MINUTES

MEETING OF THE ECONOMIC FORUM
JANUARY 22, 2010

Chairman: I would like to call to order the January 22, 2010 meeting of the Economic Forum. The first order of business is roll call. Please respond accordingly, Matt Maddox.

1. Roll Call

Board Members Present at the Meeting:

Matt Maddox
Linda Rosenthal
Mike Alastuey
Bill Hartman
Chairman, John Restrepo

II. Opening Remarks:

Chairman: I would like to take a minute to thank the staff for all of their hard work over the last couple of weeks to put all of this information together for us today. I would like to welcome Matt Maddox to the Forum from the Wynn. Your comments are very welcome here today and very important to our proceedings. To move on to number three Election of Chair and Vice Chair, I would like to ask for a motion to any nominations for chair.

III. Election of the Chair and Vice-Chair

Bill Hartman: I would like to nominate John Restrepo to be chair of the Economic Forum.

Mike Alastuey: Second.

Chairman: Any discussion? All in favor? All opposed? Thank you. Nominations for vice chair.

Linda Rosenthal: I nominate Mike Alastuey to be nominated as vice chair.

Bill Hartman: I will second that.

Chairman: Any discussion? All those in favor? All opposed? Motion approved. Item number 4 is the Presentation of the State Employment and Unemployment Outlook from Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation.

IV: Presentation of the State Employment and Unemployment Outlook

Bill Anderson: Good morning Mr. Chairman, members of the Economic Forum. For the record my name is Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation. I have been asked by staff to provide a very brief and concise economic overview. Typically in these types of settings I would talk about such things as population growth, housing, taxable sales, and gaming win, but you are going to be hearing a lot about that type of information as the day unfolds. I will be keeping my remarks solely on the labor market this morning in order to make the best use of your time. Looking at my presentation I think that there are essentially two main themes to the points that I will be bringing up this morning. Number one and perhaps most importantly we are really in unprecedented times here in Nevada. We have simply never gone through anything economic wise like we are going through right now. The second major theme to what I will be talking about is that when the recovery does unfold it will likely be relatively slow and relatively choppy. We are going to have some months of good news and some months of bad news. I am going to go off script a little bit here that leads me into a discussion of our December labor market report which we released to the media just this morning. What we found in Nevada for the state as a whole is that the jobless rate rose from about 12.3% in November up to 13% in the month of December. Now what had happened in previous months beginning last fall is our unemployment rates starting trending down a little bit. Actually we peaked out at about 13.3% and then for a couple months we saw that unemployment rate decline and we actually settled in at 12.3% in November. As we cautioned in our analysis of the numbers, the decline really wasn't for a good reason. Employment opportunities weren't expanding, the labor market wasn't improving but what was happening is that folks were dropping out of the labor force. Had they remained in the labor force, most likely they would have been counted amongst the unemployed. Folks drop out of the labor force either because they move away, or my guess is, more likely, they became discouraged. They didn't see many job opportunities out there for them and they gave up their search for work and dropped out of the labor force. Specifically for December our job readings for the month came in about 80,000 below where they were just a year ago, in December of 2008. Construction remains a problem, year over year job readings were down by about 30,000. In the leisure and hospitality sector job levels were down by about 23,000. Again what I think this December report suggests to us is that the recovery once it does take hold is going to be very choppy. As I said, we are going to have some good months and some bad months. With that brief update let me go ahead and proceed. As I said, this recession is different. We've never seen anything like this. It was only about four or five years ago when one of the main debates was whether or not the state was recession proof and there was a large camp of folks who thought that we were. This recession has proved otherwise. In the past during recessions our employment readings have essentially just flattened out during times of recession. This time around our employment levels have essentially nosed dived which is something that we are simply not used to here in Nevada. Essentially we dropped about 120,000 jobs since the recession officially started in December of 2007. If you look at the three previous recessions, our job levels essentially held steady plus or minus roughly 5 or 10,000 jobs during those previous three recessions. Now to put this in perspective, about 400,000 jobs were created in the ten year period ending in 2007. Likewise, the unemployment rate has increased to record levels. Prior to this recession our highest ever unemployment rate reading was 10.7% back in the early 1980's. Right now with the release of today's numbers were looking at about an 11.8% unemployment rate for all of 2009, the 11.7% on the slide was through November but we can update that with the December numbers. Just as job losses have far out paced previous recessions, unemployment has increased much faster than it has in previous downturns. Specifically we are up about 7 to 8 percentage points relative to where we were at the beginning of this recession. You look back at previous recessions; again we didn't see anything near this kind of an increase in the unemployment rate. Nevada's been hit relatively hard by this recession. In its simplest form I would like to say that there are three forces driving what's happening, none of them will surprise you. Number one and the first sign of problems revolved around weakness in residential real estate and construction. We began seeing signs of that back in early and mid 2006. Somewhat related to that, the second driving force, problems in the credit markets both nationally and globally which has essentially brought commercial development almost to a holt here in Nevada and elsewhere. The third driving force is weak consumer discretionary spending. When you think about these three things, residential construction, commercial development, and discretionary spending, they hit at the core of Nevada's economy. As a result, we have suffered greatly in a relative sense during this recession. It's really not that much different than a recession that has impacted durable goods manufacturing and the auto industry, which obviously hits states like Michigan, Ohio and Indiana. This recession has hit states like Nevada, Arizona, the Southeastern United States, the Carolinas, Florida, Georgia, to an extent that we and they haven't seen in the past. Just to kind of put that into some perspective, we all know that Nevada was one of the fastest growing states economic wise for several years running. As this recession has unfolded our jobless rate has jumped so much that we now have the second highest rate in the nation as of December, Michigan being the only state with a higher rate. Again, we have really been hit hard this recession. Our job losses of about 6% year over year in 2009 was almost double the rate of job loss in the nation as a whole. All sectors of the economy have been impacted by this downturn; it has been very broad based. Leisure and hospitalities lost about 30,000 jobs, professional and business services about 15,000, trade, transportation and utilities about 8,000 jobs over the course of roughly the last two years. What's really interesting, and I think again it adds some good perspective, construction arguably drove our boom times just a few years ago, we created about 50,000 new construction jobs from 1997 to 2007, we've lost about 50,000 of those jobs in the last two years. I think that really drives home what has happened here in Nevada. Just to give you a feel numerically for what's been going on, the recession as it unfolded in 2009 impacted just about every sector of the state's economy. If you want to look for one sign of relative strength, and even there conditions have slowed considerably, you can look at the education and health services sector. They have held up relatively well, but even there growth is done somewhat. If you want to look at one region of the state that has performed relatively well it's the state's rural counties, especially those heavily dependent upon mining. They have held up relatively well, much more so than the metropolitan areas of the state. I know the chairman is very interested in our unemployment claims activity and I know Mr. Restrepo that you use this information every month in your analysis so I thought I would give you a feel for what is taking place with respect to unemployment insurance claims. What we are seeing right now is that the level of activity is starting to top out. If you look at our initial claims readings for the end of this year they are pretty similar, in fact down slightly, from where they were at the end of last year. Just to put that in perspective, you look back to January of this year and our unemployment insurance claims activity at least with respect to initial claims was up some 14 or 15,000 on a year over year basis. We are seeing some moderation with respect to unemployment insurance activity. This is more or less just an informational slide, but you gives you the level of total claims activity in our state. That red line shows total unemployment, not everybody that gets counted as unemployed actually receives unemployment insurance benefits. That dark blue area at the bottom is our regular state unemployment insurance program, the 26 week program. The gray and turquoise sections represent different extension programs, some of which were included in the stimulus package that extends the length of time that folks can receive unemployment insurance benefits. As of right now, the maximum time period to receive unemployment insurance benefits is up to ninety-nine weeks when you take into account the state's base program as well as the various extensions that have come forth. Now with respect to the outlook, not surprisingly, it is weak. I think that is pretty consistent with my opening remarks. We are not going to see a very strong recovery once it does begin unfolding in Nevada. Specifically we are looking this year for our unemployment losses to more or less peak at about 9.5%. We are going to see job losses equate to about 9.5% in 2009 and then gradually lesson as the recovery does try to pick up some speed over the course of the next couple of years. Now I hate to get real technical and I will try to do this in just a half of a minute or so, but I want to put these numbers in perspective. Earlier you might have seen that I said that our job losses were about 6% on a year over year basis. We deal with two sets of employment numbers. Number one we call current employment statistic numbers, those are the numbers that we release every month and they are showing job losses at about 6.5% on a year over year basis. We generate those numbers via survey, there are a couple of other factors that go into that estimate, but it is a very timely number as I said. We are in mid January and we are just now releasing December numbers. The real employment number results from our quarterly census of our wage records, our unemployment insurance wage records. We go in every quarter and we literally count every person that's employed whose part of the unemployment insurance system. It is a complete 100% census, whereas the previous data that we talked about is a monthly estimate. The problem is it's not very timely. We're just now wrapping up our third quarter from last year, our third quarter overview of what we call the quarterly census of employment and wages. That is real actual employment; it is based on a census count. That is probably the best employment indicator that you folks can deal with. I wanted our employment forecast to reflect that. We're talking about what we call covered employment, the employment covered by the unemployment insurance system. Again, we are looking at about a 9.5% decline in 2009 and indeed that is exactly the rate of decline that we've seen through the first three quarters of the year.

With respect to a couple of the major sectors that might be of interest to you, accommodation and food services, where we find leisure and hospitality, that peaked at about 310,000. It has been declining ever since. We look for it to bottom out and then gradually increase right around 275,000 or so over the course of the next couple of years. With respect to construction, that's where the big decline has come in; we peaked at about 150,000 construction jobs just a few short years ago, we think that's going to bottom out at about 50,000 right around 2011. Just to wrap things up with a quick summary, I think what we're seeing emerge here in Nevada, again once the recovery takes hold, is an economy that will not repeat the boom like conditions that we saw just a few short years ago. I doubt very much in my lifetime that we are ever going to see consistent job gains over the course of several years that average 6% year over year like we did over this decade. We are not going to see Nevada lead the nation for essentially twenty consecutive years in terms of population growth. I think what is going to emerge is an economy that is going to grow at a much more modest or moderate pace, but on the flipside, arguably a little more sustainable. Perhaps in this new economy we are not going to see the booms and like we're seeing right now the bus that we have seen in the past. That concludes my remarks and I would be happy to answer any questions that you might have.

Chairman: Questions anyone? Mike.

Mike Alastuey: Yes, Bill in your most recent report of the month, the one that you just cited this morning that the Administration released today, how many jobs were lost just in one month?

Bill Anderson: About 12,500 from November to December. Just to give you one other indicator of current conditions, a lot of folks are interested in holiday employment hiring trends in the retail sector as a good barometer of the economy. Typically from October to December we see an increase in retail employment of about 6,000 jobs. This time around it was about half that. Again, I think a pretty good reflection of what is going on in the economy.

Chairman: Anyone else? Matt.

Matt Maddox: I am just trying to understand the forecast for the unemployment outlook is weak where you have continued job declines. The 9.5% does that represent the 120,000 jobs that have been lost?

Bill Anderson: We're dealing with again, two different measures of employment. For most of my presentation we were dealing with our monthly survey of employers where we have numbers just a couple of weeks after the end of the month. This is dealing with a complete census count.

Matt Maddox: How many jobs were lost, what percentage does that represent?

Bill Anderson: Were looking in 2009 at a loss of about 118,000 and about 65,000 jobs lost in 2010.

Matt Maddox: So roughly half of the jobs created of the 400,000 jobs created over the last ten years, you are predicting that we are going to loose over the next two.

Bill Anderson: Right.

Chairman: Bill a quick question on the unemployment rate issue, when you factor in the U6, the discouraged workers, and the forced part-time where does that put the state?

Bill Anderson: We look at that on an annual basis and what Mr. Restrepo is referring to, we have this official unemployment rate but it doesn't capture everybody. It doesn't capture the folks that have dropped out of the labor force because they become discouraged, it doesn't capture folks who are working part-time but who would rather be working full time. When you broaden that definition of unemployment you've got a higher unemployment rate. We looked at that issue for calendar year 2008 and we found that the unemployment rate, had we broaden that definition of unemployment; we would probably be about 75% higher then the official rate. So, if you had a 10% rate, probably the broader measure is about 17.5%. The data are a little bit more reliable at the national level and right now they are estimating that U6 unemployment rate in the high double digits, pretty much approaching 20%. That is a much broader measure of unemployment than the official rate.

Chairman: A couple of follow up questions. On the unemployment claims there has been an improvement it looks like, can we tell if this is improvement in terms of an actual improvement or less being eligible because they have been unemployed for so long that they are not qualifying anymore, does that come into those numbers?

Bill Anderson: These numbers are looking at year over year so it discounts seasonality and a couple of other things. It is showing a slight improvement, but again, we're still at record high levels of unemployment insurance activity. It is topped out.

Matt Maddox: I just want to make sure that I understand the trend. You said that in December, the jobs lost are around 12,500?

Bill Anderson: From November to December.

Matt Maddox: From November to December. And we're forecasting around 60,000 jobs for next year which is around 5,000 a month? That seems like a radical growth actually. If we are loosing 12,500 this month, why are we only going to loose 5,000 a month starting next month?

