MINUTES OF THE MEETING OF THE
ECONOMIC FORUM
(NRS 353.226 – NRS 353.229)
May 1, 2019

The meeting of the Economic Forum (created by Senate Bill 23, 1993) was held at 9:00 a.m. on May 1, 2019, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada, with videoconference to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

ECONOMIC FORUM MEMBERS PRESENT IN LAS VEGAS:
None.

ECONOMIC FORUM MEMBERS PRESENT IN CARSON CITY:
Linda Rosenthal, Chair
Craig Billings, Vice Chair
Frank Streshley
Marvin Leavitt
Jennifer Lewis

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)	Revenue Outlook: State 2% Sales and Use Tax, Gaming Percentage Fees, Moody's Analytics
(Exhibit C)	Table 8 (green paper) Same as Table 8 Starting on Page 183 (Exhibit A)
(Exhibit D)	Gaming Control Board, Gaming Revenue Forecasts
(Exhibit E)	Executive Budget Office, Revenue Forecasts
(Exhibit F)	Fiscal Analysis Division Forecast Information Packet
(Exhibit G)	Department of Taxation, Major Revenue Forecasts
(Exhibit H)	MBT Forecasts (Blue Paper) – Without Rate Reduction in FY 2020 and FY 2021
(Exhibit I)	Commerce Tax Due Estimate Scenarios - Tables 1, 2 and 3
(Exhibit J)	Commerce Tax and MBT Commerce Tax Credits - Tables 1 to 6
(Exhibit K)	General Fund Revenues - Economic Forum's Forecast for FY 2019, FY 2020 and FY 2021 Approved at the May 1, 2019, Meeting

(Exhibit L) Economic Forum General Fund Revenue Forecast Comparison: May 1, 2019, Forecast Versus December 3, 2018, Forecast
(Exhibit M) Letters to the Governor and the 80th Legislature

I. ROLL CALL.

The meeting of the Economic Forum (Forum) came to order at 9:08 a.m. and the secretary called roll. The members attended the meeting in Carson City.

II. OPENING REMARKS.

Chairwoman Rosenthal stated that, per *Nevada Revised Statutes*, the Economic Forum (Forum) was required to approve revenue forecasts for select major General Fund revenue sources listed under Agenda Item X. The approved May 1, 2019, forecast would be provided to the Governor for his approval and used by the 80th Legislature to develop the legislatively approved General Fund budget. She announced that presentations would be provided by Dan White, Moody's Analytics, pertinent to national and state economic outlooks, and David Schmidt, Department of Employment, Training and Rehabilitation, Research and Analysis Bureau, on state employment. Additionally, the Forum would hear updated economic information and revised forecasts from the agency (Gaming Control Board or the Department of Taxation) that administers the General Fund revenue source, as well as from staff at the Executive Budget Office (Budget) and the Fiscal Analysis Division (Fiscal), based on information obtained since the December 3, 2018, meeting. Additionally, the Forum would be approving minor General Fund revenues and tax credits for FY 2019, FY 2020, and FY 2021, approved by the Technical Advisory Committee (TAC) at its April 24, 2019, meeting.

Chairwoman Rosenthal announced that a recess would follow the approval of revenue forecasts under Agenda Items X and XI to allow staff time to update the revenue forecast tables and prepare the Economic Forum's report on future state revenues. The report requires the Forum's approval prior to its distribution to the Governor and the members of the 80th Legislature.

Chairwoman Rosenthal communicated sincere gratitude to Assemblywoman Ellen Spiegel, Chairwoman of the Assembly Committee of Commerce and Labor, for giving up her meeting room (Room 4100) to accommodate the Economic Forum during the 2019 Legislative Session.

III. PUBLIC COMMENT.

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

***Agenda Items, IV, V and VI were approved under one motion*.**

IV. APPROVAL OF THE MINUTES OF THE OCTOBER 11, 2018, MEETING.

V. APPROVAL OF THE MINUTES OF THE NOVEMBER 8, 2018, MEETING.

VI. APPROVAL OF THE MINUTES OF THE DECEMBER 3, 2018, MEETING.

MR. LEAVITT MOVED FOR APPROVAL OF THE MINUTES FOR EONCOMIC FORUM MEETINGS HELD ON OCTOBER 11, 2018, NOVEMBER 8, 2018; AND DECEMBER 3, 2018.

MS. LEWIS SECONDED THE MOTION.

MOTION CARRIED UNANIMOUSLY.

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

Daniel White, Economist, Moody's Analytics

Mr. Daniel White, Director of Fiscal Policy Research, Moody's Analytics, recognized his tenth year presenting to the Forum. He expressed that his economic outlook was more optimistic since his November 8, 2018, presentation to the Forum, predominantly due to the change in policy by the Federal Reserve. The U.S. economy was exceptionally good with one of the tightest labor markets since the late 1960's. According to the Job Openings and Labor Turnover Survey produced by the Bureau of Labor Statistics (BLS), 7.8 million job openings were reported in March 2019 compared to 7.1 million job openings in December of 2018. Mr. White argued that the historic high in the quits rate was a good sign economically, stating if people felt confident enough to voluntarily leave their job, it was likely another job was lined up. He conveyed that some of Nevada's industries with the most job openings, such as leisure, hospitality and retail, were not as procyclical as others and jobs could disappear overnight in the event of another economic downturn. However, there were also many jobs in industries related to health care, professional services and manufacturing, which made Moody's more optimistic going forward. He said the leading edge of the next recession would not be quite as drastic relevant to job loss, but more of a steady downhill decline.

Mr. White cited Nevada for having the fastest-growing economy in the country in terms of job growth, which was expected to continue throughout 2019. He said record job openings were a product of the labor force not growing fast enough to soak up the excess capacity, both locally and nationally. Nevada wages were growing quicker than in other parts of the country, especially in industries such as manufacturing and professional services, with a very particular and skilled labor force. Additionally, wage rates in construction increased significantly due to the lack of skilled tradesmen. Mr. White reported wage growth was expected to continue for at least another year or more, which made a strong impact in Moody's sales tax forecast for FY 2019 and FY 2020.

Mr. White indicated an economic downturn or slowdown in the U.S. is expected by the end of calendar year 2020, which was postponed from his November 8, 2018, mid-2020 projection. He communicated that in November 2018, the Federal Reserve expected to raise the Federal Funds rate four or five times, up to 3.25% and 3.50%, before the end of the business cycle. Instead, the Federal Reserve lowered its guidance for interest rate hikes and kept rates steady in the 2.25% to 2.50% range, which is expected to continue until inflationary pressures pick up. Mr. White explained that tight employment results in wage growth, which triggers American consumer spending and prompts higher inflation. At that point the Federal Reserve has the tendency to raise rates, which ultimately kicks off the business cycle. Without those inflationary pressures, the Federal Reserve has no reason to raise rates, and potentially cut the economic expansion short, for no other reason than to keep inflation under check. Mr. White said he would be surprised to see one or more rate hikes over the next two years unless inflation picked up.

Mr. White reported that June 2019 will mark the 10-year anniversary of the last recession, and July 1, 2019, will mark the longest running expansion in American history. He said Moody's expects this business cycle to end very much like it did in the late 1990's with more of a Wall Street-like recession focused in the financial markets.

Moody's Analytics projected a growth recession in their base forecast, meaning the gross domestic product (GDP) will not decline year-over-year, but instead move quickly from the 2.5% to 3.0% growth seen today to 0.5% or 1.0% overnight. He said the result showed relatively mild declines in GDP or disposable personal income; however, its impact on the labor market was significant, which was a reason why Moody's predicted a recession to occur within the next two years.

Mr. White identified three reasons for an economic downturn to occur in the second half of 2020.

1. <u>High Labor Market</u>: The consensus among economists target the U.S. full employment unemployment rate in the 4.3% to 4.5% range. The full employment unemployment rate changes depending on factors such as labor market rigidity, size of labor force and labor force participation rate. Mr. White said Moody's estimates full employment unemployment rate at around 4.3%, which is in-line with the Federal Reserve's observation. He said, with every recession since World War II, the actual unemployment rate fell below the full employment rate and typically took about three years after reaching full employment to begin the next recession. The last time the U.S. economy saw 4.3% unemployment was in the third quarter of 2017. Mr. White noted that some economists target the full employment unemployment rate closer to 3.9% or 4.0%, which would provide a slight upside risk to a downturn occurring in early 2021 versus the second half of 2020. Thus, although the observed unemployment rate in relation to the full employment rate is generally a good indicator a recession is coming, it is not as well established as to when the recession will occur.

2. <u>Yield Curve</u>: Mr. White said past recessions were always preceded by an inverted yield curve, specifically the 10-year and 3-month yield curve. Historically, if the 10-year and 3-month inverted, a recession would occur approximately one to one-half years later. He explained that the yield curve describes the profitability of lending.

The larger the gap between long-term and short-term interest rates, the more profitable lending becomes. The narrower the gap, the less profitable it is to make a loan. If the yield curve inverts, it is less likely that banks will lend money. When banks stop lending money, the economy stops growing, which becomes a key coincident indicator of when the next recession is going to occur.

Mr. White referred to the yield curve chart on page 137 (Exhibit A) and pointed out the multiple occurrences when the average length of time between inversion and recession was zero months, or close to zero months. He said it was very clear that the yield curve was close to inverting, and that an economic downturn would likely occur within 18 months afterwards.

3. Federal Reserve: Mr. White indicated that the Federal Reserve has done very well with its approach for the U.S. economy and is the basis for Moody's optimistic outlook. However, the Federal Reserve represents a potential risk factor for the next recession, as the markets are not convinced that the Federal Reserve will exercise what they publicly communicate. He said in November 2018, the difference between the markets and the Federal Reserve was stark, as the Federal funds futures projection for the federal funds rate was flat and straight while the Federal Reserve's dot plot was high and level at about 3.5% after 2020. Mr. White voiced that the Federal Reserve announced rate hikes over the next year or two, indicative of the blue line on page 138 (Exhibit A); however, the market was skeptic and anticipated the opposite. He implied that if the Federal Reserve was wrong, the forecast would simply be adjusted, whereas if the entire market changed their expectations simultaneously, a tremendous amount of volatility would be created. He elaborated that it would be much harder to grow revenues after reaching the top of the business cycle versus during the expansion period, as that period is already a volatile financial time. He reiterated that, if the Federal Reserve did not lower interest rates by the end of 2019, it could cause a lot of people to change their expectations at once and become the catalyst for some kind of financial correction that could cause a downturn.

Mr. White said, because of Nevada's industrial mix, the past few recessions were closely tied to the U.S. economic outlook. He referred to the chart on page 135 (Exhibit A) and emphasized the diversity in Nevada's economy in contrast to ten years ago, stating it should withstand a better outcome in the next recession compared to previous recessions. Leisure and hospitality, retail and construction are very strong presences in Nevada and are closely tied to the overall business cycle, especially in the U.S; however, the many jobs that have been added in goods-producing industries and private services outside leisure/hospitality are expected to pay dividends in terms of fluctuation relative to previous business cycles. Mr. White acknowledged the chart on page 135 that showed year-over-year gains in employment across the industries. He said employment declines are expected in 2021, but not to the extent seen in the past. The degree to which the newly-added industries can ramp up over the next 18 months will greatly influence the cyclicality of the next downturn in terms of Nevada's employment.

Mr. Streshley asked if Nevada's downturn was projected to coincide with the national downturn, as well as its rate of recovery compared to the U.S., considering the state's diversification efforts.

In response, Mr. White stated that Nevada is expected to rebound a little faster than seen in past recessions, with less volatility, and will be more cyclical then the rest of the country in terms of the U.S. average. The downturn in Nevada's economy is timed in conjunction with the U.S. downturn, and will be a result of the changes in Nevada's underlying economy. He said Moody's now uses more Nevada-specific drivers such as personal consumption expenditures in their sales tax forecast as opposed to the U.S. unemployment rate and U.S. recreational services spending that is tied to national interest rates on construction and tourist activity, which he believes will highlight the difference in Nevada's economy going into the next downturn as opposed to the last downturn.

