MINUTES OF THE MEETING OF THE
STATE OF NEVADA ECONOMIC FORUM

November 5, 2010

The meeting of the State of Nevada Economic Forum (created by Senate Bill 23, 1993) was held at 9:30 a.m. on Friday, November 5, 2010, at the Legislative Building, 401 South Carson Street, Room 4100, Carson City, Nevada, with videoconference to the Grant Sawyer State Office Building, 555 East Washington Avenue, Room 4401, Las Vegas, Nevada.

ECONOMIC FORUM MEMBERS PRESENT:
John Restrepo, Chairman
Michael R. Alastuey, Vice Chairman
Matthew Maddox
Andrew Martin
Linda Rosenthal

ECONOMIC FORUM MEMBERS ABSENT:
None

STAFF:
Mark Krmpotic, Senate Fiscal Analyst, Fiscal Analysis Division
Rick Combs, Assembly Fiscal Analyst, Fiscal Analysis Division
Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division
Janet Rogers, Chief Economist, Executive Budget Office
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division
Patti Sullivan, Secretary, Fiscal Analysis Division

EXHIBITS:

Exhibit A	Meeting Packet and Agenda
Exhibit B	Attendance Report
Exhibit C	Nevada's Economy: A Labor Market Perspective – Department of Employment, Training and Rehabilitation
Exhibit D	Economic Outlook and Tax Forecast – Moody's Analytics
Exhibit E	Rural Nevada Outlook – Tom Harris, University of Nevada, Reno
Exhibit F	Table 4 (Revised) – Forecasts for the Major General Fund Revenues: FY 2011, FY 2012, and FY 2013 – Fiscal Analysis Division
Exhibit G	General Fund Revenue Forecasts – Department of Administration, Division of Budget and Planning

Exhibit H	Forecast Information Packet – Fiscal Analysis Division
Exhibit I	Gaming Revenue and Live Entertainment Tax Forecasts – Gaming Control Board
Exhibit J	Impact of Three Percent Room Tax Increase – Nevada Commission on Tourism (not addressed at meeting)
Exhibit K	Nevada Business Conditions – Center for Business and Economic Research, University of Nevada, Las Vegas (not addressed at meeting)

I. ROLL CALL.

Chairman John Restrepo called the meeting to order at 9:34 a.m. The secretary called roll; all members were present and attended in Carson City.

II. APPROVAL OF MINUTES OF THE SEPTEMBER 29, 2010, MEETING.

Chairman Restrepo asked for a motion to approve the September 29, 2010, meeting minutes included in the meeting packet (Exhibit A) on page 3.

> MR. MARTIN MOVED TO APPROVE THE MINUTES OF THE SEPTEMBER 29, 2010, MEETING OF THE STATE OF NEVADA ECONOMIC FORUM.
>
> THE MOTION CARRIED UNANIMOUSLY.

IV. PRESENTATION ON THE STATE EMPLOYMENT OUTLOOK.
Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training, and Rehabilitation

This agenda item was taken out of order.

Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation thanked the Committee for the opportunity to present at the meeting and introduced his Deputy, Jered McDonald. He said typically his economic overview presentation included information on a variety of subjects including taxable sales activity, construction, and gambling win; however, other presenters scheduled at the meeting would cover those topics so he would focus on labor market activity in the State of Nevada. Mr. Anderson thought labor market activity in the State combined with information from the other presenters would give the members a good idea of what was happening in the economy as a whole.

Mr. Anderson directed the members to Exhibit C. He wanted to present his material in reverse order and start with General Conclusions (page 1). He said Nevada was greatly impacted by the recession, mostly due to the state's reliance upon discretionary consumer spending pertaining to the leisure and hospitality sector, and the lack of activity in the construction sector. However, on the plus side, the State was starting to see some tentative signs of stabilization in the economy with unemployment rates holding steady for the last few months. The rate of job losses had eased considerably from a year ago and initial claims for unemployment insurance were trending down, moving significantly below their peak level activity. Mr. Anderson noted there was nothing in the near future to serve as a catalyst to return the State to its historical growth pattern so the economy was expected to "bounce along the bottom." He said the economy would stabilize and move sideways, which was better than a continuous downward movement, but would still fall short of where the State was a few years ago. For the longer term, the prediction was that Nevada's economy would have relatively modest or moderate growth, but more sustainable growth, and not subject to the booms and busts evident at this time.

Mr. Anderson said page 2 showed that Nevada's unemployment rate as of September 2010 was 14.4%, approximately 5 points higher than the 9.6% national average. He said Nevada surpassed the national average unemployment rate in mid-2007 and the rate had stayed higher than the national average ever since. There were signs of stability in July and August 2010 as the unemployment rate crept up a small tenth of a percentage point. He noted in September 2010 the rate held steady at 14.4% indicating a sign of a peak in the unemployment rate. Page 3 illustrated the increase of the jobless rate from December 2007 to September 2010. The chart showed a significant increase from 5.2% in December 2007 to 14.4% in September 2010, an increase of 9.2% over that short timeframe. He pointed out that prior to the beginning of the recession Nevada had gotten down to about a 4% unemployment rate so there had been a significant increase.

Continuing, Mr. Anderson said if someone would have asked him a few years ago if Nevada would have the highest unemployment rate in the nation, he would have laughed. However, the State was severely impacted by the economic downturn and the chart on page 4 indicated for the past several months Nevada had the highest unemployment rate in the nation at 14.4% followed by the state of Michigan at 13%. Each month the Department released the unemployment numbers to the media and was questioned about the so called "real unemployment rate." He explained the Department reported the official unemployment rate; although, there were other alternative measures of unemployment generated in partnership with the Bureau of Labor Statistics and the United States Department of Labor. Page 5 provided information on the increase of the jobless rate as the definition of unemployment was broadened from U1, which was the most conservative estimate of unemployment, to U6, the broadest definition. The U6 measure of labor market underutilization incorporated individuals who had dropped out of the labor force and were not counted in the official unemployment rate statistics. This grouping of people dropped out of the labor force because they were possibly discouraged in their search for work due to thinking there might not be available job opportunities. By definition, U6 was the broadest measure and through the third quarter of 2010 that rate had averaged in excess of 22% over the previous four quarters, compared to the approximate 13.6% official rate of unemployment reported by the Department.

Mr. Anderson said the unemployment rate differed across various demographic groups and page 6 showed that the unemployment rate for males was considerably higher than the rate for females. The unemployment rate was 15.6% for males versus 11.5% for females, and could be attributed to the impact of the recession on the construction industry, whose labor force was 80% male. Looking across various demographic groups (page 7) he noted persons of color, both Blacks and Hispanics, had a noticeably higher unemployment rate than the White labor force. In addition, Nevada's unemployment rate varied by age (page 8), with a significant difference across various age groups. He said the recession had an impact on everyone, but showed the largest impact on younger people in the State. The unemployment rate for ages 16 to 24 was 22% to 23% over the past year.

For the next chart on page 9, the Department divided the State into three regions and further divided the regions in to counties based upon the unemployment rate, to illustrate how the different counties fared during the economic downturn. Mr. Anderson said the hardest hit counties for unemployment in the State were the "bedroom communities," which bordered or were very close to major urban areas. Examples of bedroom communities included Nye County outside of Clark County, Lyon County outside of Washoe County, and Douglas County. The major metropolitan areas of Clark County and Washoe County had suffered greatly in the recession, but not as much as the counties considered bedroom communities. The areas of the State with the lowest unemployment were the rural counties, which were heavily impacted by the mining industry.

Moving from unemployment statistics to the employment or job side of the economic outlook (page 10), Mr. Anderson said Nevada's job losses were more pronounced than in the nation as a whole. The chart showed that job losses approached double digits in 2009. He said job losses were easing; although, there was a slight reversal in September 2010. The September data showed job levels were down 2.1% from the previous year. The Department planned to watch the data because the September numbers were a deterioration from August 2010 when job readings were down about 1.7% on a year ago basis. Mr. Anderson pointed out (page 11) that Nevada job levels had declined 15% since the official start of the recession in December 2007, which translated into 190,000 jobs. The recession impacted all sectors of the economy as shown on the chart on page 12; however, some sectors of the economy held up better than others. Economy-wide about 400,000 jobs were created in the decade from 1997 to 2007, but since then Nevada's job levels had declined by 180,000 jobs. The construction sector stood out in the chart with a 50,000 job gain during the boom decade from 1997 to 2007, and then a subsequent 70,000 job loss in the last three years from 2007 to 2010. Essentially, in the construction sector all the jobs previously gained were erased during the recession.

Mr. Anderson said page 13 illustrated that all firms regardless of size were impacted by the recession. The chart showed the trend lines, which were based upon four different categories of employers and on the number of employees for each employer. The mid-size employers that employed 100-500 workers saw the sharpest declines in employment and were the hardest hit by the recession. These employers represented about 23% of the total unemployment in the State and also represented about one-third of all construction employment. Since there was a heavy presence of construction in the mid-size employers and subsequent high unemployment it was understandable that the construction industry suffered considerably during the recession.

Mr. Anderson noted job growth trends had been similar across the State over the past two years (page 14). Since the start of the recession all three major metro areas had job losses in excess of 11%, with Reno at 17%, Las Vegas at 15.2%, and Carson City at 11.1% job loss. He said the most telling piece of labor market information was initial claims for unemployment insurance. Those claims equated to exact counts of people filing for unemployment insurance through the Department and according to the chart on page 15 the claims had eased considerably off the peak level of activity. The Department got up to 35,000 claims a month just over a year ago. The level was currently down to 20,000 claims, which was the same as post 9-11 levels of unemployment insurance claim activity, leaving considerable room for improvement.

Page 16 showed that the average hourly earnings in the State hit a plateau. Mr. Anderson said construction had played a large role in the downturn of the economy and was a relatively high paying industry of about $59,000 per year average versus $43,000 per year average economy-wide. The state's average earnings decreased due to the loss of so many high paying skilled trades and construction jobs. Turning to the next item on page 17, Mr. Anderson said there were approximately 120,000 Nevadans receiving unemployment benefits. He explained the dark blue segment on the graph represented people that received regular state unemployment benefits and the gray and turquoise areas on the graph represented those who received benefits through various federally funded extensions to the unemployment insurance benefits. He said in terms of their outlook, the Department was seeing the unemployment rate peaking in 2011. The rate was expected to hover around 14% in 2010 and 2011 and then start a very gradual decline. By 2014, it was predicted the unemployment rate would be in the high single digits.

Lastly, Mr. Anderson said Nevada's employment outlook was weak (page 19); however, job declines were in the process of easing considerably in 2010. The Department was looking for job losses in 2010 to be slightly in excess of 2% on a year-over-year basis, which was consistent for the first three quarters of 2010 and then turn positive. There was no indication in the future that the State would be on an upward growth trajectory that everyone was used to and became the norm. It was only about five years ago that the State saw 6% year after year job growth, which at that time equated to approximately 60,000 jobs. Mr. Anderson said the State would see relatively modest gains in terms of employment in the future, but a much more positive performance than the previous two years.

Ms. Rosenthal, referring to page 18, asked what some of the underlying reasons were for projecting that unemployment would peak in 2011 and would improve after that timeframe.

Mr. Anderson replied the Department was seeing job losses ease and eventually flattening out combined with the fact that Nevada's labor force had stabilized. He pointed out that Nevada was the fastest growing state for two decades prior to the recession and attracted many people in search of job opportunities. People were not moving here now so Nevada's labor force had stabilized, which would help in the leveling off of the unemployment rate. Even though there was a leveling off of the rate it was not a reflection of any real strength for the employment outlook, but just stabilization.

Ms. Rosenthal asked if the Department was taking the most recent trend and then continuing to trend the reduction and losses to see when the unemployment would peak.

Mr. Anderson replied the Department started with employment, which was the most important part of the equation and forecasted slight growth. This employment outlook was overlaid on the unemployment data to determine the best scenario.

Ms. Rosenthal asked if there was any indication of the timing in 2011 when unemployment would peak and start turning around.

Mr. Anderson said the unemployment rate would peak at 14.4% in both the third and fourth quarter of 2010 and then gradually start to decrease in 2011. The unemployment rate for the first quarter of 2011 was estimated to start at 14.3% and then gradually decline to 13.8% by the end of the year.

Mr. Maddox questioned how the U6 unemployment rate at 23% would start to come down. He asked if the people in that category were expected to start looking for jobs again or to leave the State.

Mr. Anderson said there could be several factors contributing to the broad based U6 measure. The U6 measure included people who left the workforce because they were discouraged and thought there were no job opportunities. It also included people who were working part-time who would rather be working full-time, but could not find a full-time job; referred to as working part-time for economic reasons. He said that some of the people in this group might leave the State at some point in time. Nevada's population growth had leveled off and turned slightly negative so people were leaving the State, but had they remained would have been counted as unemployed.

Chairman Restrepo asked what the U.S. average was for the U6 category. Mr. Anderson replied the U.S. average was around 17%, which was about 5 points below Nevada's approximately 22% rate.

Mr. Martin said in 2007 when the unemployment rate was 5.2%, there were 15,000 initial claims for unemployment, however, when the unemployment rate was 14.4%, in 2010 there were only 20,000 initial claims with a huge spike in between. He said it seemed the number for initial claims should be higher and asked Mr. Anderson to expand on that information.

Mr. Anderson explained that the initial claims only had to do with the State program of unemployment benefits, which covered 26 weeks of benefits. Some people exhausted their state unemployment benefits and were not eligible for additional benefits. The Department saw the rate of benefit exhaustion rise from 30 percent to 60 percent. He said there was a high peak in initial claims and now a downward trend was evident from the data. The downward trend was welcome, but from a historical perspective, the State was still historically high.

Chairman Restrepo asked for clarification on the exhaustion rate, whether that applied to initial claims or continuing claims.

Mr. Anderson said the exhaustion rate applied to the initial claims, which would turn into continuing claims. It was a measure of the number of people who exhausted their initial 26 weeks of state unemployment benefits. Those people were still without a job after 26 weeks of unemployment but had exhausted their benefits.

Chairman Restrepo asked if someone was an initial claimant how they would exhaust their benefits.

Mr. Anderson explained when a claim was submitted and approved (not all initial claims were approved) the claimant would then start receiving benefits. Those benefits would expire after 26 weeks and the claimant would have the option of moving into various federally funded extension programs

Chairman Restrepo asked if there was any movement in the average hours worked per week indicator.

Mr. Anderson said the average hourly work week was probably a better indicator for economies that relied heavily upon manufacturing as opposed to services. He thought it was not a good indicator of what was happening in Nevada, but said the movement had been sideways in the State.

Chairman Restrepo asked how the 2% increase in job growth equated to numbers of jobs.

Mr. Anderson indicated the Department estimated there would be a little over 1,100,000 jobs in the State at the end of 2010 with an increase in the number of jobs to 1,126,000 in 2013; a 25,000 job increase over a three-year period

Chairman Restrepo thanked Mr. Anderson for his presentation.

III. PRESENTATION ON THE NATIONAL, REGIONAL AND STATE ECONOMIC OUTLOOK.
Gus Faucher, Director, Moody's Analytics
Daniel White, Economist, Moody's Analytics

Gus Faucher, Director, and Daniel White, Economist, both from Moody's Analytics attended the meeting to present information on the national, regional and state economic outlook. Mr. Faucher explained that Moody's Analytics was part of the Moody's Corporation, but any information presented at the meeting should not be attributed to Moody's Investor Service, which was the bond rating part of Moody's Corporation. Moody's Analytics was a data and consulting firm, which had nothing to do with bond rating activity. He said Moody's Analytics did economic forecasting for the United States, for every state and metropolitan area in the country, and for about 50 countries around the world. Mr. Faucher was the Director of Macroeconomics for Moody's Analytics and along with Chief Economist Mark Zandi he helped run the U.S. computer model of the United States economy. He also edited Moody's Analytic's Precis Macro publication, which was a monthly publication that covered all aspects of the United States economy. Mr. Faucher said he would be talking about the U.S. economic outlook and the outlook for the west and Dan White, who was Moody's Nevada analyst, would be discussing the Nevada outlook.

Mr. Faucher said the U.S. economy was in the midst of a recovery, but it was still disappointingly slow. Economic growth was running at about a 2.5% pace, just barely enough to keep up the expanding labor force and not strong enough to bring down the national unemployment rate. The Bureau of Labor Statistics had just reported that the United States economy added about 150,000 jobs in October, but that was just enough to keep up with the expanding labor force. Every month 150,000 people entered the labor force, including people graduating from school or returning from having a child. The economy was creating just enough jobs for labor force expansion in normal times, but not creating enough jobs to employ the millions of people who lost jobs during the recession. According to the National Bureau of Economic Research, a group that officially dates business cycles in the United States, the recession ended in June 2009. The economy had been expanding for more than a year, but the growth had not been enough to make a serious improvement on the labor market. It was expected that economic growth would gain strength over the next few years. Mr. Faucher said Moody's Analytics was above the consensus compared to other economic forecasters and was predicting stronger growth particularly in 2012 and 2013. He used a handout titled Economic Outlook and Tax Forecast (Exhibit D) to discuss why Moody's thought the economy would be doing very well in a couple of years.

Mr. Faucher's started with the U.S. Macroeconomic Outlook. He said that economic growth was soft mainly because households and businesses were quickly deleveraging. The information on page 3 came from the Federal Reserve's Flow of Funds data and showed the change in household and non-financial corporate debt. On average, households and corporations were adding $400 to $500 billion of debt in the second half of the decade up to the recession. Once the recession hit, households cut back sharply on spending and paid off debt and credit cards. Businesses responded to the recession by saving their cash and not investing in hiring new employees, as well as hoarding their cash out of concern about the ability to get credit to expand operations. Businesses decided it was much more important to repair their balance sheets instead of spending and that was the cause of the great recession. The U.S. had enormous declines in economic output, employment, and production. He said the pace of deleveraging had slowed beginning in late 2009 and early 2010. Households and businesses were still deleveraging, but the pace was slowing. As the labor market improved, business profits increased, and credit flowed more freely, it was expected in the next two years that households and businesses would take on credit again.

Deleveraging was a major reason why there was still weak growth in the economy and another reason for weak growth was that the boost from the fiscal stimulus package was fading. Page 4 showed Moody's estimate of the contribution of fiscal stimulus on economic growth including both the tax rebate checks passed under the Bush administration in 2008, as well as the Obama stimulus plan passed in March 2009. The tax rebates provided a small boost to growth, but were not enough to offset the impact of the deleveraging and all the cutbacks in corporate and consumer spending in 2008. Mr. Faucher pointed out that the fiscal stimulus package passed by the Obama administration in early 2009 provided a substantial lift to economic growth. Moody's estimated that it added about 3 percentage points to gross domestic product (GDP) growth on an annualized basis in the second quarter of 2009, and averaged about 3.5 or 4 percentage points in the second half of 2009. This meant that the fiscal stimulus package was a major contributor to the end of the recession that ended in June 2009 according to the National Bureau of Economic Research. The fiscal stimulus package included bonus social security payments that supported consumer spending, and reduced federal income taxes which were evident on people's paychecks as an offset to payroll taxes added to paychecks since the spring of 2009. Other federal efforts, such as the Car Allowance Rebate System (cash for clunkers) program boosted auto sales in the second half of 2009, small business tax credits and infrastructure spending programs all helped stimulate the economy. What really mattered for economic growth was not the level of fiscal stimulus provided by the federal government, but the change in the amounts of stimulus spending was decreasing, which meant that the fiscal stimulus was turning from a boost to growth, to a drag on growth. According to the chart on page 4, the boost to growth from fiscal stimulus in the third quarter of 2010 was zero and it was expected that fiscal stimulus would become a drag on economic growth in the last part of 2010 and through most of 2011. Another important aspect of fiscal stimulus was the aid to state governments. This aid was very important in preventing even larger cuts and tax increases at the state level, viewed as an important contributor to the recovery from the recession. The federal government was still spending funds on fiscal stimulus, but the amount contributed was getting smaller, thus creating a drag on economic growth for 2011.

Continuing, Mr. Faucher said the graph on page 5 showed high income households had increased their savings rate sharply in 2008 and 2009. It was an estimate of the personal savings rate for the top 20% of families in the United States based on household income. The group accounted for about 60% of all consumer spending and these wealthy households had a disproportionate impact on consumer spending in the United States. He explained that as these households increased their savings it meant they cut back on their consumer spending and was one reason why the recession was so severe. The savings rate rose from close to 0% in 2007 to 15% in 2008 and 2009. This group was disproportionately affected by the stock market and were very sensitive to stock prices, so they started to save more for retirement when the stock market went down. With the rebound in stock prices in the United States, the savings rate fell to about 5%, however, when problems started in Europe (Spring 2010) and equity prices fell again these household responded by increasing their savings rate. This savings behavior had shown to be another reason why economic growth had slowed and would remain weak over the next 9 to 12 months.

Mr. Faucher said the labor market was slowly turning around, but hiring was dormant (page 6). Layoffs had slowed so initial unemployment claims had decreased substantially from late 2008 and early 2009, but hiring had yet to increase. The data on the chart was from the Job Opening and Labor Turnover Survey (JOLT) from the Bureau of Labor Statistics. It showed the gross number of people hired," the actual number of jobs that firms added in a particular month. Prior to the recession firms added about 5.5 million jobs per month, which slowed to about 4 million jobs in 2009 and had not yet picked up. He said the labor market had improved, but would not show any strong improvement until firms started to increase hiring. Firms had not increased hiring because they were still anxious about the state of the economy and were not convinced the economic growth over the past year would be sustained. In addition, it was still difficult for firms, especially small businesses to get access to credit in order to expand their operations. Until businesses were convinced economic recovery was in place there would be reluctance to hire employees and economic growth would remain weak. However, Moody's did expect firms to increase hiring and Mr. Faucher said he would address that later in the presentation.