Bill Anderson: We are comparing month to month and year over year change so we need to differentiate that. But there are some seasonal patterns involved. In some months you are going to get higher increases, or more pronounced increases or declines then you would get in other months.

Matt Maddox: How is the year over year then?

Bill Anderson: We lost about 80,000 jobs December to December versus 12,500 November to December.

Matt Maddox: Thank you.

Bill Anderson: Just to avoid any confusion as you move along with your deliberations, keep in mind that I presented these numbers on a calendar year basis, staff has access to our quarterly numbers and they can make those conversions into fiscal years as well.

Linda Rosenthal: I have a question on the slide the employment outlook is weak as well. On the forecasted numbers, the light blue, what are the main assumptions underlying that change?

Bill Anderson: We take into account just about everything we can get our hands on. Obviously a main driving force is megaresort related construction and the pipeline there is empty so that's reflected in this forecast. Another major driver is the national economy. Obviously what we've learned is that we're very dependent upon national and indeed the global economy. Nationally there has been talk about a jobless recovery, that will certainly impact Nevada as folks continue to rain in there discretionary spending. So we factor in a lot of macroeconomic, broader economic measures as well as Nevada specific information. Again, one of the main drivers in our outlook because it was the main driver of our downturn is construction activity.

Chairman: Bill, just a few more questions from me and then I will be done. On the narrowing of persons covered by unemployment and the persons not covered, do you know what that percentage is at this point?

Bill Anderson: Typically we see roughly 40% or so, that is increased now to roughly 70% and that is due to all these various extensions.

Chairman: And that's covered?

Bill Anderson: Right.

Chairman: In your December 17 press release you made an interesting statement on the recalibrations of the numbers in March and the employment numbers being worse once you do the calibrations. Could you address that issue for us?

Bill Anderson: That relates to that technical note that I brought up at the beginning of this slide. We have our monthly survey that's very timely, we get those numbers just ten days, two weeks after the end of the month, and then we have our complete count. We saw as the year progressed that those two employment measures have started to diverge. So what we're talking about is we declined about 6% year over year on our survey based employment number, with respect to our census we're down about 9.5%, so that's that divergence.

Chairman: So what your saying is when you do it in March you will be calibrating the year end numbers.

Bill Anderson: Right.

Chairman: That's all I wanted to clarify. One final question, have we seen any improvements on the weekly hours worked on the state level from the Census Bureau?

Bill Anderson: No; that has been pretty much stable. One thing we are keeping an eye on at this time is temporary employment since that's always a pretty early indicator of what's taking place. We see some positive signs there, but it's one step forward and then you take a step back.

Chairman: Thank you. Anyone else? Thank you for your time Bill. Next is Item 5, Presentation on the State Population Outlook, Jeff Hardcastle State Demographer.

V: Presentation on the State Population Outlook

Jeff Hardcastle: Thank you Mr. Chairman, Jeff Hardcastle Nevada State Demographer. Right now I just want to touch on process with the projections and estimates because as state demographer I have produced population estimates as well as the projections and I am still finishing up the estimates at this time and then moving into a phase to do more rigorous population projections. The current estimate in Nevada's population 2,711,000 that is a drop off of 1% from last year part of that for the 07-08 period we had seen a growth of about 1% and from 06-07 when we had the construction bust start happening we grew about 3.6%. A couple weeks back in late December there was the story about the Census Bureau estimates which report net migration. Two other takeaways from that story that didn't get well reported in the press were that we did have international migration and we did have net natural increase. There are always two estimates out there that show different stories about our population growth in change. That kind of frames this discussion about our population trends because population growth is based on natural increase as well as migration. As I go forward doing the projections I do use what is called the REMI model. It is being used by the Southern Nevada jurisdictions, I for the past ten years, and it is used nationally across the country by other state governments, and local governments. It is a general equilibrium model that relates local economies, in this case all seventeen counties in Nevada, to each other and to the nation as a whole. REMI, as they have been preparing their last version of the model, has history through 2007 for economic history as well as demographic information. Due to a forecast of national JDP in this last version, was much more pessimistic than previous renditions and that impacts some of the modeling that comes out of it at this time. As I do my projections over the next couple of months I will also be getting information from local governments about activity locally in the counties. I will also be reviewing other projection sources, Moody's as well as Woods and Poole just to see if they are seeing things that I'm not and vice versa. Prior to 2007 the Southern Nevada jurisdictions were making, for lack of a better term, 'build it and they will come'. We tended to assume that even though we continue to build hotels there would never be a drop off in that market, we would not be seeing the economic conditions that we are now seeing. Population growth in Nevada has been historically under projected this goes back into the 1980's. So while the people were looking at trying to be conservative, it was often downplayed and rejected as not reflecting the reality that we were then seeing at that time. Also the projections that were optimistic at that time benefited from an economic climb in the 1990's. A new assumption that I am making that may be just as wrong is that the general equilibrium nature of the REMI model may be saying something that we need to listen to. As Bill was alluding to earlier, we don't know how much job growth there will be nationally. In the 1980's there was recessions around the country but it was basically bouncing between the two coasts. So people that were unemployed in Michigan can move to Las Vegas, or they can move to Colorado when the energy boom was there, people can move to the coast. So you have this ability of people being much more responsive and move, but right now with the current economic situation even though Nevada has one of the highest unemployment rates, nationally there is not a very good employment situation. That may be drag on out migration as we look forward. If you look at and this is something we have done in Southern Nevada is look at hotel room growth. The dark solid line is the REMI model coming straight out of the box, and again this reflects the economic history and trends from 2007 and some very pessimistic assumptions on GDP. If you look at updated employment in the model from 2008 and 2009, it is the lower line that reflects the upper line. If you then add in the new hotel rooms that the Las Vegas Convention Visitors Authority has in their construction bulletin, we are basically putting in a bubble into the system. So we are building in more capacity into the system that may be absorbed in the current economic climate. That in turn drives near term job gross changes in the model and also some demographic of migration assumptions in the model for drawing people into Nevada. If you look at the model in going forward, it is way too optimistic for population growth but if you look at the history of migration that may be dropping it. So I looked at the ratio of jobs to population for 2000 through 2009. You will notice that for 2009 that number is much higher than that average. We have had a fairly low ratio of population to jobs, from 2000 through 2009 about 1.6, but in 2009 that jumps to 1.74 and that may be reflecting the unemployment situation. In going forward, by 2015 the model ends up showing roughly a ratio of 2 people for every job in the state. That is a very high dependency ratio; it may not be viable as a real assumption to make going forward. So in trying to at least ball park some projections to give to you today for information I looked at keeping that 1.6 ratio and then just looking at just the 2009 ratio and it comes up with two very different scenarios. If you look at the 1.6 ratio by 2015 we are looking at a loss of population overall. There may be some ups and downs but we are looking at in 2015 a loss of population by about 100,000. If you look at the higher ratio 1.74 statewide we are looking at a gain in population of about 110,000 – 116,000. So at this point I don't really have a firm answer to give you for where things are going to go. It depends a lot on the national economy for how mobile people can get either with their own resources or for job opportunities elsewhere if our employment situation stays as bad as it's been, or if it continues to deteriorate. It also depends on again, if people don't have resources or don't have the ability to move they may end up staying here and keep that ratio to population of employment fairly high. That also has implications then for services to be provided. I broke that chart down by Clark County, Washoe County, and that story pretty much parallels throughout the state and even with the rural counties. The balance of state includes Carson City, Douglas County, this part of the northwestern part of the state, but also the mining counties. While mining as an industry has held up fairly well and they are really the four counties that held up with population estimates, their growth has slowed down substantially with population this past year. In the last table I included for your handout, was just distributing that population by some tables I created from the last time I did population projections just to show the potential service level demands and this breaks out by school age populations, seniors and the five year group. With that I will be happy to take any questions.

Chairman: Any questions? Matt.

Matt Maddox: Can you help me put this into context with other states or the nation in terms of ratio, population per job? Should we be happy with 1.6 or 2.0? What are other states experiencing?

Jeff Hardcastle: I did not get an opportunity to look at that fully.

Matt Maddox: I was just wondering if it is high or low.

Jeff Hardcastle: I did talk to REMI's staff about the model itself and what I was seeing and their take on it was that it was a little bit high. I think that just looking back from articles that higher ratio is obviously getting more exaggerated, that's why I am very concerned with that not necessarily reflecting reality. Again, this is being used a little too much, but we are in uncharted waters right now. We really don't know how soon things will balance back out, we don't know about economic opportunities elsewhere. We may be looking at a situation where again it's reflecting the drop off in jobs and the unsteadiness in the job market.

Chairman: Anyone else? Bill.

Bill Hartman: Jeff, I am trying to understand the significance of this, let me ask you if this is what you're saying. If the significant engine of this state's economy in the past has been based upon population growth, you're saying that all the way through 2015 you're seeing that engine turned off.

Jeff Hardcastle: The underlying driver of our economy has been really the gaming industry with the job creation there and in turn, the creation of households and more people moving in. That is the direct driver. The indirect driver is going to be that population growth because all of that has spun the construction trades, which then in turn create households and in turn create the retail sales figures and so on. So, we're tied to population growth but we are also tied to that gaming/construction sector. With those two parts turned off then we are relying now on household growth through natural increase of population. Does that help?

Bill Hartman: Yes, thank you.

Chairman: Anyone else? Just one quick question, it appears that you are saying our school age population 16-18 that we are seeing a drop off over time?

Jeff Hardcastle: Potentially.

Chairman: And that is at the 1.61 ratio?

Jeff Hardcastle: Yes, that is using an average of those two estimates, the 1.6 and the higher one. If you look at the burst of this past year 40,000 that's equal to the 1st grade classes all across Nevada. So even if those people do stay there will still be that same level of service needed.

Chairman: Thank you. Final question, on the 1.74 ratio column, it looks like in 2013 after a period of growth we drop, what is happening there?

Jeff Hardcastle: It is primarily the drop of the hotel rooms in the model because the model links the other economies as well as other industrial sectors. So, the underlying economic linkages from historical linkages has been that as there is hotel room growth there is other linkages which boost up that job base across the state.

Chairman: It looks like the model instead of just stabilizing 2012 when the next wave of hotel construction ends, just goes down instead of staying level.

Jeff Hardcastle: Right. It goes back to the historic levels. Like I said, before when the model would drop we would assume that the model was wrong to drop it and we would keep that at the casino levels and I doubt that that is a safe assumption.

Chairman: Any other questions from anyone? Mike.

Mike Alastuey: Just a comment and then maybe to ask a response from Mr. Hardcastle if he has one. Seems to me as if there is a mixture here of both indicators of future service demand and indicators of population driven revenue base. So, under one set of assumptions that base declines slightly, under another set of assumptions it increases slightly. You essentially saying that population, for the near term anyway, are off the table as far as a revenue driver?

Jeff Hardcastle: I think that it is potentially off the table right now as a revenue driver. At best I think we are looking at a fairly flat growth to what we are used to. If you look forward, we are not going to have the levels of growth that we have had before. One thing that we haven't thought through enough is if you live in Clark County, it used to be a 2 to 1 ratio, for every 2 people that moved in 1 moved out. If you had a net migration of 50,000 in one year your total gross migration was 100,000 so you had about an extra capacity at 5% potentially. As that migration rate has gone down, that extra capacity has gone down.

Chairman: Thank you Mike. Anyone else? Thank you Jeff. Next is Item 6, Presentation of Tax Changes Approved by the 2009 Legislature During the 2009 Session, Russell Guindon.

