of Nevada taxable revenue was 0.130% for all business categories.

Moving to TABLE 2 (page 2, [Exhibit C](#)), Mr. Porter pointed out there were 6,623 taxpayers that filed a Commerce Tax return for FY 2017 (Column D) who met the \$4 million threshold, which totaled approximately \$179.5 million in Commerce Tax due for economic activity in FY 2017 (Column M).

TABLE 3 compared FY 2016 and FY 2017 Commerce Tax. Mr. Porter said, at the December 2017 Economic Forum meeting, Chairman Wiles' expressed concern that the number of taxpayers (Column D) in FY 2017 were down a couple of hundred taxpayers compared to FY 2016. Since then, an additional 81 taxpayers filed returns for FY 2017 amounting to approximately \$7.0 million. He said Mr. Guindon theorized that the decrease in filed returns in FY 2017 could have been simply because taxpayers who met the \$4.0 million threshold had not yet filed their return, and probably owed a small amount of Commerce Tax. He noted Commerce Tax returns for FY 2018 are not due until August of 2018.

TABLE 4 shows a summary of statistics by business category for the Commerce Tax credit against the MBT, which is 50% of FY 2016 Commerce Tax due, claimed as credits against the FY 2017 MBT year to date. Mr. Porter elaborated that taxpayers who paid the Commerce Tax in FY 2016 can claim up to 50% of what they paid as a credit toward their MBT in FY 2017. He called out Column C (Commerce Tax Due) totaling

\$172.4 million, Column D (Total Credits Available), which equals half of the Commerce Tax due, totaling \$86.2 million, and Columns E through P, which represent data collected for each of the four quarters for FY 2016 relative to the number of taxpayers claiming credit, the amount of credits claimed and the percent of total credits available. The percentage of credits that were available and taken against the MBT liability in FY 2017 for FY 2016 totaled 39.6% in quarter one, 12% in quarter two, 7.3% in quarter three, and 3.71% in quarter four. Column S summarizes the four quarters, showing 62.6% of the total credits available that have actually been taken in those periods of FY 2017 for FY 2016 Commerce Tax paid. Mr. Porter said Taxation has been tracking the data in Column S very closely, because they would like to see that percentage higher. He emphasized that Taxation has made a great effort to educate taxpayers on the credit, and has worked with business entities to get those credits applied towards prior reporting periods, yet statistics show only 62.6% of credits have been taken.

TABLE 5 breaks down the same information as TABLE 4, but for the first three quarters of FY 2018. Column C is the Commerce Tax due totaling \$179.5 million of Commerce Tax paid in FY 2017, and Column D shows total credits available amount to approximately \$89.7 million. Columns E through G represent first-quarter data that shows 33.9% of the total credits available have been claimed against quarter one for the MBT. Column J represents 11.4% of available credits were taken against quarter two for the MBT, and Column M represents 4.0% of available credits were taken against quarter three (closed March 31, 2018) for the MBT. Column S identifies approximately 49.4% of total available credits have been taken in FY 2018 against the MBT.

Mr. Porter indicated that the percent columns produce strange numbers because the business categories for the Commerce Tax and the MBT do not line up, mainly for two reasons: 1) because a business entity might have two accounts; a Commerce Tax account categorized one way and an MBT account categorized another way, and 2) a parent company is allowed to claim credits on behalf of its subsidiary if they file the associated group payroll provider form with the Department of Taxation, so the parent company may show up on TABLE 5 as their business category, where their subsidiaries may show up for the Commerce Tax in a different category.

Mr. Billings asked if the Department of Taxation was expecting the amount of available credits to be taken, or if it was appearing as such that a given company might not have sufficient overall MBT to take the credit.