The data on page 7 from the credit rating agency Equifax showed the foreclosure crisis continued and was another drag on growth. Mr. Faucher explained Moody's received a sample of 5% of Equifax's credit files, which enabled compilation of data on household credit market conditions. The chart showed the number of first mortgage loans, as of the end of September 2010, that were either in foreclosure (green bars) or were 90 days delinquent (orange bars) heading toward default and foreclosure. Serious delinquencies were about 600,000 to 700,000 in 2005 to 2006 and increased sharply to more than 4 million in 2010. With about 49 million first mortgages in the United States, about 8% or 9% were in default or foreclosure, which was an enormous drag on the economy and housing prices. Some foreclosures were stalled because of mortgage modifications through the federal government or private entities. Others had been held up from the recent controversy of whether banks had properly authorized the foreclosures, but it was expected that these houses would eventually go into foreclosure over the next year further pushing down housing prices. The home buyers tax credit, slightly stronger job growth and low mortgage rates helped housing prices increase somewhat. However, with all the upcoming foreclosure inventory to be sold by the lenders, housing prices were expected to move down again.

The Case Shiller Home Price Index (page 8) was the best measure of housing prices in the United States. Mr. Faucher noted house prices peaked nationally in early 2006 and fell about 35% to their trough in early 2009. He indicated that housing prices would continue to decline despite low mortgage rates and an improvement in the labor market. Overall, a peak to trough decline in house prices of about 38% in the upcoming quarters of 2011 was expected nationally with the decline in Nevada much greater. Homeowners had seen their houses, which was typically their major asset, decline along with stock prices. The decline in housing prices would create a further drag on consumer spending. Mr. Faucher explained a term used by economists called the wealth effect meant that as the value of stocks and houses went up, homeowners felt wealthier and were more willing to increase their consumer spending to purchase a car or go on vacation, for example. The wealth effect was produced as long as asset prices were rising; otherwise, it was called the negative wealth effect where consumers felt less wealthy and needed to save more for retirement, thus spending less. This was seen throughout the recession and he said declines would continue in the upcoming quarters. Mr. Faucher said Moody's thought growth was going to be weak through the middle of 2011, but stronger growth in the second half of 2011, and very strong growth in 2012 and 2013 was expected. Moody's U.S. forecast for GDP growth, the output of all goods and services, was about 2.7% in 2010, between 2.5% and 3% in 2011, and expected to be 4.5% to 5% in both 2012 and 2013. The strong economic growth in 2012 and 2013 would lead to substantial improvement in the labor market and a large decline in the unemployment rate. However, Moody's expected the unemployment rate to move a bit higher from 9.6% in October to over 10% in the first half of 2011, back to about 7% by the end of 2012, and then decline to about 6% by the end of 2013. He said Mr. Anderson talked about what had been happening with the labor force and agreed that many of the unemployed were discouraged because of the depth of the recession and gave up looking for work. To be counted in the official unemployment rate, those people had to be looking for work and there are millions of people who gave up. As the job market improved, Moody's expected that group would come back into the labor market and look for work again. He said there would be economic growth in 2012 and 2013, which would result in a large decrease in the unemployment rate in the second half of 2011.

Why was Moody's so optimistic about what is going on with the economy and why did they expect strong growth in 2012 and 2013? Mr. Faucher said Moody's was optimistic about the health of the economy and expected strong growth in 2012 and 2013 for various reasons including that the Federal Reserve would remain very aggressive (page 9). The Federal Reserve announced on November 3, 2010, that they would be creating money supply by purchasing $600 billion in treasure securities over the next nine months in an effort to bring down long-term interest rates. The Federal Reserve called this tactic quantitative easing. The green line on the chart on page 9 was the rate the Federal Reserve charged for short-term interest loans to banks. Since that rate was almost at 0% the Federal Reserve could not lower it below 0% and charge a negative interest rate, but there were other steps that could be taken. The orange line was the appropriate funds rate, which was a measure of what the federal funds rate should be given the economic conditions. The appropriate funds rate considered various economic factors. The rate was based on inflation, the current unemployment rate relative to what the unemployment rate was in a well functioning economy, stock prices, and yields on high yield corporate debt relative to yields on treasury securities. Moody's estimated the federal funds rate should be about -2% given the economic conditions. Since the Federal Reserve cannot decrease short-term rates below 0%, it could attempt to lower long-term rates by buying down longer-term corporate borrowing costs and bringing up inflation. He said the Federal Reserve felt the economy functioned best when inflation ran about 1.5% to 2%. When economic growth was too low and too weak the Federal Reserve tried to boost expected future inflation as well as create incentives for businesses to hire. These were all efforts by the Federal Reserve undertaken through quantitative easing. To further explain, Mr. Faucher said Moody's estimated that each $1 trillion in assets purchased by the Federal Reserve was equivalent to lowering the federal funds rate by 1 percentage point. This would imply that the Federal Reserve should be buying more than $2 trillion worth of treasury securities in order to get the federal funds rate down to the appropriate level. The Federal Reserve had taken aggressive steps and indicated it would take further steps if necessary to support the economy. If the economy were to weaken more or it looked like deflation was near, the Federal Reserve might take steps that are even more aggressive. Mr. Faucher said Moody's expected to see interest rates remain low at least well into 2012. The first reason Moody's anticipated stronger economic growth in 2012 and 2013 was the Federal Reserve's aggressiveness.

Mr. Faucher stated very strong profit growth in corporations was the second reason Moody's expected to see an increase in economic growth. Depicted by the green line (right hand scale), the chart on page 10 showed year over year growth in corporate profits lagged by three quarters. The job and corporate profits data came from the Bureau of Economic Analysis so it was economy-wide, not just large companies. The orange line (left hand scale) was year over year job growth. He explained when businesses were doing well and when profits were growing strongly businesses used those profits to hire employees. Corporate profits bottomed out in 2009, but there had been strong growth since that point. During the recession, businesses had to cut costs substantially, resulting in layoffs, and worked employees harder to get more productivity out of their workforces. Businesses also held off at investing, repaired their balance sheets, and took opportunities to pay off high cost debt utilizing low cost borrowing. Corporate profits were up about 60 percent from their trough, which meant profitability was up so businesses had the ability to hire and invest. Mr. Faucher noted businesses were starting to invest because there was strong growth in investment spending, but hiring had not increased in any substantive way. As previously mentioned, once businesses saw stronger economic growth and were convinced about the sustainability of the recovery, then hiring would commence. The chart implied that in three more quarters the nation should see jobs increase to about 400,000 per month by the middle of 2011, which would be very strong job creation. Businesses invested in technology saving equipment and software, but it would find it difficult to increase output without hiring workers. The average hourly workweek had also increased and businesses were moving part-time workers to full-time. In order to gain on their competitors, businesses would have to expand and take advantage of the stronger up and coming demand so hiring would ensue. He thought businesses would begin to realize as the labor market picked up that a stronger labor market equated to stronger consumer confidence, and more consumer spending and overall confidence would be restored.

Turning to the next item on page 11, Mr. Faucher stated that household debt burdens were falling fast. The chart showed the debt service ratio from the Federal Reserve Board. The debt service ratio was a household's debt payments as a share of personal disposable income, and the financial obligations ratio was debt payments plus other financial obligations (rent, homeowners insurance and leases, etc.) as share of disposable income. These ratios were measures of consumer indebtedness, which had fallen sharply since 2008 as consumers paid off their debt. Some households took advantage of low mortgage rates to refinance and consumers also paid off high cost credit card debt. He said as consumers paid off debt and income growth increased, the lower debt levels would be relative to higher personal income levels. Although personal income growth had been weak due to the recession, it would be increasing in the near future. Moody's expected to see debt service and financial obligations ratios low like in the 1990's by the end of 2011. Consumers would then be in much better shape to increase spending and take advantage of both stronger job growth and stronger wage growth. In addition, credit conditions should continue to improve at the same time. Banks were only lending to those households and small businesses with the best credit, but by late 2011 banks should be starting to expand the issue of credit again.

Mr. Faucher pointed out that during the recession households cut back very sharply on purchasing automobiles, houses and leisure spending (fewer or shorter vacations and eating out less). This meant pent up demand was developing and when the economy started to improve and the labor market began to turn around, households would want to go out and spend. He said this was apparent in the housing market as housing inventories were peaking (page 12). The green line on the chart showed the number of vacant homes that were for sale, for rent or held off the market. The chart depicted the current housing market, which represented around $10 million units. The orange line was the trend vacancy, the number of vacant units estimated based on underlying demographics (number of households, population, income growth etc.). The chart showed the actual vacancy rate was well above the trend vacancy rate, which implied there were too many available housing units based on the underlying demographics. Currently, the housing supply was about 600,000 annually, consisting of 450,000 single-family homes, 100,000 multi-family homes and 50,000 manufactured homes. Mr. Faucher said the housing supply was very low and for two or three years in a row approximately 1.2 million to 1.5 million homes were produced every year. The housing demand was approximately 1.35 million units a year. The housing demand figure was based on a number of factors including 800,000 new household formations (mostly young people who had graduated from high school or college leaving their parents homes to form their own households), 350,000 homes per month that were no longer inhabitable, and 200,000 vacation homes. He said this meant that housing demand was running well ahead of housing supply, about 750,000 units per year. There was a low level of home building; although, a higher level of demand for housing. The difference between the green and orange lines on the chart equated to about 1.5 extra housing units in the market than would be justified given the demographics. Mr. Faucher stated if there was a pace of 750,000 stronger demand relative to supply it would take about two years to work off the excess inventory in the housing market. Therefore, there would be pent up demand in the housing market in the middle of 2012 because households had held off purchasing a home due to the economic conditions. The strong demand for housing in 2012 would change the extra inventory of housing into pent up demand, which would contribute to the strong rebound in 2012 and 2013. He said Moody's had similar charts for automobile sales, which showed there would be a very strong demand for vehicles as economic conditions picked up and the labor market improved. There would also be pent up demand for vacations and eating out. Consumers would feel they had sacrificed for three or four years, would be more confident at keeping their job and earning a higher income; therefore, consumers would undertake purchases that had been deferred during the recession and the weak recovery. Mr. Faucher noted this was a primary reason why Moody's expected to see stronger economic growth in 2012 and 2013.

Mr. Faucher said over time, however, consumers would no longer lead the way in economic growth (page 13). From 1995 to 2005 growth in consumer spending lead overall economic growth in the U.S., which meant that consumer spending growth was stronger than real GDP growth. It was expected that consumer spending growth would be slightly weaker than overall GDP growth in the next 10 to 20 years. Lower to middle income households would no longer be able to count on rising home prices to support their consumer spending so there would be much more less cashing out their equity through refinancing. In essence, lower to middle income households needed to get their incomes in line with their spending. Higher income households that lost wealth in the stock market needed to repair their balance sheets for retirement. The personal savings rate would increase. It had already turned around sharply to 3.5% from its trough of 2.5% and would gradually rise over the next 10 years to approximately 8%. Mr. Faucher said Moody's anticipated overall weaker growth in consumer spending than in GDP over the longer term, which was a structural change in the economy Moody's expected to see because of the recession. Mr. Faucher concluded his presentation on the U.S. outlook, but before moving to the regional outlook he asked for questions.

Referring to the profit surge by corporations, Mr. Maddox asked how much was estimated to be fueled by internationals and multinationals who were generating much of their revenue and profits overseas, versus what was actually being sold in the United States.

Mr. Faucher replied the Bureau of Economic Analysis reported on profits coming from overseas versus profits coming from the United States, but he did not have that data with him at the meeting. He said profits might be produced by exports, goods and services U.S. companies sold overseas, but the vast majority of those profits came from U.S. based production and not from profits from U.S. companies repatriating from overseas.

Regarding the foreclosure crisis, Mr. Martin asked if banks were actually doing loan modifications and if that was helping to ease the uncertainty. The overall sense he got from the presentation was if uncertainty were eliminated then consumer confidence would increase. He thought that Moody's forecast was very "rosy."

Mr. Faucher said there was still uncertainty around the nation. He thought the federal effort helped the margins, but there were still large numbers of homes that would eventually end up in foreclosure. He also thought there were a limited number of households that received temporary mortgage modifications, many of which would not become permanent. Even if banks reduced the interest rate, he thought households would be unable to make the payments. Without substantial principal modification, reducing the principal, many homeowners would decide it was not worthwhile to keep their home. Moody's estimated about 20% of defaults were strategic defaults in which homeowners who could make the payments chose not to because it would not be in their best interest or worthwhile to keep their home. For example, if a homeowner's home was in a development with multiple foreclosures and it was purchased at the top of the market, the homeowner might decide to give his keys to the bank and walk away. It would not be worthwhile to keep the home because the homes in his neighborhood were selling for 50% of the price he paid at the top of the market. It would make more sense to take the credit hit, rent one of the foreclosed houses in his neighborhood for a couple of years and then buy it once his credit score improved. Another factor was that loan modifications were not going to help those who had lost their jobs because there would not be money to pay the mortgage payments. Moody's was expecting to see substantial foreclosures over the next year, which would bring down housing prices. The foreclosure process was lengthy so it would be a while to work through these problem situations. Delinquency rates were decreasing, which showed that the credit banks were issuing now was good. Homeowners who could hold on through this period would be in good shape at the end of the process. Those homeowners would have purchased homes when prices and interest rates were low and would be devoting less of their income to mortgage payments, which would support consumer spending growth in the years ahead. Foreclosures were going to be a drag on the economy, but once the nation worked through these problems then credit quality, low house prices and low mortgage payments were going to be a plus for the economy in 2012 and 2013.

Responding to Mr. Martin's comment about Moody's forecast being "rosy," Mr. Faucher said it was true that Moody's was well above the consensus compared to the average economic forecasts for 2012 and 2013. He said Moody's was optimistic that the recovery would be stronger and the unemployment rate would come down faster than most economic forecasters based on the following: 1) the Federal Reserve would remain aggressive, 2) consumers would continue to repair their balance sheets, 3) businesses would have cash on hand and when convinced recovery was in place would start hiring again, and 4) strong export growth. He said U.S. businesses had seen very strong productivity gains over the past decade relative to Europe and strong continued growth in Asia was expected, where the dollar had weakened over the last few years. Strong export growth would support U.S. export competiveness as well as help the weaker growth in consumer spending that was expected relative to overall GDP growth. Mr. Faucher said Moody's economic outlook was optimistic, but they were confident in the forecast and expected to see very strong economic growth in 2012 and 2013.

Mr. Maddox said Ben Bernanke from the Federal Reserve in April 2010 talked about taking the term extended period out of the economic language because things were going so well at that time. However, the Federal Reserve, just months later, announced a $600 billion quantitative easing effort. He asked Mr. Faucher if this was just another moment in time like April. Why did Moody's think it would be better now when it did not work earlier in the year?

Mr. Faucher said in late 2009 and early 2010, the U.S. saw strong economic growth and real GDP had grown about 3% to 4% on an annualized basis. Firms had sharply cut inventories during the recession and had too little on hand so there was a boost from production to restore inventories. There was also a boost from the federal stimulus at that point as well. He thought the expectation was that boost would be enough at that point to lead to self-sustaining expansion, where economic growth would be strong and not dependant on support from either the federal government through tax and spending programs, or from the Federal Reserve. Unfortunately, that did not happen because consumer confidence was weakened due to the European economic crisis at that same time. The problems in Greece developed around April 2010 and a large decline in stock prices affected the spending by higher income households. Mr. Faucher surmised that those factors made the business sector nervous about the economic conditions and the growth that was expected did not happen. The European debt crisis appeared to be stabilized, which the Federal Reserve had recognized by taking further aggressive steps to stimulate economic growth. He acknowledged the economy could be vulnerable to another shock and there was potential for that to happen, but with the European situation stabilized along with the Federal Reserve's aggressive effort it was expected for growth to increase in the second half of 2011.

Mr. Maddox said he was not sure Europe was stabilized because the rates on the PIGS (Portugal, Ireland, Greece and Spain) had "gapped out" again in the first week of November 2010.

Mr. Faucher explained there had been problems in Europe, but there was not the imminent threat of default in Greece like there was in April 2010. He said it appeared that the European Union and the European Central Bank would not let that happen; therefore, investors were more confident now than in April. U.S. equity prices and U.S. stock prices did not appear to be hurt by the recent problems in Europe and had risen sharply over the last few days in response to the Federal Reserve effort, which indicated consumers and businesses were more optimistic.

Chairman Restrepo noted there were significant opposing views on the economic outlook compared to Moody's, including Joseph Stiglitz (Columbia University), Nouriel Roubini, Dean Baker and Paul Krugman. In fact, Joseph Stiglitz said in an interview in the New York Times that quantitative easing was not going to do much good and could actually do harm as opposed to investing in infrastructure investments. He wanted to make sure that the different views were part of the discussion and guessed economist's opinions depended on where they were in the political realm. There was also information that Europe was having problems and the small amount of economic resurgence was decreasing. He thought whatever happened in Europe eventually flowed into the U.S. economy and then into all the state economies. Chairman Restrepo also wanted to address what he viewed as conflicting data in the presentation regarding the housing market. He thought housing was an important consumer asset and was critical to the stability of the consumer as well as consumer spending confidence. Despite deleveraging, rising bankruptcies were going to have an effect on consumer spending and consumer confidence. He also noted as consumers paid off debt and deleveraged they may not be able to get credit as easily as before to be able to buy homes, because of more restrictive lending. There was going to be pent up demand in the housing market, but if hiring was dormant, those without a job could not buy a home. He asked Mr. Faucher to discuss that multitude of topics.

Mr. Faucher said he would try to address all of Chairman Restrepo's points. He said in terms of what other economists were saying, Moody's expected to see adequate growth from late 2010 until mid 2011, then stronger growth in the second half of 2011 and in particular 2012 and 2013. He thought quantitative easing would be a plus for the economy. Interest rates had come down even before the Federal Reserve made its announcement. Before the Federal Reserve officially put quantitative easing into place, the expectation drove down interest rates. It weakened the dollar, which seemed to indicate that quantitative easing had a positive impact on the economy by reducing capital costs and keeping mortgage rates low. He would also prefer to see additional fiscal stimulus in addition to quantitative easing. Additional aid to state and local governments and additional infrastructure spending would also be effective in promoting economic growth. Mr. Faucher thought the Federal Reserve effort was important and was engaged in quantitative easing because further fiscal stimulus did not appear to be forthcoming from the federal government.

Addressing Europe, Mr. Faucher said European countries were addressing the fiscal crisis by reducing budget deficits, cutting spending and raising taxes. Those measures were contractionary and were slowing the economy, so a slight double dip recession in Europe was expected in the first half of 2011. However, Moody's did not think it would result in a U.S. recession. He said exports to Europe were important for the U.S. economy, but Asia and Latin America continued to see very strong growth. The dollar had fallen against the Euro, the Pound and other currencies and was expected that the dollar would weaken further against the Chinese Yuan as they undertake further efforts to allow the Yuan to appreciate. Mr. Faucher maintained that Europe would be a slight drag on the U.S., but in general exports would be a plus for the United States particularly to developing economies in Latin America and Asia.

In reference to bankruptcies, Mr. Faucher said it was true that bankruptcies were increasing. Although, if a consumer declared bankruptcy, it was a plus because it allowed them to pay down their debt and if the debt was reduced, it freed up money they had to spend. He thought the bankruptcy reform law of 2005 confused the bankruptcy data. Looking back at the data, there was a strong spike in bankruptcies before the law was passed and then a sharp fall afterwards. He thought because households were prevented from declaring bankruptcy more than once every seven years; many people that declared bankruptcy before the law changed would be prevented from doing so now. Another big issue with declaring bankruptcy was that it prohibited discharging a house mortgage. He said rising bankruptcies were an indication of a weak economy, but he did not think they were necessarily a negative for the economy. Bankruptcies allowed households to clear their balance sheets and to support spending growth.

Regarding credit, Mr. Faucher explained that credit remained very tight to date; however, according to data from the Federal Reserve's Senior Loan Officer Survey, banks were no longer tightening lending standards as practiced during the recession. Because of the tighter lending standards, new bank loans were very high quality and delinquency rates on new credit were very low. Credit standards would improve over the next two to three years, which would be helped by a stronger labor market and by higher business profits.

Referring to dormant hiring, Mr. Faucher said as credit flows improved, profits remained high, the labor market turned around, and demand was strong, businesses would find it difficult not to hire workers. The chart, Profits Surge and Jobs Should Follow (page 10) showed that businesses had the ability to hire, but a lack of confidence was holding them back. Without expanding their workforce, businesses would not be able to keep up with demand or maintain profitability and possibly lose business to competitors. He thought firms would start hiring again because all the conditions were there except the confidence, which was also beginning to come back.

Chairman Restrepo agreed that filing bankruptcy freed up consumer cash, but it ruined credit making it difficult to buy a home for a few years and get credit cards back. He differed with Mr. Faucher slightly on how quickly those would turn around due to the increase in bankruptcies. Chairman Restrepo said it sounded like Mr. Faucher disagreed with Nouriel Roubini when he said that the economy was on stall speed.

Mr. Faucher responded the economy was not on stall speed. The economy was expanding, businesses were hiring, businesses were investing, and there was slight improvement in the housing market. However, there were some weights on the economy – softer hiring by businesses and state and local governments were going to be a drag on the economy. He thought that the internal drivers of demand including exports, business investments, and spending were strong enough to sustain the expansion for the next two or three quarters until the labor market rebounded, then strong economic growth would follow. Mr. Faucher reiterated that the economy was not stalled, there was growth sufficient for the economy to expand until the labor market turned around, which would lead to improved consumer confidence and very strong

economic growth in 2012 and 2013. He said that was Moody's forecast and he stood behind it because the drivers were in place for economic growth.
Mr. Alastuey said he would like to hear more about Moody's view on the crosswalk between the national housing market, the vacant inventory and the two-year period that Moody's says it would take to bring that inventory into a long-term trend to stabilize the market, especially as it pertained to Nevada. He thought the Nevada housing market was a huge outlier and for a construction driven economy, the information was very important. Mr. Alastuey appreciated what Mr. Faucher said about business and consumer confidence nationally; however, the Nevada housing market was less about business or investor confidence and more about individuals with respect to their assets on a household-by-household basis.

Mr. Faucher said it had been a difficult time and households were scarred from the recession. However, he maintained pent up demand was developing. Households held off on major purchases and vacations, but as the labor market improved, stock prices moved higher and consumers saw income gains, confidence would rebound in time.

Chairman Restrepo asked if any of the new federal regulations for consumer protection would allow consumers to obtain the levels of credit available before the recession.