VI. Presentation of Tax Changes Approved by the 2009 Legislature During the 2009 Session

Russell Guindon: Good morning member of the Economic Forum. For the record I am Russell Guindon, Senior Deputy Fiscal Analyst with the Fiscal Analysis Division of the Nevada Legislative Counsel Bureau. We are responsible for providing non-partisan staff to the Assembly and the Senate, Democrats and Republicans. As you know, under the law the Economic Forum is required to produce an official forecast on or before December 1 in even numbered years, and that is the forecast used by the Governor to produce the Executive Budget which is then presented to the Legislature in January. If the Governor would like to have a budget that exceeds those revenues he has to have the proposed revenue enhancements in the Executive Budget. By law, on or before May 1 the Economic Forum may produce a revised forecast. That revised forecast is then used by the legislature to produce what is called the Legislatively Approved Budget. We have to have a balanced budget in terms of expenditures and revenues, so if they want to approve a budget that exceeds the May forecast, the Legislature has to adopt and approve revenue enhancements that fund the Legislatively Approved Expenditure Program. What we try to do is build a sheet after the end of each session that takes account of all the revenue enhancements that were approved through legislative actions. Well since that was an enhancement that was approved we needed to back that out of your forecast to show it as a revenue enhancement. You should have green sheets and yellow sheets before you. The green sheet is the Economic Forums' May 1 forecast that was adjusted for legislative actions. Your actual May 1 forecast before any legislative adjustments included the room tax, but if you look at the yellow sheet you can see that we are going to go through some adjustments. You can see the Economic Forums' May 1 forecast without measures approved by the 2009 Legislature on the yellow sheet. For FY 2009 it is approximately 2.7 to 2.8 billion, in FY 2010 it is 2.615 billion, 2.668 billion in FY 2011, thus this would have been the Economic Forums' May 1 forecast before any measures that were approved during the 2009 Legislative Session. During this forecast, the I.P. 1 was law, so the room tax amount 104.7 million in FY 2010, 115 million in FY 2011, you add that to the number above and that was really your Economic Forums' May 1 forecast. I.P. 1 would allow an increase in the room tax up to 3%, but you could not exceed 13%. In Clark County this meant that all of the areas, with the exception of portions of the downtown area, you could impose the full 3%. In the Las Vegas downtown area there were portions that could only pick up 2% of the 3%. In Washoe County you can't pick any of the 3% up in the Sparks and the Reno downtown areas and you can pick up the 1% in the Washoe County unincorporated area and what is known as the Reno non-downtown area. When we get into the room tax today you will see that this becomes an important piece of the discussion with regards to the amount of money that is going to be projected to come from Clark County versus the amount of money that is projected to come from Washoe County due to the provisions of I.P.1 as circulated and then approved during the session. The next thing I am going to discuss with you is the Business License Fee. The Business License Fee was the $100 fee that was first approved in the 2003 session. In the 2009 the fee was increased to $200. The law change was effective July 1, and along with the increase there was a law change to move this fee from the Department of Taxation to the Secretary of State's Office which was effective October 1. The Secretary of State's Office is working on developing a business portal based on legislation that was approved, so they are using this fee as the first revenue to work on the business portal. The other revenue change that was part of that statutory package was to change the laws so we picked up all of the Title VII entities. Under the law, Title VII has all of the chapters that cover entities that are required to file with the Secretary of State's Office, such as corporations, limited liability companies, limited liability partnerships and so on. So now when you file with the Secretary of State's Office, whether you are doing business in Nevada or not, you have to pay the $200. Before, if you weren't going to be in the state doing business you weren't paying the Business License Fee. That is part of the revenue enhancements that is in the estimates. The next revenue enhancement that was approved at the 2009 session is the Governmental Services Tax. This is known as your vehicle registration fees. The enhancement was to change the depreciation schedule by adding 10% to each of depreciation factors that are in law. The effect is to add more value to your vehicle at each of age except for a new vehicle and that increment is deposited into the general fund. It is deposited for the current fiscal year and the next three fiscal years and then there after the money from that will go to the state highway fund. The next change that you will be considering and hearing discussion on this morning is the modified business tax on non-financial institutions. This is a tax that was original put in place in the 2003 session when the initial rate was 0.7%. The tax base for this defines taxable wages, which is the gross wages paid by an employer to their employees and less allowable health care expenses. The initial rate again was at 0.7% in FY 2004 and then it went down to 0.65% and then it was lowered to 0.63% and it was at 0.63% up until July 1 of calendar year 2009. The law change that was approved during the 2009 session was splitting the tax so it is now a two tiered tax. Now, the taxable wages per quarter up the $62,500 per quarter are taxed at 0.5% and any taxable wages per quarter that exceeds $62,500 are taxed at 1.17%. You can see the estimate that was produced by our office that those law changes effective July 1 would generate approximately 173.3 million in FY 2010 and basically about 172.4 million in FY 2011. This increment was computed based on information that we had from the Department of Taxation from FY 2008. We went in and tried to calibrate if you made the statutory change, what would be the factor in terms of how much more revenue would be generated. Then we took that factor and applied it to the Economic Forums' May 1, 2009 forecast at the 0.63% rate. You can see that this tax change is actually scheduled to sunset effective June 30, 2011, so it is only in place for the current biennium. The next one is the Sales and Use Tax and it is labeled to general fund commissions. Under the law, there is a collection allowance that is granted to the tax payer for the sales tax when they collect the tax on their sales and remit that tax to the Department of Taxation. They are allowed to retain a percentage as a collection allowance for being the state's collection agent. That rate was lowered from 0.5% to 0.25%. This was an act taken during the special session that occurred in December 2008, but the legislature extended those provisions and they will be effective July 1, 2009 and there is no sunset provision on that change. The other change that is reflected is the General Fund commission that is retained by the Department of Taxation. You can see these listed on the green sheet under the sales tax: State Share LSST, State Share BCCRT, State Share SCCRT, and State Share PTT. As you know the sales tax rate of the State of Nevada is actually composed of the state 2% rate which goes into the state general fund. There is also a 2.25% rate which is known as the local school support tax rate; this goes to fund K-12 education. It doesn't go into the general fund but most of you should be aware that the act approved by the legislature was to increase the LSST from 2.25% to increase it by 0.35% to 2.6%. Then there is the supplemental city relief taxes which is 1.75% and the basic city county relief which is 0.5%. Prior to the act of increasing the LSST the combined statewide rate was 6.5%. Obviously it could be higher than that across the counties because there are also local option rates which are either authorized in statute or through a special local act. Now, the statewide rate is the 6.5% plus the 0.35% so it is 6.85%. Again, this rate can be higher depending on the local rate. For example, in Clark County the combined total rate is 8.1%. The Department of Taxation then keeps this commission which is deposited in the state general fund. The commission was 0.75% and it was raised by 1% to 1.75% for all rates except for the Local School Support Tax. The General Fund gets an additional 1% commission off of the basic city/county relief tax, the supplemental city/county relief tax and the local option tax. Obviously, the state 2% picks up more from the taxpayer collections. It is estimated to generate between 16 - 17 million dollars for each of the years in the biennium. I am going to lump the next three changes all together that are listed for the cigarette tax, the liquor tax and the other tobacco tax because there is also tax payer collection allowances on each of these. It was 0.5% but has now been lowered by 0.25% to 0.25%, thus if you are lowering how much that can be retained by the taxpayer, that increases the amount that comes back to the state through the tax dollars. The taxpayer collection allowance of general fund commissions do not have a sunset on them. The next is an item in regards to the Secretary of State's fees. There will be discussion on this when you come to the Secretary of State's Commercial Recording's item. It was an act that required the Secretary of State's Office to provide expedited services for filing with their office as a business entity. They do charge higher fees for those expedited services and there was a split between the Secretary of State and the General Fund with regards to that. It will be effective July 1, 2009 where all of the expedited service fees will be placed in the General Fund. The next one under Fees and Fines is the Short-Term Car Lease; it was effective October, 1. The General Fund rate is 6% and there is a 4% rate that can be imposed by the short-term car rental companies, of which 1% of that 4% is transferred to the State Highway Fund for transportation projects and they could keep 3% to try and cover their cost of licensing and vehicle registration fees. The statutory change that was made was that the rate stays at 10%, but now it is 9% rate that goes into the state's General Fund and then 1% goes into the State Highway Fund. It was only in place for three quarters and our estimate was 9.9 million in FY 2010 and about 13.6 million in FY 2011. With that Mr. Chairman, I can go through the rest of these but they are more one time actions that were approved as revenue enhancements to generate additional revenue for the General Fund for FY 2010 and '11, but they are either on time allocations or have sunset dates on them. On the last page you can see that the total General Fund revenue enhancements for FY 2010 were approximately 501.9 million and 517.7 million in FY 2011. The Fiscal Analysis Division calibrated the enhancements against your May 1 revenue forecast. With that, I can answer any questions.

Chairman: Questions anyone? Does anyone want to hear about the larger revenues? Thank you Russ, continue.

Russell Guindon: Agenda item 7 is a Report and Discussion of FY 2009 Actual Collections Compared to the Forecast Approved by the Economic Forum at Their May 1, 2009, Meeting. You have a blue sheet before you that relates to this item.

VII: Report and Discussion of FY 2009 Actual Collections Compared to the Forecast Approved by the Economic Forum at Their May 1, 2009, Meeting.

Linda Rosenthal: The FY '10 forecast in this blue sheet looks like it is inclusive of the legislative changes so it's not pure growth year over year, you would have to make the adjustments for the legislative changes that you just went through right?

Russell Guindon: If your intent was to get back to the original May 1 forecast yes. You would have to go take the legislative adjustment out, but since the legislative adjustments were, in a sense the revised Economic Forums' forecast which produced the legislatively approved budget, then those are the official estimates that we now use for all growth rate and calculations.

Linda Rosenthal: My questions are more on the basis that fiscal year '09 did not have the additional taxes in them and '10 does, correct?

Russell Guindon: That is correct.

Linda Rosenthal: So the comparison is with additional revenue sources?

Russell Guindon: That is correct, so the percent change from FY 2009 forecast would be the FY 2010 forecast with legislative adjustments compared to your economic forum May 1, 2009 forecast which would not have legislative adjustments to it.

Matt Maddox: Just so I understand, basically their forecast was down 5% and then with the legislative adjustments it actually up 13%.

Russell Guindon: That is correct. Actually to give you the proper reference point, if you put the room tax, since the room tax was part of the economic forum's forecast then their forecasted growth rates before legislative adjustments was -9.9% for FY 2009, -1.2% for FY 2010 and 2.4% for FY 2011. So you are absolutely right, you go to the bottom of the yellow sheet or the bottom of the green sheet to get the growth rates with the legislative adjustments. So again, just to hit some of the highlights that the Economic Forum will be considering today with regards to how '09 ended up. A lot of these revenue sources we now know eight to nine months or two quarters worth of the actual collections. When you are doing the FY 2009 forecast we refer to that as your base year forecast and then FY 2010 is your one year out forecast and FY 2011 is the two year out forecast. When we look at the FY 2009 we generally expect and hope to see relatively small forecast errors because you are really only forecasting the last one or two quarters of each of these revenue sources because you know the first three quarters of these revenue sources is actual collections. Given that, you can see that net proceeds came in approximately 2.3 billion dollars higher than forecast for FY 2009. Just for clarification, for Mr. Maddox, when you look at the FY 2009 forecast and the FY 2009 actual and then you compare this to the FY 2008 actual, you can see that it was basically forecasted more than double and this was based on a legislative change approved during the special legislative session that occurred in December of 2008 that in a sense put two years of payments in FY 2009 as a revenue enhancement. Then you can see for the Sales and Use Tax that GL 3001 that is the state 2% rate. This is a revenue source that you are considering today. Even though we knew the actuals for seven months of the fiscal year, this body approved the forecast of approximately 855.9 million you can see that it came in at 842.4 so we missed by about 13.6 million or -1.6% just over the last five months. You originally projected that it would decline 6.4% in FY 2010, but because FY 2009 actually came in lower than expected you now have to decline less to get to your FY 2010 forecast. The projected growth that was necessary to get to your FY 2010 estimate based on the FY 2009 actual is actually -4.9% versus the originally projected -6.4% which was based on comparing the FY 2010 forecast to the FY 2009 forecast. Going down to GL 3041, percent fees – gross revenue, this is another tax that this body will be considering. Again, I think we knew everything but the last three months of FY 2009 as we were preparing this forecast and we missed the forecast by approximately 7.8 million dollars or -1.2%. The original projection was for 3.4% growth but now that the actual came in lower you need to grow faster to be able to get back to your forecast. So you went from needing 3.4% growth to needing 4.7% growth once the actual came in below the FY 2009 forecast. The Live Entertainment Tax on Gaming, GL 3031G, you can see that we missed by about 3.6 million, I think at that time we knew everything but the last four months when the FY 2009 forecast was being prepared. Again, I won't go through it as you can see what happens to the growth rates for FY 2010. The Insurance Premium Tax, this is another one that you will be considering today. This is one of the few that came in above forecast. It came in 3.8 million dollars above forecast. So this is one that you can decline more and still reach the forecast for FY 2010 because FY 2009 came in above what you expected. The next two that I will cover that this body will be considering today is the Modified Business Tax on both non-financial and financial. For non-financial in FY 2009 remember there was know tax change there it was the 0.63% rate, we missed by about 11.1 million or 4.4%. We also missed in FY '09 the Modified Business Tax on financial which came in above forecast by about 4.2 million. The next one that this body will be considering today is the cigarette tax you can see that that forecast came in at approximately 2.2 million dollars below forecast. GL 3055 is the Real Property Transfer Tax that is another tax that this body will be considering today and it came in very close to forecast. In looking at this we know that there has been quite a bit of volatility and there was quite a bit of discussion at the main meeting in trying to figure out the forecast for this tax and that is one of the one's that I had concerns about and it's the one we got the closest to. I guess that is just judicial evidence that it really is sort of a difficult time to try and make a living as a forecaster. That is all of the major ones that this body will be considering. On the third page titled "Licenses" under the description, I would just like to cover the Secretary of State Commercial Recording because this body will also be considering that today. We are looking at GL 3106 Las Vegas Commercial Filings, and GL 3130 Commercial Recordings those are what they process through their Carson City office, under the state's accounting system the revenues are recorded are those separate GL's but this body actually forecasts them together. That is why you see in the FY 2009 forecast the amount of 71 million. So the forecast that was missed by $140,000 you have to go to the FY 2009 actual and add the 3106 and the 3130. Here you can also get an idea of the licenses relative to the taxes. Looking at fees and fines, the only one I want to spend time on is the Short-Term Car Rental. That one we actually got close to. Also, it was this miscellaneous category 3271 that is the GL agencies use for miscellaneous revenues. There was a revenue item that came in above, and that's where the majority of the actual coming in above forecast was. There we actually came in about 1.5 million dollars to the plus for fees and fines. Finally, in turning to the last page, I won't spend any time on the use of money and property and on the other revenue. As you know, most of the revenues on these four pages that we have gone over you direct to a Technical Advisory Committee, which is a statutory body that sits there to serve and support the Economic Forum. By statute it is composed of seven people. You direct that body to produce a consensus forecast for most of these small revenue sources and then that is brought forward for your consideration at each meeting. I do want to go over total other revenue, GL 3255 is just above total other revenue and that's unclaimed property, this is the Unclaimed Property Program that's administered by the State Treasurer and you can see that it came in about 4.3 million dollars above forecast. You can see that the net effect of Unclaimed Property here and the other few that came in above. With that Mr. Chairman, I think I have made my point in regards to the '09 actuals compared to the forecast.