Mr. Guindon interjected, stating he was involved in the 2015 Legislative Session when the Commerce Tax was created. He said when the tax was originally put in place, based on the structure of the tax, there was some expectation that calculating the credits at 50% of the Commerce Tax due may be too high and might not be met. He elaborated that the Commerce Tax allows for out-of-state businesses. For example, an entity that does not have any employees in Nevada, but is generating revenue in Nevada, would have little to no MBT to take the Commerce Tax credit against. With the Commerce Tax being a new tax, and because the forecasting exercise requires staff from both the Executive and Legislative Branches to bring forecasts forward to the TAC and the Economic Forum for review and approval, staff thought it would be fiscally prudent to put the maximum liability on the sheets until they learned more about the tax, which was also the instruction put

forward by the Economic Forum. Mr. Guindon communicated that initially taxpayers were not taking the credit; therefore, the Department of Taxation made an effort to educate people about the credit, which prompted more returns. He said it is still possible for people to file an amended MBT return in FY 2018 for FY 2017, for the FY 2016 Commerce Tax credits.

Chairwoman Rosenthal asked what the deadline was to file an amended MBT return and claim credits against FY 2017, which could ultimately impact the budget.

Mr. Porter stated a taxpayer has three years to file an amended return.

Chairwoman Rosenthal asked what year Commerce Tax credits would be allocated to if a taxpayer filed an amended return 2.5 years after their initial filing, if the books were closed for the fiscal year.

Mr. Porter said the Department of Taxation looks at both economic and accounting activity when tracking credits. If Commerce Tax credits are claimed against the MBT in the third quarter of FY 2018, for a prior period, from an accounting perspective that credit is recorded as being claimed the third quarter of FY 2018; however, based on economic activity, the credit gets applied to that prior period.

Chairwoman Rosenthal questioned the result if Commerce Tax credits for future year forecasts are calculated at a number less than 50% of the Commerce Tax due, while credits are still being claimed for prior periods at the 50% rate in those same future years.

Mr. Guindon clarified that Commerce Tax credits are accounted for in the same fiscal year that the MBT returns are processed. The Department of Taxation runs queries to track the returns, amended returns, postings, etc. He said staff from the Executive and Legislative Branches have been meeting during the interim to link Commerce Tax records to MBT records to determine which taxpayers took credits against their Commerce Tax liability, the amount of credits taken, and the balance of remaining credits to avoid future inconsistencies. He said he was less concerned about taxpayers taking their tax credits because the credits were already allocated, and because the number of MBT taxpayers was relatively low at approximately 6,500. Mr. Guindon said if Chairwoman's hypothetical situation hit, it would not only affect the forecast, but also the revenue flowing into the state's coffers. He emphasized that, after reviewing relative data during the interim, he was less concerned about that event occurring.

To clarify her point regarding the forecasting of the Commerce Tax credits, Chairwoman Rosenthal provided the following hypothetical example: Suppose that based on the two years of data available that the percentage of total credits available taken was 65%. Assuming this provides a valid historical percentage, you forecast that 65% of tax credits for the current fiscal year will be taken. She asked whether consideration needs to be given to the fact that additional credits may need to be added to the forecast because of the credits that can be taken in the current period from the prior period due to the timing shift that can occur. Chairwoman Rosenthal stated that it seemed to her that this kind of thinking may be necessary to get the tax credits in the right fiscal year in terms of the forecast.

Mr. Guindon said the timing shift affects both the Commerce Tax and the Commerce Tax credit. As an example, Mr. Guindon pointed out that the Economic Forum's forecast for FY 2017 Commerce Tax was \$177.5 million. The actual amount posted in FY 2017 for FY 2017 was \$169 million, missing the forecast by \$8.5 million or 5%. \$8.6 million was posted in FY 2018 for FY 2017, so when added together, total actual collections was \$177.7 million. He noted year-to-date collections was closer to \$179 million. As far as the credits and when they will be allocated, Mr. Guindon stated that staff will take into account all those moving pieces and explain the forecast to the Forum at their October 2018 meeting.