Mr. Faucher thought the new regulations for consumer protection would have an impact and not allow households to become overextended with credit like before the recession. This would weigh on credit growth, but was another reason to help the consumer savings rate move higher. The new regulations would help prevent problems in the housing market and only be a slight negative for near term growth. He said over the long term it would contribute to the stability of the U.S. economy.

Continuing, Mr. Faucher moved to his presentation on the regional outlook and directed the Committee to page 14 to a map on state economic conditions. He said Moody's analyzed and produced forecasts for every state and metro area in the country including an estimate of recession conditions on a state by state basis. Using payroll employment data from the Bureau of Labor Statistics, which was a monthly state-by-state indicator of economic conditions; single-family housing starts; housing prices and estimated industrial production, Moody's estimated the recession status for every state. Industrial production was an evaluation and estimate of a state's industrial structure based on data produced by the Federal Reserve on outputs by manufacturers, utilities and mines. For example, Nevada would be heavily weighted toward mining, Michigan would be heavily weighted toward automobile manufacturing and Washington would be heavily weighted toward aircraft production. Compiling this information determined that at the depth of the recession every state was in recession, which was unprecedented. Usually, there were pockets in the country that would not be as affected even in a national downturn, but that was not the case this time. The recession was so severe and broad, it hit across all industries in every single state. Most states had climbed out of the recession, but with weakened growth, a few parts of the country were backsliding into recession. He said parts of the Midwest heavily tied to manufacturing, and parts of the Southeast were backsliding. New Mexico was also backsliding and Arizona was in the at-risk category. Mr. Faucher stated Nevada never came out of recession and had been in recession throughout the entire national recession, even during the recovery phase.

The map of the United States on page 15 showed there were problem pockets in the West, areas where economic conditions were evaluated using the factors discussed above and found to still be in recession or at-risk. Moody's assessed 389 metropolitan areas of the U.S. and found Nevada's metro areas, some of Arizona's metro areas and parts of California were in recession. Interestingly, California's big metro areas, San Francisco, Oakland, Los Angeles, and San Diego were not in recession. Rather, it was the outlying areas because the metro areas were dependant on housing to support growth. People moved to the outlying areas in search of more affordable housing so there were big construction booms in those areas. When the housing market collapsed, those areas dependant on the housing market to support construction employment to support job growth fell into recession. Further problems with housing foreclosures moved some of the metro areas that came out of recession back into recession again. There were problems in many Western metro areas, in parts of Utah, Washington and Oregon as well as the Boise, Idaho metro area. There were also pockets of weakness in Florida tied to the housing market, parts of the Southeast tied to manufacturing for the building industry, and parts of the industrial Midwest tied to the automobile industry. However, conditions were improving in the automobile industry.

Turning to the next item (page 16), Mr. Faucher said the chart was complicated to understand and looked at particular large metropolitan areas in the West. The vertical axis of the chart showed job growth over the preceding three months (near-term job growth) and the horizontal axis was job growth over the past year as of March 2010. He explained the star in the center of the chart represented the U.S. economy, so in March 2010 employment in the U.S. converted to a yearly rate was approximately zero. Employment was flat in the three months up to March 2010. From March 2009 to March 2010, total employment had fallen by about 2.5% and was shown on the horizontal axis. He pointed out Las Vegas was among the large Western metro areas and was the worst performer both on a year over year basis and also in the three months leading up to March 2010. Most of the West had underperformed the rest of the United States. He changed the chart to reflect the movement from March 2010 to September 2010, which showed that employment growth on a year over year basis had increased and there had been a slight improvement of the three-month moving average basis to September. In general, economic conditions were improving in the United States, but year over year employment growth in the U.S. was almost flat. Mr. Faucher said the number of jobs in September 2010 was about equal to the number of jobs in September 2009 and there was not even a slight increase in jobs in the three months from June 2010 to September 2010. Looking specifically at Las Vegas, the charts showed the area went from losing jobs in the three months up to March 2010 to almost flat in the three months up to September 2010. Jobs in Las Vegas were still down about 2% on a year ago basis in September, but that was much better than the 7% year over year decline shown in March. Economic conditions were shown to be improving throughout the West and Las Vegas; however, most of the West was still weak and lagging behind the United States overall. The chart showed the Mountain states (represented as brown dots) were outperforming the Pacific states (represented as green dots). He cited Denver and Salt Lake City were benefitting from strong investment and technology with Boulder and Phoenix also looking strong in job growth. Mainly the California metro areas were lagging and most of the problems in the West were due to larger declines in housing prices and construction. Much of the growth in the West before the recession was tied to housing, either in terms of direct employment through construction or through consumer spending growth linked to rising house prices.

The chart on page 17 based on initial claims for unemployment insurance showed that layoffs remained higher in the West than for the rest of the country. Mr. Faucher explained the information was indexed to January 2008 and the initial claims for unemployment insurance in the West were about 60% higher than in the beginning of 2008. By comparison, the Midwest, the Northeast and the South were about 20% to 30% higher. Mr. Faucher pointed out; however, that income growth improved in the West (page 18). The green line depicted the quarterly change in income growth in the first quarter of 2010 and the orange line depicted the quarterly income growth in the second quarter of 2010. The chart showed that income growth had strengthened throughout the West and Nevada was off the chart at -2% in the first quarter of 2010. There were slight declines in income growth in Nevada, but the chart showed it was closer to zero so income trends were at least improving in Nevada. Mr. Faucher said most states in the West were seeing income growth in the second quarter of 2010, but were still lagging the U.S. overall (page 19). As the job market turned around, income growth improved both in the West and nationally, although the West was expected to continue to fall behind the rest of the nation. The chart showed the orange line as year over year job growth from the second quarter of 2009 to the second quarter of 2010 and the green line was the job growth from the fourth quarter of 2010 to the fourth quarter on 2011. He noted Moody's expected to see negative job growth on a year over year basis for 2010 for most of the major Western metro areas. However, positive job gains were expected for most of these Western metro areas in the second half of 2010. The job losses in the first half of 2010 were very large, but by the end of 2011 there would be substantive job gains throughout most of the major Western metropolitan areas; although, most would still continue to lag. The areas expected to have the most success in job growth were Portland, San Jose, San Diego (tech industries), and Seattle (Microsoft and Boeing). He thought there would be weaker job growth, but still substantive gains in Los Angeles; although, Sacramento would be hurt by state government budget cuts, and Riverside, which was tied heavily to manufacturing would not turn around as quickly. San Francisco would be close to the national average and Denver would be higher than the national average. Lastly, Mr. Faucher said he would take questions on the Western Regional Outlook, but let Dan White present information on the Nevada Regional Economic Outlook including Las Vegas, which Moody's expected to out-perform the U.S. in job growth in the four quarters from 2010 to the fourth quarter of 2011.

Referring to the chart on page 19, with most of the West lagging the U.S. in 2011, Mr. Martin said it struck him that the area with most dramatic movement on the entire chart was Las Vegas. He wanted to know what industry was expected to have that much job growth.

Mr. Faucher deferred that question and said Mr. White would go into great detail about job growth in Las Vegas during his presentation.

Mr. Maddox asked for clarification on the chart on page 16 regarding the timeframes on the horizontal axis and vertical axis. Mr. Faucher explained the chart was a three-month moving average with September 2010 compared to June 2010 on the vertical axis, and then September 2010 compared to September 2009 on the horizontal axis. The data was averaged over a few months because there was a lot of volatility. The chart showed short-term job growth over the three months compared to the job growth over the preceding year.

Mr. Maddox pointed out that in Las Vegas, for example, summer was the slowest time of year and many jobs were non-existent due to the lack of conventions; however, in September business increased again. Mr. Faucher responded that the chart was seasonally adjusted data, which took into account the normal annual cycles. He concluded his presentation on the National and Regional Outlook.

Moving on to the State Economic Outlook, Dan White, Economist, Moody's Analytics, stated that Moody's outlook for the State of Nevada, Las Vegas in particular, was rosier than the consensus view. He explained that the local model, particularly the state model, was based on Moody's underlying macroeconomic assumptions. As optimistic as the forecast seemed relative to the consensus view, the Moody's forecast would look like an outlier in some categories. Mr. White said he was glad that Mr. Faucher was able to provide the macroeconomic forecast in detail because it really explained what was underlying the drivers in the Moody's forecast for Nevada.

Mr. White stated that he would review three main points at the meeting: 1) population and migration; 2) housing market and construction by proxy of the housing market; and 3) leisure, hospitality and the gaming market.

Directing the committee to page 21 of the handout, Economic Outlook and Tax Forecast, Moody's Analytics, (Exhibit D), Mr. White stated that the current recession hit Nevada harder than usual. The chart showed the context of the recession in terms of employment relative to the historical record. Most importantly, he wanted to show Moody's forecast in employment percentage change from a year ago. Moody's forecast showed substantial growth coming for Nevada, particularly Las Vegas and Southern Nevada. He added that Nevada's unemployment rate was the highest in the nation as Mr. Anderson discussed in detail earlier in the meeting.

Moving to page 23, Mr. White said that population growth in Nevada was strong over the past two decades and a strong driver of a variety of different forms of economic growth for the State. In particular, Nevada's population growth relative to the housing market correlated well. He noted when people came to Nevada because there were jobs and credit was plentiful they purchased a home, which drove housing starts and the prices of homes. However, a decline was seen in housing prices and housing starts as the population growth came to a crawl in Nevada. Housing starts were approximately one-tenth of what they were at the peak of the recession. However, the good news for Nevada was that the housing market was near the bottom; housing starts in particular were at the bottom since 2009, mostly because they could not go lower. Mr. White stated that according to the Case-Shiller Home Price Index, Nevada's housing market had fallen 58% since its peak, which was mid-2006. Referring to page 25, Mr. White stated that Moody's expected Nevada to fall another 11% before hitting bottom in mid-2012, which was just over 60% for the peak-to-trough decline. He added that the U.S. average peak-to-trough decline was 38%. In addition, the metropolitan areas in Las Vegas were expected to decline another 16% before bottoming out at the same time as the State. Carson City and Reno were not prone to the huge swings as Southern Nevada, and were only expected to fall another 3% to 4%.

Moving to page 26, Mr. White stated that alongside the population growth and employment problem was the foreclosure rate of homes in Nevada, which really hurt the State. He explained the chart showed Nevada's foreclosure problem relative to U.S. foreclosures, which was a huge outlier, as Mr. Alastuey referred to earlier in the meeting. According to data from Realty Trac, currently there was 1 foreclosure in every 62 homes in Nevada. Las Vegas had the highest foreclosure rate in the nation with 1 foreclosure in every 51 households, which would be a problem going forward because of the huge build up of foreclosure inventory. Until the foreclosure inventory was liquidated, people would be buying foreclosed homes as opposed to new homes, because they could purchase a foreclosed home for half the price of a new home. Once the foreclosure inventory was reduced, the State would see an increase in the housing starts and construction activity.

Continuing, Mr. White believed the leisure and hospitality sector, gaming in particular, would create the population and employment growth in the State. He indicated that the State had already seen a small turnaround. Since approximately mid-2009, hotel occupancy rates in Las Vegas had found a bottom of around 80%, and monthly visitors had increased dramatically, which was a very sharp turnaround. Mr. White explained that most of the data shown on pages 27 and 28 was provided by the Las Vegas Convention and Visitors Authority (LVCVA) and specific to Las Vegas. He said the type of visitors coming to Las Vegas was what was going to cause gaming to take off. Currently, Las Vegas had seen an increase in visitors, but the types of visitors coming to Las Vegas were trying to save money. There was a lot pent up demand due to many families that had postponed their vacations over the last two years because of the expense and they were trying to build up their savings. However, it was hard to skip a family vacation more than two years so many people were taking road trips and local vacations to save money. Las Vegas was seeing more families from surrounding states like California, Arizona, Colorado, Utah, and other parts of Nevada, as opposed to visitors from other parts of the country or world. Although the national visitor to Las Vegas was still strong, total gaming revenues usually correlated with McCarran International Airport traffic. In mid-2009, the enplaned/deplaned passengers and visitors took a sharp move away from each other as shown on page 28, which changed the spending habits of visitors, particularity gaming habits.

Mr. White said that Las Vegas gaming revenue per visitor declined steadily since 2008 (page 29); while at the same time the U.S. unemployment rate had gone up. This result was obviously expected and one of the reasons the U.S. unemployment rate was an explanatory variable in the gaming model. Spending would not increase until the labor market for the U.S. really improved in late 2011 into 2012, which was where Moody's outlook diverted from other forecasters for the State of Nevada. Mr. White stated the Moody's outlook projected the labor market improving dramatically over 2012 and 2013 and gross domestic product (GDP) percentages were much higher than the consensus view. As a result, Moody's believed that Nevada would see a lot more recreational spending and leisure hospitality services. Currently, the slight increase in gaming revenue had not resulted in a lot of job growth for Nevada (page 30). Mr. White stated that once the national economy took off there would not only be an increase in visitors, but an increase in the types of visitors spending money in Las Vegas, like the conventioneers, and people who would gamble a lot more, so gaming establishments, hospitality and tourism firms, particularly in Las Vegas, would start hiring employees.

Concluding his presentation, Mr. White believed that Las Vegas would be the area that pulls Nevada out of the recession, which was why Moody's Las Vegas forecast seemed quite strong. He expected Nevada to transition into recovery in 2011 (page 31), although a fragile recovery, led primarily by the leisure and hospitality sector. When jobs came back, peak employment came back and when population growth improved and the foreclosure inventory was liquidated, home starts and the construction industry would pick back up. However, he did not see the construction or housing industry coming back until at least 2013, which was one of the reasons employment would pick up in the long term, particularly in the FY 2013 sales tax forecast.

Mr. Maddox asked Mr. White about the assumption that the leisure and hospitality sector would begin hiring more employees. Currently, Las Vegas had fairly high occupancy rates and he wondered what the people hired would do since those establishments did not need additional staff; it was just that visitors were spending less. Mr. Maddox understood that gaming revenues would increase, which he believed was a fair assumption. In addition, cruise lines were typically a leading indicator of Las Vegas visitors and cruise lines had really out performed, and people were now starting to choose Las Vegas as a vacation destination again.

Mr. White replied that obviously Mr. Maddox was more in tune to the daily operations of Las Vegas, but he disagreed that there was not room for employment growth in Las Vegas. For example, the Plaza Hotel and Casino in Las Vegas recently shut down rooms because of renovations, and the CityCenter Project was not running on full capacity. Occupancy rates in Las Vegas had decreased dramatically from the mid-1990s before the recession to the current 80%, and when occupancy rates came back up from 80% to 95%, the hospitality and leisure sector would need to hire additional staff for those establishments.

Mr. Maddox indicated that there was a 45% increase in supply of hotel rooms, so it was not that there were less people visiting Las Vegas. He explained there would have to be significantly more visitors to Las Vegas than in the mid-1990s to fill the hotel rooms.

Mr. White replied that given the amount of pent up demand and the wealth effect, he believed Las Vegas would see strong growth in recreational spending over the next two to three years.

Chairman Restrepo stated that he also did not necessarily agree with Moody's hospitality forecast. He asked Mr. White how Moody's rationalized the 5% rate of growth in construction employment between 2010 and 2011, as shown on page 31.

Mr. White replied that the increase in construction employment was mostly what was referred to as the "dead cat bounce." Currently, construction was so low that any growth would seem substantial. Mr. White did not think Las Vegas would see a significant increase in housing starts or construction until at least mid-2012, so while the growth might be deceiving in the forecast it was not that aggressive looking at the overall levels of construction employment.

Chairman Restrepo was aware that Mr. White was starting from a low base, which inflated the increase. However, if there were no new housing starts or plans for building any major resorts and the commercial development industry was on its back, he wondered if Mr. White was seeing the employment growth coming from public works projects.

Mr. White replied that there was some pent up demand for public works projects, especially since Moody's had not seen all the federal stimulus funding worked through all the public works projects yet, which he believed was going to be a large factor for construction going forward in Nevada and nationally. He reiterated that the strength in recovery looked very impressive from a growth rate; however, from an absolute level he did not think it was that aggressive.

Mr. Faucher added that there will be growth in industries like education and health services that were tied to demographics and although population growth had slowed, there was still an expanding population and a need for education and health services as the economy and population continued to increase. Mr. Faucher noted that there was a basic level of construction and construction employment necessary to keep up with the level of population in the State. He agreed the State would not come close to making up the job losses seen over the past two or three years, but there would be an underlying level of demand for construction and the "dead cat bounce" that would lead to slightly higher levels of construction employment.

Chairman Restrepo said that somewhat assumed there was a lack of capacity existing in education and other types of infrastructure than could accommodate the growth, and the State was not operating at full capacity and it was a balancing act.

Mr. Alastuey added that one out of every four square feet in industrial space in the commercial sector was vacant in addition to the 10% plus vacancy rate for retail buildings. In addition, high-end stores had given way to deep discounters and there was a lack of commercial development in the State. In housing, there were many existing units closing and between eight to nine times the number of new units closing, and the gap between the closing and asking price of new and existing homes was as large as it had ever been. Therefore, he believed there was reason for some caution, particularly in the construction employment sector. The relationship between available rooms and staffing in the leisure and hospitality sector was tuned very tightly to the individual operations, and a 7% increase in a single year in what was already a relatively large base of employment seemed ambitious.

Mr. Martin was curious if Moody's conducted any analyses of airline passenger loads into and out of Las Vegas, which would have an effect on the leisure and hospitality sector. He was concerned with the rising airplane fares and the difficulty getting a seat on an airplane. Obviously, if people were spending more to get to Las Vegas, they were probably spending less in Las Vegas. Therefore, the leisure and hospitality industry was making less and not hiring as much, as forecast by Moody's. Mr. Martin asked Mr. White if he saw trends that airlines may be expanding service to Las Vegas given that energy prices and possible inflation were all interconnected.

Mr. White replied that Moody's was seeing airline trends in Las Vegas increase, particularly in the international sector. He noted that a lot more international flights were being opened up in Las Vegas, which he believed would continue at least over the next two to three years. In addition, many families were taking road trips given the amount of money they saved by not taking vacations. He believed that over the next two to three years there were not enough obstacles, in terms of air flight to make a significant dent on the increase of visitor traffic to Las Vegas.

Mr. Faucher stated that a lot of the increase expected in leisure and hospitality visitors would come from the business sector. He believed the State would see a significant increase in conventions coming to Las Vegas because as business profits improved there would be more travel into the State, particularly with higher profitability because demand was less responsive to higher prices. Lastly, he believed capacity at the airlines was up and airlines had the ability to expand capacity fairly quickly and were quick to take planes out of service and put them back into service as air traffic picked up. He did not think the airline profitability was very high so the airlines had the ability to expand service. Therefore, he did not expect to see the airlines unwilling or unable to fulfill that demand and had the capacity to quickly meet the demand. Mr. Faucher believed that airline demand would increase in the country as business profits continued to remain high.

As a follow-up, Mr. Martin asked the forecasters from Moody's for their insight in terms of how far they thought the dollar would devalue. Obviously, if expanding into the international market and people were flying to Las Vegas from all over the world, it would become a bargain destination. He said the question was how far down do they think the dollar would go against the Euro, since Europe was where most of the visitors were coming from. He asked the forecasters from Moody's if they believed the State would see more international visitors in 2011 and 2012.

Mr. Faucher replied that Moody's expected to see the dollar depreciate by approximately 15% against a broad range of currencies over the next four or five years. Most of that depreciation was going to be happening against Asian currency rather than European currency. He believed China would continue to allow the Yuan to strengthen against the dollar, which would bring other Asian currencies along with it. In addition, he expected to see a broadly falling dollar over the four or five years, but less so against the Euro, Pound, Canadian dollar, and much more against European currencies, as well as against Latin American currencies because of the strong growth seen in Latin America.

Mr. Maddox stated that the gaming industry had seen a dramatic pick up in business travel and at the same time last year, 35% of the Wynn Resorts convention rooms were booked for the forward year. Currently, for 2010, 65% to 70% of the 2011 budget for the Wynn Resorts was for convention room nights. He expressed that without a doubt the business traveler was coming back to Las Vegas, but still at a fairly depressed rate.

Mr. Faucher added that it was the business traveler on a per traveler basis who would spend more in Las Vegas, as opposed to the leisure travelers.

Mr. Maddox stated that it was not incremental occupancy, but replacing the leisure segment with the convention segment and swapping for a more profitable customer.

Mr. White and Mr. Faucher concluded their presentation on the Nevada Regional Economic Outlook.

V. PRESENTATION ON THE STATE POPULATION OUTLOOK. Jeff Hardcastle, State Demographer, Nevada Small Business Development Center, University of Nevada, Reno

Jeff Hardcastle, State Demographer, Nevada Small Business Development Center, University of Nevada, Reno, referred to Tab V, (Exhibit A), and said he would provide a presentation on the state population outlook and the issues confronting Nevada. In addition, he would discuss the process in doing the projections, the preliminary projections, the current economic situation for Nevada, trends in the REMI and Moody's model, and discuss population in relation to employment. He referenced a report that he recently released on the state projections, entitled *Nevada County Population Projections for 2010 through 2030,* which was available at www.nvdemography.org.

Mr. Hardcastle stated that in 2009, Dr. Keith Schwer, Economist, University of Nevada, Las Vegas; George Fulton, Economist, University of Michigan; and Donald Grimes, Economist, University of Michigan were referenced in an article in the Las Vegas Sun, headlined, "*Lessons Las Vegas Can Learn from the Rust Belt*." In October 2010, the Reno Gazette Journal featured an article entitled, "*Is Reno on Track to be Detroit of the West*", and the New York Times had an article entitled, "*Las Vegas Faces its Deepest Slide Since the 1940's*." Referring to page 61, displaying the U.S. economic map from Moody's, Mr. Hardcastle said the map showed that in January 2009 the recession was moderating nationally, with Nevada still in recession. The map pointed out just how uncertain the national economy was, as well as the impact that was still happening to some of Nevada's neighboring states. He indicated that California's economic forecast did not show California recovering in the near term to pre-recession levels of employment before 2012. For the process of producing the projections, Mr. Hardcastle said he presented preliminary information to the Economic Forum in January 2010 and since then had worked more with the Regional Economic Models, Inc, (REMI) and gathered information from local governments, reviewed other projections such as Clark County and Moody's data and sent the draft projections to local governments for comments.