Chairman: Thank you Russ. Any questions from anyone in the committee? No questions, let's move on to item 8, The Report on Forecast Accuracy by Forecaster for Selected Revenues, Russ.

VIII: Report on Forecast Accuracy by Forecaster for Selected Revenues

Russell Guindon: Thank you, this is something that is historically done at the fall meetings but since we are having this meeting and staff has had a chance to update it we thought that we would provide it here. This is actually a report that is prepared by our office. We go all the way back to when the Economic Forum first started their cycle in the fall of 1994. They have been producing forecasts in the fall of even numbered years and the spring of the odd numbered years during session. As you can see we went in and compared the FY 2009 actual with your May 1 2009 forecast. As I talked about, in May you produced your base year forecast for FY 2009 that is the year that you are in, a one year ahead forecast for FY 2010 and then a two year ahead forecast for FY 2011. Remember in December of 2008 you did the same thing, you produced a forecast for the base year, a one year ahead forecast and a two year ahead forecast. If we back up to May of 2007, you produced a forecast for your base year of FY 2007, a one year ahead forecast for FY 2008, and a two year ahead forecast for FY 2009. You can see that there are odd numbered years where you are producing a forecast looking out two years and then you are producing a forecast for it when it is actually the base year. What we have done is gone through and computed a forecast error analysis based on the Economic Forums' forecasts that have been produced for the major General Fund revenue sources, going all the way back to the conception of the Economic Forum and looking at those base year forecasts, one year forecasts, and two year ahead forecasts. The reason why we separate these forecasts is because we have realized that it is pretty hard to even hit the current year, but it is getting much more difficult to hit two years out. You would hope that when you are forecasting the current year that your forecast error on average would be less then when you are trying to project that year two years into the future. If you don't separate those forecast errors out, you could end up biasing the actual accuracy when you look at the forecasters ability to project a revenue source at any particular point in time. I will readily admit that this is a pretty tourist document it is for people like me and Janet and others that have our backgrounds that can read this and it is in our language. What I think is most important is if you could turn to page two of the document called "Report on the Forecast Accuracy of the Economic Forum for Selected Revenues." On this page we provide the summary for the Economic Forums' accuracy for those five major General Fund Revenue sources. You can see at the bottom the biennium's that this has been computed for. You can see that it now includes the statistics for the 1995-1997, 1997-1999, 1999-2001, 2001-2003, 2003-2005, 2005-2007, and 2007-2009. What has been added to this report since the last time it was presented to this body was the 2007-2009 biennium. When we got the actual revenues for FY 2009 we now knew the actual collections for FY 2008 and FY 2009, which is the 2007-2009 biennium. You can see for the State Sales Tax the average forecast there is -0.7%. Below that is the average percent forecast error which is 7.7%. These two are measuring a pure mathematical average so if you over forecast something by 2% and you under forecast something by 2% your average would be 0. To compute the average absolute error you don't let negatives cancel out against positives, so if you over forecast by 2% and you under forecast by 2% your absolute is 2%. That is what these two statistics are telling you. The average in a sense is called a measure of bias; you tend to over forecast or under forecast. Here, you can see that actual minus forecast is how these are computed. So if it is negative you are over forecasting the actuals. Remember that this would be looking back at the forecast that you produced back in May 2007 which wasn't this body so I guess you don't have any culpability right. This report that was prepared and presented to this body last fall when we would have only had information to the 2005-2007. I will give you the same stats for the 2% Sales Tax; the average percent forecast there without the 2007-2009 biennium was 2.9%. You went from a position that you historically over forecast, to adding one biennium and you are now over forecasting. For the average absolute error percent for Sales Tax you can see the 7.7%, without the 2007-2009 biennium it was 5.3%, so it added about 2% just by adding one more biennium to the statistics. You can see the average for Gaming Percentage Fees is -2.6%

and 7.5% for the absolute. This is the same results such that, when you added this biennium you went from a position of under forecasting to over forecasting. Insurance Premium Tax on average you missed by 1.6% and in absolute terms missed by 8.2%. You may recall the discussion, and there will probably be another one today, the Insurance Premium Tax was sort of like the golden goose, no matter how much we would forecast it to grow it has always grown faster than that until this last cycle. The Casino/Live Entertainment Tax again the average is not too bad but the absolute error is almost 9%. The Cigarette Tax is -1.1% in average terms and then the absolute error is 5.3%. Just to quickly go through the report, if you turn to page 12 you can see that these are the forecasts that were prepared for FY 2007, FY 2008, and FY 2009 for the State 2% Sales Tax. We separate out the current years and years ahead because of the amount that of information that is available for forecasters and this body to consider. You can see that for FY 2007 they are not too bad but remember that was the base year. As you move out in FY 2008, the one year ahead forecast that was being produced in December 2006 and May 2007 for the State 2% Sales Tax for FY 2007 and FY2008 you can see that you have 10 and 11% forecast errors. If you flip the page and look at any other year, you would be challenged to find anything close to that. Now you go look at FY 2008 and FY 2009 this is your looking out back in December 1, 2006 and May 2007, you have 34, 35, 36, 37% forecast errors. FY '09 was very interesting. In a sense, we had five shots at forecasting FY 2009. We had two shots at it in forecasting it two years out, December 1, 2006 and May 1, 2007. Then you had a shot at it forecasting one year out in June 2008 and then two shots at forecasting it base year, in December 2008 and May 2009. We had five shots at 2009 for Sales Tax, we revised the forecast down every time and we still ended up over forecasting. We have that scenario before us again; we are going to have five shots at FY 2011. This is creating an interesting dynamic for the people that follow this. You can see that there is a set of tables for each of the following revenues and again, there is a lot of data here, it is a pretty true table, but what we are trying to do is keep a track record of the Economic Forum and the actual forecasts that are presented to them for consideration as to their average and absolute forecast errors and also there errors in terms of what they projected to grow versus what it actually grew. With that Mr. Chairman, I will conclude this presentation because this is a document that we keep updated, we will update it again once we know FY 2010 and present that to the forum members in the fall. If there are any questions now, or even if later on you are looking at this and come across questions, feel free to call me and I will try to help you understand. I think it really is an interesting document with regards to creating a historical record of the Forum and I think as we were compiling this and we new that the errors were going to change dramatically just because you are adding in one more biennium to the forecast analysis and you can see how dramatic this was when I explained the Sales Tax. With that, I will answer any questions that the members of the Economic Forum may have.

Chairman: Thank you Russ. Any questions?

IX: Presentation on Historical Taxable Sales and Gaming Market Statistics

Russell Guindon: Mr. Restrepo had contacted me prior to this meeting as acting Chairman to ask if staff could put together some stuff on the historical facts of gaming and taxable sales. There are a lot of charts here and they were all e-mailed out to you in advance and have now been provided to you as a hard copy. Hopefully, you have had a chance to look at them; I know it was a lot of information. As you know, one of the state's major General Fund revenue sources is the Percentage Fee Tax. Which is the tax on gaming that you pay on a monthly basis and you pay based on what's called your taxable gaming revenue so I will leave that discussion for when we actually get into percentage fees. One of the biggest components of taxable gaming revenue is gaming win. I will try to concentrate most Mr. Chairman on the statewide stuff and then go through Clark, Washoe and Las Vegas strip in terms of hitting the highlights.

Chairman: I hate to interrupt but just an observation for the members. The table that drives the charts is that this package here?

Russell Guindon: Yes. What the Chairman is holding up is a set of tables that the Fiscal Analysis Division put together since about the 97-98 Economic Forum. It has historical information from the taxable sales and the sales tax collections, the gaming win, the taxable gaming revenue and the percentage fee collections, and then it goes into and provides the actual data on a fiscal year basis for taxable sales for the state as well as the counties as reported by the Department of Taxation, for gaming win and the gaming win by the markets that the Gaming Control Board reports. It is a supplement table that we have always prepared because the question comes up where are we year to date, what has been happening, and that is a table that can quickly be referenced to look at.

Chairman: For the tables that draw the numbers on the charts that you are going to be presenting, that particular packet is the thinner of the two? I just want to make sure in case one of the members wants to flip to the numbers that you are pointing out.

Russell Guindon: The one that is on legal size is the exhibit. There is more data in these charts then there is in the tables because there is fiscal year stuff that goes back almost 10 or 12 years and then the monthly stuff, I think I can only get about 15 or 16 months on there, but the Chairman is absolutely right. For the Gaming charts that you see up here, this was put together on a quarterly basis, so this is not monthly, these are fiscal year business quarters. I decided to do it quarterly because the monthly data gets pretty noisy; it is bouncing all over due to seasonality and what is happening in the gaming markets. By putting it on a quarterly basis it allows me to put more information in the chart, but also it allows you to see what's going on without getting hung up on what looks like someone with a very irregular heartbeat. The first chart that you see, statewide total slot win is the black line and the blue line is total statewide slot win and the red line is total game and table win. You can see, especially with the blue line the seasonality that is there. You can see the ups and downs in terms of the quarters that are up and the quarters that are down. You see some of the seasonality in the game and table win, but game and table win has much more that can occur to it because you can have special events where the strip has a lot of high rollers that come in. So, depending on the level of wagering by those high rollers and whether the house or the player wins, you can see fluctuations in game and table win that you don't see in the slot win side. The slot win side is more of the grind that you have players coming in and playing the slot machines but you can also see here the change in the two. Basically if you go back to the 1998 third quarter there, the first quarter that is shown, statewide slot win was about 58% and game win was about 42%. Now, in 2009 third quarter slot win is about 67% and game win is only about 33%. You can see that slot win has become much more important, but you can also see by looking at this chart the run up that occurred. It was growing at a relatively nice trend line and then you had the jumpstart going up at the 98-99 period and then it smoothed out again and then we saw the big run up there and once we hit the peak we are now coming down the other side of the hill. When you look at this it is the slot win that is falling more than the game and table win. We started to go through some of these charts to get a reference point and I thought I would give it now because it does affect Clark and the strip. When looking at these charts you want to keep in mind the major casino openings because that is sort of what drives a lot of these spurts that we can see here. When we get to the slot count side you are especially seeing the bumps. In November 1989 we had the Mirage open, in January 1990 we had the Rio open, and in June 1990 we had the Excalibur open, so within six or seven months we had three resorts come online in the Las Vegas market. In the third quarter of 1993 you had the Luxor, Treasure Island, and the MGM Grand come online. In the 96-97 cycle you had an eight month period with the Stratosphere coming online in April 1996, the Monte Carlo in June 1996, and the New York New York in January 1997. In the 98-99 cycle you had Bellagio come online in October 1998, Mandalay Bay in March 1999, the Venetian in May 1999, and the Paris in September 1999. Then you had the Wynn Las Vegas in April 2005, the Planet Hollywood, former Aladdin in November 2007, then the Palazzo in January 2008, Encore in December 2008 and now the City Center in December 2009. Again, I am just going back to get the major ones, I am not trying to slide in any of the other properties that opened and obviously I think some of the local casinos that opened in Clark County and Washoe County as well have impacted the amount of growth that you have seen in the locals market. Here I just thought I would get some of the major resorts and as we were talking this morning that was our construction cycle. Here you can see the growth that we had and the run up. So you can see in the slot win that after 9/11 we had a flattening out there but also we went into a period that on the slot side is when we had a technological advance is how I see it as an economist that you had the TITO machines, ticket-in ticket-out, as well as the machines that you could have less boxes on the floor but probably the same types for more games because of the multi-games devices. You will see when we get the slot count side that even in spite of all of these major property openings it appeared that slots were coming off. I think we went through a period that these machines could function as many boxes but it was only one box, so the number of devices that they were required to license and pay the device taxes on was fallings but the productivity of these machines was very good. You can see over the last few quarters that we have been running in these double digit negative declines. Slot coin in times the whole percent makes up slot win. Coin in is the amount of wagering that is going through the machine. The tremendous run up in the coin in was partly due to increase in slots in the early period. Again, you can see that we are now going through substantial declines in the amount of wagering activity that are going on in slot machines statewide. You see that we went through a period from 88' through about the mid 1990's where the average hold was falling and now it has been increasing and you can see an inflection point in around 2003 third quarter where it was increasing and now it is increasing at an increasing rate and now you can see it has flattened out. You can see with 9/11 that it negatively impacted Nevada's economy but especially the Las Vegas strip and it might have forced casino's to rethink the amount of devices they needed. You can see since then that the number of devices has continued to fall statewide. In Washoe County it is very dramatic, but it has also been occurring on the strip. My assessment is that the industry is finding equilibrium with regards to the technology that's out there with regards to the gaming devices that they can put on the floor being more productive but also having much more functionality to them. I guess I should stop Mr. Chairman and make sure there aren't any questions on the slot slides before I go on to game and table win.

Chairman: Any questions anyone?