Mr. Billings said after reviewing all the various tax credits that have been implemented from FY 13 – FY 16 and beyond, including the Commerce Tax, it seemed as though more could be parked on the balance sheet as opposed to actually flowing through the income statement. He understood that staff does not track accruals for liabilities such as unclaimed Commerce Tax or outstanding tax credits, but asked if those tax credits are scheduled out in order to understand where the forecast sits.

Mr. Guindon explained that for the current cycle, the forecasts were prepared at the May 2017 meeting. He said there was not enough information available to structure a schedule in terms of what credits would be taken. However, he reiterated that staff has been trying to match up taxpayers who paid a Commerce Tax to the MBT database to see if credits were taken.

Mr. Billings questioned how the Forum was supposed to know what credits were still available to be taken, but have not yet been taken. For example, he communicated that in FY 2016, 16% of the available credits were taken and 37.4% of the credits that could be taken were still available. He asked when those credits expired. He said it seems like it would be difficult to properly assess a forecast without understanding what could hit you for these tax credits.

Mr. Guindon said staff is aware of Mr. Billing's concern, and emphasized that staff from the Fiscal Division and the Budget Office, along with the Department of Taxation, are cross-referencing across the two taxpayer databases, MBT and Commerce Tax, to match up the entities to determine if those who owed Commerce Tax took their credit against the MBT. He indicated if a complete one-to-one mapping can be identified, then staff will know exactly what the Commerce Tax was versus what was taken, and what that residual was as a potential liability coming in the future. He noted it was during that exercise that the Department of Taxation interacted with the taxpayer and notified them of any outstanding Commerce Tax credits that could be taken against their MBT. At the same time, staff also identified taxpayers who pay Commerce Tax, but have no MBT, thus are not entitled to a credit.

Mr. Billings asked if the simple, worst-case calculation used to reveal a sense for the Commerce Tax credit liability would be to subtract entities that have no MBT from the total unused credits.

Mr. Guindon relayed that any taxpayer that pays a Commerce Tax has a credit due; therefore, is added to the MBT tax base and is considered a liability. He said that taxpayer

would have to be put on the sheets with an amortization schedule that has a very short tail. He expressed, at this point in time, it is unknown as to what that tail looks like so we should put it all on the sheets and recognize it now.

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

Mr. Guindon identified the charts beginning on page 141 ([Exhibit A](#)) as economic indicator tables that are updated for each Economic Forum meeting. U.S. total nonfarm employment is about 6.6% above its prerecession peak, through the end of 2017, versus Nevada's total nonfarm employment of 4.6% above its peak. He said if you back out construction, Nevada is 9.2% above its prerecession peak.

Charting of Nevada construction employment (page 144) reveals a very deep trough. Mr. Guindon stated if construction activity takes off like it did prior to the recession, it would be a leading indicator that things are maybe getting too hot again. He said when comparing construction projects prior to the recession versus the high volume of projects on the table going forward, projects today are less related to lucrative conditions for housing financing that led to the recession.

Mr. Guindon explained that employment in Nevada versus the U.S. fell harder during the recession and came back slower; therefore, it has been harder for Nevada's employment to surpass its peak more so than the U.S. He pointed out that in the first quarter of 2011, Nevada's employment growth rate exceeded the national average growth rate.

The chart on page 148 ([Exhibit A](#)) shows a comparison of U.S. Consumer Price Index (CPI) and Select CPI Components. Mr. Guindon said it is no surprise that the energy component is the major volatility in the CPI. The charts on pages 149 through 151 ([Exhibit A](#)) represent growth and volatility associated with other components affecting growth. He noted in spite of all the stimulus that was done during the recession and the equity and money that was put into the economy, there still are no signs that inflation is a concern, as it sits around 2%.