Continuing, Mr. Hardcastle stated that Nevada's population growth was primarily driven over the years by migration, which was the biggest share of what drives Nevada's growth. However, population was currently offset with natural increases, which were births over deaths. During the past decade international migration played a larger role than domestic migration in Nevada's growth.

Moving to page 65, Mr. Hardcastle said the U.S. Census Bureau estimated the state's population grew by 653,523 people from 2000 through 2009, mostly driven by slightly more natural increases, as opposed to domestic migration. He indicated that Nevada attracted retirees, but so did many other states, and there was a relatively smaller share of what Nevada had been attracting over time. For instance, looking at drivers license information for Clark County, the amount of drivers over 65 years of age was about 10% every year, so the State was attracting retirees, but also in boom times attracted other people through job creation. Nevada's job and population growth really had been tied to job creation, which was driving some of the thought processes that went into the projections.

Mr. Hardcastle testified at the January 2010 Economic Forum meeting that forecasters before 2007 relied on a certain set of assumptions, one of which was "build it and they will come," and if a new house or casino was built it would eventually get occupied and be the new floor or base of room occupancy levels. Historically, Nevada had been under-projected in many ways, both by the U.S. Census Bureau projections, as well as other federal reports. Nevada benefited from the economic climate of the 1990s for growth and moving forward new assumptions could possibly be just as wrong. One was that the general equilibrium nature of the REMI model might be saying something forecasters should listen to going forward. Considering the economic crisis the State had been going through for the past three to four years, it was hard to see the way out at this time, and the State may be suffering from somewhat of economic post-traumatic stress syndrome. In addition, the forecasters did not know how soon employment would pick up nationally and how mobile labor was going to be, either nationally for people moving back into Nevada if job growth picked up, or if the national economy picked up quicker than Nevada's economy and how quickly people would move out of Nevada to assume those jobs and whether there would be a good match of skill sets.

Mr. Hardcastle stated that one thing that drives Nevada's economic growth, because Las Vegas made up approximately 70% of the state's population, was the growth and change in the hotel rooms structures. Since 2006, that number had been in play with information from the LVCVA and made projecting population more difficult because when the market got more disruptive for hotel room growth it was harder to see where the long-term trends were going. Mr. Hardcastle stated the current LVCVA projections for hotel room inventory in FY 2010 was 148,422. The hotel room growth, specifically in Southern Nevada, really drove the basis of that economic expansion that made it possible to build homes for people and in turn help build the construction sector of the market. The construction sector not only built casinos, but also homes for the construction workers in Las Vegas, and the construction segment was successful as long as the hotel gaming sector was successful.

Mr. Hardcastle said page 70 showed comparisons of Clark County hotel scenarios. He explained that the dark line on the chart was the REMI out-of-the-box forecast. The dashed-line represented what happened when they considered the current economic history, because the REMI model only provided went out to 2007 with economic data, and if that data was updated through 2009, it dropped the line down and hotels were under-performing where the model projected. In addition, if the CityCenter and the new rooms were added it created that bubble again and they would go back to that trend line. In other words, before that peak of the bubble in 2013, that would be the old assumption that if they "build it they would come." However, if they were building hotels and it was a shock to the system and things went back to trend, it may actually mean the State was going back to a lower trend line of hotel performance.

Mr. Hardcastle stated that he saw some fairly aggressive population growth in the REMI model at the January 2010 Economic Forum meeting, which caused him to question the growth projected from this model. He found that the ratio of population to jobs was 1.6 people for every one job for the 2000-2009 period. Since that projection, he had refined the numbers in terms of what was going on in the State and the 2009 numbers really reflected Clark County's unemployment situation. Historically, if the numbers were trimmed back to the 1970s numbers, the State continued with a slow declining rate of population to jobs in Nevada. He thought the State would potentially have 100,000 in population growth or lose 100,000 people in the next five years.

Mr. Hardcastle stated that looking at Nevada's current economic situation from 2000 to the peak of employment, for example in construction, the State increased construction employment by almost 75%, and yet population only grew by approximately 23% for the same period. In other words, the State was employing three times the amount of construction workers than potential households to really absorb the houses and other buildings they were building, which helped describe the bubble in that construction employment sector. Currently, Mr. Hardcastle noted that there was a lot of extra capacity in the State to be absorbed, which could potentially be a drag for the state's population growth because as that excess capacity still had to be absorbed, the State would not have the potential job creation and still may lose some in the construction sector.

Mr. Hardcastle said the chart on page 74 of Exhibit D showed Nevada's total employment and construction employment had yet to find a floor and continued to fall. Hotel gaming seemed to bottom out and stabilize at the current capacity levels, which he believed was a good indication of where that segment may be starting to find its floor.

Mr. Hardcastle stated he used the REMI model for the basic core projections, but also looked at Moody's data because it was good to look at different perspectives. After looking at the data from both forecasters, he came out with two different scenarios for the long-term. Referencing page 78 of Exhibit A, Mr. Hardcastle stated the two models showed the State was still in for a rough ride through approximately 2016 to 2018 before things really started turning around for employment. He indicated that REMI's model was a little more optimistic than the Moody's forecast, but once the State was out of the 2018 period, Moody's forecast showed the State with strong growth going forward, which the REMI forecast did not show moving forward.

Moving to the Moody's data for population, employment and migration, page 80, the forecast showed fairly strong job growth, but a stronger population growth. This result causes a concern with both data sets because there was a separation between job growth and population growth, which was also the case for the REMI model. He stated that the Moody's data was tied to unemployment rates and the relative unemployment situation to the national and local unemployment rates. The REMI model looked at real employment opportunity and wage rates, but also factored in the housing sector. Part of what was happening was that the REMI model had international and senior migration as a static number, so they were seeing the static numbers compounded with the short economic history because then the model was not able to pick up the current economic downturn. In addition, there was a little pick up in the housing prices and seeing that drop in housing prices, the REMI model assumed it was more attractive for people to move to Nevada. Therefore, Mr. Hardcastle said that he did some out-of-the-box work with the model to come up with his final projections. The comparison of the REMI model projections for Nevada, page 81, showed that the State was under-performing where the model would project the State was at in their current economic situation in recent history. If the model was updated with current employment levels through 2010, the State was actually under-performing relative to normal projections given the recent economic history. Therefore, there was some disconnect between Nevada's economy and the national economy.

Mr. Hardcastle explained that Nevada population to employment on page 83 showed that for the long-term outlook the model eventually increased slightly if he did not make any adjustments after using it. The model increased to 2.36 people per job by approximately 2030; therefore, he had to make the judgment call if that was reasonable or not. Looking at the Nevada population to employment compared to the U.S. population to employment, Nevada employment took off compared to the U.S. and again there was a disconnect and the recent economic history was driving some migration numbers that he believed were unreasonable in the long term. Regarding the table on page 85, the labor force participation rates did not explain what was going on in the model and there was reason to go outside the final results of the model to try to determine population growth trends.

Mr. Hardcastle stated that the report he produced showed that the long-term forecast for the State had a low forecast of 2.7 million and a high forecast of approximately 4 million for population for 2030; Clark County, showed approximately 2 million for the low forecast and approximately 3 million for the high for 2030; and Washoe County forecast a low of approximately 400,000 and high by 522,000 by 2030. In the near term, which he believed was of more interest to the Committee, by 2011, which was probably the depth of the state's job losses and the potential for people moving out of the State. If the national economy was recovering more by that time, the State could see a population loss of 71,000 by 2011. Mr. Hardcastle said that given the fact that the State was accustomed to 5% growth and more population growth by migration of 70,000 per year that was quite a turnaround for the State to fully absorb. By 2014, where the Moody's and REMI models started to diverge in 2015, the population loss softened, and by 2014 before the divergence of the two models was seen, there was an overall loss of approximately 52,000 people. He noted that some of the migration would start between 2011 and 2014, which would potentially help soften some of the loss and turnaround.

Concluding his presentation, Mr. Hardcastle stated that long-term, Nevada was potentially looking at a population increase of approximately of 14,028 to 1,212,125. Looking at the population numbers he wondered how soon employment would recover for the country as a whole and Nevada in particular; what types of jobs would make up any economic recovery and the skills the jobs would require; and how mobile was labor and how willing were people to relocate and do they have the resources to do so. From the driver's license information, people were still moving to Nevada. He wondered how much of that was from people moving because they brought a skill set that was not currently in the State and were those people taking jobs away from Nevada residents? In addition, he wondered what economic, social and physical infrastructure was needed to support that growth in Nevada and what capacity was there to fund Nevada's infrastructure in the long-term and how willing was the State to invest in its future.

Chairman Restrepo asked about the information displayed on page 87 of Exhibit A, which showed a huge spread of 44% for the State between the low and the high population increase; 55% in Clark County; and 27% in Washoe County, and he wondered why there was such a huge swing in the population numbers.

Mr. Hardcastle replied that the low forecast was with the REMI model, which did not have strong job growth over the long term. In addition, the REMI model also played out the returning to more historic levels of population to employment as potentially the unemployed population moved out to other job opportunities, which drove the low forecast because they did not just see the long-term job growth. The high forecast was driven by the Moody's data that had strong employment growth going forward in the next 20 to 30 years. The REMI model from 2010 to 2020 for Clark County, non-farm employment total was an 8.3% increase in employment over the decade; the Moody's model had a 40.4% employment increase over the course of the decade and the forecast was fairly bullish on the economy, which accounted for the huge swing.

Mr. Maddox asked Mr. Hardcastle if one of the main reasons for the difference between the Moody's and REMI model was because the REMI model kept the numbers for migrant people coming into the State static, which was then compounded.

Mr. Hardcastle responded that the REMI projections had fairly low job creation but yet the migration number was fairly high. He explained that the migration number was divided into three segments; economic migration driven by the idea of wage rates; housing prices; and employment opportunity. The employment opportunity has decreased and the wages have remained somewhat flat for the people still employed so it was still attractive in the model because they were not just dealing with reality but with what the model was generating. In addition, there were the relatively lower housing costs, so there was still some economic migration because the model was not responding to the current economic downturn. Also, there was the fixed-effect or static number – the retiree migrants and international migrants – which ended up being about 10,000 to 15,000 in each of those categories. Mr. Hardcastle indicated that the forecasters were looking at revising how they do those techniques including the economic migrants, which was what drove the population line on the chart (page 80) to go up so dramatically and be so disconnected from the job growth.

Mr. Maddox stated that there could not be economic migrants because of deflated home prices if there were no jobs.

Mr. Hardcastle agreed with Mr. Maddox's statement. He said that he was dealing with the model and that was what the model did and he had to take it out of the box and do some different things.

VI. PRESENTATION ON THE OUTLOOK FOR SOUTHERN NEVADA. Alan Schlottmann, Professor of Economics, Department of Economics, University of Nevada, Reno

Alan Schlottmann, Professor of Economics, Department of Economics, University of Nevada, Las Vegas, and Associate Editor, *Journal of Regional Science*, referenced page 91 of the meeting packet, Exhibit A, which displayed comments that suggested a conservative view compared to some of the testimony provided at the meeting. He noted the basic premise of his comments was related to the observation that most state forecasts were based upon a formal statistical forecasting methodology that could omit larger recent trends or unusual influences.

Dr. Schlottmann stated that he had been involved in developing regional forecast models in other states and popular regional models for forecasting and impact analysis and in that respect his comments reflected influences on the Nevada economy that were often difficult to formally capture. In 2010, he provided a budget forecast for the state of California when the forecasts were for an $8 billion deficit. He suggested that California would have a $19 billion deficit, and currently the figure was $20 billion. Even though well intentioned, that forecast was based on the fact that the models did not include factors that could have been dramatically worse for California. Unfortunately, those extra factors hit the California budget in a negative context. Dr. Schlottmann stated that fundamentally his comments to the Economic Forum reflected deep concern on his part that there will be a significant lag in Nevada between positive changes in economic growth and employment change. If true, the implication for positive changes in earnings, taxable sales, and the state budget implied a much slower trajectory than was forecast at the meeting. He suggested that the Economic Forum consider a very conservative estimate for Nevada and the state budget that they were going to implicitly recommend to the Governor and the Legislature.

Dr. Schlottmann said that there had been studies that looked at different scenarios of the rate of which state budgets recovered from economic hardships or recessions. Particularly the 1981 and 2001 recessions, even though he thought most people agreed that the 2001 recession was unusual relative to the recovery rate because it took adjusted tax revenues at least five years to retain their pre-crisis peak if adjusted for inflation. For example, taking 2008 or 2009 as a base year, no one wanted to talk about 2013, 2014, and 2015 before the State got back to where they were before. However, based on the work that was done in late-2009 by the Rockefeller Institute of Government, the reality was that it may take longer for economic turnaround than suggested by the forecasts assuming that Nevada was an average state.

Dr. Schlottmann stated that the one factor that disturbed him, in order for Nevada to recover, was the small business credit issues, specifically the influence of the Troubled Asset Relief Program (TARP). As the congressional oversight panel had pointed out, the idea of helping small businesses have credit was basically a dismal failure. Small business credit remained severely constrained and TARP had done little to restore stability to smaller banks that provided the bulk of small business credit. Many of the small businesses he worked with in Southern Nevada, relative to the Latin Chamber of Commerce and Chamber of Commerce, were two months behind in their creditor obligations. Dr. Schlottmann stated that Moody's provided a graph that showed the impact of the recession on businesses by size, and small businesses in Nevada have obviously been hurt although to some extent many have been able to hold on. He was concerned that the lack of business credit may result in a wave of small business closings as the State headed into 2011, which was not anticipated in the current models. Even if that was not true and there was a positive change in employment, small businesses would try to repay their debts before they started hiring again.

The second factor for state budget recovery was gaming growth and public offering implications. Dr. Schlottmann stated that he was concerned with the optimistic projections for gaming growth. He said that CB Richard Ellis Global Gaming Group forecasted overall Strip resort revenues to be between -1% to 4%, which was clearly more conservative than some of the projections provided at the meeting, in addition to the implications of the public offerings. He believed that everyone was pleased that the MGM Grand Hotel and Resort Casino raised $511 million in a public stock offering, but it was at a shared price of $12.56, which was different from the $70.00 range that people were previously used to. He understood there was no perfect foresight in stock pricing models like taught in most introductory university finance courses, but simply taking a relative ratio implied a growth rate of overall resort revenues of approximately 2.5% to 3%, certainly not anything approaching a figure of more than that. If the "big money" that underlies the MGM Grand Hotel and Resort Casino stock offering was correct, they were not viewing resort revenues in the State of Nevada as being something that would grow with robustness, and there was no necessary implication that would lead to employment growth.

Continuing, Dr. Schlottmann said the third factor for state budget recovery was the implications of consumption expenditures or foreclosures. Dr. Schlottmann stated that everyone was aware that the Las Vegas Paradise Metropolitan Statistical Area (MSA) topped the list for foreclosure rates for July 2010 to September 2010, with 1 in every 25 homes foreclosed, which meant that 60% of the homes were underwater. However, 6 of the other 9 counties with the highest foreclosures rates were in California. Thinking of that implication, most of the regional models were based upon a forecast of what was happening to the national economy and he wondered about California and its effect on Nevada. He noted the UCLA Anderson School of Management projected that unemployment in California would remain in double digits until the last quarter of 2012, which was a nice way of saying 2013. He stated that the California customers were important for Nevada's economic recovery because 35% of what was classified as casino guests come from California and 92% of the guests drive from California to Las Vegas. In addition, there was talk in California of no new tax increases; however, there would be fee increases related to gasoline vehicles, and it very hard for him to see how Nevada would have robust economic growth when the major market, according to the LVCVA and California's forecast, was that California economy was going to have extremely difficult times for the next two years. He stated that particular model segment of California separate from the rest of the economy did not tend to be a feature in most of the models. Having worked extensively on the underpinning of the REMI model, he did not see how that negative aspect of California fed into the forecasts presented, which he believed were not conservative enough.

With respect to the foreclosure rate in Nevada, Dr. Schlottmann said if it was true that 1 in every 25 homes received a foreclosure warning it would be interesting to see the short-term negative impact on taxable sales, because many people that have not left their homes were not making house payments, which meant that money was being used to spend in the rest of the regional economy to provide taxable sales. When residents were asked to leave the homes, they would have to pay rent and he suggested that the forecasters consider the fact that would result in a temporary dip, at least in taxable sales among those households.

Dr. Schlottmann stated the final issue for state budget recovery was the notion of federal policy – quantitative easing versus stimulus. He had not seen any article that looked at the impact of monetary policy on regional economies that did not come to the conclusion that this quantitative easing would basically do nothing for the State of Nevada. Statistically there had been attempts to look at the impact on regional economies of changes in these types of policies and they had almost no impact. He suggested that there may be some positive impact on the national economy, but based on his experience he had not seen any statistical evidence that suggested that Nevada's state budget would have anything positive coming out of the federal policy of quantitative easing versus stimulus.

Concluding, Dr. Schlottmann said that the factors he presented at the meeting were not in the quantitative models in which most forecasts were built. He suggested that the State consider a budget forecast based on a conservative economic model for Nevada. Dr. Schlottmann stated the Fiscal Analysis Division and Budget Office forecasts were much less robust than other forecasts and because everything that he looked at on the regional economy suggested that all those factors were negative, at this point in time he suggested that the Economic Forum take a hard look at a conservative methodology. Everything he had seen in the last 20 years regarding the economy and the way it feeds back suggested a slow rate of growth with respect to the Nevada economy and more importantly, a lag between state growth in "output" like the REMI model, and the change in employment.

Chairman Restrepo thanked Dr. Schlottmann for his presentation and insightful observations. He stated that the Economic Forum was aware of the challenges they faced between the statistical models and what they included in the assumptions and the externalities that Dr. Schlottmann provided in his testimony.

VII. PRESENTATION ON THE OUTLOOK FOR NORTHERN AND RURAL NEVADA.
Brian Bonnefant, Project Manager, Center for Regional Studies, University of Nevada, Reno
Thomas Harris, Foundation Professor and Director, Center for Economic Development, University of Nevada, Reno

Brian Bonnenfant, Project Manager, Professor and Director, Center of Economic Development, University of Nevada, Reno, stated that he would discuss the local region economic outlook and Thomas Harris, Foundation Professor and Director, Center for Economic Development, University of Nevada, Reno, would discuss the northeastern counties of Nevada. Mr. Bonnenfant said that in order to mitigate the paralysis of analysis and the fact that it drives the economy of the region he would focus on Washoe County statistics. Related to the Nevada employment situation was the distressed housing situation, which continued to weigh down the economy of the region. Referring to page 94 of Exhibit A, Mr. Bonnenfant explained that the red line on the graph displayed the number of new bank foreclosures by month in Washoe County. He indicated that the trends showed spikes in foreclosures followed by months of decreases so he did not get too excited about the decreases. Year-over-year for the first nine months, year-to-date changes showed that foreclosures had been down in Washoe County by 6%. He noted that the blue line on the graph showed the number of resale's for bank foreclosures, which were on par with the number of new foreclosures, so Washoe County was not seeing the hoarding by banks of foreclosed properties. Mr. Bonnenfant stated that the net of the red and blue lines on the graph calculated that currently 900 homes were held by banks and approximately half of those homes were listed on the Multiple Listing Service (MLS).

Moving to the next graph on page 95, Mr. Bonnenfant stated that the leading indicator of foreclosures was the Notice of Defaults (NOD), which also had trends of spikes and decreases. The year-to-date change for Washoe County was a 17% decrease and he expected to see the same trends and rates of change for the next two years for foreclosures and the NODs. He clarified that the bottom of the graph reflected that the information displayed on the graph was from the second quarter; however, it was third quarter 2010 information, and should reflect negative values (decreases) instead of increases. He apologized to the Committee for the oversight.

Mr. Bonnenfant noted that the distressed housing continued to flood the market in Washoe County and the chart on page 96 displayed the active listings in Washoe County for September 2010 for single-family homes and condominiums. He explained that the top left column on the chart showed that there were 4,200 active listings for September 2010; 2,702 of the 4,200 homes were distressed, which represented 64% of all the homes on the market in Washoe County were distressed. The chart on page 97 showed a breakdown of the sub-regions in order to quantify and look at the various demographics and the housing product in the Truckee Meadows. The right column on the graph showed the areas of North Valley (Spanish Springs, Sparks, and Northeast Reno) where most entry-level homes were built during robust times, and seven of eight homes on the market were distressed. Mr. Bonnenfant stated that he was projecting the trends to continue for at least a couple of years because of the amount of homes with mortgages with negative equity. Currently, there were 53,000 homes (55%) in Washoe County with negative equity mortgages. In addition, approximately 6,000 homes a year were in transactions and if the 6,000 distressed homes were divided into the 53,000 homes with negative equity, it would take 8 to 9 years to go through the inventory of homes. In addition, there were other factors like employment, appreciation rates of housing that would affect the numbers in the years to come, which did not bode well in the next few years.

Continuing, Mr. Bonnenfant stated that the issue with the distressed market was the downward pressure on the property values, which then portends to bad local revenue for the local governments. The red line on the chart on page 97 showed that foreclosure resale homes median value were down to $135,000; the blue line reflected the short sale median price down to $150,000; and the yellow line reflected all home sales at $155,000. He said the overall sales or the traditional sales had heavy competition against the short sales and bank foreclosures as far as the median price. Mr. Bonnenfant stated that the magnitude of the problem with the distressed homes coming into the market and being sold represented 64% of the homes in Washoe County. In September 2010, 563 homes were sold; 325 of those homes were distressed, which equated to 58%. He stated that the majority of homes sold were distressed putting pressure on traditional home sales.

Mr. Bonnenfant noted that the leading indicator of home prices was the median listing price per square foot after normalizing for the size of the home. He indicated that the chart on page 98 reflected the sub-regions for entry-level markets from May 2009 through May 2010, and showed a flattening of listing prices per square feet for approximately 12 months. In addition, there was a constant decrease of home prices in the affluent areas and there was a decrease in the median list price per square foot across the board for all products and regions, which caused more depreciation in home sale prices. Mr. Bonnenfant stated that the median price of existing homes had stabilized over the past five quarters. Page 99 of Exhibit A displayed the single-family home value bubble graph that compared a normal appreciation rate calculated between 1990 and 2001 that was approximately 1% per quarter or 4% per year. The bubble peaked in 2005 to $350,000 and in 2006 started flattening out to $175,000, a 3% drop and was flat and stabilizing, which was good news.