Game and Table Win

Russell Guindon: Game and table win will probably go a little bit quicker. Game and tables is a hard thing to get your mind around. It is all these different types of games that are really unique things. There are unique types of wagers that occur and they have different hold percentages and again they can be much more influenced by special events that can bring in the higher roller gamers. Again you see that this can go through cycles, but it generally has been increasing even though it has the same cycles as slots. Obviously, the drop on games and the hold percent make up game win. Here the drop is the amount that is staked so it is a little bit different statistic than the coin in because the coin in is the amount of wagering that keeps occurring with the handle. You can see that the game side on the drop is not quite as dramatic as on the slot side in terms of the fall off that we have seen since the peak. This one can bounce around quite a bit again because you can see that the games can be very high end games in terms of the amount being wagered an whether the house is winning or the player is winning, but you can see that there was quite a bit of stability from 88' through the early 2000's. It has always puzzled me that you see the big falloff down to 2004 early 2005 and then it gradually increased a little but now we have a huge drop off in the whole again. Again, this is why game and table win is sort of like slots but it is worse than slots here because we saw the drop falling and then the average hold is falling, so both of those together does not bode well for game and table win. Here is the game and table count and this one is very much influenced by when you have major resorts open that could add anywhere from 90-110 games, so they can push this line up quite a bit. Because there is less wagering occurring and we are holding less of that the win per unit has been falling pretty dramatically since the peak. Since the third or fourth quarter of 2007 there has been this dramatic fall off in both game win and slot win. The win per game and table is falling off much more dramatically than the drop. On the game and tables side it is not quite as bad in terms of the wagering side of the equation but because of the average hold going down you can see that it has a much more dramatic decline to it. That concludes the statewide, if there are know questions before I start on County.

Chairman: I would like to run something by you and the committee, considering that the same driver that drove the state numbers are going to be driving Clark and Washoe to varying degrees, but they are essentially in the same situations, I think we could probably go through these a little quicker.

County

Russell Guindon: You are absolutely right Mr. Chairman and that was my intent. Here you can see that they are much closer in some sense. Slot win in Clark County was about 56.1% of total win versus about 44% game win in 1988 third quarter. As we go out to now, slot win is about 64% and game win is about 36%. Again you can see the same thing as a statewide as you expect. What's interesting here is that Clark County in 1988 third quarter accounted for about 65-66% of the total statewide slot win, in 2009 third quarter they account for 80%. In games win Clark County accounted for almost 71% of the total statewide game win, in 2009 third quarter it is 91%. That is a pretty dramatic increase. You can basically see that as you would expect given that it is 80-90% it is going to look just like the statewide. The win per slot looks a little more dramatic than statewide because what we have seen in the Clark County market is that not only are you sort of having this dramatic change in the visitor markets, but also in your locals markets because of the economy and loss of employment. Again you can see the coin in per slot and these are pretty dramatic increases. Game and table win as you can see here, Clark County is accounting for around 90% of the statewide game and table win. You can see again the peak here and then it is falling off but as we saw in the statewide that the drop is not as dramatic. In this last quarter you can see that the average has sort of flattened out a little, it is no longer falling as dramatically as it was. As you would expect the win percent to be falling dramatically following the statewide. The ones I thought I would bring up Mr. Chairman is the Las Vegas strip because being the major submarket within a county market and its impact on the state. It has a little bit different characteristics actually. Here you can see that this is a little bit different graph than you saw for the statewide in Clark County, the red and blue lines are practically lying on top of each other. You can see that the Las Vegas strip is a much different market in regards to the shares that are generated by slot win and game and table win. In fact, in 1988 third quarter the Las Vegas strip was about 53% of the slot win for Clark County, now they are about 50%. For the games win in 1988 the strip is almost 76% of the game win in Clark County, now it is about 84%.

Chairman: Did you say in 1988 it was about 53%?

Russell Guindon: Yes, in 1988 game win was about 76% and slot win was about 53%. In 2009 slot win is about 50% and games win is about 84%. So the strip is that much of Clark County. Just to give you an idea of the strip as a percent of the state, in 1988 slot win was about 35% of the total statewide slot win, and about 54% of the games win. Now, in 2009 third quarter, the strip is about 40% of the total statewide slot win, but they are almost 77% of the total games win. What you have to look at is when the house wins the state wins in terms of gaming win and gaming tax collections, and when the player wins, the house looses and so does the state. With that then, I thought I would quickly go through the strip. The drop on the strip, not that it has been good, but it hasn't had quite the same phenomena that we have seen for the slots side and especially the games side. It is not great news, but it is different in terms of, instead of this abrupt change in the fall off it sort of flattened out for a while and then fallen and it looks like this last quarter was pretty good quarter for the drop and also for the hold for the state in terms of the percentage fee collections. Here is Washoe County, it is much more seasonal with regards to what is going on in that market but here you can see the dramatic difference between slots and games for that county. In 1988 the slots were only about 67%, now they are about 81%. Games win was about 34% and now is it less than 20%. Washoe County actually accounts for only about 21% of total slot win in 1988 and now only about 10%. In games win it was around 14% in 1988 and now it is less than 5%. Here is the slot count and this is always an interesting one to me, if you look at 1995 third quarter where it jumped up, that was the Silver Legacy, and since it opened slots have been falling in that market. In spite of all of those units falling off which is the denominator in this statistic, the win per slot is still falling. The coin in per slot is falling but not quite as dramatic because of the hold. Game and table win you can see is a dramatic fall, it peaked back in 2000 and it has been falling ever since. With that I will answer questions that the members of the Economic Forum may have.

Chairman: Anyone have any questions for Russ on this? Okay thank you Russ.

Chairman: The meeting is recessed until about 12:30. Thank you.

Meeting Recessed Until 12:30p.m.

Chairman: Ok, good afternoon everyone. We are reconvening the January 22, 2010 meeting of the Economic Forum. Before we move on to item 10, we'd like to have Russ wrap up quickly item 9, focusing on the retails sales tax at the state level total and by NAICS (24). Russ, thank you.

Russell Guindon: These were charts that Mr. Restrepo, acting as chairman, asked staff to put together. These are compiled based on information provided to us by the Department of Taxation. These charts are monthly so they show taxable sales from July 1996 to October 2009. What I am going to do is go through the statewide chart and the chairman has also asked me to put together some stuff on the major categories so you can get a reference point. So here is statewide taxable sales, so again you can sort of see that we had what would probably be considered just normal economic types of increases based on what was going on in the economy up through 2002, and then we just had this phenomenal rate of increase and then it ended up toppling out somewhere in 2007 and then we have sort of been falling since. I think most of us that have been here, we know that part of the run up was probably that real property got out of line and because of real property and people were taking equity out of their homes and consuming it or putting it back into real property and so things were just running very hot there and then when that started to fall back in or absolutely collapse at the national end at the state level and as you all know Nevada has been probably the hardest hit state with regards to what has happened with property especially the residential property market. So here you can see the impact of taxable sales at the statewide level, and just to show you here are the growth rates, so this is a percent change from the current month you see referenced there to the same month a year ago. So again you see we had back there in early 2001 that it sort of dipped down below but then after that we were growing and then you see we went through a period where we were having double digit increases on double digit increase, in fact I think we went through a period of almost 30 of 36 straight months were double digit increases and so now you can see at that last chart and here you can see it in growth terms that we are giving all of that back in terms of when you went and looked at this chart. So the question will be where is the bottom of this thing? So again here is the growth rates and as you know from looking at the numbers that the Department of Taxation reports to the tables that are put out by us to the forum members that November 2008 was sort of the first month where we started going into the double digit negative declines and taxable sales and collections. So when the November 2009 numbers are reported that will be sort of the first month to see if we can do double digit negatives against double digit negatives with regards to taxable sales and/or collections. I will remain silent in some sense because I got up before the forum before and I said I don't think we can do double digit positives against double digit positives and we did and at that time we were always under forecasting; right now we are overcastting. So what you have is the other charts on the table there where I went through and showed you Washoe County, Clark County, and some of the other counties in balance of state. I just thought I would provide a couple quick interesting statistics that back in FY 1996, Clark County was about 66% of total statewide taxable sales and FY 2009 it was about 75%. Washoe County went from 18.1% down to 13% and most of the other counties are down that were in the 2% range, they went down to the 1% range. So you can see again the dramatic growth that occurred in Clark County relative to the other counties in terms of the relative size of the shares. With that then the chair had asked to put a few slides together to show you and again these are in the packet so I won't spend a lot of time on these. The taxable sales are reported by business categories which are NAICS for the North American Industrial Classification System; this is how the Census Bureau classifies business activity. It used to be done on what was called SICS the Standard Industrial Classification System. In 2006 the Department of Taxation converted over from SICS to NAICS. So sometimes you can try to do the crosswalk from SICS to NAICS because the census bureau does it, but even then it sometimes can cause distortions in the data. So that's why the charts that I have here, I can only go back to June 2006, really that is when they converted over to the NAICS basis in such that I think you really have consistent series that you can look at by these NAICS categories. The chair had asked if I could put together some of the major ones, so what I have done here is this is Food Service and drinking places NAICS and so basically what you are going to see here is the blue line is the actual taxable sales by month, the red line is the percent change compared to the same month a year ago and the thin black line is the twelve month moving average of the blue line, so basically you can take from here and sort of see, just like you saw in total taxable sales, the peak was back here in 2007 and it has been sort of falling ever since and you can see out there with the growth rates that you have had some fluctuations where it has popped back to a small positive in a couple months, but generally it has been negative since sort of the 2007 period. This particular NAICS in FY 2009 it accounts for about 15 to 16% of total taxable sales. The next one is motor vehicle and parts dealers, again this is the one that kept doing double digits against double digits and then suddenly it quit. This would be a nice series that we could go back on a consistent basis and look at it. But here you can see again that here it peaks back 2006 on this, and that's probably close to when it was when we saw it when we were looking at it on the SIC basis the SAC before it got to the NAIC you could see it start to slow down then, and then suddenly you can see here it has been falling and this is the second largest category, or excuse me, motor vehicles and parts dealers is about the third largest in FY 2009 and it counts for about 8.7% of total taxable sales. General merchandise stores, and again, I am no NAICS expert so if you ask me what is a general merchandise store, I don't know that I have the ability to answer that. I was going to try and go into the census bureau and try to read all of their NAICS classification manual to try and get a better idea, but this was again, when you do some of these plots it's interesting, at least this one is related to Christmas, because you can see the blue spikes in December. I would guess that's Christmas, I don't know what else general merchandise would be doing during December. But again, this one hasn't fallen as much, but it still has been declining and this one is actually about 9.7% of taxable sales. In clothing and clothing accessories, I think this one is one of the ones that is fairly self explanatory, given its description and so this one is you can see, it isn't quite as bad as when we looked at motor vehicles and the food service and drinking places, but there has been some decline here starting in late 2008 through now. And you can see the last month did pop back positive for this clothing and clothing accessories which would be October 2009 taxable sales, and this category accounts for about 6.6% total taxable sales on a state by state basis. This is merchant wholesalers durable goods, again this one doesn't have quite the fall off that we have seen in retail recently, I don't have any idea what the main 2009 is there that peaks way up, but I can tell you it's in Clark County. Somebody bought some piece of big durable equipment or something like that. So you will see when you look at lots of these periods, you will get those spots where they pop way up, but this one is probably about 8% of total taxable sales. Here is for accommodations NAICS category, and you can see sort of through 2006 through the end of 2008 it was sort of running up and then it has started to flatten off and has been declining and so this particular NAICS category, accommodations, is only about 4.2% of total taxable sale. So I think you can already see that you've got a couple of fairly large ones in terms of that, you had one in almost the 15-16% range, one close to 10% and then you get in the 8% and now you are getting down to the ones that make up about 4%. Again here, are food and beverage stores; again this is Christmas I guess. Now the thing you need to remember when you look at this one is that we don't tax food for consumption at home, so that's not part of the states sales tax base, but you can see that again there is a very large December spike here having to do with Christmas I would imagine. So this NAIC is about 4% of the general fund, or excuse me 4% of total taxable sales. Here is building materials, garden equipment, supplies, this is the one that if before I put the graph up, if I asked you, you'd be like, this is the one that's declining right, this is one that's tied to homes, and tied to construction and that kind of stuff, this is building materials, garden equipment supplies. So you can see if you have been watching the scale that I have to do to get the left side and the right side to match up well these are down now in the -20 and the -30% declines to be able to get this on the screen so this is a category that has had some pretty dramatic decreases. Even pretty dramatic decreases against pretty dramatic decreases a year ago. So this NAICS then is about 4.3% of total taxable sales. Here is health and personal cares this one is actually about 4.1%. So you can see we've got several here that sit in the 4%. Again this is one that has been falling also since the 2007 period and you can see by the red line other than a few observations was it above, in the positive range there with regards to growth. And then this is rental leasing services and this is one that I did want to try and I just didn't get the time, to try and go out and see what is it on the NAICS description in terms of the types of businesses that are in here, but this particular NAIC is about 3.9% total taxable sales in FY 2009, but you can see it has a pretty, fairly dramatic falloff here and again you can see some of the rates that decline that have been in this with regards to having to go down to, you've got creases in the -38% and in the -30% range of a couple months there. Here is another one that probably, I was sort of expecting that this one might look like building equipment and things like that, this is electronics and appliance stores that you might see a little bit more dramatic falloff because of what was happening with housing and things related to that, but although it is not doing well, you can see by some of the rates of decline that we have had there, one down near 47%, but again I think you can see the peaks there that go with the Christmas months which is surprising, but you can look here and again I don't know what the April 2008 is with that peak, but if you have them looking at the charts and you look at the December peaks to the December peaks they keep getting lower, lower, and lower, as we go forward here. So it will be interesting to see and it won't be until the end of February that we get to see December 2009, to see how it is going to compare to December 2008 in terms of the Christmas season. This is just miscellaneous store retailers again; this is miscellaneous just like you saw with the revenue. It can be one of these catching several different components with regards to stores, but I put it in here given the chairs request to try and catch about 75 to 80% of the total taxable sales and this one is only about 2.5%. And here is specially trained contractors and what I was going to try and do but I just didn't get a chance to do it given the timing, is try and lump all of the construction NAICS together so you can show construction, but this is one related specially trained contractors and so you can see that it was holding up fairly well through the end of 2008 and then it is falling off fairly dramatically and one has to wonder that some of this could be related to City Center and the City Center finishing out with regards to taxable sales purchases that have been occurring. Cause you can when you go look at Clark County see that it's pretty dramatic here in this category also and somewhat, even a little more dramatic than the state. This one is about 3.4%. And then this is sporting goods, hobby, book and music store, it's a pretty, but obviously again you see the huge Christmas seasonal in there. And what is slightly interesting is that December 2008 is a little bit above the December 2007, so it will be interesting to see what this one does for December 2009 when we get it in there but again you can see, that it's a little surprising that when you look at the twelve month average it has been sitting there but this particular category then really only accounts for about 1.7% of total taxable sales. And so, for home furnishings this is another, this is the one probably before you ever put the chart up you could realize what it's going to look like with regards to what's going on housing, in fact you can see the peak is back there in probably that 2005-2006 range and then its falling. And then it looks like when you look at the blue line down there that it has maybe stabilized a little, but it's still declining but at least the rates are declining or maybe getting a little better. It's like the rate is still decreasing but its decreasing at a decreasing rate I guess is the best way to put it which is positive. So that's basically all the charts that I put together for the Chair and so these categories, basically that I have showed you here this afternoon, account for about 81% of the total taxable sales. So you've got about fifteen categories here then that count for about 80-81% of total taxable sales and so with that Mr. Chairman I can address any questions that there might be.