When comparing U.S. total personal income and total wages and salaries to Nevada's, since their previous peak, U.S. total personal income was up 30.9% (2008Q2 to 2017Q4) and total wages and salaries were up 29.7% (2008Q3 to 2017Q4). Mr. Guindon pointed out the peak to trough for U.S. total income and wages was almost deminimis. Nevada total personal income was up 28.6% (2007Q4 to 2017Q4), slightly below U.S. growth; however, Nevada total wages and salaries was only up 16.6% (2008Q1 to 2017Q4). He explained that construction played a large role in Nevada's growth rate, as that industry tends to pay wages above the statewide average. With the loss of so many construction jobs during the recession, it was hard to make up that lost ground as fast as the U.S. (Pages 152-153). He noted Nevada personal income was growing slightly above the U.S. average, and Nevada average wage was growing as fast as, if not faster, than the national average wage.



Mr. Guindon reported that Nevada's per capita personal income, in inflation-adjusted terms, has not recovered from the recession and still sits below the prerecession peak (page 157, [Exhibit A](#)). He commented on inflation-adjusted purchasing power in terms of people spending their after-tax disposable income on activities that are taxed and affect state revenue.

Mr. Billings recalled presentations throughout this meeting that addressed U-5 and U-6 unemployment, specifically relating to the following: the number of people working part time that would rather be working full time; the stimulation of economic development that drives high-value jobs; and Nevada's per capita personal income, inflation adjusted, which was down 8.3% in terms of real purchasing power, impacting Sales and Use tax. He asked Mr. Guindon to relay his thoughts on this information and his perspective on how all the pieces tied together.

Mr. Guindon said he shared some of the same reservations as Mr. Billings, but reserved the right to answer that question, after further review, when he presents his forecast in the fall of 2018. He agreed the presentations somewhat conflicted with the charts presented under this agenda item, specifically those on a per employee basis or income on a per capita basis. He questioned if wages from part-time jobs were affecting the statistics. He expressed that he did not have a good answer at this time.

Mr. Billings said Nevada is probably a great place to live if you are a solutions architect living in Reno, but maybe not for a valet in Las Vegas. He presumed Nevada's -8.3% per capita personal income probably had a much higher standard deviation, and had a wider bell curve than in the 2004/2005 timeframe. He stated that the dispersion of incomes might not impact forecasting too much, because aggregate demand may be what it is at the end of the day, but it is certainly something to think about as residents of the state.

Mr. Guindon agreed, and stated that the decrease in per capita income, on inflation-adjusted terms, could affect sales tax, entertainment tax and gaming tax, because people may not have money budgeted for shows and gambling, especially in relation to increased rents and housing prices. He also argued that it was possible that because gaming and live entertainment are non-necessities, they are even more remotely attached to the decrease in capita income (inflation adjusted) versus taxable sales.

Mr. Guindon observed how close the average percent change was for the U.S. versus Nevada per capita personal income growth rates, both nominal and inflation-adjusted terms, especially after the recession and through the recovery phase (pages 160-161).

Mr. Guindon pointed out on page 163 ([Exhibit A](#)) that Nevada wages and salaries per employee are -5.4% below the peak in inflation-adjusted terms, and indicated staff would be researching the cause. A side-by-side comparison of U.S. and Nevada wages and salaries show some redundancy, both in actual and inflation-adjusted terms (pages 164-165). However, when comparing U.S. versus Nevada wages and salaries per employee growth rates, specifically after 2009Q2, data shows Nevada has been lagging behind the national average. Mr. Guindon said the lag was not consistent with the economic development front in Nevada and the increase in jobs, which made him



question whether a lot of other jobs were paying less wages than the jobs brought in under GOED and the development authorities. He said staff would work with their colleagues from the Research and Analysis Division at DETR to see if they can stratify data to determine the mix in terms of the composition driving jobs and wages in Nevada.