Mr. Bonnenfant moved to page 100, which showed the amount of property being sold at $400,000 or higher during the peak years versus the amount of homes under $200,000 currently being sold. He indicated that forecasters were watching the volume of sales of the different types of products. He explained the blue, purple and yellow bars on the chart represented the single-family homes sales activity between zero and $299,000, and the other bars represented the $300,000 and higher homes. Over the past year, there has been almost no movement in those higher range sales and until movement occurred in those homes, the State would remain in an unhealthy housing market. During the last three months for the new single-family home sales, Washoe County only had about 20 sales per month with the average home price about $250,000. The trends in the new single-family home sales and median values had slowly decreased. In the last four to five months, there was a little flattening in those values; although, he believed the new single-family home values would continue to suffer from the distressed inventory in the market.

Mr. Bonnenfant said that page 103 compared the existing home sales market with taxable sales of automobiles and auto parts with a high amount of correlation in 2003 through 2005. He explained that the red line on the graph was the number of existing home sales and the bars were the taxable sales in automobiles and auto parts category. There was a heavy and high correlation through the peak years of the economy and then after the prices peaked and investors and buyers fell out of the market, the home prices dropped. The consumption of automobiles still stayed fairly strong and the housing market hit bottom in January 2008, 13 months before the automobile sales bottomed out in February 2009. Mr. Bonnenfant stated that as soon as the automobile business bottomed out in Washoe County the housing market came back to 2004 levels, which he believed was a strong indicator that there was a piece of economy that was working in the region.

Moving to taxable sales in Washoe County displayed on page 103 of Exhibit A, the red line on the graph was the total taxable sales by month for Washoe County; the blue line was the taxable sales for retail establishments in Washoe County; and the yellow posts on the graphs bracketed the periods between January 2009 to August 2009, and January 2010 to August 2010. Between those two year-to-date periods, there was a 2% decrease in taxable sales in Washoe County. Looking at the first two months of the third quarter, Washoe County had a 1% increase in taxable sales and the retail sectors saw a 2% decrease in taxable sales. He stated that discretionary spending, accommodation and restaurants and bars were driving the increase in the taxable sales in the non-retail sector, which was a sign of a loosening of spending by citizens. The accommodation sector was seeing a 10% increase for the two months and an increase of 4% for accommodation, restaurants and bars.

Mr. Bonnenfant stated that the big jump seen in manufacturing was an anomaly due to nonmetallic mineral product manufacturing industry, which had a 500% increase in sales in July 2010 driven by stimulus spending for road construction projects. The percentage in quarterly taxable sales, quarter-over-quarter change for Washoe County (blue line), Clark County (green line) and Nevada (red line), was displayed on the graph on page 105. The blue line showed that Washoe County was below the zero mark because in the second quarter Nevada came in with a 0.0% change; Clark County came in as a 0.3% change, and Washoe County had a 3.4% decrease. However, looking back at the July and August numbers there was a 1% increase so it was possible that Washoe County could finally register a positive quarter-over-quarter increase and the last time that happened was in the first quarter of 2007, so taxable sales were flattening out in Washoe County.

Mr. Bonnenfant stated that taxable sales or consumption was a factor of employment and income and page 106 displayed the current median household income change from the U.S. Census Bureau with a 5.0% decrease from 2008 to 2009, which related to the bad year of taxable sales. He noted that Clark County and Washoe County were at \$53,000 median household income, which was above the national median of \$47,500. Another perspective he used on income was data from the United States Bureau of Economic Analysis (BEA) because they used Internal Revenue Service (IRS) statistics, which may be more accurate. In addition, the BEA separated the earned income from the non-earned income, which were rents, interests and dividends. Referring to page 107, Mr. Bonnenfant stated that the chart ranked the counties in Nevada and sorted them by unearned income as displayed in yellow on the chart. The chart showed that Douglas County was 14th in the nation out of 3,100 counties in unearned income. In fact, Douglas County had more unearned income per capita then earned income per capita, which developed a corridor of non-producing wealth between Douglas County and Washoe County.

Mr. Bonnenfant stated that the chart on page 108 displayed the percentage change in taxable gaming revenue, which was currently being used for a measure of visitation. He explained that Washoe County was represented by the dark blue line on the chart and the State by the white line, and year-to-date Washoe County was down 4% in gaming revenue. The first two months of the quarter, July and August 2010, there was a 4% decrease in gaming. For the same months, employment, taxable sales, and population were flat, which he believed was an indicator that the visitation was still trying to find bottom in Washoe County, primarily due to Indian Gaming in California, lack of people taking vacations and lack of conventions.

Concluding his presentation, Mr. Bonnenfant said that Washoe County was still seeing employment, home sales prices, and taxable sales bottoming and flat with possible stabilization; however, there were still issues with the gaming revenues and visitation. On the bright side, Mr. Bonnenfant said Washoe County was selling a lot of homes at the 2004 levels and there was a lot of wealth in the region. He stated the reality for the State moving forward was job creation and the distressed housing issue.

Chairman Restrepo asked Mr. Bonnenfant when he anticipated that the State would return to at least six months of job growth and housing price improvements.

Mr. Bonnenfant replied that looking at the matrix and the economic atmosphere, in addition to his gut feeling, he believed the job growth and housing prices in Nevada would start improving in 2013.

Thomas Harris, Professor, State Extension Specialist, Foundation Professor and Director, Center for Economic Development, University of Nevada, Reno, began his presentation by stating that recently there was an interesting article in the Wall Street Journal that discussed labor productivity and the impact and the decrease in labor productivity. The article stated that the labor market has been worked so hard that people were seeing more favorable hiring because labor productivity put more output out there in the market, which may be an influence, especially for the rural areas.

In addition, Dr. Harris had seen articles on the current recession as opposed to "Great Depression" and for the first time both personal income and housing values were dropping at the same time, which was a continuing combination that was very unusual. Dr. Harris directed the Committee to the handout, Rural Nevada Outlook (Exhibit E) and said he would split the rural counties into three regions: Western Rural Nevada, Southern Rural Nevada, and Natural Resources Rural Nevada. He said that Natural Resources Rural Nevada was not just a balance of the State, was not homogenous, and there were very different areas. The Western Rural Nevada included Churchill County, Douglas County, Lyon County, Mineral County and Pershing County. The Southern Rural Nevada included Esmeralda County, Lincoln County and Nye County, which were under the influence of Las Vegas. In addition, the Natural Resources Rural Nevada, included Elko County, Eureka County, Humboldt County, Lander County and White Pine County, and were primarily mining and agriculture areas, which were doing fairly well.

Referring to page 3 of his handout, Mr. Harris stated the table displayed the length of the last four national recessions. He explained that the 1981 recession had been compared to the current national recession; the current recession, which started in

December 2007 and ended June 2009, was approximately 18 months long. He said some of the ranchers and farmers in rural Nevada have questioned if the recession was ending and he tells them that gross domestic product (GDP) is production not sales. For example, if a cattle producer had a bull and a cow and all of a sudden there was a calf, GDP production was increased, which was one way of looking at it.

Mr. Harris directed the Committee to page 4, which took the months after the start of the recession to see how employment changed from that point going into the recession. In the 1981, 1990 and 2000 recessions, for the Las Vegas MSA, there was hump in employment growth, and in many cases employment grew when the recession started; however, the current recession has seen a 15% decline in employment since the initiation of the recession. Referring to page 5, he stated the lines on the chart showed that the State of Nevada's decline in employment was much more severe than the nation. Dr. Harris said the chart on page 6 indicated Western Rural Nevada's employment was also influenced in the earlier recessions, but the current recession had seen employment decreases of approximately 10%. The 2010 Recession Impact Comparisons: Nation, State of Nevada and Western Rural Nevada chart (page 7) showed the influence of the recession in many of the Western Nevada Rural areas was worse than the nation and decreased about 12%, which was not present in the earlier recessions.

Page 8 of Exhibit E displayed the Southern Rural Nevada employment change for Esmeralda, Lincoln and Nye counties. He stated that those counties were influenced by the previous recessions, but hit harder by the current recession. Those counties had a 15% decrease in employment specifically Pahrump in Nye County, influenced by the regional community patterns. Southern Nevada had experienced a decrease in economic activity in the current recession, which was much greater than other states. In discussions about the turnaround for the State, Dr. Harris said there could be a 2% increase in employment for the rural counties, which was still far from the previous employment levels.

Dr. Harris said the Natural Resources Rural Nevada sectors (page 10) were very different due to the mining industry in Elko, and some counties had seen growth during the current recession. Since the beginning of the 2007 recession, Lander County employment had increased because of the mining increases. For economic development, one of the issues that had to be looked at was trying to diversify sectors in the State. When looking at mining employment and net proceeds there was also use taxes when mines opened and the influence when mines purchased heavy equipment.

Dr. Harris stated that the nation experienced a 5% decrease in employment change, but the Natural Resources Rural Nevada counties only experienced a 3% to 4% decrease (page 11). He reiterated that some of the rural counties of Nevada saw an increase in employment during the current recession.

Dr. Harris stated that public lands were an issue because many rural counties in Nevada had large acreage of land that was federally owned and controlled. Therefore, when the counties had different diversification ideas they had to go through federal planning. Dr. Harris was aware of a big push for the green industries in rural Nevada, which were typically on public lands and caused permitting problems. He said that Nevada was unique because approximately 83% of the State was federal land under federal control, but not all areas were even. He said that Robert Dickens, Director of Public Relations, University of Nevada, Reno, wrote an article about Nevada being the seventh largest state in the nation by total acreage, but if the public lands were deducted from state's total acreage, Nevada would rank as the tenth smallest state. Many of the rural counties in Nevada were influenced by public lands and how they were administered. Many rural counties were over 90% federally controlled, such as Esmeralda, Lander, Lincoln, Nye and White Pine County, which were impacted by the grazing boards and new developments, specifically in solar projects.

Moving to page 14, Dr. Harris stated that public entities in Nevada received payment in lieu of taxes (PILT), which had fiscal impacts because the money went back to the state and counties. The State of Nevada gets PILT payments of approximately $22.7 million and there were about 56 million acres of federal land in the State; California gets approximately $36.8 million of PILT and had 43 million acres of federal land. He explained that PILT payments were made based on a schedule and each county had a population limit. If a county had 6,000 people it received 20 cents for each person. Nevada had only 17 counties – California and New Mexico had approximately 30 counties, and just by having more counties meant that states with more counties received PILT payments, so he thought that Nevada was sometimes impacted by the federal lands.

Continuing, Dr. Harris stated that counties within Western Rural Nevada were connected to urban centers. According to the 2000 U.S. Census data, 48% of the labor force in Lyon County was employed in Carson City, Washoe County and Douglas County, which had a tremendous influence on employment. In addition to the influence of employment, there was the influence of state furloughs causing reduced wages as seen with the economic decline in Lyon County. He stated that what goes on in one county would influence what happened in the neighboring counties. He noted that in September 2010, Lyon County had an unemployment rate of 18.1% and in 2008, the unemployment rate was 10%. He recalled in the early 2000s, Lyon County was cited as one of the fastest growing in the United States, which showed how the economic interaction in one county could hurt other counties.

Dr. Harris stated that per capita income in Douglas County was $59,000, while Pershing County per capita income was $24,000, which was the cause of an interesting segment of the state's population having some influence on the economic activity. National and Nevada per capita income in 2008 was $40,166 and $40,936, respectively, which showed Douglas County's per capita income was high. He indicated that Douglas County was rated the 41st highest of the nation's 3,135 counties in 2008. However, Douglas County's average earnings per job were $38,994, which ranked Douglas County 13th among Nevada's 17 counties. Dr. Harris stated that there were dividends, interest, and rent and transfer payments, which in the United States amounted for about 30% of total personal income. Also in Douglas County, when the

BEA reported income, they reported it by place of residence, so someone could work in Carson City and that money came to Douglas or the opposite, so there was a lot of trading between the counties. In addition, the dividends, interest, and rents were 18% and 24% of total U.S. and State of Nevada total personal income, respectively, which showed a different type of economy often referred to as the "silver haired economy." These were retired people who created employment for people in the health sector. In the Western Rural Nevada there were two different types of people in the counties – one of the richest counties in the whole United States, which was Douglas County and one of the poorest counties, which was Pershing County.

Dr. Harris stated that Southern Rural Nevada counties were impacted by Clark County, specifically Pahrump, and economic activity in these areas was mainly due to people that lived in Pahrump because of the lower priced housing. He noted that people moved back and forth between counties when there were problems with wages or activity, which impacted counties such as Nye County. He stated there were prospects of green industry developments in Southern Rural Nevada counties and the only drawback was that California might not allow out-of-state power to go in their portfolio, which he hoped would change. He stated that prospects for green industry developments might yield future economic growth.

Dr. Harris stated that some counties in Natural Resources Rural Nevada had been growing since the 2007 recession because of the impact of the high gold prices, which were expected to remain stable and possibly increase in the future. However, the counties were not diversified enough and were heavily in mining, which would have an effect on the counties once the price of gold decreased. In addition, the rural counties were high in agriculture. He stated he runs a Food and Agriculture Price Institute on the Western United States, which was reported to U.S. Congress when they did the U.S. Farm Bill, because of the interest in what happened to different segments of the United States. He had done forecasts on agriculture prices, which should be good for the next few years in Nevada. Prices for agriculture crops were forecast to increase because of the impact of the Russian wheat problem. In addition, there was a new demand and the Secretary of Agriculture wanted subsidies on Ethanol, so there would be price supports for things such as corn ethanol, which could cause influences on keeping Nevada's alfalfa hay prices high. Livestock prices were forecast to remain higher than previous years because the feed prices were lower. Dr. Harris stated that he analyzes the Nevada dairy industry, primarily Fallon, which had low milk prices plus high feed prices and many dairies went bankrupt, although some have now stabilized.

Dr. Harris explained that spot gold prices were $1,337.60 per ounce on November 3, 2010, but recalled that gold was at $251 per ounce in August 1999. Gold price forecasts were expected to remain strong. He stated that the higher prices of gold meant that the mining sector could process a lesser quality ore to extract the gold. Gold production had gone down a little; however, recently Core Rochester opened up its mine in Pershing County; Lander County and Eureka County were opening mines, so he believed the northeast Nevada counties would benefit due to the opening of the mines and high gold prices. Although, it might not mean higher net proceeds of mining because some mining firms had to buy goods and services such as high priced equipment resulting in more use taxes from some of the larger counties. Dr. Harris stated that the chart on page 20 of Exhibit E, showed that one-third of the mining activity was hired in Eureka County – Carlin Strip – which some Geologists believed had more gold than South Africa, but economically mining the gold was another question. Eureka, Elko, Humboldt, White Pine County, were the main counties with the bulk of the mining, which contributed to the major economic activity and employment in the counties.

Chairman Restrepo asked about the issue of gold being viewed as a currency not as a commodity any longer and the impact on the price of gold.

Dr. Harris replied that Chairman Restrepo was questioning the influence of speculation in the gold prices and the worry about potential inflation in gold prices in a few years and the value of the dollar debt when people used gold for currency. He stated that was being added into the price of gold. He believed it was something that would help maintain the price of gold, which by implication would maintain the mining taxes for the State of Nevada and offer more stability.

Dr. Harris added that the mines that were reopening could process the less quality ore because gold prices were higher. Mining plants like the Core Rochester plant that reopened in Pershing County, which had the lowest per capita income due to the closure of the mine, would add economic activity to the county and state.

Dr. Harris concluded his presentation and the Committee recessed at 1:01 p.m.

VIII. REVIEW AND DISCUSSION OF PRELIMINARY FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2011, FY 2012, AND FY 2013.

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

The meeting reconvened at 1:51 p.m.

Mr. Guindon apologized that the Room Tax was not included under this agenda item. Legislative Counsel had advised that the Economic Forum could discuss the Room Tax forecast, but could not approve a preliminary forecast without being in violation of the open meeting law. He noted there was no statutory requirement for the Economic Forum to produce a preliminary forecast at this meeting, but had done so since 2001, at the request of the Budget Office. He pointed out that the Economic Forum could produce preliminary forecasts for the other major General Fund revenue sources listed under this agenda item.

STATE 2% SALES TAX

Dan White, Economist, Moody's Analytics

Mr. White noted that Table 4 (Exhibit F) showed all of the forecasters' forecasts side by side. He said page 33 of Moody's Analytics Economic Outlook and Tax Forecast (Exhibit D) replicated that information. He said Moody's Analytics expected fairly strong growth in the Sales and Use Tax forecast in FY 2013, and healthy growth was predicted for FY 2011 and FY 2012, but sales activity in Nevada would lag behind the nation as a whole.

Mr. White said some of the explanatory variables used to prepare the model were Nevada retail sales and U.S. recreation services expenditures (page 34). He noted those variables were the cause of growth in the revenue FY 2011 and FY 2012 that was driven by both demand and the wealth effect mentioned earlier. One of the variables that was dragging on FY 2011 and, to some extent, FY 2012 was housing starts (page 35). Housing starts in construction made up such a large part of durable goods consumption in Nevada that it was an integral part of the forecast. He said that 65% might seem like strong growth in housing starts, but it was not compared to overall levels.

Mr. White said page 36, was Moody's Analytics' forecast for the rest of the country during that period. He said the source of information was the Nevada Department of Taxation and Moody's Analytics' own forecasts. He noted in FY 2011 and FY 2012, Nevada's growth was behind the rest of the country, mostly due to the weight of the housing sector on durable goods consumption. Once the housing starts turned around in FY 2013, Nevada would once again outpace the rest of the country in terms of Sales and Use Tax revenue.

Mr. White said some of the downside risks were as follows (page 37):

- The weak discretionary consumer spending from the lack of industrial diversity in Nevada: The State was so reliant on construction activity and leisure and hospitality retail that any small hiccup in those two forecasts could materially affect the Sales and Use Tax revenue.
- The slowdown in national recovery: Moody's Analytics' forecast was bullish relative to the consensus, putting the chances of a double-dip recession at 1 in 3, but believed that number could come down significantly in the coming months. He noted there had been some recent good news regarding jobs.
- The prolonged foreclosure crisis: Factors that affected housing starts by prolonging the foreclosure crisis were robo-signers and the slowdown in the state's population growth. Anything that affected how fast the amount of foreclosure inventories were liquidated would push the recovery in housing starts out further. Anything that prolonged the recovery in housing starts was a downside risk to the Sales and Use Tax forecast.

GAMING PERCENTAGE FEE TAX

Dan White, Economist, Moody's Analytics

Mr. White noted that Moody's Analytics' forecast for Gaming Percentage Fee was also listed on Table 4 (Exhibit F). He said gaming growth was driven by macroeconomic variables. The three explanatory variables in the forecast model were the U.S. unemployment rate, U.S. disposable personal income and U.S. recreation expenditures (page 40, Exhibit D). Moody's Analytics expected the unemployment rate to decline starting the second half of FY 2011. In FY 2012 and FY 2013 there would once again be very strong, steady continued growth in disposable income and recreation expenditures due to pent-up demand, and some wealth effect.

Mr. White said the risks to the Nevada forecast mirrored the risks to the national forecast (page 41). The chances of a double-dip recession were estimated to be about 1 in 3. He said because Nevada was the gaming "Mecca" for the U.S., there were risks due to increased competition, such as Indian gaming. In addition, other state and local governments with significant fiscal issues were finding it easier to legalize lotteries and gaming. There was also a risk due to international competition. He explained that, with the number of international visitors, especially from Asia, the opening of the Macau casinos could affect high-end gaming in the long term. The size of the impact was unknown, but it was worth noting as a downside risk.

Mr. Martin asked whether Moody's Analytics had considered trends in online gaming as a risk factor. Mr. White reported that Moody's Analytics did not expect a wide expansion in online gaming in the U.S. in the near term. He explained that over the last two years, Representative Barney Frank had proposed two bills to legalize online poker. Mr. White reasoned that if the appetite was not there to legalize online poker during the recent immense fiscal stress, it would probably not be there over the next two fiscal years. However, he could not say what would happen in the long term.

Mr. Maddox noted that Moody's Analytics projected Gaming Percentage Fees to be higher than in FY 2006 and almost equal to FY 2007 levels within 24 months. Mr. White said that was correct and explained that level of growth would not be out of the ordinary compared to what was experienced in the past. He cited Gaming Percentage Fee increases for the following calendar years: 1998, 12%; 1999, 7%; 2003, 8%; 2004, almost 15%; 2005, 7%; and 2006 7%. He did not think the projected growth rates were unreachable, especially given the amount of strength in the long term relative to the forecast in the macroeconomic view.

Chairman Restrepo agreed with Mr. Maddox, and added that considering the depth of the recession in Nevada and the U.S., and all the other information presented to the Economic Forum, Moody's Analytics' growth rate of 13% appeared to be considerably high. From the economic indicators he had expected the trend would be similar to what had been provided earlier by Moody's Analytics.

STATE 2% SALES TAX

Brody Leiser, Deputy Director, Department of Taxation

Mr. Leiser reported that for the first time in 15 years, the Department of Taxation had noted a decline in the number of active Sales and Use Tax accounts and Modified Business Tax accounts. At the end of FY 2010, there was an approximate 10% decline in the number of active Sales and Use Tax and Modified Business Tax accounts compared to FY 2009. He said fewer people were spending money, those people were spending less money, and there were fewer businesses to generate the tax revenues. He thought it was important to point out to the Economic Forum that the Department of Taxation saw a similar trend with businesses to what had been reported for the housing market and income: more businesses were closing than opening in the State of Nevada.

Mr. Leiser said the Department of Taxation looked at historical data with regard to revenue collections, and distributions to the General Fund. The forecast took into account what has happened over the last four or five years, and did a basic trending analysis to produce the revenue forecasts for the major and minor taxes.

Mr. Leiser recalled that there were steep increases in Sales Tax revenue collection from FY 2004 through FY 2006, then the recession drove Sales Tax revenue downward in FY 2008, FY 2009 and FY 2010. Therefore, the Department of Taxation's forecast focused on what has happened over the past six months to one year. He noted the decline had slowed, and the Department believed it had hit bottom.