Mr. Leavitt recalled that, prior to the Great Recession, unusually heavy emphasis was placed on construction, including both labor and production, in Nevada. With construction as a total percent of the economy being much lower today than it was then, he questioned its impact on Nevada's economic recovery following the next recession.

Mr. White said the labor force shortage in the construction industry has prevented Nevada and the Mountain West from building as fast as they would like, and certainly much slower than in 2005 and 2006. Considering the lesser amount of housing inventory in this expansion and the very low interest and mortgage rates, building was still very controlled. He conveyed that Nevada's housing market was undersupplied in certain areas, thus the biggest factor in Nevada's recovery would be whether the addition of adversity in Nevada jobs would allow for faster-than-average in-migration into the state through the next business cycle. Prior to the Great Recession, in-migration and population growth was expected to climb at an increasing rate of 1.0% to 1.5%, but due to the Great Recession, jobs were abolished and people did not locate to the state. With less jobs in construction and more jobs in less cyclical industries, such as manufacturing and professional services, Nevada was set up to be less cyclical in terms of housing and construction than it was in previous downturns.

Chairwoman Rosenthal acknowledged Moody's revised outlook for Nevada's economic cycle, as well as the timing of the projected recession shifting from mid-2020 to late 2020. She asked if Moody's expected similar results in regard to the magnitude of the downturn compared to their November 2018 outlook.

Mr. White clarified that Moody's was projecting a relatively small recession much like the 2001 recession. He explained that, in terms of preparing budgets, Moody's usually performs forward-looking stress tests to determine reserve levels. Mr. White stated Moody's has been advising their clients to prepare for something in-between a 1991 and a 2001 recession. He noted there were risk factors in the economy that could make the recession worse, which were not included in his baseline forecast.

Mr. White referred to Moody's sales and use tax revenue forecast on page 140 (Exhibit A) of the meeting packet. He communicated that the FY 2019 revenue outlook was slightly stronger than his November 8, 2018, forecast as a result of historical collections that were built into the forecast. In the second quarter of FY 2019, Nevada sales tax grew 9.1% while national state sales tax growth declined approximately 3.0%. The 9.1% growth was attributed to durable goods purchases stemming from large construction projects.

Mr. White explained that actual data acquired from the Fiscal Analysis Division was inputted into his sales and use tax forecast model to test for accuracy, while making adjustments as necessary. He said his model did not produce the 9.1% growth forecast in the second quarter of FY 2019 (as seen on page 140); however, he did not change the model because of certain non-economic factors that played a role in his forecast, namely in terms of net tax credits issued in FY2018 versus FY 2019. His forecast for FY 2020 showed slightly less-robust growth than in FY 2019, especially toward the end of FY 2020 when most of the fiscal stimulus from the federal government was fully worked out of the system. He explained that the Tax Cuts and Jobs Act of 2017 provided a tax cut to most Americans in the last twelve months, which impacted data pertaining to consumer spending, disposable personal income and tax returns. He noted that the tax cuts faded over time, and contended that by 2020 most taxpayers would forget that they received a tax cut. Moody's sales and use tax forecast for FY 2021 showed growth of 1.5%. Mr. White said sales taxes were much more stable overall than other revenue sources like gaming percentage fees that were tied to the U.S. business cycle, and were less likely to fall as quickly as other revenue sources during an economic downturn. He indicated there is a base level of consumption that people will continue to fulfil, even if income is tight, in respect to year-to-year changes.

Mr. White reiterated that his sales and use tax forecast showed a decline in the expected growth in Nevada personal consumption expenditures (page 141, Exhibit A), and was very contingent on relatively healthy in-migration and population change. If population and in-migration decline year-over-year, his sales and use tax collections forecast could be overly optimistic.

Relative to Moody's Gaming Percentage Fee forecast (page 142, Exhibit A), Mr. White recognized extraordinary third-quarter numbers, stating they were not consistent with the economic variables. He said Moody's model has grown away from using underlying economics and focuses more toward idiosyncratic factors around seasonal events, such as the Lunar New Year, teams playing in the Super Bowl, and the economic growth in China. Statistically, these influences have not made a significant enough impact to incorporate into Moody's econometric models. He said the third-quarter number had a lot to do with the baccarat take, which is not predictable from an economic standpoint. He said the long-term forecast for FY 2020 and FY 2021 was driven more by actual trend economics, but the quarter-to-quarter changes, which are much more seasonal, were based on idiosyncratic factors. Mr. White said his forecast for FY 2020 is much lower than what he presented in November 2018 due to its difficult comparison to FY 2019. The overall revenue number was relatively unchanged from the previous year, but because of the strong third quarter in FY 2019, it looked worse on a year-to-year percentage change basis. FY 2021 showed low growth, especially beginning in the second half of that year.

Mr. White said gaming spend was one of the first things that fell during the Great Recession due to a decline in visitors and less spending at the gaming tables, but gaming spend per visitor, especially in Las Vegas, has started to creep up. Because of the secular changes in the gaming industry, causing the secular decline in gaming percentage fees, this revenue source was not expected to come back. Mr. White emphasized that healthy visitor volume and increased visitor spending supported his theory that we have reached the top of the business cycle.

VIII. PRESENTATION ON THE STATE EMPLOYMENT OUTLOOK.

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

Mr. Schmidt stated Nevada employment today was similar to November 2018 where it demonstrated a few months of exceptional growth followed by a couple months of underwhelming growth, including one month of job loss in February 2019 and one month of small growth. Jobs were up 47,200 jobs year-over-year since March 2018, with a few months peaking at over 50,000 jobs between December 2018 and now. Annual growth measured 3.4% in March 2019 (page 149, Exhibit A) compared to a year ago, and produced the best months of job growth seen in this particular recovery.

Mr. Schmidt reported that Nevada's employment growth of 3.4% grew double the rate of the nation (1.7%) as a whole, and has outperformed the nation for 80 consecutive months. He provided the following employment summary: construction and manufacturing were among Nevada's highest-growing industries, with job opening levels that exceeded the national level. Construction made up about 100,000 jobs compared to 150,000 construction jobs during the height of the previous boom, yet total employment currently exceeded that peak by approximately 200,000 jobs. Even though 11,300 construction jobs were added, the construction industry was basically keeping up with the economy rather than outpacing overall job growth. Leisure and hospitality is one of the state's largest employment sectors; however, that industry has contributed about 1.0% job growth compared to the 3.4% growth seen in the state as a whole. Professional and business services led the way with almost 15,000 jobs added on average over the last year, which included temporary help services as well as call center employment.

Mr. Schmidt referred to the unemployment rate chart on page 152 (Exhibit A). He said at the end of 2018, the unemployment rate was 4.4% compared to 4.2% in March 2019. Although Nevada's unemployment rate sat 0.4% above the national level currently, it held a spot as a high-ranking state (between 10 and 15) in regard to high unemployment, compared nationally. Mr. Schmidt reported that Nevada held the second-highest rate of underutilization in the nation in relation to the number of people who currently worked part time, but preferred to be working full time. Long-term unemployment (unemployed for 27 weeks or longer) data showed that Nevada rated evenly with the U.S., whereas the state's overall short-term unemployment was higher than the nation's. He elaborated that long-term unemployment can include people who might be new entrants to the labor market or are going through a job transition, and/or can also signify a dynamic labor force where individuals left their jobs to look for something else, and the survey was taken during the time of transition.

Mr. Schmidt summarized the different unemployment measures, including U-3, U-4, U-5, and U-6, with U-6 including part-time workers and U-4 and U-5 including discouraged workers and marginally attached workers. He said rarely did he hear about measures

U-1 and U-2, as the U-1 measure includes people who are unemployed for 15 weeks or longer and the U-2 measure includes people who are unemployed due to job loss.

Mr. Schmidt referred to the chart on page 154 (Exhibit A) that compared unemployment by job loss to those who were unemployed for other reasons, such as voluntary leave (quits rate), laid off, or were a reentrant to the labor force. He voiced that, during the Great Recession, unemployment consisted mostly of people who lost their previous job. In the 2015 to 2018 period, unemployment was roughly in balance between job losers and everyone else, and in the last two quarters of calendar year 2018, the number of job losers had fallen and the share of unemployed that voluntarily left or reentered the labor force grew. Mr. Schmidt said the U-2 rate was tied with the lowest rate ever seen, and the number of additional nonjob losers compared to job losers was at its peak going back to 2003. He deemed this was an encouraging sign as it showed more voluntary unemployment versus involuntary unemployment.

Mr. Schmidt stated that unemployment claims are generally filed by job losers, which have fallen consistently for a number of years. He pointed to the "Final Payments (Exhaustions)" line item on page 155 (Exhibit A), which encompassed those who were receiving a final unemployment insurance payment, and stated that number was down 14% in March 2019 compared to a year ago.

Mr. Schmidt explained the following computed measures relevant to unemployment:

- The average duration for collecting unemployment benefits is steady at about 13.3 weeks, and is consistent with averages reported during the boom in 2005/2006.
- The exhaustion rate represents the number of people who exhaust their benefits as a share of everyone who started receiving benefits, which measures approximately 1.0% higher than it was in the previous boom. The long-term average of the exhaustion rate runs approximately 33.0% to 34.0%.
- The share of people who are receiving unemployment as a share of the workforce is very low in both Nevada and nationally. The level of initial claims nationally, every month or two, seems to hit a new 50 or 60-year low, the lowest levels seen since 1969.

From 1991 to 2001, total employment in Nevada and total casino hotel employment, on a 12-month average, increased at a very similar pace. In 2001, employment continued to rise, but casino hotel employment leveled off and subsequently dropped due to the 2001 recession. By 2005/2006, casino hotel employment recovered, but fell during the Great Recession and stayed fairly flat thereafter. Mr. Schmidt explained that leisure and hospitality is a very broad industry group in Nevada that includes accommodation and food service, which puts McDonald's and Caesar's in the same group. Casino hotels are a large part of the image of Nevada and employs a lot of people, but although the leisure and hospitality industry is growing as a whole, a large piece of that industry has been flat since 2001 or declining over that 20-year period.

Mr. Schmidt stated that Nevada's economy has shifted, as seen in the chart on page 157 (Exhibit A). He explained that the upper right quadrant represented industries that were growing faster than average and paying above-average wages, such as manufacturing, health care, construction, and management of companies and enterprises; however, the total share of employment in that quadrant was pretty small. The lower left quadrant represented industries that were growing slower than average and paying below-average wages, such as accommodation and food services and retail trade. The upper right quadrant represented industries with an increased concentration of workforce and associated wages that would cause the average wage to increase, and the lower left quadrant represented industries with a declined concentration in workforce relative to other industries, and below-average wages that, as they decline, will shrink the influence of those wages on the overall average.

Mr. Schmidt reasoned that increased wages are the result of a tight labor market, low unemployment rate, and slow growth in industries that tend to push wages up overall. He was quick to point out that per capita personal income in Nevada has been lagging the U.S. for some time. In the fourth quarter of 2018, per capita personal income in Nevada was $48,700 compared to $54,500 in the U.S. However, total personal income was increasing at a faster clip than the U.S. due to Nevada's fast growth rate. Nevada led the nation in year-over-year employment growth over the last 6 months, and has held a top-three ranking among states over the last 12 months. Reno or Las Vegas have been popping up as the fastest growing metropolitan area in the nation or, in the case of Las Vegas, the fastest growing large metropolitan area.

Mr. Schmidt brought attention to the yield curve charts on page 159 (Exhibit A) that showed various yield spread movements over the course of one month. The chart exhibited a brief yield curve inversion that also showed up in the 10 year–3 month measure that occurred toward the end of March 2019, which largely recovered the following month. He said depending on the yield curve movement, whether the 3 year-6 month, 10 year-3 month, 10 year-2 year, or 5 year-3 year, the results varied. As of April 2019, the 1-month to 10-year yield curve was flat at 2.50% with a slight increase in the 20-year to 30-year yield curve.

Chairwoman Rosenthal acknowledged the overwhelming amount of historical data presented, and asked if there was a slide that showed a general view of the state's outlook going forward.