Mr. Guindon said the tables on pages 172 and 173 ([Exhibit A](#)) were generated per a request from the Economic Forum at their December 2017 meeting to show what the State General Fund revenue looked like based on economic indicators. He explained that personal income is the high-frequency economic indicator that should be driving a lot of the taxes or revenue sources that make up the State General Fund revenue; therefore, staff included it as its own table. The chart illustrated the trend in dollars per \$1,000 of personal income showed a decrease from FY 1990 through FY 2003, followed by a jump due to a tax package that was approved in the 2003 Legislative Session, followed by a fall during the recession. Because of the revenue actions taken during the recession, General Fund revenue per \$1,000 of personal income rose to levels that were established based on the 2003 tax, and then dropped again through FY 2015 until another tax package was approved in the 2015 Legislative Session. Mr. Guindon conveyed that General Fund revenue per \$1,000 of personal income has not reestablished back to levels seen in the early 2000's.

Chairwoman Rosenthal asked if the disconnect could be related to U-6, involuntary, part-time employment. She acknowledged the drastic increase in personal income during the economic downturn, and questioned if U-6 employees, and their wages, were considered in the calculation. For example, a U-6 employee made \$40,000 per year, but dropped to part-time making \$20,000 per year. The drastic drop in wages could be having an impact on the personal income calculation.

Mr. Guindon said the employee part of the equation should maybe be based on full-time equivalent positions rather than by employee, and that it was a matter of defining the numerator and denominator.

### **XIII. PRESENTATION OF HISTORICAL TAXABLE SALES AND GAMING MARKET STATISTICS.**

Mr. Guindon stated the charts under this agenda item are updated and brought forward at each meeting, as well as posted on the Economic Forum's webpage on the Nevada Legislature's website. The gaming charts illustrate gaming market statistics put out by the Gaming Control Board for statewide, Washoe and Clark counties, and the Las Vegas Strip, for total win, slot win, gaming win, hold percentages, number of devices, etc. He said other charts track trends related to Gaming Percentage Fees Tax and gaming win statistics both on a monthly and quarterly basis. He noted the trends based on quarterly data were easier to read because of the sizeable variance that can occur in the monthly gaming numbers.

Historical taxable sales charts by county are also accessible under this agenda item as well as charts monitoring taxable sales for select North American Industry Classification

System (NAICS) components for Clark County, Washoe County and statewide, based on monthly data, as well as their growth rates.

Mr. Guindon reported that gaming numbers show slot win coming back and driving growth in gaming. He said total gaming win can move up or down, but the moving average shows a horizontal pattern in the recent past, especially relative to the prior forecast cycle when baccarat was popular. He said the first signs of growth on the slots side was primarily in the hold percentage, followed by an increase in coin in, which combined has made a positive impact on the slot win side of the gaming market. Mr. Guindon said the number of boxes on casino floors is different in terms of the number and type of products being offered. He said the real world can trump what is put into law, because technology and people's preferences can change, which subsequently can impact tax codes, much like with taxable sales. He elaborated that people are spending less on goods (tangible personal property) and more on services, which is eroding Nevada's taxable sales base. He mentioned internet sales and its effect on state sales tax. He said the Forum might have to take into account the outcome of the Supreme Court's ruling on the South Dakota versus Wayfair case in regard to collecting online sales tax, depending on the outcome. He conveyed that Nevada has been collecting quite a bit of taxable sales from Nevada online retailers, such as Amazon, but not all. Many online retailers have physical nexus in the state, such as Bestbuy.com Walmart.com, and Costco.com; therefore, the sales tax from online sales is being captured by the Department of Taxation. Mr. Guindon said the Department of Taxation is tracking online retailer data to identify retailers that are not collecting sales tax, thus not paying use tax to the state.

Mr. Billings cautioned optimism in gaming. He indicated there are 990 commercial casinos in the U.S., and convenience gaming has spread into every nook and cranny of the country. He said properties on the Strip that have historically relied on gaming continue to decline and have looked for other ways to drive their bottom line, such as incorporating resort fees. He reported that gaming win would not return to peak levels because that revenue is occurring in Maryland, California and a lot of other states that are taxing that revenue. Additionally, baccarat players from Asia are playing in Macau, Singapore and other markets that they could not play in the past. From a forecasting perspective, Mr. Billings recommended staying conservative in respect to gaming.