Mr. Leiser said the Department considered some of the anomalies that occurred, and remove that from its trend analysis. The biggest anomaly was the recent amnesty program that ended September 30, 2010. It was hard to estimate how much of the revenue collected through the amnesty program would have been collected anyway, so the amnesty amount was removed from the projection method.

Mr. Leiser said that the Department looked at the Sales Tax revenues collected through FY 2010, and the first two months of FY 2011. The Department projected a 2.3% increase in Sales Tax revenue in FY 2011 compared to FY 2010. The projection accounted for the amnesty collections, but going forward, were not used in the projections. In FY 2012 and FY 2013, growth in the revenue was relatively flat with a 0.7% increase in both years.

Mr. Alastuey said it appeared the Department projected a bit of an improvement, followed by flat growth for the rest of the biennium. He asked for the underlying causes.

Mr. Leiser explained the timeframe, the data and the collections were used to establish the trend analysis. He assumed flat growth for the first quarter collections for FY 2011. The reason the percentage in FY 2011 was different than the other two years of the biennium was that approximately $3.8 million or $3.9 million in amnesty collections were distributed to the General Fund for Sales Tax in the first quarter of FY 2011. Also, there was growth in the first two months of FY 2011 compared to FY 2010, which he did not assume would continue into the next quarter.

Dino DiCianno, Director, Department of Taxation, added that some of the growth in Sales Tax that occurred in FY 2010 was from very specific industries. There was a considerable amount of Use Tax being paid by the mining industry. He explained that negative growth would not continue. However, growth would be flat, because without job creation, there was no income for discretionary spending. Therefore, the Department estimated flat growth for FY 2012 and FY 2013.

Mr. Leiser confirmed for Chairman Restrepo that FY 2011 estimate included amnesty collections.

Chairman Restrepo asked Mr. DiCianno why growth would be flat, rather than negative if Nevada was still losing jobs. Mr. DiCianno said he did not know that jobs would be lost, but growth would be stagnant.

Chairman Restrepo asked if stagnant growth, no loss in jobs, but less spending, fit into the Department's model. Mr. DiCianno said that was possible.

Janet Rogers, Chief Economist, State Budget Office

Ms. Rogers presented the introduction to the Budget Office handout (page 1, Exhibit G), because it applied to all of the subsequent forecasts. She pointed out that the numbers in the handout did not match the numbers on Table 4 (Exhibit F). She apologized for the discrepancy, but noted the differences were not terribly material.

Ms. Rogers said Nevada's economy was no longer in free fall, but continued to drift downward. She said employment was an important place to start the discussion. Nevada's economy was very much dependent on discretionary spending. Nevada jobs in the leisure and hospitality sector comprised 27% of the state's workforce, and food services and drinking places made up another 19%. Those were the two largest employment sectors in Nevada. She referred to page 3 (Exhibit G), to tables showing the past 12 months of employment data by sector, which indicated that employment in the leisure and hospitality sector was still declining.

Ms. Rogers noted a graph showing a population bubble of people born in the United States who turned 50 years of age – the peak spending age – in a given year (Figure 1, page 1, Exhibit G). She noted the dot-com and housing bubbles coincided with a bubble in the number of people who reached the peak spending age, which would now start to decline and would impact all of the forecasts.

Ms. Rogers said page 2 (Exhibit G) showed the Budget Office employment forecast, which was slightly more optimistic than Mr. Anderson's forecast. She said, by the end of the next biennium, there would be just under 2% employment growth.

Continuing to the Sales and Use Tax forecast, Ms. Rogers said page 12 showed a breakdown by category of the statewide Sales and Use Tax by industry. At the bottom of each column was a statistical test for whether the change in the most recent seven months was statistically positive. She cautioned that the statistic was not a very powerful tool, but it was a way to decide where there was a turnaround. She noted the food and drinking places sector, on a statistical basis, had turned around, and was growing. The miscellaneous retail and non-retail sector had not turned around, because the decline in February 2010 was one of the larger magnitude numbers. There was growth in some of the sales and retail sectors. She believed that the growth would continue after the amnesty payments were factored out for the future forecasts. She estimated weak growth, but growth nonetheless, over the next biennium for the Sales and Use Tax revenue. The forecast for spending in this area was barely at the level of inflation. Ms. Rogers said much of that growth would be due to spending that was necessary, as people would spend to replace what absolutely had to be replaced.

Ms. Rosenthal asked for an explanation of the trend. She noted that for FY 2011 the forecast estimated 1.4% growth, which she presumed was due to the amnesty and growth in the first two months. She noted growth was relatively flat in FY 2012, but increased in FY 2013. She asked for the main drivers for that increase in FY 2013.

Ms. Rogers said in FY 2013 employment would start to increase, and the Sales Tax revenue forecast mirrored the employment forecast at that point.

Ms. Rosenthal asked how the Budget Office employment forecast compared to Moody's Analytics' forecast for employment. Ms. Rogers said the Budget Office forecast was less aggressive.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon said the Fiscal Division reevaluated how the Fiscal Analysis Division forecast information (Exhibit H) was put together based on comments from the September 29, 2010, meeting of the Economic Forum. Directing the Committee to page 1 of the packet, he said the Division decided to place the 28 charts of key variables at the front of the packet because the information in the charts would drive the forecasts shown in the packet. The charts showed the levels of the key variables and the growth rates of the variables. He explained that the "A" charts were levels of the variables displayed and the "B" charts were the growth rates of the variables in the "A" charts.

Mr. Guindon identified the key variables as personal income for taxable sales, and wage and salary disbursements for financial and nonfinancial for the Modified Business Tax. He noted that wages were driven by employment and the average wage per employee. He noted the chart on page 1 (Exhibit H) compared actual historical data and forecasts for Nevada total employment for Moody's Analytics, the Fiscal Division, and DETR. He explained that the Fiscal Division was not comfortable with Moody's Analytics' or DETR's outlook. The Fiscal Division developed its own outlook, and believed there would be a continued decline in total employment, and the trough was probably a year away. After that, there would be some recovery in total employment. He understood that DETR was adjusting its forecast based on more current employment information. He thought that adjustment would change the chart so that the green line (DETR) was a bit above the red line (Fiscal Division).

Mr. Guindon said DETR had preliminary information on the second quarter employment numbers based on the Quarterly Census of Employment and Wages (QCEW) data, which was the best data for actual employment numbers. He would evaluate the data to determine what impact, if any, it might have on the preliminary forecasts being presented to the Economic Forum. He may present revised forecasts to the Economic Forum at its December 1, 2010, meeting based on that information.

Mr. Guindon said the Fiscal Division total employment forecasts were based on the Fiscal Division November 2010 forecast shown on Chart 1A (page 1, Exhibit H).

Mr. Guindon said Chart 3A (page 5) showed the average wage per employee, which was needed to multiply times employment to get a wage forecast. He was not comfortable with the rate of increase predicted by Moody's Analytics; however, the Fiscal Division did forecast an increase. He said employment was falling, but there was excess capacity with regard to the average hours worked. He cautioned that the chart did not contain forecasts for average hourly earnings, such as presented by DETR, but total wage and salary disbursements paid to employees, divided by the number of employees. If, rather than hiring new employees, the businesses' existing employees worked more hours, the average hourly earnings could remain stable, but the wages per employee would increase. He noted the Fiscal Analysis Division December forecast takes into account information from DETR and the Bureau of Labor Statistics.

Mr. Guindon said Chart 4A (page 7) presented the Fiscal Division outlook for the nonwage component of total personal income relative to Moody's forecast. He noted this was a difficult time to forecast, and everyone was trying to identify the turning point in the economy.

Mr. Guindon said Chart 5A on page 9 (Exhibit H) included the Fiscal Division's forecast for the wage and nonwage component of total personal income. He said historically, as one would expect, there was some relationship between the wage and nonwage components. He said wage income generated by people employed in Nevada was always above the nonwage piece. A disjointedness occurred beginning in FY 2006, and proceeded to the peak for wage income in late 2007. The two have now almost converged in terms of actual data released by the Bureau of Economic Analysis through the second quarter of 2010. The fact that nonwage income was close to or above wage income was not a positive sign as to the health of the state's economy. The Fiscal Division forecast was for the nonwage component to be higher than wage income. He noted that transfer payments (unemployment insurance) were included in the nonwage portion. He observed that more people were unemployed, and wondered whether the federal government would extend unemployment benefits again. Given the election's effect on Congress, there was even more political uncertainty as to what would occur. This factor would have to be considered when preparing the preliminary forecasts for the December 2010 meeting.

Mr. Guindon said personal income went directly into the taxable sales forecast. The rest of the charts were other variables used for the Insurance Premium Tax and Real Property Transfer Tax revenue forecasts. Mr. Guindon stated that he would not spend time covering these remaining charts unless requested.

Mr. Guindon said the Fiscal Division Sales Tax forecast was on page 65 (Exhibit H). The forecast was based on the equation as a function of personal income, visitors, construction employment, single-family home sales and new vehicle registrations. The initial forecasts projected a much larger decline in this quarter than were reasonable based on actual information available. The collections for July and August 2010 were already known for the first quarter of FY 2011, so the equation was only actually forecasting what September would be. He estimated September, and calibrated with the equation. He said the outlook for personal employment, wages and personal income would continue to fall for a few quarters. He said the trough was perhaps three to four quarters from now, and then the outlook would start to turn around. He said there was negative growth in taxable sales and collections for FY 2011. For FY 2012, growth would be just barely in the positive range, and finally, for FY 2013 there was some growth. Chart 1B, page 56 (Exhibit H), showed the impact of the amnesty. Mr. Guindon explained how he assumed September's taxable sales would decline by 1.0% to obtain a forecast for the first quarter of FY 2011 and then calibrated this estimate with forecast produced by the regression equation.

Mr. Guindon recalled discussion at the September 29, 2010, meeting of the Economic Forum regarding the amount collected from amnesty versus the amount collected from large equipment purchases by certain industries. He said the 17 NAICS categories that accounted for about 83% of total taxable sales declined 10% in FY 2010 compared to FY 2009. The "all other" NAICS category, which made up the remaining 17.1% declined 11.2%. He noted some uniformity between those categories. He said there could have been anomalous events, such as a large equipment purchase, like an airplane. For the first two months of FY 2011, July and August 2010, those 17 NAICS categories accounted for about 81.9% of total taxable sales, and were up 1.9%. All other NAICS categories accounted for 18.1%, and were up 22.3%. He wondered if there were some false positives in the data, especially in FY 2010 and FY 2011, that make it hard to determine the underlying trends in reported numbers.

Mr. Guindon noted that the employment forecast prepared by the Fiscal Analysis Division in January 2010 for the first and second quarter of 2010 has been very close to the actual numbers reported by the Bureau of Labor Statistics. The Fiscal Analysis Division had the lowest Sales Tax forecast in January 2010, but actual collections were above that level. He said the Fiscal Division did a pretty good job figuring out employment, but that did not translate into accurate taxable sales and Sales Tax collections. He noted that in FY 2010, the Car Allowance Rebate System (cash for clunkers), Home Buyer Tax Credit, ARRA funding and rebates for Energy Star Appliances created taxable sales activity that may have produced consumption patterns. This activity was artificially above the underlying economy in terms of employment and personal income. There was no indication that there would be another cash for clunkers type program or appliance rebate. Considering the events that could have buoyed the economy in FY 2010 that might not be repeated in FY 2011, the Fiscal Division was comfortable with a forecast for negative growth in FY 2011. Mr. Guindon noted that August collections, less the amnesty amount, were .005%, and it was critical to know September collection levels to analyze how well the preliminary forecast was doing and whether revisions were needed when preparing the December 1, 2010, forecast.

Ms. Rosenthal said that in 2010 amnesty was about $1.5 million in the second quarter, and $3.8 million in the third quarter. She asked if those were the only quarters affected by amnesty collections. Mr. Guindon referred to Table 1B on page 65 (Exhibit H). He noted the light green shaded area was the data for the current amnesty collections. He said the amnesty payments had an effect on FY 2010 fourth quarter and FY 2011 first quarter because the forecast was without amnesty, and when the amnesty was put back in there was a change in the growth rates. He said FY 2010 fourth quarter taxable sales would have been down .08% without the amnesty, but with the amnesty growth was flat. In FY 2011, first quarter taxable sales would have been up 1% without the amnesty, but was up 3%, based on the Fiscal Division forecast, when the amnesty was included.

Mr. Guindon agreed with Mr. Leiser that the Sales Tax amnesty amounted to about $3.8 million for July and August, which translated into approximately $149 million in taxable sales. He noted that all of the forecasters produced a forecast without amnesty, then added the amnesty back, which made the growth rates look odd.

Ms. Rosenthal understood that the amnesty impacted the growth rate in FY 2011, but the amnesty collections were in FY 2010. Mr. Guindon said that was correct. He explained that it artificially held up the last quarter of FY 2010, and artificially held up the first quarter of FY 2011. There was no further amnesty program scheduled, and that would cause a fall in FY 2012, because the first quarter FY 2012 would be weak compared to the amnesty corridor in the first quarter of FY 2011.

Ms. Rosenthal asked for more information about the large equipment purchases in FY 2010 that would not be repeated in FY 2011.

Mr. DiCianno said if a mining operation purchased a large haul pack truck, that would cause millions of dollars in taxable sales. Such purchases have been occurring ever since the price of gold shot up. Depending upon the mine, the purchases could happen on a continual month-to-month basis, or they could be sporadic. It was difficult to determine what equipment the industry would need in the future. The quandary was that it may or may not happen again.

Ms. Rosenthal asked for the assumption for large equipment purchase in the Department of Taxation forecast. Mr. DiCianno utilized the actual data without adjusting for additional purchases.

Mr. Guindon said that in regression analysis, those were the kinds of things that ended up in the error term because you were trying to explain the underlying trend of what was going on with the taxable sales series. It was hard to forecast that another big piece of equipment would be purchased in the forecast period. To illustrate the magnitude of the effect on the revenue, he noted the mining category revenue was up almost $19 million for the first two months of FY 2011 compared to the first two months of the last fiscal year, which was an 88% increase. The support activities for the mining category was $9.3 million in the first two months of FY 2010, but has increased 78% to $16.5 million in FY 2011. Utilities were $31.5 million over the first two months of FY 2010, but were now $54 million, a 70% increase. Mr. Guindon said that information was known for the beginning of the fiscal year, but it was not certain that those events would be repeated.

Ms. Rosenthal understood there was growth in mining, new mines were opening, and gold prices would remain very high through 2013. She thought that would indicate continued purchases of large equipment in the mining sector.

Chairman Restrepo noted that starting at about the fourth quarter in FY 2011, the percentage change with and without amnesty were pretty much the same. Mr. Guindon said only the highlighted amounts were influenced by the amnesty program. Any quarter that was not affected by amnesty, then the growth rate without amnesty would be the same as the growth rate with amnesty.

Mr. Martin asked about how much unpaid tax was collected due to compliance audits by the State. Mr. DiCianno said it was important to understand that the Department of Taxation collected 98% of all taxes that were reported. On a fiscal year basis, those collections were in the billions of dollars. The 2% that was not collected could be sizable. The Department's accounts receivable balance was reported to the State Controller. In addition, A.B. 193 required the Department to report on a quarterly basis to the Legislature, its outstanding accounts receivables. He said there was over $190 million in accounts receivable debt to-date. He added a caveat that some of that debt was 10, 15 and 20 years old, but remained on the books. The Department was attempting to determine the amount that was truly collectable. He estimated that the vast majority of the older debt would never be collected because the assets were gone, the company and corporate offices no longer existed, and there was no property on which to place a lien.

Mr. DiCianno said much of the debt that was collected during the amnesty was new debt, which was not unexpected. He explained that the State was providing the businesses that had recently finished an audit, or had filed, but were not able to pay their monthly returns, with an opportunity to pay the taxes, without penalty and interest. It was a smart business decision on behalf of the companies to pay the unpaid taxes during that period. He said the amnesty periods were a good thing, but he would not offer them very often, because it discouraged the businesses from reporting and paying when they were supposed to. He did not know if there would ever be another amnesty period, even though they were very successful.

Mr. Martin asked if there was any sense as to what portion of the revenue was underreported, or not reported. He asked how that was collected by the Department.

Mr. DiCianno said the difficulty for the Department was the level of resources. He said the Departments penetration rate with respect to audits was less than 5%. On a three-year cycle, about 5% of the total number of accounts were audited. He said some of the businesses were not reporting properly, and others did not report at all. The Department had difficulty in identifying those businesses due to resources. He did not want to turn the discussion into a request for resources in the next budget cycle, but the Department could use those resources.

GAMING PERCENTAGE FEE TAX

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mr. Lawton said that in forecasting Gaming Percentage Fee collections, Nevada Gaming Control Board (GCB) staff first forecast gaming win for the applicable fiscal years, then converted that into Percentage Fee Collections. The GCB projected growth rates for each of the State's 16 individual major markets, such as the Las Vegas Strip, downtown Las Vegas, Reno, Elko, etc. The GCB model incorporated any new property openings, expansions, and known or anticipated closings. The GCB reviewed historical trends, and more importantly, interviewed some individual properties in the various markets. The GCB also received input from several Wall Street analysts and the Las Vegas Convention and Visitors Authority. The sum of that information produced an estimate of total statewide win. Within the markets, slot win and games win was forecast separately.

Mr. Lawton said for the base year of FY 2011, the GCB forecasts statewide gaming win to increase a little over 1.25% (Exhibit I). There was just one new gaming property coming online in FY 2011, which was the Cosmopolitan in Las Vegas. The property would open with approximately 2,008 hotel rooms in December 2010, and another 987 rooms would come online in July 2011. This property would have approximately 83 table games and 1,479 slot machines.

Mr. Lawton explained the components that generated the forecast of 1.25% growth in statewide gaming win. Referring to page 2 of Exhibit I, he said Clark County gaming win was forecast to be 2% for FY 2011. All of the growth projected for Clark County would come from The Las Vegas Strip, which was expected to experience 5% growth in gaming win in FY 2011. Unfortunately, the GCB expected continued declines in all the other submarkets that made up Clark County, including the Las Vegas locals, which was expected to decrease 4%. The continued negative impacts of the highest unemployment in the nation, which was about 15% in Las Vegas, combined with reports that over 70% of the homes in Las Vegas were in a negative equity situation, did not allow for a forecast of anything but continued declines in the Las Vegas locals market for the foreseeable future.

For the balance of the State, Mr. Lawton said the GCB forecast about a 3.4% decrease due to factors similar to those that impacted the Las Vegas locals market, in addition to the struggles that the Reno, Sparks and South Lake Tahoe markets faced with continued competition in the form of tribal gaming in California. After conversations with many operators across the State, Mr. Lawton said the consensus in many of the submarkets was that the operators would be happy with flat growth. He noted growth was flat from June through August 2010.

For FY 2012, Mr. Lawton said the GCB expected gaming win to increase by about 2.25%. There were no new properties or expansions expected during the fiscal year. Clark County gaming win would grow about 2.5%. There was continued escalation on the Las Vegas Strip, but not as strong as FY 2011 due to flattening out of baccarat gaming win. As a result, The Las Vegas Strip growth was expected to be about 4.5%. Although the GCB continued to see declines in the submarkets in Clark County, including the Las Vegas locals, which was expected to be a little over -2%, the declines would become smaller and there was a light at the end of the tunnel. He said the carry over that everyone had been projecting between the Las Vegas Strip and the Las Vegas locals market would begin to form. Mr. Lawton said growth in gaming win for the rest of the Nevada would be flat at about .36%. He said the flat growth was a positive thing. The submarkets within Nevada would finally reach bottom and begin to slowly come out of the Great Recession as positive national trends began to impact Nevada, with increased business travel and consumer spending.

Mr. Lawton said, for FY 2013, the GCB forecast gaming win to increase 4.8%. Clark County growth was estimated to be 5%, and the balance of the state 3.2%. No new properties or expansions were expected during FY 2013. The Las Vegas Strip would continue to expand, with growth of a little over 6%. The submarkets within Clark County would finally benefit, resulting in a conservative increase in the locals markets of about 2.5%.

Mr. Lawton said that when the GCB forecast gaming win, slots and table win were forecast separately. He said statewide slot win would grow very conservatively in each of the fiscal years (page 3, Exhibit I). He noted there was an 8.5% decrease in slot win in FY 2010. Slot win was projected to be .34% in FY 2011, 1.64% in FY 2012, and 3.91% in FY 2013. The average growth rate for slots over the past 10 years was about 1.29%. He noted that FY 2011 and FY 2012 were close to that number, but growth in FY 2013 was a bit higher due to the anticipation of an improvement in spending patterns.

Turning to page 4 (Exhibit I), Mr. Lawton said statewide coin-in would continue to decline in FY 2011 at 3.61%, and would finally increase 1.1% in FY 2012 and 3.69% in FY 2013. He said the GCB believed the continued trend of single digit decreases would eventually end, and improvements in slot volume would be seen in the end of CY 2011 and early CY 2012. The improvement would start on the Las Vegas Strip in early CY 2011, and eventually carry over to the submarkets. The slot win percentage was expected to continue to increase slightly over the same period, making up for the decrease in coin-in. Fiscal year-to-date slot win was down 2% June through August 2010, and fiscal year-to-date coin-in was down 4.1%. He said it was important to note that the State experienced 33 straight months of decline in slot volume. The last time growth was experienced in this key metric was October 2007.

Mr. Lawton turned to the topic of games and tables win (page 5, Exhibit I). He said, after increasing 2.39% in FY 2010, GCB projects games and tables win to increase about 3% in FY 2011, 3.3% in FY 2012, and 6.5% in FY 2013. The average growth rate for table games over the last ten years was about 1.2%. He said June through August 2010, games and tables win was up 4.1%.

Mr. Lawton noted, page 6 of Exhibit I showed games and tables drop, which was expected to grow 7.2% in FY 2011, 5.6% in FY 2012, and 8% in FY 2013. The average growth rate for the past ten years was about 2.75%. The GCB made a downward adjustment to its win percentage for the forecast period due to increased exposure to baccarat play, which could be volatile when compared to other games like craps, roulette and twenty-one. Fiscal year-to-date drop grew an astounding 22.6% from June through August 2010. He explained that the higher growth rate was primarily due the Wynn Resorts, MGM Mirage, and Sands Macau operating properties in China. Those properties were marketing the Las Vegas Strip properties to those customers seeking an entirely different experience. Mr. Lawton said it would not be realistic to anticipate the recent unprecedented expansion in baccarat would last forever, and the GCB expected that to abate in FY 2012 and FY 2013. However, the operators have indicated to GCB staff that the Macau/Las Vegas correlation would continue.