Mr. Schmidt announced that the Department of Employment, Training and Rehabilitation (DETR) recently completed their short-term industrial projections, which run through the middle of 2020 that showed growth between 2.0% and 2.5% on average from 2018 to 2020. Because of strong third and fourth quarters in 2018, he expected growth to come in a little higher.

Chairwoman Rosenthal asked for an update on in-migration and out-migration specific to Nevada.

Mr. Schmidt indicated that Nevada's job growth is supported by people who are reentering the labor force and through population growth. He said Nevada is ranked first in the country for the fastest-growing population in the nation, beating out Idaho for the most recent year. Anecdotally, it has been communicated that housing prices have discouraged some people from moving to the area, even when taking into consideration a higher level of pay. He said growth is apparent, but he was looking forward to the release of the 2020 census to get a full accounting for Nevada's population.

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

Mr. Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, stated the taxable sales and gaming charts were not provided in hard copy form, but were available for viewing on the website. The intent of this agenda item was to provide information and permit discussion in the event there were questions posed by the Forum. Mr. Guindon affirmed that the charts and tables had been updated to include the latest monthly data for both gaming and taxable sales elements.

Chairwoman Rosenthal called a recess at 10:13 am. The meeting reconvened at 10:24 am.

X. REVIEW AND APPROVAL OF FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2019, FY 2020, AND FY 2021.

A. Gaming Percentage Fee Tax
B. Live Entertainment Tax
- **Gaming**
- **Non-Gaming**

C. State 2% Sales Tax
D. Insurance Premium Tax
E. Modified Business Tax
- **Nonfinancial Institutions**
- **Financial Institutions**
- **Mining**

F. Real Property Transfer Tax
G. Commerce Tax

Mr. Guindon explained that at the December 3, 2018, meeting, collections data was reported for taxes due and payable both monthly (through three months) and quarterly (through the first quarter). Currently, data has been reported by the Department of Taxation through the second quarter for the quarterly revenue sources, as well as five to six months of additional information for the monthly revenue sources. He identified the following meeting materials that were referenced under this agenda item:

- TABLE 1 (page 161, Exhibit A), four historical fiscal years and year-to-date actual collections through March of FY 2019.
- TABLE 3 (page 171, Exhibit A), forecasts for all revenue sources that were reviewed and approved by the Technical Advisory Committee (TAC) and forwarded to the Forum for consideration.

- TABLE 4 (page 179, Exhibit A), forecasts for major General Fund revenue sources by forecaster to be considered by the Forum.
- TABLE 8 (page 183, Exhibit A), major General Fund revenue forecasts by forecaster showing each forecaster's sequence of forecast from November 8, 2018; December 3, 2018; and May 1, 2019., including the Forum's December 2018 forecasts. TABLE 8 (Exhibit C) was also distributed on green paper for the sake of convenience.
- TABLE 9 (page 191, Exhibit A), representing FY 2019 and showing year-to-date revenue for current and the last two years for each major General Fund revenue source, actual collections for FY 2019 year to date, each forecaster's forecast, and average growth required over the remainder of FY 2019 to achieve the FY 2019 forecast.

Mr. Guindon voiced that Tables 4, 8 and 9 were the most relevant resources under this agenda item. Mr. Guindon also noted that presentation materials were submitted by the Fiscal Analysis Division, the Gaming Control Board, the Executive Budget Office, and the Department of Taxation.

A. Gaming Percentage Fee Tax

Michael Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mr. Lawton said when the Forum met on December 3, 2018, statewide gaming win had been reported through October 2018 and was up 0.9%. Currently, gaming win has been reported through March 2019 with two months remaining in the fiscal year.

Mr. Lawton referred to his forecast (page 2, Exhibit D) and relayed statewide total gaming win at $9.9 billion, up 1.1% or $104.0 million compared to being up 2.3% during the same period in FY 2018. Taxable gaming revenue fiscal year to date (FYTD) was at $9.5 billion, up 1.1% or $100.5 million compared to being up 2.8% during the same period in FY 2018. In December 2018 fiscal year to date, taxable gaming win was down 1.5%. The ratio between taxable gaming revenue and win was at 95.91% compared to 95.90% during the same period in FY 2018, and at 95.45% FYTD, as reported in December 2018.

Mr. Lawton reported that Gaming Percentage Fee collections FYTD were at $641.5 million, up 1.0% or $6.0 million compared to being up 2.2% during the same period in FY 2018, and down 5.2% FYTD, as reported in December 2018. Collections were approximately 0.1% or $833,000 above the Economic Forum's December 3, 2018, forecast.

Statewide slot win FYTD (page 5, Exhibit D) was at $6.4 billion, up 3.3% or $202.6 million through March 2019 compared to being up 3.1% during the same period in FY 2018, and up 3.2% FYTD, as reported in December 2018. Mr. Lawton stated slot win was up in every major market with the exception of South Lake Tahoe.

Slot volume was up 1.8% FYTD compared to being up 2.9% in FY 2018 during this same period. Mr. Lawton testified that the long-term trend for slot volume increased in 22 of the last 24 months, and that slot volume was down in 2 markets through March 2019, including Reno and South Lake Tahoe. He attributed the loss to the severe winter, but expected those numbers to increase.

Slot hold was currently sitting at 6.83% FYTD in FY 2019 compared to 6.74% during the same period in FY 2018.

In regard to the GCB's statewide slot win forecast (page 6, Exhibit D), Mr. Lawton stated their December 3, 2018, forecast was revised to include a growth rate increase from 2.7% to 3.1% with $7.785 billion in slot win for FY 2019. In FY 2018, slot win increased by 3.7%, so to meet the forecast amount of $7.8 billion in FY 2019, slot win needed to increase by 2.6% over the remaining two months of FY 2019, going against a tough comparison of an increase of 6.7% in FY 2018. He said for FY 2020, he made a downward adjustment from an increase of 2.7% to 2.6% with $7.988 billion in win; and in FY 2021, the growth rate was adjusted down from an increase of 3.0% to 1.4% with $8.103 billion in win.

Game and table win was at approximately $3.5 billion, down 2.8% FYTD or $98.7 million. In FY 2018, game and table win was up 0.9% through March and down 3.2% FYTD, as reported in December 2018.

Statewide game and table volume was down 0.2%, and the Las Vegas Strip (Strip) was down 0.7% compared to being up 3.6% during the same period in FY 2018. Mr. Lawton recognized that statewide game volume has decreased in three consecutive months.

Game and table hold was at 13.4% FYTD compared to 13.7% during the same period in FY 2018.

Mr. Lawton reported non-baccarat games, such as roulette and sports pool (sportsbook) win, were up 8.8% or $27.0 million and 15.3% or $36.8 million, respectively. Non-baccarat game and table win was up 2.8% or $71.0 million, and volume was up 2.2% or $397.5 million, pushed by roulette volume (up 7.7% or $125.1 million) and sports pool volume (up 6.2% or $266.0 million).

Baccarat win was at $896.4 million, down 15.9% or $169.7 million. Baccarat win experienced four consecutive monthly decreases and recorded eight decreases during the first ten months in FY 2019. Volume for baccarat was down 5.3% FYTD or $434.8 million. Baccarat volume recorded declines in seven of the first ten months in FY 2019. Compounding these decreases was the hold percentage at 11.56% compared to 13.02% during this same period in FY 2018. Baccarat win was up 1.2% in FY 2018 during the same period and finished up 1.5% for the fiscal year, while volume was up 10.6% and finished up 8.1% for the fiscal year. Mr. Lawton said the last two months of FY 2019, for baccarat, were facing year ago growth comparisons of 3.3% in win and a decrease of 5.4% in volume. He conveyed that the third quarter of FY 2019 was bad for baccarat because it was was facing very difficult comparisons as volume in FY 2018 was up 20.3%, win was up 29.4% and hold was 14.4%. Mr. Lawton indicated that customers from the Far East made fewer visits to Las Vegas and the hold percentage was much lower. In FY 2019, baccarat volume was down 26.1%, win was down 30.9%, and hold was 13.6%. He noted these dynamics have been seen before, and expected trends to normalize over the upcoming quarters.

Moving to the statewide game and table win forecast (page 9, Exhibit D), because of the above results, the GCB made a downward adjustment to their December 3, 2018, forecast for FY 2019 from an increase of 0.5% to a decrease of 2.5% with $4.1 billion in win. During FY 2018, game and table win increased 1.6%. Win needed to increase by 0.8% over the remaining two months, with a 5.8% comparison, to meet the FY 2019 forecast. Mr. Lawton confirmed that the baccarat comparison was a 3.3% increase and the non-baccarat comparison was a 6.8% increase. He said the FY 2020 growth rate was adjusted up from a 2.4% increase to a 2.6% increase with $4.2 billion in win, and the FY 2021 growth rate was adjusted down from a 2.7% increase to a 1.1% increase with $4.3 billion in win.

Mr. Lawton gave a brief status on the following statewide gaming markets:

- The Las Vegas Strip gaming win, FYTD, was down 0.8% or $42.7 million compared to being up 1.0% during this same period in FY 2018, and down 1.1% FYTD, as reported in December 2018. Excluding baccarat, win on the Strip was up 2.9% or $127.6 million. The Strip faces a difficult comparison over the last two months of FY 2019 of 5.8%. The Strip is forecast to finish down 0.6% in FY 2019 compared to being up 1.7% at the end of FY 2018.

- Downtown Las Vegas gaming win was up 4.6% FYTD.

- Laughlin gaming win was up 1.3% FYTD.

- Gaming win in the Las Vegas locals market FYTD was up 4.2%. The combined markets include the Boulder Strip (up 4.0%), North Las Vegas (up 5.1%) and the balance of Clark County (up 4.2%). The Las Vegas locals market accounted for close to 20.0% of gaming win in FY 2018. Continued growth over the long term is expected, driven by sustained job growth, improved customer balance sheets, increased wages, and the housing recovery. This market had four consecutive years of growth and is forecast to grow 3.8% in FY 2019 compared to growth of 4.0% in FY 2018.

- Washoe County gaming win was up 2.1% after surviving the harsh winter. Growth is hoped to increase closer to 3.0% to 4.0% for the remainder of FY 2019.

- Elko County gaming win experienced very strong growth at 5.3%.

- South Lake Tahoe gaming win was down 1.9%.

Mr. Lawton diverted attention to the GCB's statewide gaming win forecast (page 13, Exhibit D). He said the GCB's forecast for total win and percentage fees changed since the December 3, 2018, forecast. Total win for FY 2019's growth rate was adjusted down from an increase of 1.9% to an increase of 1.1% with $11.9 billion in total win compared to an increase of 3.0% in FY 2018. To meet the forecast, total win needed to increase by 1.4% over the remaining two months of FY 2019, with a 6.4% increase as the comparison. The FY 2020 growth rate was unchanged at 2.6% with $12.2 billion in win, and the FY 2021 growth rate decreased from a 2.9% increase to a 1.3% increase with $12.4 billion in win. Mr. Lawton explained that the growth rate decrease in FY 2021 was due to the elimination of Resorts World Las Vegas from their forecast models. The expected opening date for this property was pushed back to late in the first quarter of calendar year 2021. The GCB felt that the timing was too close and would cause a negative impact on the forecast if the opening was missed. Additionally, the trajectory of the GCB's forecast for FY 2021 was softened from their December 3, 2018, forecast primarily due to the less optimistic outlook after the Federal Reserve decreased their growth rate for the GDP for FY 2021.

Lastly, Mr. Lawton presented his Percentage Fee Tax collections forecast. The GCB made a slight upward adjustment for FY 2019 from an increase of 1.2% (December 3, 2018, forecast) to an increase of 1.3% with $766.9 million in collections. The reasoning was attributed to a higher TGR/Win ratio than what was forecast in December 2018. Mr. Lawton said, although their gaming win forecast was coming in soft, that nudge was the reason why percentage fees were coming in higher than the December forecast. He forecast TGR to win of 96.01% for FY 2019, down slightly from the 96.02% forecast in December 2018. The GCB anticipated the last two months of FY 2019 gaming win to increase 1.4%, with a corresponding increase to taxable gaming revenue of 1.3%. To meet the Percentage Fee Tax collections forecast from taxable gaming revenue, percentage fees will need to increase by 3.1% over the remaining two months. The final two months in FY 2019 show increased percentage fees of 12.0% or $13.1 million due to a $9.3 million increase to percentage fees on taxable gaming revenue and a $3.8 million increase to the estimated fee adjustment (EFA). The FY 2020 growth rate was revised down from a 3.4% increase to a 2.6% increase with $786.7 million in collections, and growth rates in FY 2021 were adjusted down from a 3.0% increase to a 1.0% increase with $793.6 million in total collections due to the exclusion of Resorts World Las Vegas and a softer trajectory.