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

Mr. Guindon stated that under the 2011 Legislature, the Chair of the Economic Forum or a member of the staff of the Economic Forum is required to present to the Interim Finance Committee (IFC), the legislative body that administers the legislatively approved budget during the interim. He announced the next IFC meeting is scheduled for June 20, 2018, and that staff would work with Chair Rosenthal to compile meeting content and materials. He said the members of the IFC are primarily interested in how the actual revenues compare to the forecasts as we approach the half-way point through the current biennium.

**XV. INSTRUCTIONS TO THE STAFF OF THE ECONOMIC FORUM REGARDING THE PROCESS TO BE USED TO PREPARE AND PRESENT THE GENERAL FUND REVENUE FORECASTS TO THE TECHNICAL ADVISORY COMMITTEE AND THE ECONOMIC FORUM.**

Mr. Guindon reiterated, by statute, the Economic Forum is staffed by representation from the Budget Division of the Governor's Finance Office and the Fiscal Analysis Division of the Legislative Counsel Bureau, along with staff from the Executive Branch agencies that are administering and collecting taxes for the General Fund revenue sources for which the Forum is responsible for providing estimates.

Mr. Guindon stated the forecast process requires each Executive Branch agency to submit a forecast to Budget and Fiscal, for FY 2019, FY 2020 and FY 2021, for each revenue source that agency is responsible for administering, whether it be a major or non-major General Fund revenue source. He said the non-major revenue sources are also independent agency forecasts, but staff from Budget and Fiscal are allowed to reach out to an agency with questions or for clarifications. Although some of the non-major revenue sources only amount to \$30,000 per year, sometimes staff has to allocate more time to do the due diligence necessary to compile a consensus (Fiscal and Budget) forecast, which is brought forward to the TAC for their consideration and approval to bring forward to the Economic Forum.

Relative to major General Fund revenue sources, those forecasts are prepared independently by the Executive Branch agency, which is predominantly the GCB and Taxation, as well as by Fiscal and Budget. These forecasts are presented to the Economic Forum at a public meeting where the members ask questions and ultimately adopt a consensus forecast, which is either one of the forecasts, a combination of forecasts, or their own forecast.

Mr. Guindon asked the Forum to provide a recommendation, through a motion and a second, to continue using the current forecast process for the next forecast cycle.

MR. CRAIG BILLINGS MOVED TO CONTINUE TO USE THE EXISTING FORECAST PROCESSES TO PREPARE AND PRESENT THE GENERAL FUND REVENUE FORECASTS TO THE TECHNICAL ADVISORY COMMITTEE AND THE ECONOMIC FORUM.

THE MOTION WAS SECONDED BY MR. FRANK STRESHLEY.

MOTION PASSED UNANIMOUSLY.

**XVI. INSTRUCTIONS TO THE TECHNICAL ADVISORY COMMITTEE CONCERNING THE GENERAL FUND REVENUE FORECASTS.**

Mr. Guindon identified the TAC as a body with seven statutory members that is supported by the same staff to the Economic Forum. He explained that during the last forecast cycle, the Forum voted to move the Cigarette Tax from a non-major General Fund

revenue source to a major General Fund revenue source due to the tax increase approved during the 2015 Legislative Session, and also because of the approximately \$180 million revenue it generated in FY 2017. He brought attention to an error in Tables 1 through 5 ([Exhibit B](#)), which listed the Cigarette Tax as a select non-major General Fund revenue, stating it should have been moved up with the major General Fund revenues.

Mr. Guindon asked the members of the Forum if they wanted to continue to categorize the following revenue sources as major General Fund revenue sources: Sales and Use Tax, Percentage Fees Tax, Insurance Premium Tax, Modified Business Tax, Live Entertainment Tax (Gaming), Real Property Tax, Commerce Tax, and the Cigarette Tax. He explained that after the Live Entertainment Tax was adjusted in the 2015 Session, the members of the Economic Forum decided to break out the Gaming and Non-gaming portions, because the Department of Taxation administers LET (Non-gaming) and the GCB administers LET (Gaming). Currently, LET Non-gaming is treated as a non-major General Fund revenue; however, Mr. Guindon suggested moving it up to a major General Fund revenue source, but with two separate forecasts (Gaming and Non-gaming).