Chairman: I appreciate that, any questions from anyone? We are ready to move on to item 10, review and approval of forecast of major general fund revenues for FY 2010 and FY 2011. I would like to make a request that we change the order a little bit if you guys could mark this down on your agendas, we will do it, first one will be gaming percentage second one we will leave alone, number 2 live entertainment tax, we will stay at 3 with the state sales tax, we will modify business tax with both non-financial and financial up to number 4 and then drop insurance premium tax to 5 and then on the rest of them stay as is, from real property down to the room tax if that's okay with anyone? Any comments? Okay Russ thank you.

X. Review and Approval of Forecasts of Major General Fund Revenues for FY2010 and FY2011

A. Gaming Percentage Fee Tax

Frank Streshley: Good afternoon Chairman, members of the forum, my name is Frank Streshley I am the chief of the Tax and License Division for the Nevada Gaming Control Board. What I will do is I will keep this brief because I know you have a lot to cover this afternoon. What I will do is give you a brief update on where we are at with gaming win and percentage fees, and then collections for the fiscal year and we are in the fiscal year 6 months so we are about half way through and then go over my forecast for the two fiscal years. And as I go through my presentation you might want to refer to the charts that Russell gave you and the tables because some of that will fall back on that. Fiscal year to date, statewide gaming win is now down 8.9%. We did however report our first monthly increase in over 23 months with November's 4.4% increase in gaming win, and this was coupled with a 28.3% increase in percentage fee tax collections. Again, one month doesn't make a trend but it was a big step in the right direction and it did come in front of the City Center opening. Clark County fiscal year to date is down 8% even, with the Las Vegas strip down 7% even. The strip is showing signs of recovery as visitation to Las Vegas has now increased 3 straight months and we are seeing the booking windows, advanced booking windows begin to lengthen, airport traffic declines are improving, and then the traffic from Southern California, which again is one of the largest feeder markets, that continues to rise over the past few months. Weekends are getting stronger, but again it's that midweek market that continues to pull down the overall results. There are signs of sequential improvement in the midweek market in the coming quarters, at least in the convention and small business meeting markets, and again comparing back to last years results, just as an example, one of the bigger shows annually is the Consumer

Electronic show in the beginning of January that had a 6.1% increase in attendance and again this is one of the larger shows with over one hundred and twenty thousand in attendance. The Las Vegas locals market, which again makes up more than 20% of the statewide gaming win, this market continues to be heavily impacted by the big jump in unemployment and the continued decline in housing. As for the balance of the state, Washoe County fiscal year to date is down 12.7%, South Lake Tahoe; again that market has faced increased travel gaining competition with the new Red Hot casino, that market is now down 24.5%. Elko County which had been performing a little better than the state, that market has now seen increase in the declines mostly in the Windover market, that's down fiscal year to date 9.6%. And then breaking down the total win between slot win and games win, slot win statewide, again this was covered in Russell's slides, that is down fiscal year to date 11.3% with the coin in amount wagered down the same percentage. Operators are reporting that the spent per visit or/and also the time on device is still down from even last year but then there has been some improvement since the beginning of the fiscal year. In the last three months coin in declined 8% from the same period compared to a year ago, but again this is following declines of 14.5% and 10.5% in the previous 2 three month periods. On the game and table win side, fiscal year to date we are down 3.9% with the games drop that is the measurement of wagering activity that's down only 1.3%, and again in the last three months we have reported a increase in games win up 2.9% with the games drop increase of 7.9% and again this follows the previous three month period where we saw a decline of 10% even. Most of the growth has been fueled by strong baccarat play. In the past three months we have seen baccarat increase by approximately 64%. Again, consistent with other downturns in gaming win, total gaming win, games and tables is usually hit harder at the beginning of the decline so it is sooner, but the recovery, let me back up a second, the declines we see in total gaming win, games and tables usually hit harder and sooner than slots at a much stronger rate of decline. But what we have seen with this last drop is the games are coming back stronger than we have seen in previous times. Games are starting to rebound and again we still see slots at a slower rate. As for my outlook for the final six months of this fiscal year, I am looking for a continued rebound in games win; we will see sequential improvement but again below last years win. All indications that New Year's weekend was good, especially since it fell on a Friday, and again this was coupled with the City Center Aria opening. We feel that we'll continue to see the growth on the game side during the traditional high ends games months, such as the Super Bowl weekend and Chinese New Year, and again be careful with that, there is a shift in the calendar where last year the first part of the Super Bowl weekend the Friday, Saturday, that fell in January with the Super Bowl being on February 1, and again Chinese New Year was completely in January, right at the end, this year will be completely in February so to look at those months you have to combine the two. Again we are looking at a drop off in January but a real strong February month. March and April will not be as strong as the months previous. And again those months traditionally lack the high end play so we look for those months to not perform as well. Slots will be slow to recover, but again we still think we are going to see improvement over the rest of the fiscal year in the slot market. For total gaming win we will be comparing against a period for the second half of last year when gaming win dropped 18.2%. Putting that altogether, we have gaming win for fiscal year, the current fiscal year 2010, with a total gaming win of 10.4 billion, ending the fiscal year down 5.2% from fiscal year 09. In fiscal year 11 we have projected gaming win of 10.7 billion, this will be a 3.1% increase over fiscal year 2010. Again much of the growth will come from the Las Vegas strip with sequential improvement each quarter as we go out. One of the leading gaming analysts that I work with has forecasted visitation for calendar year 2010 to grow 5%. Again, if that holds true my forecasts are probably a little bit on the weaker side. Other assumptions I have made for fiscal year 2011 is unemployment, housing and a soft economy, will continue to put pressure on the Las Vegas locals market past the recovery of the strip. However, I eventually see that the recovery on the strip with the tip earners, etc. that will eventually, the second half of the year, trickle out into the Las Vegas market and we will start seeing some recovery there. As for percentage fee forecast, fiscal year to date we are down 5.1%, collections on taxable revenue are down 9.9% with a negative 8.6 million dollars in collections on the estimated fee adjustment, and this is well ahead of last year at the same time, at six months out, we were down 27.3 million dollars, again this is an 18.7 million dollar positive swing from where we were last year. For the current fiscal year 2010, for the full year I am forecasting 652.2 million in total collections and that will put us down 0.5%. I have collections on taxable revenue down 5.2% and again I am forecasting know material changes on the credit collections rate that is the collections of the markers from what we saw last year, so I am looking at basically the same trends where that is running a little soft. I have the end of the year, the estimated fee adjustment ending at 1.4 million dollars and again that will give us a 32.3 million dollar improvement over last years estimated fee adjustment which again at the end of the year ended at a negative collections of credit to the licensees of approximately 33 million dollars. Also, for the last six months of the fiscal year we will be comparing to a period were we saw percentage fee collections decline 14.7% and again as I stated earlier that same period we saw gaming win drop 18.7% during the same period. For fiscal year 2011 I have percentage fees increasing 4.6% with 682.1 million dollars in total collections. I have collections from taxable revenue forecast to increase 3.6% and this is slightly ahead of my gaming win forecast and again this is because I assume we will see an uptick in outstanding markers and the collection rate on those markers will go up and then I have estimated the estimated fee adjustment to the end of the year at a positive 5 million dollars as the revenues trend higher and again this will be a 6.4 million dollar increase over 2010. And just to kind of summarize my forecast, again I think there is still some major challenges ahead in fiscal year 10 into 11, but again we are seeing signs of improvement. Again, continue at a very slow pace going forward there are signs with the US economy improving, there have been forecasts that the US travel spending will be up 2.6% in calendar year 2010 and again Nevada should benefit from that if that forecast is accurate. I think visitation will continue to improve as we move forward and again this follows three months where we have already seen it increase and again that will have positive impact on the other markets and even though I am forecasting smaller increases in fiscal year 2011 I am still looking at this as a recovery market, not a growth market. The gaming win I am forecasting for 2011, just to give an example how far we have fallen, we will be a little bit short of the same number we reported in fiscal year 05 and approximately 2 billion dollars less in gaming win that we reported in 2007. So again I am looking at this as a recovery market, it is hard to describe as a growth market at this time. And with that I can answer any questions you might have.

Chairman: Thanks for the great report. Any questions from anyone at this time?

Matt Maddox: I just have a couple questions. When you are looking at slot drop, or slot handle and slot win, are you focused on, what type of analysis are you doing to forecast the rest of the year?

Frank Streshley: Basically what we do at the Board, is we go in and forecast by market, by slots, by games, and to do that, we do specific forecasts for our coin in per slot device and our drop per game. So we'll go into each market and we do use historical trends but then again we rely heavily on the licensees we do work with the Wall Street analysts that do follow the market, we do use Las Vegas convention authority, but most of our information is actually coming from the operators. So from what they tell us going forward and based upon my experience in looking at those markets, we then plug growth rates in both for the coin in and the drop and then we do, do an estimate for the whole percentages to translate all the way out to our gaming win then again percentage fees.

Matt Maddox: Okay. Because you know, I am sure you probably realize, but one of the ways we look at it internally is that slot win much more so than tables is heavily correlated to visitor volume, consumer confidence, consumer sentiment, and CPI. If you plotter aggression analysis over the last ten years you can almost see slot win and it's very heavy, it's very telling. And so, I would just be very careful because based on the forecast of consumer confidence just for fiscal year 2010. And those variables, I think that the slot business and slot volume in particular is going to be very challenging.

Frank Streshley: And again for our forecast, we are forecasting a decline in slot win.

Matt Maddox: By how much?

Frank Streshley: Let me pull that out.

Matt Maddox: And it's really just for December through June, right?

Frank Streshley: That specific period I don't have but for the year, I have us declining almost 9%.

Matt Maddox: Okay, so basically current pace.

Frank Streshley: Correct. A little bit better than current pace. Current pace for statewide is 11% so I have us ending the year between 8 and 9%, closer to 9%. So I do have it improving from where we were last year, but I don't have growth.

Chairman: Mike, anyone else? Okay, next Russ. Thank you Frank.