In closing, Mr. Lawton stated the GCB's long-term thesis and conclusion of gradual growth in statewide gaming win and Gaming Percentage Fee collections still remained intact, with major drivers being continued increases to visitation, increased visitation from international customers, growth in convention attendance along with an improved mix, and the mass market gaming spend, which was forecast to continue growing and offset the uncertainty associated with baccarat. He said there are several billion dollars' worth of projects finishing up in FY 2021, not including Resorts World Las Vegas, which are expected to contribute to the steady momentum. As a result of the economic uncertainty, the forward outlook for FY 2021 is less robust than it was in December 2018; however, the reduced growth rates were obtainable and could improve if a slowdown did not occur.

Mr. Streshley observed that the GCB was not forecasting a material change on the taxable gaming revenue to win ratio from now until the end of FY 2019. He said historically, many special events were held in the month of May that had a tremendous amount of credit play, which would not get collected until the following fiscal year. He asked if that was not the case for FY 2019.

Mr. Lawton communicated that the credit play typically associated with the Ultimate Fighting Championship (UFC), held annually in Las Vegas in May, was expected to come in strong like it did in 2018; therefore, the gaming revenue ratio was not increased from the previous year.

Mr. Billings asked where the GCB started its analysis in terms of forecasting Gaming Percentage Fee collections.

Mr. Lawton said the GCB started its forecast by analyzing the number of games, win per game, and win per slot, which led to volume and win. Hold percentages were looked at as well, which led to gaming win. He said taxable gaming revenue (TGR) and the TGR/Win ratio impacts Gaming Percentage Fee Tax collections as well.

Mr. Billings asked if a normalized hold percentage is used in terms of forecasting table games, particularly in FY 2020 from a drop perspective versus hold percentage.

Mr. Lawton said game and table volume in FY 2020 was projected to increase 2.1%, and with the drawdown in FY 2021, increase 0.84% in FY 2021. He could not recall his forecast for hold percentages, but minimal tweaking was involved. He remembered there being an uptick in hold percentage for a while in game and table win, and noted that he probably drew that back down because of baccarat. He expressed hope that baccarat hold would come back to the 12.0% to 13.0% range.

Mr. Billings asked for comment in respect to the desegregation of baccarat and non-baccarat growth from FY 2019 to FY 2020.

Mr. Lawton said he expected non-baccarat gaming tables, versus baccarat, to drive growth in table volume. He forecast baccarat to increase 1.5% in FY 2019 and approximately 2.0% in FY 2020. He said sports volume was blowing up and the trend was expected to continue; 21 (Blackjack) and craps were flat, and roulette was booming. Mr. Lawton noted the domestic customer was currently stronger than the international customer.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers stated that her FY 2019 and FY 2020 forecasts were essentially the same as her December 3, 2018, forecasts. The only major change in her FY 2021 forecast was the exclusion of revenue from Resorts World Las Vegas.

Ms. Powers referred to her Gaming Percentage Fee Tax forecast, beginning on page 3 (Exhibit E). She began with slot volume, based on trend, seasonality, and adjustments for special events, and acknowledged that the economic fundamentals did not seem to jive with many of the gaming variables. She conveyed underlying growth in the U.S. and Nevada economies was solid and that additional support for slot volume was expected from both visitors and Nevada residents.

Ms. Powers communicated that slot win was calculated based on historical averages for win-to-drop ratios. FY 2019 to date, the slot win-to-drop ratio was at 6.82% and was forecast to increase to 6.87% by the end of FY 2019 (page 4, Exhibit E).

Ms. Powers said she looks at trend when forecasting baccarat, as baccarat volume and win influences the overall numbers. With only two gaming activity months left in FY 2019, it seemed apparent that FY 2019 would be weaker compared to FY 2018. The outlook for baccarat volume in FY 2020 and FY 2021 was based on the assumption that baccarat play will return to recent trend.

Baccarat win was calculated based on historical win-to-drop ratios (page 7, Exhibit E). Baccarat win percentage is lower in FY 2019 than in FY 2020 and FY 2021. Ms. Powers said the forecast assumes that win percentage will return to its historical trend of approximately 13.0%.

Ms. Powers said her forecast for gaming volume and win, excluding slots and baccarat, showed an increase in trend. She referred to the games and tables summary table on page 14 (Exhibit E), including baccarat, that itemized games and tables volume, win, and the win-to-drop ratio. She stated baccarat accounted for about 30% of total volume and win.

Ms. Powers directed the members to her forecasts for statewide gaming volume, gaming win, and taxable gross gaming revenue on pages 15-17 (Exhibit E), as well as the summary of assumptions behind taxable gross revenue on page 18. She said the TGR/Win ratio was a driving factor in her forecast, which resulted in 95.9% in FY 2019 and 95.6% in FY 2020 and FY 2021 due to the assumption of slightly less credit play. Ms. Powers explained that the EFA is a mathematical formula used to determine gross collections, and that she expected a negative EFA in April 2019 and a positive EFA in May. The overall EFA for FY 2019 is estimated to be $3.1 million, resulting in $762.4 million in total collections.

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

Mr. Guindon referred to the Fiscal Analysis Division's (Fiscal's) forecast information packet (page 1, Exhibit F) that included various charts that provided an outlook for most of the major economic drivers used in their Gaming Percentage Fee Tax forecast. He explained that Fiscal begins their forecast process by reviewing the latest U.S. Bureau of Labor Statistics (BLS) data on employment, as well as Moody's national and Nevada outlook forecasts, prior to establishing their economic assumptions. After considering all of the economic variables, Fiscal staff decided not to change their economic outlook, but instead performed a true-up using the latest information. Mr. Guindon said, compared to Moody's Gaming Percentage Fee Tax forecast, Fiscal's forecast included an economic slowdown at the end of FY 2020 or beginning of FY 2021; however, based on growth rates for economic drivers specific to Nevada, specifically employment, the impact was not as dramatic as in Moody's forecast. Mr. Guindon noted that Fiscal's visitors forecast was revised to reflect a true-up against additional amounts of actual data.

Fiscal's Gaming Percentage Fee Tax forecast began on page 31 (Exhibit F) of their forecast information packet, but Mr. Guindon advanced to the slot statistics on page 38. He explained that, for forecasting purposes, Fiscal divides statewide activity into Clark County, Washoe County and the rest of the state, and forecasts slot data separate from games and table data (including baccarat). Much like the GCB, Fiscal forecast the number of devices, coin-in or drop per device, and hold percentages, which results in gaming win. The win and TGR/Win ratio are added to determine taxable gaming revenue, and an estimated effective tax rate is applied to determine the percentage fees from taxable gaming revenue. At that point an estimated fee adjustment (EFA) is forecast. Turning to page 40 (Exhibit F), Games Market Statistics, Mr. Guindon explained that the rows highlighted in yellow included Fiscal's assumptions for average game win percent, drop per game and the average number of games, and from that derives game win and win per game.

Turning back to page 37 (Exhibit F), Mr. Guindon explained that TABLE 1C displayed forecast comparisons made May 1, 2019 (yellow highlight), and December 3, 2018 (green highlight), for the major elements that drive Fiscal's Gaming Percentage Fee Tax forecast, as well as the delta between the two forecasts (orange highlight). He referred to Fiscal's December 3, 2018, and May 1, 2019, Gaming Percentage Fee Tax forecast on TABLE 8 (Exhibit C), and reported the net effect of the revised forecast process was growth rates very similar to the December forecast. With only two months left in FY 2019, the growth rate in percentage fee revenue would have to decline 0.7% against 12.8% in FY 2018 in order to hit the forecast. Mr. Guindon stated the downward adjustment made for FY 2021 was attributed to the elimination of Resorts World Las Vegas from the forecast. He reminded the members that the business activity period that represents fiscal year collections was June through May, not July through June. The December 3, 2018, forecast assumed that cannibalization would have been a factor in terms of production per unit if Resorts World Las Vegas property had come online, thus by removing the property from the forecast for FY 2021, the growth rate reduction in Fiscal's Gaming Percentage Fee Tax forecast would have less impact than perhaps what the GCB or the Budget Division forecast.

Mr. Streshley asked if slot win hold percentage was expected to grow throughout the forecast period.

Mr. Guindon stated that Fiscal's forecast made the assumption that slot win hold percentage would grow throughout the forecast period, but at a decreasing rate.

Chairwoman Rosenthal observed that visitor volume was a common factor considered by all forecasters relative to their Gaming Percentage Fee Tax forecast. She asked if visitor volume predominantly outsized local population, thus the reason why forecasters did not consider the growth in Nevada's population. Additionally, she called out the growth seen in local gaming activity, and asked if that growth would ever become a factor.

Mr. Guindon replied that visitors and Nevada residents were included in Fiscal's forecast, but not explicitly as the Demographer's population projections become a factor when forecasting volume and the hold percentage. He stated that Fiscal gut checks against volume or collections per visitor and per employee. His analysis was based on a population estimate released annually (July 1) by the State Demographer, versus the monthly and quarterly employment data, and used employment as the proxy for Nevada residents.

Ms. Powers said her visitor forecast was incorporated in volume, but employment relevant to local activity was becoming more important, especially in the slot volume forecast.

Chairwoman Rosenthal provided clarification to the members in terms of adopting a forecast. She stated the members could choose one of the forecasts presented, consider a combination of different forecasts, or recommend their own numbers.

MR. LEAVITT MOVED TO APPROVE THE ECONOMIC FORUM'S FORECAST FOR GAMING PERCENTAGE FEE TAX REVENUE OF $763,360,000 FOR FY 2019; THE BUDGET DIVISION'S FORECAST OF $781,256,000 FOR FY 2020; AND THE ECONOMIC FORUM'S FORECAST OF $792,106,000 FOR FY 2021.

MR. LEWIS SECONDED THE MOTION.

MOTION CARRIED UNANIMOUSLY.

B. Live Entertainment Tax

- **Gaming**
- **Non-Gaming**

Michael Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mr. Lawton reported that Live Entertainment Tax (LET) – Gaming collections were at $76.5 million, up 2.0% or $1.5 million compared to FY 2018, and up 2.8% or $2.1 million above the December 3, 2018, Economic Forum forecast. He said assumptions were made in the GCB's revised LET forecast based on information obtained from gaming licensees, which confirmed lagging attendance at the later production shows has continued due to more compelling entertainment options (which may or may not be taxable); several nightclubs were operating in bars with fewer nights of taxable admissions; and residencies were driving visitation, but not at a level to lift LET – Gaming collections. However, the last 3 months of LET collections came in with an increase of 9.2%, or $2.1 million, due to this significantly stronger period compared to the same period in FY 2018. Mr. Lawton said the LET had been moving in a horizontal to negative direction over the last 18 months, but after the third quarter of FY 2019, the outlook changed and it was moving in a horizontal to positive direction. He attributed the third-quarter growth to higher-grossing shows, compared to the second quarter, and venues picking up additional shows. He said volatility was expected in collections because shows were changing so much, and not one residency performs for twelve straight months — the shows were not matching up from year to year, some years grossing more. Third-quarter collections was enough to change the GCB's trajectory from being slightly down to showing slight growth for the biennium. Mr. Lawton said the FY 2019 LET growth rate was adjusted from a decrease of 0.8% to an increase of 1.6% with $102.5 million in collections compared to a decrease of 1.4% in FY 2018. In order for the GCB to meet the forecast, collections needed to increase by an average of 0.5%, as it is facing a very easy comparison of a 3.7% decrease. The FY 2020 growth rate was revised from a decrease to a slight increase of 0.7% with $103.3 million in total collections, and in FY 2021, the growth rate changed from slight growth of 0.4% to a 0.6% increase with $103.8 million in total collections. Mr. Lawton said he incorporated some new information into his models that was not included in his December 3, 2018, forecast, such as the addition of a new venue in Northern Nevada, a temporary venue closure on the Strip, and the end of a very prominent residency on the Strip in June of 2019. Additionally, a huge venue will be opening on the Las Vegas Strip sometime in calendar year 2020; however, it was unclear if that venue would be administered by the Department of Taxation or the GCB, so the GCB eliminated it from their forecast.