Mr. Guindon explained that in the previous forecast cycle, the Forum was not presented with individual forecasts for the Commerce Tax, but instead staff from Taxation, Budget, and Fiscal worked together to bring forward a consensus forecast for the Forum's consideration. Mr. Guindon asked the Forum to consider maintaining the same forecast process for the Commerce Tax for this next forecast cycle due to its lack of history, since it is a relatively new tax, and because of the credit it generates against the MBT and the discussion points and questions it raises. He reinforced that all non-major revenue sources would be handled by the TAC, and the TAC would continue to use the existing process to prepare the forecasts that are brought forward as a consensus forecast for the Economic Forum's consideration.

Mr. Streshley suggested moving the LET (Non-gaming) revenue source to the major General Fund revenue category, especially due to the shift in live entertainment from gaming to non-gaming venues, such as T-Mobile. He noted that non-gaming seems to be where the growth is.

Mr. Leavitt agreed and suggested the Cigarette Tax be considered a non-major General Fund revenue source because it is a dead tax, meaning it was not going anywhere.

Mr. Guindon suggested a motion be made to provide the following instructions to staff and the Technical Advisory Committee concerning the General Fund Revenue forecasts. He suggested the following revenue sources be considered major General Fund revenue sources: Sales and Use Tax; Gaming Percentage Fees Tax; Insurance Premium Tax; Modified Business Tax; including Financial, Non-financial, and Mining; Live Entertainment Tax, including Gaming and Non-gaming; Real Property Tax, and the Commerce Tax, with the Commerce Tax being a consensus forecast prepared by staff for presentation to the Forum.

He suggested the Cigarette Tax be considered a non-major General Fund revenue source forecast by the TAC.

MR. BILLINGS MOVED TO ACCEPT MR. GUINDON'S SUGGESTED LANGUAGE REGARDING INSTRUCTIONS TO THE TECHNICAL ADVISORY COMMITTEE CONCERNING THE GENERAL FUND REVENUE FORECASTS.

THE MOTION WAS SECONDED BY MS. LEWIS.

MOTION PASSED UNANIMOUSLY.

In regard to the Commerce Tax forecast, Mr. Leavitt requested that staff from Taxation, Fiscal and Budget provide the Forum with observations and economic expectations for which they base their consensus forecast during the forecast process.

Mr. Guindon stated there were no statistical observations available during the last forecast cycle, and that staff relied on various economic indicators, such as gross state product, employment, and personal income. Staff compiled a table that showed projected Commerce Tax estimates that assumed various growth rates, showing what the Commerce Tax would look like as a ratio of gross state product, and the outlook for gross state product employment. He said, at a minimum, staff would continue the same forecast process going forward into the next forecast cycle.

#### **XVII. SCHEDULING OF FUTURE ECONOMIC FORUM MEETINGS.**

Mr. Guindon said the next Economic Forum meeting will be held in early October, which will consist of various presentations for informational purposes. No forecasting will occur at that meeting. Additional meetings will follow in early November, after the General Election, and most likely on December 3, 2018, because numbers from the Department of Taxation and the GCB are not expected for release until November 25, 26 or 27 of 2018. Mr. Guindon announced that the meeting materials for the December meeting may not be available on the Economic Forum's webpage until the weekend before the meeting.

#### **XVII. PUBLIC COMMENT.**

Chairwoman Rosenthal asked for public comment at both Carson City and Las Vegas. There was no public comment.

#### **XVIII. ADJOURNMENT.**

The meeting adjourned at 1:16 p.m.

Respectfully submitted,

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Judy Lyons, Committee Secretary

APPROVED:

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Chairwoman Rosenthal

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.**