Mr. Lawton referred to the statewide baccarat win forecast on page 10 (Exhibit I), saying that the GCB anticipated an increase of 10% in FY 2011, 1.5% in FY 2012 and 2% in FY 2013, resulting in an average growth rate of 4.5%. He noted over the past ten years, the average growth rate in baccarat was 9.14%, which included years prior to the Las Vegas Strip operators' presence in Macau. Various analysts and operators with whom GCB spoke indicated that a 3% to 5% growth rate for baccarat was a very reasonable assumption. Fiscal year-to-date baccarat win was up 12.36% June through August 2010, and drop was up an astounding 65.1% over the same period. He noted that in June of 2010, the lowest win percentage was recorded for baccarat since June 1994, at about 3.5%. If that anomaly was excluded, and the normalized hold percentage of 11.5% was used, baccarat win would be up 30.1% fiscal year to date. However, as mentioned earlier, baccarat was volatile.

Mr. Lawton explained that after gaming win was forecast, there was an assumption made regarding how much of the forecasted win would become taxable gaming revenue. The difference between gaming win and taxable gaming revenue was credit play. Gaming win included all wagering activities from cash, chips and wagers made through the issuance of credit. Wagering activity through credit did not become taxable until the credit was paid, which could be months later, and some of that credit would go uncollected. Referring to page 7 (Exhibit I), Mr. Lawton reported the ratio had been around 96% for the past ten years. It was anticipated that the ratio would be 95% for FY 2011, 96% for FY 2012, and 96.5% for FY 2013.

Mr. Lawton reported that for FY 2010, the taxable gaming revenue to win ratio was 93.2%, almost 2% below FY 2009, and the lowest recorded in the last 14 years. He said there was no material trend in the nonpayment of credit. However, the recent surge in baccarat play resulted in a higher percentage of credit play. In FY 2009, credit play was about 19.5%; in FY 2010, it was 31.5%. He explained that players received higher rates of discount for baccarat, and he believed that was causing the ratio to reach those levels.

Mr. Lawton said that the GCB forecast $661.9 million in Percentage Fee collections for FY 2011, which was an increase of almost 5%, which included an Estimated Fee Adjustment (EFA) of $3.2 million. He noted that total win was forecast to be up 1.25%. The reason that FY 2011 Gaming Percentage Fee collections were up almost 5% was because the EFA caused a $10 million swing. Last fiscal year, there was negative $7.2 million EFA, in FY 2011, the EFA is projected to be $3.2 million. He said, fiscal year to date, with three months of collections reported for June through August, Gaming Percentage Fee collections were up 1.3%. For FY 2012 Gaming Percentage Fee collections were estimated to be $689.8 million, an increase of 4.21%. This includes an EFA of $5.3 million. For FY 2013 Gaming Percentage Fee collections were estimated to be $733.1 million, an increase of 6.3%. This includes an EFA of $11.3 million.

In closing, Mr. Lawton explained that the GCB forecasts were built on the assumption that there would be slight, but sustained growth for the forecast period. Growth was projected in each year through the end of the forecast period, with games and tables growing faster than slots, due to a baccarat-based recovery. Eventually, as the national economy improved and allowed for convention groups to return en masse, and for visitors to spend more freely, baccarat revenue would complement the slot and medium-limit table play around which Nevada's tourist economy was built. As a result of those assumptions, the forecasted growth would come from one place: the Las Vegas Strip. That recovery would eventually spill over to the rest of Clark County, which would lag behind the Las Vegas Strip along with the balance of the State, but would benefit from a growing economy and expand at a slower rate.

Mr. Alastuey appreciated Mr. Lawton explaining the relationship between the win and Gaming Percentage Fee collection. He noted that an explanation was given for FY 2011 via the EFA. Mr. Alastuey asked about FY 2012 and FY 2013.

Mr. Lawton said because there was growth projected in FY 2012 and FY 2013 the EFA would be positive in both years. He said historically, what was projected for the EFA never occurred, because of the difficulty in forecasting this item due to all the variables in play.

Janet Rogers, Chief Economist, State Budget Office

Ms. Rogers said the Budget Office forecast for Gaming Percentage Fee collections was on page 5 (Exhibit G). She explained an econometric model was used, and the market areas were divided slightly differently than the Gaming Control Board. She noted Figure 3 showed the amount of drop, statewide, for everything except baccarat. Baccarat drop was shown for the Chinese New Year, New Year's Day, and other months. Beginning in FY 2006, the drop, statewide, had been falling fairly consistently. After about FY 2000, there was not much sustained growth. There was a little bit of a drop and a little bit of an uptick. She explained that the numbers were adjusted for inflation, but not for the number of visitors. Starting in about FY 2004, baccarat play expanded. She explained that the Budget Office forecast for this revenue was in three parts: baccarat statewide; all other drop for the entire Las Vegas area; and the rest of the State. She said that Figure 4 showed the impact of baccarat play on gaming. If the amount played on baccarat were removed, there would be no positive increase in three years. She explained that the increases over the past month were strictly due to the huge drop on baccarat.

Ms. Rogers said that page 6 showed the average win per visitor for Las Vegas, including baccarat back to 1979. Although there were few baccarat players, they had a large influence on the average win per visitor. With a few exceptions, the trend line showed a decidedly negative slope. Her estimation procedure began with the drop, then she worked through to win and the other components, then used those estimates to mathematically construct the estimates for Gaming Percentage Fee revenue collections. She was very cautious because she feared there had been an underlying shift in what people were willing to spend.

Referring to Figure 1 (page 1, Exhibit G), Ms. Rogers noted the level of population at the age of the highest spending years was dropping off. As Mr. White noted, the savings rate was likely to rise. She thought the win and drop per visitor would decline. She said baccarat would continue to play into it, but it was almost impossible to forecast.

Ms. Rogers said her forecast was roughly 2% to 3% per year. Her forecast was for the Gaming Percentage Fee to grow under 2% in FY 2011, then pick up ever so slightly. She said if inflation rates were 2% to 3%, that was not much of a growth rate. That forecast based primarily on what she thought would be a fundamental shift in how people perceived the spending of discretionary funds in the future.

Mr. Martin said that a number of friends that visited Las Vegas had noted that some of the gaming rules changed over the past few years. For example, black jack played 6 to 5, auto shuffle decks were used, and there were fewer tables where the dealer stands on all 17. He said Caesar's Palace had a rule that a player could only double down on 10 or 11. He said if that was the case, the games were becoming more profitable to the casinos, but were probably attracting a lower-end player, because the higher end player would go elsewhere. He wondered whether there was a systematic pattern that the games were more profitable, but attracted a lower-end player. He said that would have an effect on the forecast for this revenue.

Mr. Lawton responded that the opposite was happening; the trend was toward the hold percentage for table games to decrease rather than increase. He said that the casinos were making the rules tighter, and the average player was a tourist who did not know any better. The locals market was different because those players would not play black jack at those odds. The players on the Las Vegas Strip were not as educated in gaming, and would not pay attention to the odds as much as a local player.

Mr. Martin asked if that would drive out the higher-end player. Mr. Lawton said he did not think that was the case.

Mr. Maddox commented that casino operators noted that from FY 2004 to FY 2007 there were lots of visitors who did not know how to play, but thought they had lots of money because of the wealth effect. They were more than happy to blow $25,000 or more – that they really did not have – playing black jack. Those people were gone, and the hold on black jack decreased significantly because the current players knew how to play, or were lower-end players. The rules were changing because the casinos were trying to get the money back. He said it was the same with slot machines. The casinos were taking the hold percentages up across the Las Vegas Strip. Before, Nevada was a great gamble. The regional casinos held 10%, and Nevada would hold 5% or 6%. That percentage was creeping up. He noted there was a risk that tables and slots were just as appealing from a money perspective at the visitors' local casino as in Las Vegas.

Mr. Martin was concerned about the long-term trend. He recalled that in the past there were comps and a fair shake for players at the table games. He was not sure what the rules were in Atlantic City or Macau, but sooner or later, a perfect market hypothesis would dictate that word would get out that Las Vegas was not the place to gamble.

Mr. Lawton said he would be surprised if a visitor based the decision to gamble in Las Vegas versus Des Moines based on the odds of black jack, but rather because Las Vegas was more fun. Adding that Las Vegas was about baccarat and nightclubs, Mr. Maddox said people could play black jack at home, in Des Moines, but visitors came to Las Vegas to have fun. He noted that rather than spending all night in the casino gambling, a visitor might choose to spend $10,000 to $15,000 in a casino nightclub such as XS or Surrender. There was a dramatic shift away from the second show and the domestic casino, and into food and beverage and nightclubs.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon said the Fiscal Analysis Division Gaming Percentage Fee forecast began on page 29 (Exhibit H). He said the text explained the actual year-to-date revenue amount, and the activity necessary to reach the forecast. Pages 31 through 34 showed total win, slot win and game win per Las Vegas visitor, statewide employee, for the statewide and Clark County markets. He explained that he was using those ratios because he had forecasts for them. They could be plotted and reviewed and he would know whether anything bothered him greatly about the result.

Mr. Guindon said the forecast was on page 35. He said that the Fiscal Division did not have the time to go through all the markets GCB did, so only focused on the Clark County, Washoe County and the rest of the state markets. He noted that Mr. Maddox had already covered lots of the points he wanted to make about what was going on with the gaming market statistics. Mr. Guindon said before the December meeting he would consider what was going on in Clark County in the locals and non-locals market.

Mr. Guindon said that coin-in per slot was expected to fall for another year, then stabilize and come back a little. He agreed with Mr. Maddox that the average hold percent would continue to increase, but would then increase at a decreasing rate. He agreed with Mr. Maddox about the other markets compared to Nevada in terms of the average hold. Historically, the slots in Las Vegas had been a very good deal, on average. It had always made sense to him as an economist, because the market was open and competitive, versus the locals markets in other states that were operating monopolist or oligopolistic market structures to extract more in terms of the price point of slots. He said there was a point at which that could not continue, or there would be an impact on visitors wanting to come to the casino.

Mr. Guindon said that was why he estimated the slot win percent revenue would increase in FY 2011, and then increase at a decreasing rate in FY 2012 and FY 2013, but at the same time, that would mean the coin-in per slot would start to stabilize and come back, especially given that the visitors were coming back in FY 2013.

Mr. Guindon noted there would be one more month of information available from the GCB next week. He noted one of the bigger risks was on Table 3Q, (page 43, Exhibit H). He did not separate baccarat in his forecasting model, but did some coefficient of variation analysis with and without baccarat, and baccarat alone. He said trying to pull baccarat out of the forecast would expose the forecast to more risk than leaving baccarat in, because the bottom line was trying to forecast Gaming Percentage Fee collections. He got the 1G report from the GCB that showed what was actually going on with baccarat and all the other table games. He said the risk on Table 3Q was related to baccarat in the Fiscal Division forecast. In FY 2010, first quarter, the growth rate in drop per game was 12.4% and 22.4% in the game win, because the players came and the house won. He noted that because of baccarat, in FY 2010, third quarter, the drop per game was up 24.1%. He noted the game win was only 5% because the house won, but did not win as much as it had. He knew that because the average hold across all games was 10.69%, and baccarat was phenomenally low.

Mr. Guindon said in FY 2011, third quarter, he expected the drop per game to increase 1%, but the average win percentage would increase. He was nervous about this assumption and that was one of the things that would be evaluated for the December forecast. He wondered if baccarat play would return to those levels. He also assumed that hold percentage would reverse the trend a year later and the house would win. Thus, there was an estimated 11.3% increase in the game win for that quarter. This quarter could well be negative, because there would not be a phenomenal level of baccarat and the house might not win, which was one of the reasons baccarat was so hard to estimate. The coefficient variation for baccarat was around 50%, compared to total games win with baccarat, which was around the low 20%. Based on the information provided at the meeting about what was going on in the gaming market, the Fiscal Division forecast may be revised for the December meeting.

Mr. Maddox said his corporation has been known to be conservative, and had been very cautious about Las Vegas for two years. For the first time, Wynn Resorts officially said that the downturn had hit bottom. They were seeing positive things – not great – across all segments of the business going forward. He was not suggesting that the Fiscal Division forecast was aggressive or conservative, but Wynn Resorts hoped that things had stabilized.

Mr. Lawton noted that the Wynn Resorts staff agreed with the GCB numbers, which made him feel good about his forecast.

MODIFIED BUSINESS TAX – NONFINANCIAL INSTITUTIONS

Janet Rogers, Chief Economist, State Budget Office

Ms. Rogers said the Budget Office forecast the Modified Business Tax (MBT) using an econometric model, which was based on an employment forecast and wage forecast. The employment forecast was for both the general or nonfinancial private segment and the financial segment of the Nevada economy. Wages were forecast the same way. Theoretically, once those numbers were determined, the MBT should just “fall out” of the model. She said the historical wage numbers that corresponded to the MBT did not match up exactly with the wage numbers that were received from any of the other reported sources. Basically, the Budget Office used wages and employment to come up with a forecast for the MBT.

Ms. Rogers said that in FY 2010 and FY 2011 the MBT was a split tax, .05% if payroll was below $250,000 for the year, and 1.17% if the amount was over $250,000. For the FY 2011 forecast, for which there was no data reported, she forecast as if the rate had stayed the same as it had historically. She then used the ratio of the actual receipts to what she forecast to come up with a ratio that would represent the tax rate. The tax rate in FY 2011 was computed from the observed data for FY 2010. In FY 2012 and FY 2013, the tax rate was set back to the 0.63% rate required under current law.

Ms. Rogers said the wage forecast was derived from the employment forecast, which was a little stronger than what DETR forecast, and a bit weaker than Moody’s Analytics’ wage forecast. She said the table for the MBT forecast showed actual total nonfinancial payroll, not split for smaller or larger payrolls was on page 7 (Exhibit G).

Mr. Alastuey noted that the Budget Office employment forecast was relatively close to the Fiscal Division employment forecast (page 1, Exhibit H). Ms. Rogers did not look at the Fiscal Division material before the meeting, but she agreed the Fiscal Division and Budget Office employment forecast were very close. She noted her forecast was also not far from the DETR forecast presented by Mr. Anderson earlier in the meeting.

Mr. Guindon noted the Fiscal Division fiscal year growth rates were on page 66 of Exhibit H. Ms. Rogers said the Budget Office employment forecast was on page 13 (Exhibit G). She noted her forecast was -1.5% and the Fiscal Division forecast was -1.6%. She agreed they were very close.

Mr. Maddox was confused about the difference between the 14.4% (U3) and 23% (U6) unemployment figures. He noted the spread between the two rates was ten points, and asked what that spread would be in a normal economy when unemployment was 5%.

Ms. Rogers said the 14.4% rate included people who had dropped out of the labor force. It also included all of the state employees who were furloughed one day per month. The state employees were not employed full-time, but they would like to be employed full-time. The state employees were included in the 23% number, but not in the 14.4% number.

Chairman Restrepo said that he would imagine that as the economy approached full employment, there would be a 5% or 6% spread between the two employment rates.

Gus Faucher, Moody's Analytics said the spread between the U6, which was the broadest measure of unemployment, and the standard unemployment rate, would narrow as fewer people worked part-time for economic reasons, and fewer people dropped out of the labor force.

Brody Leiser, Deputy Director, Department of Taxation

Mr. Leiser said the MBT forecast was determined by a trend analysis focused on wage data since the fourth quarter of FY 2009. Because there was a tax rate change that was to sunset at the end of FY 2011, the Department's approach was to forecast net wages, then apply a tax rate to those wages. He said not shown on Table 4, were the Department's projections on the wages, which were very close to flat in FY 2011, FY 2012, and FY 2013. There was a very slight increase in FY 2011, and about a 0.5% increase in wages in FY 2012 and FY 2013. To translate that to tax revenue collection, for FY 2011 actual data for FY 2010 was applied, with a tiered rate on the MBT to arrives at the FY 2011 projection for a 1% decrease compared to FY 2010. He said the quarterly data for the first quarter of FY 2011 would be available at the end of November 2010, which may or may not have an impact on the projections presented at the final meeting of the Economic Forum.

Mr. Leiser noted there was a huge drop in FY 2012, because the rate change would sunset, and the nonfinancial rate would return to .63% on wages for periods in FY 2012 and FY 2013. There would be a decrease in FY 2013 because a percentage of that was wages or revenue reported for the September quarter, and a percentage of that was outstanding receivables for prior quarters. In the FY 2012 forecast it was calculated that the rate returned to .63%, but it was anticipated that revenue would be collected in FY 2012 from periods ending June 30, 2011, and prior. Those late filed returns and late payments would be at the tiered rate, which was higher, than the effective rate for July 2011 going forward. Mr. Leiser said there would be a pool of late payments at that tiered rate, which was why the forecast was for a higher revenue in FY 2012 than FY 2013.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel said the Fiscal Division forecast for the MBT started on page 79 of the Fiscal Analysis Division packet (Exhibit H). He said Table 2A on page 85 showed the drivers behind the Fiscal Division forecast. The nonfinancial employment (Chart 1A, page 86) forecast was similar to the total employment forecast, but for FY 2011 the Fiscal Division anticipated an employment decrease of 1.5%, an employment decrease of 0.2% in FY 2012 and growth of 1.8% in FY 2013. Mr. Reel said the average wage per employee (Chart 2A, page 88) was expected to decrease by 1.8% in FY 2011, 0.4% in FY 2012, and an increase of 0.8% in FY 2013. This translated into a total wage and salary disbursements decrease of -3.3% in FY 2011, and 0.5% in FY 2012, with growth of 2.7% in FY 2013.

Mr. Reel said Table 2 (page 84) showed taxable wages and collections, both with and without the amnesty impact. The methodology used considered the taxable wages and collections without the amnesty to apply the growth rates based on the Fiscal Division employment and wage forecast, so the amnesty payments would not reflect growth in future quarters. Looking at FY 2010, fourth quarter, there was $1.5 million of amnesty collected in nonfinancial MBT. Although there was no collection information for the first quarter of FY 2011, there was $2.5 million in amnesty that would be added to the forecast in FY 2011. Based on the information from FY 2010, the average effective tax rate was 1.06%, which was the tax rate applied to taxable wages for FY 2011. The actual tax rate returns to .63% for FY 2012 and FY 2013 under current law. Similar to the Department of Taxation, the Fiscal Division used a rate that was a bit higher than the effective tax rate in FY 2012 due to the portion of payments that come in from prior periods. About 95% of the collections came from the current quarter, and about 5% of the collections were from the prior periods. After four quarters, most of the prior period taxes had already been accounted for. The average effective tax rate for FY 2012 was .641%, and by FY 2013, the tax rate was back to .63%

Mr. Reel said the Fiscal Division forecast for MBT nonfinancial for FY 2011 was for a decrease of 3.1% in collections. The -40.2% decrease in FY 2012 was due to the tax change. He said the growth rate for taxable wages would indicate the level of taxable activity in FY 2012. The Fiscal Division forecast for FY 2013 was for a 1% increase.

Mr. Alastuey asked if the Fiscal Division method was similar to the Department of Taxation forecast in that the point at which the rate changed was the point at which the delinquent payments would be reconciled at the previous rate, and Mr. Reel said that was correct.

Mr. Maddox noted the revenue was based on total wages, and everyone forecast a decline in FY 2011. How asked how the other tax bases were expected to grow, and whether that growth was driven by tourists.

Mr. Guindon said the Fiscal Division forecast was for employment to bottom out, and the Sales Tax collections to fall. The Fiscal Division tried as much as possible to keep consistency across the forecast in terms of its outlook for Nevada's economy. For example, insurance revenue was weakening and then coming back. There was a path of weakness in FY 2011, flat growth in FY 2012 and better growth in FY 2103. He said that outlook may be different on December 1.

INSURANCE PREMIUM TAX

Brody Leiser, Deputy Director, Department of Taxation

Mr. Leiser said the Department of Taxation used the same approach and methodology to estimate the Insurance Premium Tax as was used for the other major revenues collected by the Department of Taxation. He simply looked at the data, collections, and revenue distribution and did a trend analysis. The timeframe that was studied was similar to the timeframe studied for the MBT. The revenue that was collected since the third quarter of FY 2009 was used for the analysis, and the projections were based on that trend analysis. Similar to the Sales and Use Tax and MBT, the Department made adjustments for amnesty collections in FY 2010. As shown on Table 4 (Exhibit F) the Department estimated a 0.5% increase in FY 2011, a 0.1% decrease in both FY 2012 and FY 2013. The amnesty collections that were recorded in FY 2011 were taken into account, resulting in an increase in FY 2011, and basically flat growth or a slight decrease in FY 2012 and FY 2013.

Mr. Alastuey asked if the amount of the amnesty collections met the estimate that the Legislature anticipated.

Mr. Leiser stated that there was no goal that was specific to a certain tax, but the General Fund portion goal was $10 million. The final figures had not yet been reported, but the collections had met the $10 million goal. Because of the timing, and how the revenue distribution was done, there was revenue collected in both FY 2010 and FY 2011 under amnesty, but overall, amnesty collections met and slightly exceeded the $10 million goal.

Janet Rogers, Chief Economist, State Budget Office

Ms. Rogers said it was unfortunate that there was no data to provide an economic measure as to where the money was coming from in terms of the different components of the Insurance Premium Tax. Therefore, she prepared a trend analysis of the Insurance Premium Tax, without the amnesty, normalized by employment to de-trend and give some basis as to the econometrics behind it. The Budget Office forecast for the Insurance Premium Tax was for basically flat growth out to FY 2013. She said there was an increase in FY 2013 that corresponded to growth in employment at that time.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto said the Insurance Premium Tax analysis for the Fiscal Analysis Division was on page 75 of the forecast information packet (Exhibit H). He referred to page 76 to show what was taken into account to prepare the forecast. The numerous categories that went into the tax were listed, including payments from the prior fiscal year, the four quarterly periods, annual renewals, interest and penalties, risk retention groups, and so on. The Fiscal Analysis Division's forecast for the tax was two-fold. The first part was a regression equation where the quarterly collection periods were forecast as a function of total employment, total personal income, and to Nevada's existing single-family home sales.