Mr. Streshley asked if residency acts were offsetting the decline in nightclub revenue and production shows, or if they were adding growth to LET revenue.

Mr. Lawton replied that his answer would have been "no" prior to the third quarter of FY 2019, but those particular residencies compared to the residencies during the same period in FY 2018 were much higher grossing. He said the script flipped in the third quarter of FY 2019 where one residency lifted LET collections, when in prior months it had not. LET Gaming had a 26.2% increase in January, a 2.8% decrease in February and an 8.8% decrease in March while all other months recorded below 5.0% increases or decreases.

Ms. Lewis questioned if the continuing rise of sports was cutting into LET collections. She said many visitors come to Nevada with a fixed budget, and where a portion of that money was spent on shows, shows are now competing with sporting events.

Mr. Lawton said it has been conveyed that other entertainment offerings exist that are more compelling, but no one has specifically said the Golden Knights' success has impacted LET collections, nor any other sports team.

Chairwoman Rosenthal reasoned that maybe sports venues were actually driving high visitation and providing the opportunity for people to attend both a show and a game.

Hayley Owens, Economist, Department of Taxation

Ms. Owens referred to the LET Non-Gaming chart in her presentation that showed monthly collections, administered by the Department of Taxation. She brought attention to Senate Bill (S.B.) 266 (2015), effective October 1, 2015, that changed the tax structure and rates of the LET and caused volatility in LET Non-Gaming collections. She said huge peaks of activity were typically observed in the months of March and October, which were attributed to ticket sales for Burning Man and the Electric Daisy Carnival; however, that pattern has broken down over the last year, as seen in the chart on page 3 (Exhibit G). She said one of the last troughs occurred in October 2018 with a local peak occurring in

February 2019. It was unclear if something changed with ticket sales that caused a shift in collections into February instead of March. Ms. Owens stated that, relative to Taxation's May 1, 2019, LET Non-Gaming forecast, she used a six-month moving average of a historical series, represented by the red line in the chart on page 3.

The forecast reflected a huge increase in FY 2017 and a slight decrease in FY 2018 as a result of decreased visitor volume, down about 2.0% from FY 2017. Some believed the reduction in visitors was due to the Route 91 Harvest Festival tragedy in October 2017 and the 41 home games played by the Golden Knights in FY 2018 with 740,000 attendants in total.

Ms. Owens conveyed 2.7% growth was forecast for FY 2019 over FY 2018; however, through February 2019, LET Non-Gaming collections was up 3.5% over FY 2018. She reminded the members that the non-gaming tax was one of the smaller major revenue sources; therefore, small changes could make a significant impact, making it less difficult to drop from the 3.5% growth forecast in December to the 2.7% growth forecast here in May. Through February 2019, collections were almost 6.0% lower than the Economic Forum's December 3, 2018, forecast of $26.7 million, which prompted Taxation to lower their forecast to $25.2 million for FY 2019. Ms. Owens forecast growth of 2.1% in both FY 2020 and FY 2021 with the anticipation of effects from the Golden Knights and the opening of the Raiders Stadium in FY 2021.

Chairwoman Rosenthal asked if sports venues were subject to the LET Non-Gaming tax.

Ms. Owens stated that any sporting event with a local Nevada team is exempt from the non-gaming tax, such as the Nevada System of Higher Education (NSHE), the Golden Knights and the Raiders.

Mr. Streshley said approximately 40 events are projected to take place at the Raiders Stadium, including approximately 20 events that may fall within the taxable LET. He asked Ms. Owens if she added revenue for those events.

Ms. Owens replied that she did not explicitly account for them, and that her forecast was modeled off trend of the moving average and personal consumption expenditures from U.S. recreation.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers referred to her Las Vegas visitors forecast (page 20, Exhibit E), which fed into her LET forecast (page 22). She said her LET forecast combines both the gaming and non-gaming portions of the tax. She said the new tax structure had been in place since October 1, 2015, so by using that date she estimated spending per month and divided it by visitors per month and Nevada residents per month. To gauge the amount of money spent each month, she used her forecast for visitors and the State Demographer's population estimates for future fiscal years and extrapolated the months, which produced a fairly stable estimate.

Ms. Powers reported that non-gaming venues tend to increase competition for LET-Gaming. She implied that entertainment options were saturated with a good list of headliners and residencies, especially in Las Vegas; therefore, she forecast positive growth in revenue for FY 2019, with slower growth in FY 2020 and FY 2021 (page 24, Exhibit E).

LET Non-Gaming, derived from total LET (80% gaming and 20% non-gaming), outperforms LET - Gaming. Ms. Powers stated LET Non-Gaming is a function of visitation and demand among Nevada residents, and that FYTD, collections were up 3.5% from FY 2018. The Budget Division forecast LET revenue collections of $25.5 million in FY 2019; $26.0 million in FY 2020 and $26.2 million in FY 2021 (page 26, Exhibit E).

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

Mr. Guindon referred to Fiscal's forecast for LET collections (page 53, Exhibit F) and TABLE 8 (Exhibit C). He reported LET-Gaming was down 1.4% through the first four months of FY 2019. In the last five months, compared to the same period in FY 2018, LET – Gaming was up 5.0%. Fiscal year to date, the tax was at 2.0% through nine months. Mr. Guindon noted that Fiscal did not change their outlook for FY 2020 and FY 2021 given Fiscal's visitor forecast.

Relative to LET Non-Gaming, Mr. Guindon reported collections were down 2.3% through the first three months of FY 2019. He said two of the biggest events relative to this tax are the Electric Daisy Carnival and Burning Man. The Las Vegas Route 91 Harvest Festival used to fall under LET Non-gaming, but it did not return in 2018 after the mass shooting in 2017. He explained that these events are held the same time every year, but there is a time lapse between when tickets are sold and when the taxes actually get remitted and booked, which makes it difficult to compare month-to-month or against the same period in the previous year. Over the last five months, LET Non-Gaming was up 6.5%. Based on moving averages, not month-to-month, Mr. Guindon stated that a slight downward adjustment was made for FY 2019 compared to his December 3, 2018, forecast, which carried forward through the forecast path in terms of growth rates and dollar amounts.

Mr. Leavitt observed that from FY 2016 to FY 2018, LET – Gaming revenue amounted to approximately $112.0 million, $102.3 million, and $100.8 million, respectively (page 55, Exhibit F). He referred to the revised forecast of nearly $102.5 million for FY 2019 compared to the Forum's FY 2020 forecast of $99.7 million. Mr. Leavitt questioned if the growth experienced over the last five months reflected something that estimates should be based on in the future or if the growth was an aberration that should not change the overall trend seen over several years of gradual decreases.

Mr. Guindon explained that LET – Gaming projections used to be based on long-running shows; however, that has changed to residencies and making comparisons to the prior year's entertainment. He said the view is that high-profile residencies will continue, thus, combined with inflation in ticket prices, growth in LET – Gaming revenue will continue. Fiscal's forecast showed 1.0% growth in FY 2020 off of the base projection for FY 2019.

He noted that Mr. Leavitt's observation was valid, because FY 2019 will not be able to repeat itself in FY 2020.

Mr. Billings stated the decline seen over the past few years, with respect to some long-running shows, makes sense and is evident to the numbers. He said there is a lot of capital and a lot of dollars up and down the Las Vegas Strip chasing residencies, new venues, and new clubs, which will ultimately drive some type of outcome. Mr. Billings stated he was not surprised by the activity over the past few months, and thought that basing future years on relatively modest growth felt prudent.

Mr. Lawton said there was a great sense of excitement over the residencies on the books in Las Vegas, and that some of the venues with less-strong residencies are pushing for more variety in their showrooms to help drive revenue. Mr. Lawton stated his conversations with people associated with LET in gaming properties shaped a sunnier forecast for the forecast period compared to his December 3, 2018, forecast. He noted that a huge residency will be lost due to a remodel, but the operator was confident that, because of the remodel, they will be able to replace that resident with another resident that can match up.

> MR. STRESHLEY MOVED TO APPROVE THE BUDGET DIVISION'S FORECAST FOR LET-GAMING REVENUE OF $102,521,000 FOR FY 2019; $103,555,000 FOR FY 2020; AND $104,192,000 FOR FY 2021.
>
> MR. BILLINGS SECONDED THE MOTION.
>
> MOTION CARRIED UNANIMOUSLY.

> Mr. LEAVITT MOVED TO APPROVE THE DEPARTMENT OF TAXATION'S FORECAST FOR LET NON-GAMING REVENUE OF $25,212,000 FOR FY 2019; $25,739,000 FOR FY 2020; AND THE BUDGET DIVISION'S FORECAST OF $26,248,000 FOR FY 2021.
>
> MS. LEWIS SECONDED THE MOTION.
>
> MOTION CARRIED UNANIMOUSLY.

C. State 2% Sales Tax

Hayley Owens, Economist, Department of Taxation

Ms. Owens reported that State 2% Sales Tax collections has been on a relatively strong upward trend since bottoming out during the Great Recession, and was expected to continue on a moderate level throughout the forecast period (page 7, Exhibit G). The Department of Taxation forecast 7.0% growth for FY 2019. Currently up 7.9% FYTD, collections would have to increase by 5.4% over the remaining four months of FY 2019 to meet the forecast. Ms. Owens said, through February 2019, collections were approximately 0.5% higher than expected, based on the Economic Forum's December 3, 2018 forecast, which prompted her to increase Taxation's December forecast. She pointed out there was approximately $3.0 million more collected than expected in FY 2019 compared to her revised forecast of $1.222 billion, which was roughly $3.5 million higher than the Economic Forum's December 3, 2018, forecast. In the out years, Taxation forecast increased growth of 4.2% in FY 2020 and 2.4% in FY 2021, which would be the slowest growth rate of this expansion. She noted that 2.4% growth after 11 years of growth above 4.0% would not be a dire situation for the state, but instead a moderation to the strong growth rates seen in response to expected changes in the national economy.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers said FYTD, taxable sales were up 6.5% while collections were up 7.9%. Growth has been seen across various industries and a tightening labor market has added upward pressure on wages, which is expected to boost consumer spending. Consumer confidence remains high and stronger economies are providing support for more business spending. Ms. Powers indicated that a lot of construction activity in Clark County contributed to sales tax collections, and that Wayfair's online sales tax court case decision by the Supreme Court added minor, but positive, impact on taxable sales. Since the December 3, 2018, forecast, the Budget Division has made a slight upward revision to their sales tax forecast of 7.3% in FY 2019, followed by increases of 4.8% in FY 2020 and 4.0% in FY 2021. Relative to FY 2021, Ms. Powers assumed there had to be a base level of spending among the residents, businesses, and visitors to Nevada; therefore, did not feel comfortable forecasting a growth rate lower than 2.0% (page 28, Exhibit E).

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

Mr. Guindon referred the committee to page 63 (Exhibit F) of Fiscal's forecast information packet and TABLE 8 (Exhibit C). He explained that Fiscal's State 2% Sales Tax forecast increased to 7.8% growth for FY 2019 compared to 6.7% growth in December 2018. Fiscal's outlook had not changed much, nor did the underlying economic activity that was driving taxable sales. In December 2018, taxable sales were up 6.6%, grew an average of 8.6% over the last five months, and currently sat at 7.9% over eight months in FY 2019. Mr. Guindon communicated that he forecasts quarterly, and that he already knew the growth rates for January and February of 2019 and projected 4.3% growth in March with 9.0% growth in the fourth quarter of FY 2019. He reminded the committee that AT&T refunded $7.0 million in April 2018, and when annualized against, resulted in growth of 6.4% in the fourth quarter versus 9.0%. He said the lower growth rate was much more in line with what has transpired. He noted the projected growth rates in FY 2020 and FY 2021 were almost identical to those forecast in December 2018.