Russell Guindon: What you have before you is table four and table seven. So table four is sort of the easy sheet because it just shows you the economic forums May 1st forecast and adjusted for legislative actions when necessary and then each of the forecasters, so again, this maybe will be to refresh the memories for all four, but especially for Mr. Maddox, that when you see agency listed in the sheet, that's the agency that is responsible for collecting the revenue source and administering the program such as here, we have Frank Streshley from the Gaming Control Board, their statutory responsible for regulating, licensing the gaming industry but also for collecting any taxes and fees that are due that go into the state general fund. And so that's when you see agency it's the entity that's responsible under law for collecting the tax. So then obviously Fiscal Division is me and Budget Division is Janet. So that's table four. Table seven is the table that I tried to put together, again as we were talking, Mr. Restrepo acting as Chair, the table sevens generally been put out at the meetings, but I modified it a little here that the top portion that's in yellow that says "forecast information presented at the May 1, 2009 meeting" I thought it might be helpful for the four returning members but also for Mr. Maddox to be able to go and see what's in the orange there at the top, the economic forum, that's the May 1st forecast before legislative adjustment and then you can see the different forecasts that were presented and then by seeing the sequence going from the November 3, 2008 forecast to the December 1, 2008, the May 1, 2009, you are allowed to walk through and see how the forecasters were changing their forecast. And then obviously then the May 1, 2009 forecast for agency fiscal and budget, is then, the forms, those are the ones the forms had available and then made a decision based on those forecasts presented. So that's sort of revisiting history May 1, 2009. The bottom section in the green, forecast information for the January 22, that's then today's. You can see again that I showed you the May 1, 2009 forecast and then the May 1, 2009 forecast it's the same but here I am trying to show that when necessary we've adjusted it for the legislative action here Gaming wasn't adjusted so you can see the 685,819 at the top comes down and it's 685819, there were no legislative actions changing the forecast there in the orange box at the bottom. And so then you can see, I show you what the growth rate would have been like we were doing in the blue sheets compared to your forecast and compared to the actual. And then you see the January 22, 2010 forecast that's in bold, that's the forecasts that are being presented to you today by each of the forecasters and it should match the forecasts that are in table four.

Chairman: Thank you Russ. Anyone have any questions on Russ's tables? Okay, go ahead Russ.

Tables

Russell Guindon: What you should have is a packet that prepared for you by the Fiscal Analysis Division. It says Fiscal Analysis Division Forecast Information Packet, so that's what it says on the front. It's a fairly thick document, it's two sided. Normally we would actually have a little more information for you in terms of me trying to write up some of the stuff, but given the timeline that we were granted and then having to get the stuff done we couldn't get quite the write up. So we thought we would concentrate on getting you some of the charts and tables that we look at or use in our forecasting for each of these revenues. So the forecast by the Fiscal Analysis Division for percentage fees begins on page 1 of the packet, and that's mainly just a write up to tell you how the tax works. I sort of went through that this morning and Frank went through how you go from win to taxable gaming revenue to then percentage fees off taxable revenue and then the estimated fee adjustment. So the actual table I would like you to turn to is table 1 on page 3. So the way the Fiscal Analysis Division forecasts is similar to the Gaming Control Board only I don't have the time giving having to forecast all of the other revenues to try and look at each of the markets that Frank does. So what I do is look at Clark County, Washoe County and then balance of state as separate markets, and for each of those markets I produce a forecast for slot win and game and table win, or games win as it is reported here in this table, and then obviously the sum over those three markets over slot win and games win gives you your total slot win for the state, total games win for the state, and then obviously the sum of those two is total win. So there you can see in total win that we provide you the historical actual from FY 1993 to FY 2009 and then you can see our forecast there highlighted in yellow for FY 2010 and '11. So again, what I can go through is, let me go through the forecast and then I will back up and go through sort of the slot win and games win because behind this is the tables that make up how I got the slot win and the games win for each market. So basically you can see here that we're forecasting that slot win will decline by 8%. As Frank said that statewide slot win is down about 11.3% for the first six months of the fiscal year. So to hit this forecast of -8% we would have to decline about an average of 4.5% over the last six months of FY 2010 and that would be going up against an average of -12.2% over the last six months of FY 2009. So in a sense, to hit this -8 for the fiscal year '10 you'd have to decline an average of 4.5% against it, a -12.2 a year ago, so just to try and get a reference point. So then for games win, you can see, we have it declining -3.2 as you saw on some of the charts, the games market is not quite as in bad of shape as the slot market and in fact when we forecast the Gaming Control Board and Frank is gracious enough from the information that he tries to get from some of the people he talks to, he'll let me know what that is and then I'll decide how to use that in my forecast or not, because as you know all of our forecasts that are presented to you were dependent upon other people providing sort of outlooks for either the national or the state economy and there's other analysts out there so when we take into consideration. But as you know, some of those people have probably been struggling also to get a handle on what's going on not only at the national level but at the state level in terms of the economic indicators that we would consider to be trying to do these revenue projections to prepare and present to you each time we have gotten together. So the hit the slot win, or the hit the games win forecast, as Frank pointed out, were only down 3.9% through the first six months of FY 2010 so we'd need to average a decline of about 2.6% on average over the next six months of FY 2010 to hit our forecast of a -3.2% decline for the year. And this is going up against an average of -18.2% over the last six months of FY 2009. So it seems like that maybe only having to decline an average of 2.6% doesn't sound like that much of a decline, but it is going against fairly substantial decreases over the last six months, an average of -18%. So again, we look at it knowing that you've got the Chinese New Year and I think with the City Center opening that they might be able to bring in more activity on the games side relative to the slots side and so with that, that's the games forecast. So then you can see we have total win declining at 6.5% for the fiscal year and then since were down about 8.9% to the first six months we would need to decline an average of about 3.9% over the last six months of FY 2010 and that would be going up against a average of -

14.3% over the last six months of FY 2009. So to get the taxable gaming revenue as Frank talked about, this gets in the interaction of credit play because under the law credit when it is extended is not deemed to be taxable until it has actually been paid and it's collected. And so that can create these significant differences between what the Gaming Control Board reports for total win, what they report for taxable gaming revenue, and then because of the estimated fee adjustment what their report for percentage fee collections. I think this last month that was reported is probably a very good example, I think total win was up around a little over 4% and percentage fee collections were up almost 28%. So you can see gaming is sort of an interesting one to try and get your mind around when you are looking at all the pieces that are in play, but what this table does is allow you to see the pieces. And so you can see that the TGR which is taxable gaming revenue to win ratio you can see it has been declining. It was only 95% in FY2009 we've actually got it staying at 95%. It's a little below year to date where it was last year, year to date, but we think with probably, and our assumptions are with the credit play that's going to be coming on with the City Center and probably the games being a little stronger, that, and you always see if you go look at it historically that the second, the third and fourth quarter of a fiscal year, the TGR to win ratio tends to come back, especially in the fourth quarter as the credit debt was extended sort of for the Christmas and New Year's and Chinese New Year starts coming back in, in terms of looking at the ratios. So then, the other assumption that has to be made is once you get, use your TGR to win ratio and take it times taxable game revenue or excuse me, times total win to get taxable gaming revenue, you have to come up with an average tax rate to be able to get the percentage fee collections that will come from that taxable game revenue. And there you can see that remember this rate was increased in the 2003 session and so that's why you see starting in FY 2004 the average rate going up. It was sort of a strange result but then it fell there in '07 and then went back up in '08 and then continued to go up in '09 although the sort of, you can see that the win was balling, because remember in my mind you have more win and you push that into the top, more taxable gaming revenue, you push that into the top bracket then the average affective rate should be going up and then obviously when you have a declining economy then most likely, remember the thresh of those only $134,000.00 so the vast majority is getting taxed at the top rate so then as the economy is contracting in gaming win and taxable gaming revenue you would think that the average rate would fall. So fiscal year to date the average effective rate is below where it was and you can see we actually had it falling and being below in FY 2010 compared to the prior year. So with that then you can see we get percentage fees and collections from TGR declining by 6.6% for FY 2010 and then as Frank was saying, because of the estimated fee adjustment, we believe that it's, right now it's in a very good positive position and it will stay in a positive position and it always tends to come back over the last half of the year, but we think it will still end up on the negative side of the ledger so it will be -2.8. But you can see then that ends up being almost a 30.8 million dollar swing from FY 2009. So then you can see at the bottom of the table that you go from a -6.6% projected decline for percentage fees from taxable gaming revenue but once you account for the net positive impact of the EFA then it's only a 2.3% decline for percentage fees. So that's you can see the role that the EFA can have here and on average it's not so big but through these last two to three years you can see it's going to play a very big role. It actually did when you look from '07 to '08 and from '08 to '09 the magnitudes of the changes there, and again we are projecting that it is going to be almost a 31 million dollar plus impact, because where we think we'll be at the end of FY 2010 compared to the end of FY 2009. So I just wanted to walk you through FY 2010 with that detail. So then you can see the projected growth for slot win, games win, and all the pieces for FY 2011 to end up with the assumptions that we think that with a little bit of improvement out there in FY 2011 that the ratio, the TGR to win, should come back a little in that year so that why it goes from 95 to 95.3. And then also as there is some recovery in the win you should push more revenue in the top bracket and that's the reason why the assumption that the average effected tax rate will be a little higher in FY 2011 compared to '10 but you can still see it's below the rate that you saw in '09 and closer to FY 2008. And so with those assumptions you get the projection that percentage fees from taxable gaming revenue will increase by only 2.9% in FY 2011 but again we think that because there will be this recovery and so the 4th quarter FY 2011 will be better than the 4th quarter FY 2010 then the EFA should come back and be on a net plus side by the end of 2011 and so you can see then that's about an 8.3 million dollar net plus impact. So the growth rate goes from 2.9% up to 4.2% once you account for the EFA. So that's sort of the mechanics of EFA and how we get to the percentage fees. What I can just show you quickly is the pieces are behind that basically beginning on page 4, table 2-FY, what were showing you here is just for the markets and this is just statewide, so on a fiscal year basis, there is the slot win, the win per slot, the average number of slot machines, the average slot win percent and the coiner per slot. Well if you go to table 2-Q which is on page 5, again this is the statewide total, we actually forecast the markets that are behind here at the Clark County, Washoe County and the balance of state level, but I will just go through the statewide. So the way I forecast is after getting the information that Frank's willing to provide me, again going out looking at the national economy, looking at the local economy, trying to think about the interaction of locals play versus the visitors and my forecast for visitors, which I have a visitors, I am forecasting and this is actually when we get to the state room tax, but for FY 2010 I have visitors increasing by 2.4% and then increasing by 3.3% in 2011. So based on those, and all that goes into making assumptions for coin in per slot then you make assumptions for the slot whole percent and then the average number of slot machines and the Gaming Control Board puts together a property assumptions list where based on information of which properties they think will be getting licensed and how many devices they think will be coming online and win, that gets incorporated into our forecast. So then obviously by taking sort of the product of the coin in per slot times the number of slot machines times the average whole percent that gives you the slot win and so that's the exercise that's done on a quarterly basis for Clark, Washoe and balance of state, so Mr. Chairman if there are questions, I won't go into detail for the Washoe, Clark and balance of State, but I just thought I'd cover how it is we forecast and all the information is here in the tables and that concludes Fiscal's presentation.

Chairman: Thank you Russ. Questions?

Linda Rosenthal: Russ can you can tell me for year to date fiscal '10 what the actual percentage fee collection has been and the EFA?

Russell Guindon: The EFA, I believe fiscal year to date for the first six months is that -8.7 million. Excuse me, I should turn my mic up. So the estimated fee adjustment to the first 6 months of FY 2010 is at -8.7 million and I think as Frank said that's about a plus 18 million dollar impact compared to where it was in FY 2009.

Linda Rosenthal: And the percentage fees tax?

Russell Guindon: Okay, the percentage fees from taxable gaming revenue alone, so this is before EFA, they're actually down 9.9% to the first 6 months so then you'd need to average about -3.1% over the last 6 months to hit our forecast for FY 2010 and that's going up against the -15.1 on average over the last 6 months of FY 2009. And then once you include the EFA, total percentage fees with EFA are down 4.9% fiscal year to date and then you'd only need to average about four-tenths of a percent increase over the last 6 months against -14.5 over the last 6 months of FY 2009. And why you get that slight positive, because remember your putting in a plus 30 million dollar impact on EFA.

Linda Rosenthal: Can you tell me the dollars year to date? Or the percentage fee before EFA?

Russell Guindon: Yes, maybe the easiest way is I can actually get your eyes to the appendix table. It's table 1B, which is the second full page. Table 1-B. So this shows you monthly fiscal year to date so you can actually see out there into the gaming win and tax collections section, the total gaming win, taxable gaming revenue, and then you can see in the box is the percentage fees from TGR and then the estimated fee adjustment year to date and then the total percentage fees. Does that give you what you need?

Linda Rosenthal: Yes, I just need to get a total, if somebody could add up the total for me. Because it has it by month right? The six months?

Russell Guindon: The year to date, the gaming percentage fees, this is with everything in it, is about 313.1 million which again is down 4.9% and this is through the first 6 months of FY 2010. That's the cumulative collections for total percentage fees and you want the pieces of the EFA and then the, so the total percentage fees collected and this is through the first 6 months without the EFA so this is percentage fee collections from taxable gaming revenue is 321.8. Because of the approximately -8.7 million dollar EFA it goes down to the 313.1.

Linda Rosenthal: Is there anything in the last six months? I know you talked about a few holidays, but normally, seasonality wise that would make the last six months be markedly different than the first six months, other than growth and play levels and visitation and that type thing?

Russell Guindon: You saw the graphs that are the seasonality and I think there generally is seasonality but I think what most of us as forecasters and analysts have realized is that's gone. The last four or five quarters that we've seen, the historical behavior of the series, are unlike anything that we've seen, so it's hard for me to answer to say that what would be the seasonality over the next six months in trying to base it off the historical last six months of the fiscal year because as you'll maybe see on some of the slides later. When I did my forecast I just tried to go think about what goes on and then the special events that might be going on such as Chinese New Year's for doing games, but I did not explicitly incorporate any special seasonality that I thought would be going on in the last six months of FY 2010.