Mr. Nakamoto said the information for quarterly collections came from the Department of Taxation. That information, along with historical collections, was used to develop the forecast. With respect to those particular pieces, he noted that the work was preliminary, because Fiscal Division staff was still trying to obtain information on the various categories, especially with respect to the effect of the amnesty collections. He hoped that there would be more information on those particular pieces for the December meeting.

Chairman Restrepo asked how the ongoing wave of commercial foreclosures would affect homeowner insurance policies, and ultimately the Insurance Premium Tax. He was also interested in how the reduced state population was affecting automobile insurance.

Mr. Nakamoto said the information that the Fiscal Division received on this particular tax was only the amount of revenue that was collected. The Fiscal Division received no information from the Department of Taxation or the Insurance Division on the premium activity that generated the revenue. He had some information on the number of premiums written in general categories, but there was no methodology to match those premiums with actual collections. That was something that the Fiscal Division tried to work on to see what the effects of the various economic activities in Nevada with respect to this tax. Without having direct activity tied to the collections, it was a difficult exercise.

Mr. Guindon added that with information on collections only, the forecasters were somewhat in the dark on the tax. He said there was some information on the residential side, single-family homes and foreclosures, but it was hard to get good information on commercial activity that could be calibrated against it. He said the Fiscal Division forecast was for relatively weak quarterly growth. This forecast result was because the Fiscal Division knew what was happening on the residential side, and what was happening on the commercial industrial side. There was potentially some impact there, so it was best to be somewhat conservative with the revenue forecast until real information was available to indicate a recovery.

Chairman Restrepo said that, while there were reductions, or minor increases, he would have thought there would be more revenue, whether from insurance premiums on health insurance because of the layoffs or home insurance and automobile insurance. There seemed to be a disconnect on what was happening in the economy and the forecast for collections.

Mr. Guindon said it was difficult because there was a mixture of health insurance, life insurance, annuities, and real property insurance. He said some of that activity was still going on in Nevada. He noted the Department of Taxation would release information on the first quarter collections that could be used to calibrate the forecast for the first quarter. The Fiscal Division forecast was for -1.1%. If actual collections declined or grew more than projected, then the Fiscal Division would obviously give some consideration to that, and think about changes to the forecast.

Mr. Leiser said what was required to be reported to the Department of Taxation in the Insurance Premium Tax was simply a gross premium amount that was not broken out by policy type. It was not known how much of the revenue was from auto insurance or homeowners' insurance. From the information required to be reported to the Department of Taxation, there was no distinction by type of policy for which the tax was paid.

LIVE ENTERTAINMENT TAX - GAMING

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mr. Lawton said the Live Entertainment Tax (LET) was based on the forecast of taxable casino entertainment activity. The forecast for taxable activity was based on an examination of historical growth patterns and most importantly, through interviews with various properties. The forecast also incorporated expected increases in taxable activity due to the opening of new properties or changes in entertainment venues at existing properties. Unfortunately, the LET was one of the most difficult taxes to forecast at the GCB. Charges for admission, beverage and food were not consistent from year to year, nor was the price of entertainment itself. Making it more difficult was the addition of the large venues with 7,500 or more seats, with most of that revenue coming from concerts. He said there was no way to predict the concert tours over the next several years, let alone the pricing. Referring to page 9 of Exhibit I, Mr. Lawton said the GCB projected LET to grow 1%, with $109.3 million in collections. That was up from the declines of 7.9% and 3.7% over the last two years. Unfortunately, there were no new shows scheduled to open this fiscal year. Year to date, LET collections were down 1.3%. For FY 2012, LET collections were forecast to grow 1.5%, with $111 million in collections. For FY 2013, the GCB forecast 2% growth, with $113.2 million in collections. The average growth rate in casino LET collections the last five years had been just 2%, with a higher ten-year average of 6.7%. The GCB felt its projections were fairly conservative as they were below those averages.

Janet Rogers, Chief Economist, State Budget Office

Ms. Rogers said the Budget Office forecast for the LET was on page 9 (Exhibit G). She used the LET per visitor, inflation adjusted, as the explanatory variable. The Nevada home price index was used as a proxy for perception of wealth, which obviously was no longer there. She said gaming drop, which was a measure of the wealth of the people who were playing in the casinos, and the Standards and Poors 500, were other variables. She said the Budget Office had a very conservative forecast for LET, with growth of approximately 1% for FY 2011, 2% for FY 2012 and 2% for FY 2013. The forecast was a slightly toned down version of the Budget Office visitor forecast, the assumption being that they would not spend as much in the years to come as they had in the past.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon said the Fiscal Analysis Division's forecast for the LET began on page 53, (Exhibit H) with some narrative and collections information. The Fiscal Division forecast was on page 54. The starting point for the forecast was to run a regression against the quarterly LET collections as a function of visitors and total employment in Nevada. Total employment attempted to capture the local side, and the number of visitors captured the visitor's side of the impact. The forecast was then analyzed to determine whether there was a comfort level with the estimates generated by the equation. He made adjustments to some of the quarters because he thought the forecast was either too high or too low.

Mr. Guindon noted that Cher was scheduled to perform in October and November of FY 2010. Barry Manilow was to perform in October, November, December and part of January. Celine Dion would perform in January, February and March 2011. He said some of the shows were already sold out, which indicated the revenue could hold up. He noted the forecast did not look like some of the other forecasts because it was a different kind of consumption item. It used to grow similar to the other revenues, but had been very weak in the last three years.

Mr. Guindon said the Fiscal Division forecast growth of 1.8% in FY 2011, 2.1% in FY 2012, and 3.6% in FY 2013. He said that FY 2013 growth would be stronger because the national economy would be a little stronger in FY 2012 and FY 2013. Visitors would come back, and take in the shows. He stated that he might be putting too much weight on the shows that were just announced. There would be one more month of information from the GCB, and he could use that to calibrate based on how well he forecast that month.

Mr. Martin asked whether attendance was up, and ticket prices were down. Mr. Guindon said he did not have that information. He was provided with the total collection amount, not the average rates or attendance.

Chairman Restrepo asked Mr. Maddox if the assumptions being made by the forecasters conflicted with what he had reported earlier about visitors going to the ultra lounges and spending on food and beverage rather than shows.

Mr. Maddox agreed with the perspective of the forecasters. He said that interest in the second show declined a few years ago. There was still a second show, but there was not a big pick up in attendance anticipated. The first show, and the headliners coming back to Las Vegas were still very popular. He said Wynn Resorts was introducing a Frank Sinatra production show this year, so there would be three big shows. He said there would be more tickets for sale, and ticket prices would rise.

REAL PROPERTY TRANSFER TAX

Brody Leiser, Deputy Director, Department of Taxation

Mr. Leiser said that there was a huge drop off in the Real Property Transfer Tax (RPTT) since FY 2007. He said that he looked at the data since the fourth quarter of FY 2009. There will be an additional quarter's worth of data for this tax available prior to the December 1, 2010, meeting of the Economic Forum. He anticipated that this forecast might be revised based on that information.

Mr. Leiser said the Department anticipated the RPTT to increase 4.3% for FY 2011, and decrease slightly by -0.2% for both FY 2012 and FY 2013.

Chairman Restrepo observed that it did not appear that the forecast anticipated a comeback in the real estate market anytime soon.

Janet Rogers, Chief Economist, State Budget Office

Ms. Rogers said the Budget Office forecast for the RPTT was based on an econometric model, as were most of the other Budget Office revenue forecasts. She said the Budget Office estimated inflation adjusted RPTT using prices of new and existing properties that were sold. The model was highly dependent on the Case-Schiller home price index information on Figure 6 (page 21. Exhibit G), which showed home prices declining for Las Vegas. The declines in Las Vegas were feeding the decline forecasted for FY 2011. The growth in FY 2012 was essentially flat. Similarly, the Budget Office expected a rebound in FY 2013 that, as the foreclosed homes were cleared from the market, was a large percentage increase, but not much in the way of revenue.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto reported that the RPTT forecast for the Fiscal Analysis Division was on page 101 of the Fiscal Analysis Division forecast information packet (Exhibit H). He said the forecast and the variables used to arrive at the forecast were shown on page 102. He said the equation modeled the four-quarter change in seasonally adjusted tax collections as a function of the four-quarter change in existing single family home sales, the four-quarter change in single-family home completions, and the four-quarter change in the Case-Schiller home price index. He said the best illustration of what was going on with the tax, especially in the last couple of years was shown on Chart 9A (page 17, Exhibit H). The chart showed the actual and forecast of Nevada total existing single-family home sales from Moody's Analytics' October 2010 forecast. Throughout the historical path, a run up in single-family home sales occurred throughout the first part of the decade, then started to fall of beginning in FY 2006. There was another big run up in 2008 when the Bush administration introduced the first-time home buyer tax credit, which was continued in a second incarnation by the Obama administration in early 2009. In November of 2009, the tax credit was further expanded to allow not only first-time homebuyers, but repeat homebuyers to receive the credit. At the end of calendar year 2009 and the beginning of calendar year 2010, seasonally adjusted annual rates of existing home sales were far above the peak due to that activity. He said that because RPTT was applied to all transactions dealing with real property, including commercial property, the single-family home sales history does not necessary match up with the reported actual collections.

Mr. Nakamoto said page 104 (Exhibit H) showed the growth rates of the RPTT through its history. From the second quarter of calendar year 2006 to the second quarter of calendar year 2010 there were 16 consecutive negative quarters of growth, of which the last 15 quarters were double-digit negatives. He noted growth over the last quarter of FY 2010 was 0.7%, which might be the manifestation of the tax credits.

Mr. Nakamoto noted that the Fiscal Analysis Division forecast was for negative growth in the first quarter of FY 2011. The Fiscal Analysis Division equation included a calibration to the first quarter of FY 2011, because there was information available from the State Controller's Office regarding collections for the current quarter. Based on the actual collections, the Fiscal Analysis Division estimated that the first quarter RPTT collections would be approximately $12.6 million, which was an 11.9% decrease compared to the first quarter of FY 2010. He noted that Churchill County, which normally remitted about $50,000 per quarter of RPTT collections remitted $739,000 for the first quarter. That was explained by the sale of property to be used for a geothermal operation that triggered the tax, resulting in the spike in collections for Churchill County. If the $739,000 were removed from statewide collections, and assumed the normal $50,000 remittance from Churchill County, statewide collections of this revenue would be -16.7% in the first quarter of FY 2011.

Mr. Nakamoto said, based on that information, and calibrating the forecast, the Fiscal Division did not think the worst of the decline in RPTT collections was over. That was why the Fiscal Division estimated negative growth rates between 16% and 18% for the remainder of FY 2011. He said an increase in residential property sales due to short sales, and speculators buying at reduced prices, might cause some sort of recovery in the tax in FY 2013. As was pointed out by Mr. White, there was still some downward pressure on residential prices, especially in Clark County, that would be reflected in the collections. By 2013, there might be some recovery in the RPTT revenue.

Mr. Guindon said that the RPTT was similar to the insurance premium tax, in that all that was known was the collection amount. There was no detail about how much of the revenue was generated from the sale of property that was residential, non-residential, commercial, or land. He said that the Fiscal Division anticipated continued home sales, and referred to the Case-Schiller home price index information. He asked the members to recalled that the tax was price times quantity. The revenue was driven by the value of the sales rather than the number of sales. Sales could pick up, but if the prices did not pick up, the taxable value could be lower compared to the same quarter one year ago, which was why the Fiscal Division did not think the decline was over. He said the first quarter collections were pretty much known by information in the State Controller's collection system. This revenue would not be adjusted based on further information from the first quarter collections, but it may be adjusted if the Fiscal Analysis Division reconsidered its view of the world.

Chairman Restrepo agreed and said there would be quite a few property tax appeals in Clark County when the State Board of Equalization met in February or March 2011. He was concerned that that impact was not factored into the forecast. Also, he was concerned that in FY 2013 the Fiscal Division forecast was for 8% growth from -5% growth in FY 2012. He noted that the Budget Office forecast was for almost 9% increase in the revenue.

Mr. Guindon said that the recovery in employment would cause an increase in home sales. He noted the Case-Schiller home price index indicated a comeback in FY 2013. Both prices and the number of sales would rise, which was a double positive. In addition, the growth increase in FY 2013 would bounce off the bottom posted in FY 2012 . The amount grew from $42.5 million, to $45.8 million, which was a difference of $3 million, or an 8% increase.

Chairman Restrepo said he did not know if that kind of transfer would occur.

Mr. Alastuey appreciated the cautions the Fiscal Division offered. He noted, however, that in the Clark County residential market, the existing home sales price had been roughly at the same level for six months or more – between $120,000 and $125,000 median. He did not imagine that the mean was moving all that much. For new homes, which included some high-rise condominiums that drove the average up, the number had only been about 400 units per month. The notion that residential home sales in Clark County may have found a sustainable level was something to consider. He appreciated that the prices would slide further, but there did appear to be at least some stability in the depreciated residential market, at least for the past few months.

MODIFIED BUSINESS TAX – FINANCIAL INSTITUTIONS

Brody Leiser, Deputy Director, Department of Taxation

Mr. Leiser said that the Department of Taxation used the same methodology to forecast the MBT Financial. Growth was expected to be flat for all three fiscal years. There was a 1.2% increase expected in FY 2011, a .9% increase in FY 2012 and FY 2013. He noted that growth equaled minimal dollars.

Janet Rogers, Chief Economist, State Budget Office

Ms. Rogers said the same procedure was used to forecast the MBT Financial as was used for the MBT nonfinancial. The forecast flowed from the estimate for wages for employment. The Budget Office anticipated a gradual improvement in the employment picture by FY 2013.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel said the Fiscal Analysis Division forecast for MBT Financial was on page 94 (Exhibit H). He said Chart 4A on page 95 showed the employment outlook for the financial sector, which was one of the drivers for this revenue. The Fiscal Analysis Division forecast for employment in the financial sector was a little bit weaker for this part of the forecast: FY 2011, -4.4%, -1.2% in FY 2012, and then some growth in FY 2013 at 2.6%. The average wage per financial employee was a little higher than the average wage per employee in the nonfinancial sector. He noted that in FY 2010 there was 1.3% growth in the average wage per employee in the financial sector. This was expected to continue because that sector had a little higher skill set. Average wages for employees would continue to grow 1.8% in FY 2011, 1% in FY 2012, and 1.2% in FY 2013. As the employment and average wage per employee forecasts were translated into total wages, there would be a decline in total wages of -2.7% in FY 2011, -0.3% in FY 2012 and growth of 3.8% in FY 2013.

Mr. Reel said the impacts on taxable wages and collections with and without the amnesty payments were listed on page 93. He noted that in the fourth quarter of FY 2010 there was $41,000 amnesty under the financial MBT. For the first quarter of FY 2011, there was already $346,000 to be added to the forecast from the amnesty collections. Since there were no tax rate changes for the MBT financial, the rate remained at 2%. The Fiscal Analysis Division forecast for MBT Financial was -9.2% for FY 2011, -2% in FY 2012, and growth of 3.8% in FY 2013.

Chairman Restrepo asked if there was a need to report on the combined nonfinancial and financial MBT and Mr. Guindon said there was not.

IX. REVIEW AND DISCUSSION OF PRELIMINARY FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2011, FY 2012, AND FY 2013 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE AT ITS OCTOBER 27, 2010, MEETING.

Chairman Restrepo noted that the topic of newer data that may become available, or data that was missing, or not reported arose during the presentations. He asked what type of new data would be available in December 2010 that was not available at the present.

Mr. Guindon said the first quarter collection amounts for MBT and Insurance Premium Tax would be available for the December meeting. Each forecaster would have a chance to compare their forecasts for the first quarter against actual collections for the first quarter, to see if adjustments were needed. There would be gaming tax information from the GCB regarding the fourth month of the fiscal year prepared prior to the December 1 meeting. There would be one additional month of LET collection information for the third month of the fiscal year to complete the first quarter. He said the Department of Taxation would provide the quarterly and monthly numbers shortly before Thanksgiving. That would include September sales tax information to complete the first quarter of FY 2011. He said the Bureau of Labor Statistics would release one more month of employment information. In addition, the second quarter QCEW information would be available from Mr. Anderson. He noted that delivery of the December meeting material to members might be delayed to allow for the inclusion of that new information.

Mr. Guindon said the TAC might meet on Wednesday, November 24, 2010, to produce a forecast on the minor revenues. The forecasters would then concentrate on their forecasts for the major revenues to be presented at the December 1, 2010, meeting.

Chairman Restrepo agreed that the additional employment data from Mr. Anderson was important to know. In addition, the Las Vegas Convention and Visitors Authorities would have new numbers on visitation, revenue per available room (RevPAR), and occupancy rates. He suggested that, because of the new information that would be available at the December meeting, the Economic Forum forgo its preliminary forecast, and make its final official forecast at its December 1, 2010, meeting.

Ms. Rosenthal asked if Governor-elect Sandoval needed a preliminary forecast to set the preliminary budget. Mr. Guindon said that under the law, Governor Gibbons would produce The Executive Budget, because he was still the Governor. However, Governor-elect Sandoval could opt to revise the budget after he took office. Having the preliminary forecast could help the Budget Office, but under NRS it was not required that the Economic Forum provide such a forecast. Referring to Table 4 (Exhibit F), he noted there was not much variation in the total major tax sources forecasts, particularly between the Fiscal Analysis Division and Budget Office total forecasts. Mr. Guindon said that could be a guideline for the Budget Office and Fiscal Analysis Division for the major revenues, and the TAC forecast could be used for the minor revenues.

Ms. Rogers said the preliminary numbers were useful to the Budget Office because it gave them one more month to produce a budget that was balanced. On the other hand, if the preliminary forecast did not coincide with the December 1 forecast, nothing was gained. Under the circumstances, the Budget Office could take the average, and it would not make a big difference.

Ms. Rosenthal said that she understood that unless the Economic Forum approved a preliminary forecast that was different than the average of the total major tax sources forecast by a significant amount, there would not be a big detriment to the Budget Office. Ms. Rogers said that was correct.

Mr. Martin said he would prefer to see the first quarter information for FY 2011 before approving a forecast, because that would make the numbers that much more clear. He did not think there was any advantage to developing a preliminary forecast, and the lack of a preliminary forecast would not hold anything up.

Chairman Restrepo asked for a motion to forgo providing a preliminary forecast. Mr. Alastuey agreed that the variation between the Fiscal Analysis Division and Budget Office forecasts for the major revenues was very slight, and even more so when the forecast for the minor revenues were added (Table 3, page 133, Exhibit A). He thought that would allow the Budget Office sufficient information with which to work.

> MR. ALASTUEY MOVED THAT THE ECONOMIC FORUM DELAY APPROVAL OF A PRELIMINARY FORECAST, AND PRODUCE A FORECAST AT ITS DECEMBER 2010 MEETING. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION CARRIED UNANIMOUSLY.

Mr. Guindon noted that page 139 of the meeting packet (Exhibit A), was the TAC consensus forecast. He said the TAC was provided with forecasts from the Budget Office, the Fiscal Analysis Division, and the Executive Branch agencies (Table 3, page 133, Exhibit A). The TAC reviewed the forecasts and arrived at a forecast for the non-major revenues (Table 5, page 139, Exhibit A). He said Table 6 (page 141, Exhibit A) was the consensus forecast produced at the TAC's October 27, 2010, meeting. He did not see much benefit in going over the details of the forecast, because that forecast could change before the December meeting of the Economic Forum.

X. DISCUSSION AND RECOMMENDATIONS REGARDING OUTSIDE REVIEWERS VOLUNTARILY PROVIDING INFORMATION TO THE ECONOMIC FORUM.

Mr. Guindon said the information provided by Moody's Analytics, Mr. Anderson, and the other presenters would be sent to the outside reviewers. He said Alan Schlottmann, Professor of Economics, Department of Economics, University of Nevada, Las Vegas, was willing to review the information. He emphasized that the comments of the outside reviewers would be provided to the Economic Forum in writing. He said that Dr. Harris and Mr. Bonnenfant from UNR would also review the material and provide written comments. He was working to have some other outside reviewers provide comments on the information.

Chairman Restrepo said that Robert Potts, Assistant Director at the Center for Business and Economic Research at the University of Nevada, Las Vegas had agreed to review the information as an outside reviewer as well.

Mr. Guindon said he would provide the information to Mr. Potts. He added that if any of the Economic Forum members had been in contact with potential outside reviewers that were willing to participate, they should give the contact information to Fiscal Division staff. He said the written comments from the outside reviewers would need to be submitted to the Fiscal Analysis Division by the end of the third week in November. He noted that the outside reviewers were in the unfortunate position that they would be evaluating the preliminary forecast rather than the December 1, 2010, forecast. If the forecasts changed based on the new information, the information from the reviewers might not be of much value. However, it would give the Economic Forum members an idea of the outside reviewers' comfort with some of the forecasts and information that was presented.

XI. INSTRUCTIONS TO THE TECHNICAL ADVISORY COMMITTEE.

This agenda item was taken out of order.

Mr. Guindon assumed that the instructions given to the Technical Advisory Committee by the Economic Forum at its September 29, 2010, meeting had not changed. He noted that he and Ms. Rogers were staff to the TAC, and they would work with Mr. Anderson, as chair of the TAC, to prepare the forecast for the non-major revenues in preparation for the December 1, 2010, meeting of the Economic Forum. He noted the TAC would probably meet on November 23 or 24.

XII. SCHEDULING OF FUTURE ECONOMIC FORUM MEETINGS.

After discussion, it was agreed that the Economic Forum would meet on Wednesday, December 1, 2010. In addition, state law allowed the Economic Forum to meet on Monday, May 2, 2011, because the May 1 meeting day in the statute was a Sunday. He asked for the Economic Forum members to hold that date open on their calendars.

XIII. PUBLIC COMMENT.

There was no public comment.

XIV. ADJOURNMENT.

The meeting was adjourned at 4:42 p.m.

Respectfully submitted,

Patti Sullivan, Committee Secretary

Becky Lowe, Committee Secretary

Donna Thomas, Committee Secretary

APPROVED:

John Restrepo, Chairman

Date:

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