In regard to Mr. Leavitt's concern for sales tax collections, and whether the growth rate for FY 2020 should be lowered off the base projection for FY 2019, Mr. Guindon said he was not troubled by the fact that the base year growth rate was stronger than expected, with rates continuing to stay positive in the outlying years, especially when considering active projects such as the Raider's stadium, the convention center renovation and other slated projects. He noted that the economic slowdown projected for Nevada was a result of the estimated decline in visitors, employment and income.

Mr. Leavitt stated Fiscal's FY 2019 forecast seemed logical, and that he did not mind growing 5.1% in FY 2020, but was unsure about the 4.0% growth projected in FY 2021 due to the anticipated slowdown. He expressed a comfort level with 3.5% growth in FY 2021.

> MR. LEAVITT MOVED TO APPROVE THE FISCAL DIVISION'S FORECAST FOR STATE 2% SALES TAX REVENUE OF $1,232,208,000 FOR FY 2019 AND $1,294,510,000 FOR FY 2020; AND THE ECONOMIC FORUM'S FORECAST OF $1,334,223, 000 FOR FY 2021.
>
> MR. STRESHLEY SECONDED THE MOTION.
>
> MOTION CARRIED UNANIMOUSLY.

D. Insurance Premium Tax

Hayley Owens, Economist, Department of Taxation

Ms. Owens referred to her quarterly forecast for the Insurance Premium Tax (IPT) on page 11 (Exhibit G) of her presentation. She said growth picked up in FY 2014 and continued on an upward trend. The Department of Taxation forecast similar growth seen over the past five or more fiscal years.

Ms. Owens clarified that the gross numbers portrayed in the forecast and on the IPT progress table (page 12) were not the same numbers reflected on TABLE 3 (page 173, Exhibit A) and TABLE 8 (Exhibit C). She explained that the Department of Taxation administered 97.0% of IPT total revenue and the other 3.0%, or approximately $13.0 million to $15.0 million, was administered by the Division of Insurance and was added to Taxation's forecast to derive the total agency forecast presented in the tables provided to the Forum. She emphasized that she would only be speaking to Taxation's portion of the IPT.

Ms. Owens estimated 8.6% growth in IPT collections for FY 2019. Through the first two quarters of FY 2019, and with adjustments made for some late distributions, IPT collections were up 6.0% for FY 2019. She said 51.0% of collections were admitted and recorded in the second half of the year, so it was possible for growth to increase. Through the second quarter, collections were in line with Taxation's portion of the Economic Forum's December 3, 2018, forecast. Taxation forecast growth of 8.4% in FY 2020 and 5.4% in FY 2021.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers said the Budget Division's IPT forecast was similar to their forecast presented to the Forum on December 3, 2018. She said the forecast was mostly driven by personal consumption expenditures for financial services in insurance by Nevada households. She said adjustments were made to the YTD revenue, based off current data, and the manner in which the home office credit (HOC) was allocated. Ms. Powers explained that nearly $18.0 million should have been recorded in the second quarter of 2019, but instead was allocated to the third quarter, which was factored into the YTD forecast. The elimination of the HOC in FY 2021, per Assembly Bill 3 (28th [2014] Special Session), and the timing of credit distribution, prompted another large adjustment. Previously, the Budget Office assumed that $5.0 million in credit were equally distributed in each fiscal year quarter; however, discussions with staff from Fiscal and Taxation confirmed that HOCs are typically are taken in the first quarter of the calendar year. There are no home office credits available for FY 2021, which makes the FY 2021 growth rate look stronger. Ms. Powers noted that, without the elimination of the HOCs, effective January 1, 2021, Budget's FY 2021 forecast would have been an increase of 3.9% compared to FY 2020. She forecast collections of $442.5 million in FY 2019; $465.2 million in FY 2020; and $488.7 million in FY 2021.

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

Mr. Nakamoto referred to the IPT forecast table on page 79 (Exhibit F) of Fiscal's forecast information packet. He pointed out the actual percentage changes of -12.9% (first quarter) and 9.2% (second quarter) out in his forecast for FY 2019. He explained that in December 2018, Fiscal's forecast for second-quarter collections was 25.5% based on quarterly collections, which made up approximately 95.0% of the IPT. It was conveyed by Taxation that $19.4 million was erroneously posted in the second quarter versus the first quarter of FY 2019, as well as $17.9 million that should have been posted to the second quarter versus the third quarter; hence the 24.5% forecast for the third quarter. However, after making the appropriate adjustments, Fiscal's forecast did not change much. Fiscal also made revisions to their outlook with respect to personal income, which is a major driver of the IPT, and a $1.5 million adjustment to the worker's compensation portion in each year of the forecast period, which added less than $1.0 million per year to their forecast. Mr. Nakamoto referred the members to TABLE 8 (Exhibit C) and cited forecast increases to their December 3, 2018, forecast of approximately $2.9 million in FY 2019, $2.7 million in FY 2020, and $5.5 million in FY 2021, which pushed out the projected economic slowdown. He stated the 9.4% growth projected in the third quarter of FY 2021 was due to the elimination of the HOC, effective January 1, 2021, which increased the growth rate that year to 5.7%. Without the elimination of the HOC, growth for FY 2021 would have been 4.6%. Mr. Nakamoto noted that Fiscal did not change their IPT forecast or their outlook from December 2018 to now because people will always need to insure automobiles, homes, health, etc., despite an economic slowdown.

MR. LEAVITT MOVED TO APPROVE THE FISCAL DIVISION'S FORECAST FOR INSURANCE PREMIUM TAX REVENUE OF $444,340,000 FOR FY 2019; $466,254,000 FOR FY 2020; AND $492,665,000 FOR FY 2021.

MR. BILLINGS SECONDED THE MOTION.

MOTION CARRIED UNANIMOUSLY.

E. Modified Business Tax

Hayley Owens, Economist, Department of Taxation

MBT - Nonfinancial Institutions

Ms. Owens referred the members to her quarterly forecast for Modified Business Tax (MBT) - Nonfinancial Institutions, on page 14 (Exhibit G). She explained that the red-dash line represented Taxation's forecast without the statutorily mandated rate change that will go into effect at the beginning of FY 2020, and the solid red line represented Taxation's actual forecast that included the rate change.

Ms. Owens forecast 5.0% growth for FY 2019. Through the first two quarters of FY 2019, gross revenue was up 8.4% compared to the same period in FY 2018, which was attributed to the somewhat low growth in the first quarter of FY 2018. Ms. Owens noted that revenue is usually evenly collected in the first and second halves of each fiscal year. For example, if you double actual collections from the first two quarters in FY 2019, collections total $633.96 million, which comes close to Taxation's modeled forecast of $634.08 million for that year. Taxation forecast a growth rate of -1.6% for FY 2020 (Exhibit C), including the rate change, and 5.3% growth without the rate change (Exhibit H). The growth forecast for FY 2021 is 3.3%.

MBT - Financial Institutions

Ms. Owens turned to page 17 (Exhibit G) to discuss MBT- Financial Institutions. She explained that the blue line represented quarterly revenue; the red-dash line represented growth without the rate change; and the solid red line represented Taxation's actual forecast accounting for the rate change, which looked very similar to the increase pattern over the last eight years.

Ms. Owens forecast 2.1% growth in FY 2019 (Exhibit C). Through the first two quarters, gross revenue was down 5.6% compared to the same period in FY 2018. She explained that the second quarter of FY 2018 was artificially high due to the $30.0 million in wages reported that quarter that were erased in the fourth quarter, due to taxpayer error, and caused the first half of FY 2019 to appear low. She was confident that the fourth quarter of FY 2019 would boost MBT - Financial collections to 2.1% growth. She elaborated that 47.2% of MBT – Financial tax liabilities are remitted in the first half of the year and almost 53% in the second half, with the third quarter bringing in the most collections. Ms. Owens said she applied that formula to the actuals, assuming the first two quarters of liabilities were remitted and recorded, which equated to 47.2% of the annual liability and totaled $29.4 million for FY 2019, which was slightly lower than Taxation's modeled forecast of $29.7 million. Ms. Owens forecast a growth rate of 7.1% for FY 2020 and 5.0% for FY 2021, without the rate change (Exhibit H) and forecast a decrease of 0.8% in FY 2020 and 5.0% growth in FY 2021 with the rate change.

MBT - Mining

Ms. Owens directed the members to Taxation's quarterly forecast for MBT – Mining on page 20 (Exhibit G). She explained that the blue line represented quarterly collections since the tax began in FY 2016; the red-dash line represented growth without the rate change; and the solid red line represented Taxation's actual forecast. The forecast for FY 2019 of a 0.9% decrease has slightly decreased from the December 3, 2018, forecast, of 1.6% growth. The first two quarters in FY 2019 were up 3.3% compared to the same period in FY 2018. She noted that collections were weaker than usual in the first half of FY 2018, but finished strong in the last quarter, collecting 26% of total revenue compared to 24% that was commonly seen but making it difficult to outperform. She expected the current 3.3% growth to drop by the end of the fourth quarter of FY 2019. Ms. Owens forecast decreased growth of -3.3% for FY 2020, with the rate change, and positive growth of 4.3% without the rate change; and growth of 0.2% for FY 2021.

Mr. Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, interjected and made the committee aware of the handout (Exhibit H) on blue paper, titled MBT FORECASTS – WITHOUT RATE REDUCTION IN FY 2020 and FY 2021.

Susanna Powers, Economist, Executive Budget Office

MBT - Nonfinancial Institutions

Ms. Powers said employment is a factor in her forecast for MBT - Nonfinancial Institutions. The annual benchmark by the Bureau of Labor Statistics resulted in higher employment than initially estimated, which changed her base slightly. Additionally, she presented a wage forecast based on Bureau of Economic Analysis (BEA) wage data that was used to predict movements in wage and salary disbursements. She derived nonfinancial business wages by subtracting financial and mining sector wages from private sector wages. Ms. Powers noted there would be continued improvement in wages as the labor market tightens (page 34, Exhibit E).

Ms. Powers stated that her MBT collections forecast for nonfinancial institutions was revised slightly due to minor revisions to taxable wages in health care expense deductions. Her forecast showed collections of $640.0 million in FY 2019; $628.6 million in FY 2020; and $647.1 million in FY 2021 with the rate reduction (page 35, Exhibit E). MBT - Nonfinancial Institution collections without the MBT rate buy down could be found on page 36.

MBT - Financial Institutions

Ms. Powers conveyed that employment in the financial services industry was stable and moderate increases were expected over the next three fiscal years, with a similar outlook for wages. She forecast collections of $30.1 million for FY 2019; $29.2 million for FY 2020; and $30.1 million for FY 2021 with the rate reduction (page 40, Exhibit E). MBT-Financial Institution collections without the MBT rate buy down could be found on page 41.

MBT - Mining

Ms. Powers communicated that minor changes were made to Budget's MBT – Mining forecast, as employment in the mining sector followed a trend of gold prices and subsequent production, with similar growth in wages. She forecast collections of $22.8 million for FY 2019; $22.0 million for FY 2020; and $22.3 million for FY 2021 with the rate reduction (page 45, Exhibit E). MBT - Mining collections without the MBT rate buy down could be found on page 46.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau

MBT - Nonfinancial Institutions

Mr. Reel referred to page 95 (Exhibit F) of Fiscal's forecast packet and TABLE 8 (Exhibit C). He said wage and salary disbursements were driven by employment as well as average wage per employee assumptions. Fiscal year percent changes for employment showed 4.1% growth in FY 2019 compared to the December 3, 2018, forecast of 3.2% growth. In regard to average annual wage per employee, Mr. Reel said he was looking at 3.0% growth in FY 2019, but lower wages through the benchmark prompted him to lower the growth rate to 1.8%, which resulted in a decrease of $1.8 million in terms of forecast collections for nonfinancial institutions. Going forward, the average wage per employee assumption did not change; however, there was a slight downward reduction in his revenue forecast for FY 2020 and FY 2021 from the December forecast.

MBT - Financial Institutions

Mr. Reel stated that employment has become slightly stronger in the financial industry; thus Fiscal increased their employment forecast to 3.3% growth versus 2.7% growth quoted in December 2018 (page 106, Exhibit F). He reported a slight reduction in the growth in the average annual wage per employee, from 2.5% down to 2.4%; however, that adjustment resulted in a slight upward revision to their wage path, which increased wage and salary disbursements in the financial industry. Mr. Reel stated collections increased $450,000 in FY 2019; $341,000 in FY 2020; and $346,000 in FY 2021 compared to Fiscal's MBT - Financial forecast from December 3, 2018 (TABLE 8, Exhibit C).

MBT - Mining

Mr. Reel directed the members to page 116 (Exhibit F) of Fiscal's forecast information packet and TABLE 8 (Exhibit C). He reported mining employment had been running stronger in the first half of the fiscal year compared to the decline seen in the third quarter. He indicated that the employment forecast for FY 2019 did not change from 0.7%; however, the average annual wage per employee dropped from 3.6% to 0.7% in FY 2019. The drop prompted Fiscal to reduce their assumption for wage per employee throughout the forecast path from 2.6% in FY 2021 to 1.8%, as well as make downward adjustments to their December 3, 2018, MBT – Mining collections forecast of $260,000 in FY 2019; $705,000 in FY 2020; and $907,000 in FY 2021.

MR. BILLINGS MOVED TO APPROVE THE FISCAL DIVISION'S MBT–NONFINANCIAL REVENUE FORECAST OF $635,211,000 FOR FY 2019; $626,502,000 FOR FY 2020; AND $651,033,000 FOR FY 2021.

MR. LEAVITT SECONDED THE MOTION.

MOTION CARRIED UNANIMOUSLY.

MR. STRESHLY MOVED TO APPROVE THE ECONIMIC FORUM'S MBT–FINANCIAL REVENUE FORECAST OF $30,049,000 FOR FY 2019; $29,439,000 FOR FY 2020; AND $30,508,000 FOR FY 2021.

MS. LEWIS SECONDED THE MOTION.

MOTION CARRIED UNANIMOUSLY.

MR. BILLINGS MOVED TO APPROVE THE ECONOMIC FORUM'S MBT–MINING FORECAST OF $22,907,000 FOR FY 2019; $21,813,000 FOR FY 2020; AND $22,067,000 FOR FY 2021.

MS. LEWIS SECONDED THE MOTION.

MOTION CARRIED UNANIMOUSLY

F. Real Property Transfer Tax

Hayley Owens, Economist, Department of Taxation

Ms. Owens referred to her quarterly forecast for Real Property Transfer Tax (RPTT) on page 23 (Exhibit G) of her presentation. She said from the beginning of the recession recovery in FY 2012 to current, collections increased at an increasing rate. She noted the peak that occurred at the end of FY 2018/first half of FY 2019, and stated RPTT collections were forecast to level off.

Taxation's RPTT forecast showed a decline in collections in FY 2019 of -0.7%. Ms. Owens reminded the members that the RPTT growth rate in FY 2018 was 23.1% (page 24). Through the second quarter of FY 2019 (December 2018), total collections were up 1.1% from FY 2018. In March 2019, the Reno/Sparks Association of Realtors reported the first year-over-year decline in home prices since 2012 while Las Vegas reported a drop in home purchases. Ms. Owens forecast a growth rate of -0.7% for FY 2019, and growth increases of 3.1% in FY 2020 and 4.5% in FY 2021 in anticipation of addressing affordability issues and more construction projects.

Susanna Powers, Economist, Executive Budget Office

Ms. Powers stated that she made some major changes to her FY 2020 and FY 2021 forecasts since her December 3, 2018, forecast. She said there was a wide expectation in December that the Federal Reserve would continue tightening the monetary policy throughout calendar year 2019, which would result in higher interest rates. She assumed mortgage rates would increase and home sales would drop. She said the outlook for interest rates has changed; therefore, she made positive changes to her FY 2020 and FY 2021 RPPT forecasts. With home sales trending down, her forecast for FY 2019 showed a small decline.

Ms. Powers expanded on the following variables that she considered in her May 1, 2019, forecast:

- Residential Building Permits: Single-family home permits serve as a leading indicator of future construction, which are expected to maintain at the current level.

- Existing Home Sales: Sales volume has declined as home prices and mortgage rates escalated. The current level of existing home sales is obtainable; but affordability will drive sales.

- Median Home Prices: According to historical data from Moody's Analytics' housing forecast database for Nevada, home price increases have been strong, but needed to commensurate with wage growth. The current level of home appreciation is not sustainable, and the median home price was high and a constraint for the market.

Ms. Powers communicated that through the first three quarters of FY 2019, total tax collections were down 2.9% compared to the first three quarters in FY 2018.

She suggested a slight pickup in the fourth quarter, as mortgage rates had slightly declined. She forecast modest increases in collections for FY 2020 and FY 2021.

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

Mr. Nakamoto announced that Fiscal's RPTT forecast incurred significant changes since their December 3, 2018, forecast. He explained that a few counties report their RRPT collections on a monthly basis and the remaining counties report on a quarterly basis. The December 2018 forecast was based on first-quarter information and limited second quarter information that revealed no information for Clark County and one month of collections for Washoe County and some of the smaller counties. He explained that in December 2018, Fiscal forecast 8.3% growth for the second quarter of FY 2019 and 6.6% growth for the third quarter; however, actual collections in the second quarter of FY 2019 grew only 2.0% to approximately $24.5 million, and declined -11.5% to approximately $20.3 million (page 127, Exhibit F) in the third quarter.

Mr. Nakamoto communicated that RPTT collections for the third quarter have been reported by 15 of Nevada's 17 counties, as well as the Controller's system, with the exception of Humboldt and Lander counties that are estimated to account for approximately $30,000 to $40,000 in additional collections. He said that Elko, Esmeralda, Nye and White Pine counties were positive in the third quarter of FY 2019 with aggregate collections of $430,162. Clark County reported $15.6 million in collections or -5.9% growth and Washoe County reported $3.1 million or -18.6% growth compared to the same quarter in FY 2018.

Mr. Nakamoto stated that Fiscal's revised forecast is a strong indicator of the current market relative to the RPTT. He pointed out at the bottom of page 127 that in order to meet the December 3, 2018, forecast for FY 2019, fourth-quarter collections would need to decrease 7.7% to get to the revised forecast of -4.2% for FY 2019. He emphasized that the fourth quarter in FY 2019 was up against a very strong comparison of 24.3% during the same period in FY 2018, and that the market did not indicate a positive outcome.

Mr. Nakamoto said year-over-year growth for FY 2020 and FY 2021 is forecast to grow 1.2% and 1.7%, respectively, which is a decrease of $14.1 million in FY 2020 and a decrease of $15.3 million in FY 2021 relative to Fiscal's December 3, 2018, forecast. He predicted a correction would occur that would settle out the market and produce revenue collections in the $100.0 million per year range.

Mr. Streshley asked if collections were down 2.9% YTD.

Mr. Nakamoto stated that he quoted Ms. Powers, but that 2.9% sounded like a reasonable number in terms of year-to-date collections through the third quarter.

Chairwoman Rosenthal said she understood that real estate prices were elevated and that a correction was needed; however, the dramatic declines in RPTT revenue seemed counterintuitive when considering the demand for housing during a time when employment was high, people were moving to the state, housing was facing a shortfall, and home prices were dropping.

Mr. Nakamoto said ordinarily he would have agreed with Chairwoman Rosenthal, but the huge demand was subject to high prices. He recalled the early part of 2018 when there was a six-month supply of existing homes compared to today's one to two-month supply that has prevented people from selling. Mr. Nakamoto theorized that elevated home prices are a result of unmet supply, for unknown reasons other than a shortage of available construction employees, both in Washoe and Clark counties.

Mr. Billings asked for historical forecasting error information relative to the RPTT.

Mr. Nakamoto stated that information was not available to him at the meeting, but indicated it was more difficult to forecast accurately for the RPTT revenue source compared to other revenue sources. He said the only RPTT data that Fiscal has access to is the amount of collections, the county it was collected in, and the month or quarter it was collected. He said Fiscal focuses on the residential side of property transfers for forecasting purposes; however, the RPTT is a tax on real property irrespective of whether it is residential, commercial, improved land, unimproved land, vacant parcel, etc.

Mr. Leavitt commented that the RPTT is driven by many factors, particularly over many years, which made it difficult to forecast.

Chairwoman Rosenthal commented that the variance for the RPTT forecasts provided to the Forum by the different forecasters were broader compared to other revenue sources that were quite consistent.

Ms. Lewis commented that the volatility relative to constraints with land, labor, etc. made the RPTT difficult to forecast. She noted there were still a handful of large transactions that were not final, but were expected to "move the needle" in 2019.

> MS. LEWIS MOVED TO APPROVE THE BUDGET DIVISION'S REAL PROPERTY TRANSFER TAX REVENUE FORECAST OF $102,067,000 FOR FY 2019; $105,083,000 FOR FY 2020; AND $106,357,000 FOR FY 2021.
>
> MR. BILLINGS SECONDED THE MOTION.
>
> MOTION CARRIED UNANIMOUSLY.

G. Commerce Tax

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

Mr. Guindon stated that due to the lack of historical information relevant to the Commerce Tax, the Forum directed staff from Fiscal and Budget to work with Taxation and bring forward a consensus forecast, as opposed to individual forecasts, for the Forum's consideration. He said Commerce Tax credits taken against the MBT as part of the tax law that was put into place in 2015 would also be addressed under this agenda item.

Mr. Guindon referred to TABLE 1 (Exhibit I), which presented historical data for the Commerce Tax by fiscal year activity period. He explained that the Commerce Tax is based on a July 1 to June 30 tax period that is due 45 days after the end of the fiscal year, which can cause collections for one fiscal year to spill over into the next fiscal year. The Department of Taxation reports the collections data to Fiscal, and Fiscal tracks collections under the proper fiscal year activity period.

Mr. Guindon explained that the data illustrated in TABLE 1 (Exhibit I) presented Commerce Tax due estimates under different growth rate assumptions, as well as the consensus estimates (shaded in grey) determined by Taxation, Budget and Fiscal. Actual collections are listed for FY 2016 and FY 2017, but not for FY 2018 because late returns were still being processed. Currently, approximately $198,000,000 has actually been collected for FY 2018 compared to the consensus forecast of $200,606,000. Mr. Guindon stated that the growth rates forecast (Exhibit C) for Commerce Tax in FY 2019, FY 2020 and FY 2021 were unchanged from the December 3, 2018, forecast.

Mr. Guindon announced that Nevada GDP numbers were released by the BEA for the second quarter of 2019, which were up 6.4% compared to Fiscal's estimate of 6.3% through the last two quarters of calendar year 2018 (first two quarters of FY 2019). He pointed out that the Commerce Tax was projected to grow 8.3% in FY 2018, and then settle back down throughout the forecast period. He alluded to some sort of correlation between the GDP and the Commerce Tax, but has not been able to confirm it.

Mr. Guindon explained that, looking at historical data on a collections period basis, 93.0% of collections were associated with the current tax period, approximately 6.5% of collections were for the immediate preceding fiscal year period, and approximately 0.5% of collections were from the period before that. TABLE 2 (Exhibit I) reflected May 1, 2019, consensus estimates based on the deposit of collections from fiscal year activity period. He explained that many of the deposits made in FY 2017 (second year of the Commerce Tax) were for business activity that occurred within the FY 2016 tax period. That pattern of deposits did not repeat itself in FY 2018, thus FY 2018 grew only 2.1% against FY 2017 actuals, and estimates for FY 2019, FY 2020 and FY 2021 tax collection periods were projected to stabilize. He said TABLE 2 showed the consensus forecasts that were updated with actuals for FY 2018, and showed the same alternative growth rate scenarios as TABLE 1, but were adjusted for actual collections. He noted that the aging rates used in the December 3, 2018, Commerce Tax collections estimates were 95.0% and 5.0% versus 93.0%, 6.5% and 0.5% used in the May 1, 2019, forecast.

Mr. Guindon directed the members to the next set of tables related to the Commerce Tax and Commerce Tax credits against the MBT (Exhibit J). He gave a brief overview of TABLE 1 and TABLE 2, and pointed out that the bottom-line numbers matched the numbers in TABLE 1 (Exhibit I). The lower block of TABLE 1 and TABLE 2 (Exhibit J) showed actuals and forecasts for the Commerce Tax credits taken for the Commerce Tax back against the MBT. Under current law, the taxpayer is allowed to take up to 50% of their Commerce Tax liability from the preceding fiscal year against their MBT liability for the current fiscal year. Mr. Guindon reiterated that the prior year's Commerce Tax is generating the credit against the current MBT fiscal year. TABLE 2 showed MBT Commerce Tax credits totaled $43.7 million in FY 2016 and $57.8 million in FY 2017, based on that fiscal year accounting period, versus approximately $50.7 million based on the business activity period in FY 2017. He noted that, going forward, the forecast for the credit in TABLE 2 (Exhibit J) was in-line with those in TABLE 3 (page 172, Exhibit A) showing total Commerce Tax credits of $56.2 million for FY 2019; $59.1 million for FY 2020; and $62.1 million for FY 2021. He summarized that TABLES 1 and 2 (Exhibit J) true-up the actual information that Taxation compiled year to date, with slight adjustments, based on Commerce Tax credit allocations from a business activity period to a fiscal year accounting period basis. The credit amounts dropped slightly compared to the December 3, 2018, forecast.

> MR. LEAVITT MOVED TO APPROVE THE COMMERCE TAX REVENUE CONSENSUS ESTIMATES OF $215,284,000 FOR FY 2019; $222,470,000 FOR FY 2020; AND $231,527,000 FOR FY 2021, AND THE MODIFIED BUSINESS TAX CREDIT ESTIMATES FROM THE COMMERCE TAX OF $56,222,000 FOR FY 2019, $59,128,000 FOR FY 2020, AND $62,145,000 FOR FY 2021.
>
> MS. LEWIS SECONDED THE MOTION.
>
> MOTION CARRIED UNANIMOUSLY.

XI. RREVIEW AND APPROVAL OF FORECASTS OF MINOR GENERAL FUND REVENUES AND TAX CREDITS FOR FY 2019, FY 2020, AND FY 2021 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE ON FUTURE STATE REVENUES (NRS 353.229) AT ITS APRIL 24, 2019, MEETING.

Mr. Guindon directed the members to TABLE 5 on page 195 (Exhibit A) of the meeting packet that summarized the forecasts produced by Taxation, Fiscal and Budget for several of the major minor General Fund revenue sources forecast by the TAC, and TABLE 6 on page 197 that itemized the TAC's consensus forecast for all of the minor revenue sources, including the tax credit programs. He explained that the consensus forecast is a product of revised forecasts provided by the agencies responsible for collecting and administering each revenue source that typically are received in April of odd-numbered years. Staff from Fiscal and Budget reviewed the forecasts received in 2019, generated their own individual forecasts for each revenue source, and worked together to create a consensus forecast for the minor revenue sources as well as the tax credits that are presented to the TAC. TABLE 6 represented the consensus forecast that was presented to and approved by the TAC at its Wednesday, April 24, 2019, meeting.

Mr. Guindon stated that the Net Proceeds of Minerals Tax (NPMT) forecast had a downward revision of approximately $12.4 million for FY 2019. Based on information filed by the taxpayers for FY 2019, and collections reported by the Department of Taxation, all of the forecasters realized they over-estimated FY 2019 in the December forecast. Mr. Guindon explained that gross earnings were down slightly, and the net-to-gross ratio was lower than expected, thus generating less net proceeds to apply the tax rate to. He explained that a portion of the overall tax liability was based on the mine's location (property tax rate), and the balance, up to the statutory tax rate limit, was the General Fund portion. He noted that mines located in high-tax areas contributed to pulling down the General Fund's portion. Downward revisions of $8.5 million were made in both FY 2020 and FY 2021. Mr. Guindon mentioned that additional one-time money was included in the FY 2019 forecast as a result of a fine imposed by the Gaming Commission against a gaming property.

There were many adjustments made to the revenue sources; however, none were statistically significant. Mr. Guindon said most of the changes were a result of performing a true-up against the actual YTD collections for each select revenue source, which may or may not have carried forward into FY 2020 and FY 2021.

Mr. Guindon referred to the tax credit programs listed at the bottom of TABLE 6 on page 201 (Exhibit A) of the meeting packet, and stated that the Education Choice Scholarship Tax Credit program estimate did not change for FY 2019, but FY 2020 (-$14.6 million) and FY 2021 (-$16.1 million) doubled since the December 3, 2018, forecast. The reason was because Senate Bill 555, approved by the Legislature in the 2017 Session, established an additional $20.0 million for this tax credit program, as a one-time amount for FY 2018, to be allocated amongst all of the MBT taxes in statute on a combined basis, including Financial, Non-Financial and Mining. It was recently discovered during the 2019 Session that an additional effect of the passage of S.B. 555 was to split the amount of the tax credits attributable to the provisions that increase the original amount of tax credits by 10% per fiscal year amongst the MBT taxes separately versus an amount amongst the three MBT taxes combined. Thus, the amount of tax credits determined under the 10% growth factor provisions are available separately to both NRS chapter 363A (financial and mining) and chapter 363B (nonfinancial) versus as a total amount available to both chapters combined. Once staff from the Fiscal and Budget Divisions became aware of this issue, it was decided that it was fiscally prudent to put the maximum amount of credits authorized under the two separate MBT tax chapters on the forecast tables for this tax credit program for FY 2020 and FY 2021. The result of this decision was to double the amount of tax credits estimated for the Educational Choice Scholarship Tax Credit Program from $7.3 million to $14.6 million for FY 2020 and from $8.0 million to $16.1 million for FY 2021 in the May 2019 forecast compared to the December 2019 forecast.

Chairwoman Rosenthal asked if there was a table that showed a side-by-side comparison of both the December 3, 2018, forecast and the May 1, 2019, forecast for the minor General Fund revenue sources and tax credits.

Mr. Guindon stated there was not. He said, compared to TABLE 6 presented on December 3, 2018, the net result (after tax credits) of total taxes was an upward revision of approximately $11.7 million in FY 2019, a downward revision of approximately $10.9 million in FY 2020; and a downward revision of approximately $13.8 million in FY 2021. Gross total taxes (before tax credits) on the May 1, 2019, forecast shows an upward revision of $11.7 million in FY 2019; a downward revision of $3.3 million in FY 2020; and a downward revision of $5.8 million in FY 2021 compared to the Forum' December 2018 forecast.

> MR. BILLINGS MOVED TO APPROVE THE TECHNICAL ADVISORY COMMITTEE FORECAST FOR THE MINOR GENERAL FUND REVENUE SOURCES OF $690,019,298 FOR FY 2019; $680,073,231 FOR FY 2020; AND $713,592,705 FOR FY 2021.
>
> MR. STRESHLEY SECONDED THE MOTION.
>
> MOTION CARRIED UNANIMOUSLY.

XII. SCHEDULING OF FUTURE ECONOMIC FORUM MEETINGS.

Mr. Guindon announced that the Economic Forum is required by law to meet on or before December 10, 2019. Chairwoman Rosenthal made a request to table the next meeting date to a later discussion.

Chairwoman Rosenthal requested the agenda be taken out of order and directed the members to Agenda Item XIV, Public Comment.

XIV. PUBLIC COMMENT.

Chairwoman Rosenthal opened the meeting for public comment from Las Vegas and Carson City. There was no public comment in Las Vegas.

Mr. Ray Bacon, Nevada Manufacturer's Association, gave testimony in Carson City. He stated that he has watched the Economic Forum since its process started. He voiced his concern relevant to the tax situation and how its level of complexity increased each year. He requested that the Forum add a note to the letter to the Governor and the 80th Legislature regarding the tax complexity and the burden put on the taxpayer. He reiterated that his concern was not targeted at the amount of the taxes as much as the complexity and the volume of reporting that is required by the taxpayer, specifically for those businesses that are required to report sales tax, Commerce Tax, etc. He stated that the timetables are different in terms of due dates, and that in many cases tax notifications are not mailed to the taxpayer, requiring the taxpayer to remember when their tax liabilities are due to the Department of Taxation. He said the state has made it very difficult for the average small business to comply. Mr. Bacon stated that, over the next two or three sessions, the tax process needed to be simplified. Not necessarily reduce the revenue, just make it simple!

Mr. Guindon explained that, upon recess, staff will compile a letter (Exhibit M) to the Governor and the Members of the 80th Legislature that will include a summary schedule (Exhibit K) of State General Fund revenues and show the net difference between the May 1, 2019, forecast and the December 3, 2018, forecast (Exhibit L).

Chairwoman Rosenthal called for a recess at 1:01 p.m.
The meeting reconvened at 2:32 p.m.

Chairwoman Rosenthal requested the agenda be taken out of order and directed the members to Agenda Item XIII, Approval of the Economic Forum's May 1, 2019, Revenue Forecast Report.

XIII. APPROVAL OF THE ECONOMIC FORUM'S MAY 1, 2019, REVENUE FORECAST REPORT.

Mr. Guindon brought attention to two separate tables, one referred to by staff as the Economic Forum forecast table (Exhibit K) that represented the Forum's actions and approvals relative to the unrestricted General Fund revenue sources for which the Forum is statutorily required to produce a forecast for, and a comparison chart (Exhibit L) that showed the net difference between the Forum's May 1, 2019, General Fund revenue forecast and the December 3, 2018, forecast. The difference between forecasts (Exhibit L) was detailed by fiscal year, FY 2019, FY 2020 and FY 2021, as well as by the 2019-21 biennium and three-year totals. He emphasized that any changes approved by the Forum for FY 2019 would result in additional or less revenue that the Legislature takes into consideration when compiling the legislatively approved budget for the 2019-21 biennium. He indicated that additional money in the General Fund for FY 2019 could be allocated to one-shot or supplemental appropriations, and/or it could end up in the ending fund balance for FY 2019 and become the beginning fund balance for FY 2020 (Exhibit L).

Mr. Guindon made the following comments in regard to the Economic Forum General Fund revenue May 1, 2019, forecast compared to the December 3, 2018, forecast:

- Total General Fund revenue for FY 2019, after tax credits, is $4,257.0 million, which is approximately $31.4 million higher than the December 3, 2018, forecast.

- Total General Fund revenue for FY 2020, after tax credits, is $4,350.2 million, which is approximately $6.1 million higher than the December 3, 2018, forecast.

- Total General Fund revenue for FY 2021, after tax credits, is $4,496.6 million, which is approximately $5.4 million higher than the December 3, 2018, forecast.

- Total General Fund revenue for the 2017-19 biennium increased by $31.4 million because of the adjustment made to FY 2019.

- Total General Fund revenue for the 2019-21 biennium increased by $11.4 million because of the adjustments made to FY 2020 and FY 2021.

- Total General Fund revenue for FY 2019, FY 2020 and FY 2021 combined increased by $42.8 million. Mr. Guindon noted the revised total includes revisions made to both the major General Fund revenue sources and the minor General Fund revenue sources prepared by the TAC.

MR. BILLINGS MOVED TO APPROVE THE ECONOMIC FORUM'S MAY 1, 2019, REVENUE FORECAST REPORT OF $4,257,016,298 FOR FY 2019; $4,350,160,231 FOR FY 2020; AND $4,496,580,705 FOR FY 2021.

MS. LEWIS SECONDED THE MOTION.

MOTION CARRIED UNANIMOUSLY.

Chairwoman Rosenthal thanked the presenters and staff for providing the information necessary for the Forum to forecast revenues for the state budget.

Chairwoman Rosenthal requested the agenda be taken out of order and directed the members to Agenda Item XV, Adjournment.

XIV. ADJOURNMENT.

The meeting was adjourned at 2:38 p.m.

Respectfully submitted,

____
Judy Lyons, Committee Secretary

APPROVED:

____
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.