Frank Streshley: Can I add to your question? Yes, the second half of the year percentage points wise is more than fifty percent because of the way the fiscal year works from December through May. Historically some of your biggest months for gaming win are going to be your New Year's which again is going to be your December, January, Chinese New Year in February, even though it has twenty-eight days, that's one of your bigger months. March historically, is one of your larger months; again, people start to travel, April one of your lighter months. May because of the spring baccarat tournaments that comes in on the strip is usually one of your better months. Where the first half of the year includes your November, June and some of the other months which are lighter on the gaming win. And again, the way the collections work on the credit of play that is written is you historically have more credit of play written at the beginning of the second half, if you want to call it that, with New Year's and Chinese New Year, that's collected at the end, where with the baccarat tournaments in May, those percentage fees on the credit play is usually collected in the next fiscal year, so that second half is usually percentage points much higher than the first half.

Matt Maddox: Thanks again for the presentations. I always look at win per visitor. So the people that are coming here, are they spending more? How does that, in your forecast how are you looking at that? Or is win going up more then visitation and if so you're saying that you think people are going to start spending more?

Russell Guindon: I did create a chart, because I do try and look at that. I historically go back and look at, separately, slot win per visitor and game win per visitor, and then when you look at the forecast and so in here what I think is going to happen in my forecast is you can see I have the visitors growing in both '10 and '11 in terms of I think what I said 2.4% and the 3.3, but I believe what happens when I plot the win, it still falls through the first part of the forecast and then starts to flatten out at the end. So then when I looked at that, that would lead me to believe that I don't think that's unrealistic that you'll have in early part here, just people won't be brining the budgets and I think the thing that we'll have to see is, what's going to be happening in our largest gaming market which is the strip, how far are they going to bring room rates down to get people to come here and then remember I think people when they come to Vegas they bring a certain budget. And when you look at the LV CVA visitor profiles it doesn't change a lot, although it had been increasing and you'll see that it will be the latest one where the last year was down and I think this next year will be down, but it doesn't, going back prior when things were supposed to be booming, I really thought that the budgets would be changing a lot more then I guess I saw in the visitor profile study, but then you did see it fall and I expected the fall again. But I think that with bringing room rates down and perhaps some of the other things that the industry will have to do to bring people here does that start to give them more availability in their budget that they can they have it available for gambling because remember they have to come here and allocate it for us, when we think about it, they allocate it for rooms which generates room tax, consumption of things for taxable sales in live entertainment tax and gaming, and so they have to allocate that budget, but I think as the economy starts to recover people's budgets might recover a little. So when I had win per visitor flattening out in the FY 2011 part of the forecast it didn't cause me grave concern.

Matt Maddox: That's my question. Is it flattening, it looked like it, because your revenues are growing more then your visitation.

Russell Guindon: What it is, is I have the growth occurring, because you can see here slot win only increases 2% in FY 2011 which is again not that much growth. And again the growth is more in the end of FY 2011 and it's enough to get us to 2% and so then when you look at the games side I just think games will be a little stronger because of what's happening.

Matt Maddox: Of the international.

Russell Guindon: Yes and then the City Center and I think that's the one area and I think you even mentioned it that where your property and probably others, that's the type of market that they can go after to attract people to go to Vegas in terms of the people that might not have been as damaged by this recession as the person who's your slot player who comes from probably other areas of the US that come in and play the slots. So that's why when I do this I wasn't bothered by the games forecast I wondered if I had games not growing enough in '11 just thinking what's going on, but I left it at 3.5% when that's what came out on my quarter to quarter forecast.

Matt Maddox: And your visitation is higher than the US travel industry visitation, those numbers are more like one and a half percent for fiscal year 2011, why will Las Vegas see double visitation versus the rest of the hotel industry throughout the country?

Russell Guindon: I guess my assumption as a forecaster, when I went through this doing the visitor's forecast, is looking at how much and this is on page eighty-five of the packet if you want to see the visitor forecast, that we have the occupancy rate actually being only 80% in FY 2010 and then falling to 79.75 so it falls a little more. I think it could go lower, but the question that comes to me when you're doing the visitor forecast and when you're doing occupancy rates is, will with the City Center bringing their rooms online cannibalize the other market, and just like you'll see the property that decided to close some of their towers and take those rooms off the market, well I could sit here and try and guess at how many rooms may come off, but that's hard, so what I did is took the LV CVA's construction bold in terms of what properties they thought would come online and when and put those rooms in and then go through and make assumptions based on again, economic outlook for the national economy, what I thought would happen to the occupancy rates, not taking rooms off, I just leave all the rooms in place because it's, I could take the rooms off and think the occupancy rate could come up a little or leave the rooms in and then drive the occupancy rate down. So that's what I did. And I just think that, in my fifteen years of living in this state, came here from the Midwest and had to sort of learn about how gaming worked and I think that the gaming industry is going to try very hard to make Las Vegas an attractive destination to get people to come here.

Matt Maddox: Without a doubt, we spend a lot more money, no I agree with that.

Russell Guindon: So that they will be able to market and get people to make the trips here. I agree with you, the question would be is, can they bring budgets to support these numbers.

Matt Maddox: Just as an example, Wynn we are at that high end of the business, if you look at our net revenues, after comps after promotion, don't count that, divide it by rooms we are making forty percent revenue by rooms; so not just gaming but to your point hotel, food and beverage, etc. versus what we did before. So people's budgets have been dramatically impacted, we are seeing significantly less spend and it's out in the public forum, it's in the numbers. Just revenue by occupied room is down almost by half. And so, that's what concerns me is making the assumption that the consumer is going to be spending more on a per visit basis because they have a long way to go. So that's it, thank you.

Linda Rosenthal: Mr. Streshley, can you tell me for your total forecast of the 652 what is the gross tax and what is the EFA, the two components, in dollars?

Frank Streshley: Sorry this is really hard to read it's so small. I've got the taxable revenue at 653.8 million and the estimated fee adjustment a negative 1.4 million.

Chairman: Any other questions? Bill.

Bill Hartman: I have a concern about the off strip in Clark County this next six months. Can you give me some feeling, what's in your estimates of are you anticipating a similar win off strip in Clark County to the first six months to this last six months? Or are you expecting that to be down with the strip making up the difference? Anybody that wants to respond.

Russell Guindon: I will respond with regards to the Fiscal's forecast in terms of the thought processing that was going in when I was preparing the forecast is that, again as Frank, he looks at all of the markets I just don't have the time to do it with all of them, but when I was doing the Clark forecast, had to stop and think about exactly that point. And so I wonder if there could be sort of a dichotomy going on here, that when you look at the employment forecast and when you look the employment outlook and the population outlook that probably thinking the locals market is not going to be doing that well right, because there just won't be the employment, won't be the wages, the disposable income, but visitors have been up the last two or three months and again you can see that I think visitors will come back, so I think you could see the market like the strip that depends more on visitors, coming back and doing better than the locals markets.

Because you've got, if the national economy does start to recover, then those people will perhaps start to visit Vegas more than they did and that's what's built in here, but that the locals market might take longer to recover because it's going to take longer for Nevada's economy to recover relative to the national economy. So can I exclusively identify it, no, but that's implicit of what was going on.

Frank Streshley: What we've done for our forecast, because again we do forecast individual markets, as I said during my presentation what we call the locals markets which is basically taking the balance of Clark County, North Las Vegas and bolder strip combining them, they are down 8.6%. We really don't have much change in that forecast until we get through the rest of this year. It will start, I will call it flattening, we still have it declining through the first part of fiscal year '11 and then about a year out is when we think we will finally start to turn again. When I say turn, not declining at the rates we are now.

Bill Hartman: So if I understood you then, and maybe I didn't, that the second half of this fiscal that we're in right now, your expecting off strip to be about the same as it was the first six months.

Frank Streshley: That is correct.

Bill Hartman: So you're not forecasting any sort of significant downturn in that.

Frank Streshley: No.

Matt Maddox: I'm sure everybody looked at the November gaming numbers, but I would just like to point one thing out. If you take baccarat out, which baccarat is seasonal not growing, it depends on the events that the high end properties are having, usually. Gaming revenue is down, without baccarat. Visitation was up in November. So win per visit, excluding the high end guys, was down. So in the month of November when everybody's looking at it saying 'hey the numbers were up,' actually the vast majority of the people that came, based on that simple metric are spending less and it was really, by my analysis baccarat that drove the year over year increase. So I think we should be very forecasting going forward, and it should really be with and without baccarat, because without baccarat, that's the economy, I think you can really look at the domestic economy and drive some real correlation and then with baccarat that's a separate business.

Chairman: Have you guys done a with or without baccarat analysis? Just in general, I am not saying that it's in this presentation, but do you guys do that on an ongoing basis?

Russell Guindon: We do look at the baccarat but we just forecast total games win, because baccarat is in the numbers because you've got to have total games win to have total slot win, well, plus total slot win gets you total games win, so you have to do it. And so, the forecast baccarat by itself and the forecast without baccarat, I don't know if I could get anymore accurate then just leaving baccarat subsumed into the total and write it's going to happen. I absolutely agree and we look at those numbers, that you pull baccarat out and this last month was not that good of month, but for baccarat the drop was down, the drop per visitor was down double digits the slot coin in was down double digits and so, and that's why you can see we have the weakness in the front part but then it's, then it starts to turn. So when you look at our quarterly stuff we sort of think that the trough is out there probably, that you'll start to see slight positive growth by the third or fourth quarter of this calendar year which would be fiscal year 2011 and so that's what's going on. I agree, I think that the near term is still very weak, we just think that, again, with the visitor forecast we have here and in the national forecast it could turn and that's what drives our forecast. I agree with you, it would be nice to pull baccarat out and we've actually looked at that but I can't get any closer to baccarat and then you have to forecast that and add it to total games win, I looked at I don't know that I did any better pulling them out than I did leaving them together.

Chairman: For your visitor counts, your forecast, your using the table 2, from your package, the Moody's that common benchmark, is that your visitor forecast that you're using?

Russell Guindon: Yes, that's sort of the outlook that drives ours, is the Moody's benchmark. And I will have to go through that when we get the sales tax in NBT what we did there. Again, yeah, those charts that your looking at, I need to make sure that I point out that those are Nevada forecasts so the US forecast is I think, probably a little more optimistic then Nevada. Especially if we benchmark the adjusted, the Moody's Nevada one, compared to their US forecast.

Chairman: Any other questions at this time for Russ? Okay, thank you Russ. Janet you're up.

Janet Rogers: For the record, Janet Rogers, I am the Chief State Economist for the Department of Administration. I would like to point out that although I am the Administration's Economist, the administration does not have any input into the forecast that I come up with. This is a forecast that is mine without political influence. Russell has the advantage of being able to say he's non-partisan, all I can say is that I am independent. With the Chairs permission, I would like to give a little bit of background information as to where I see us in the economy, because it has direct effect on this forecast, the live entertainment forecast, the sales forecast, and so rather than sort of piece meal going through it with each one, with the Chair's permission I will go through it now. We have just been through a devastating recession. The belief or the economists are out there considering or claiming that we probably ended this recession sometime midyear 2009. We had positive growth in the third quarter for GDP and we've got home prices nationwide stabilizing. So the question is sort of, what, if we are out of the main part of the great recession, what does this mean and how did it affect my forecasts? And so I look back at historical results. Since 1950, between 1950 and 2007 there were nine recessions. The shortest was six months. The longest was sixteen months. During those nine national recessions, Nevada posted year over year employment declines, consecutive declines, in only three of them. That was the 1957 – 58' where it was an eight month recession, Nevada's employment declined 10.8% compared with the 6.6% decline, this is peak to trough. Year over year growth in Nevada in jobs began three months after the recession ended. For the US economy, job growth resumed eight months after the recession ended, so Nevada was recovering faster. Nevada's employment peak, previous peak, was restored after thirteen months after the end of the recession. For the US as a whole it was nineteen months. Going through the other two recessions in which Nevada's economy declined it was the 81' – 82' recession. That recession was sixteen months long. Nevada had an 8.1% decline in employment versus the US which declined 3.0%. Year over year growth in jobs in Nevada resumed six months after the end of the recession; the US resumed five months after the end of the recession. The employment peak was restored eighteen months after the end of the recession in Nevada and eleven months after the end of the recession for the US. The reason I bring this up is that the other recession in which we lost jobs was the 2001 recession. That was an eight month long recession. It was a 4.1% decline in employment peak to trough in Nevada versus 3.8% decline in the US as a whole. In Nevada job growth resumed nine months after the end of that recession, in the US job growth did not resume for twenty five months. That was the number of year over year declines continued for twenty five months after the NBER declared the end of the recession. In Nevada our peak employment that we had reached prior to that recession was restored ten months after the end of the recession, in the US as a whole it was forty two months after the end of the recession that jobs returned to their pre-recession peak. During the expansion between 2001 and 2007 US jobs increased in total by about 8.5%, Nevada grew 28%. Since the 2007 – 2009 recession began, if we assume that it ended in July 2009, which is probably pretty optimistic, but who knows what the NBER is going to come up with, that was a twenty month recession. Four months longer than any recession in the last half century. Even if the economy was growing again as a whole, starting in July, between November and December the US lost 85,000 jobs and as Bill Anderson pointed out, Nevada lost about 13,000 jobs. So by far we are not looking at anything that looks like a recovery in the job market at this point. From peak to trough, the US has declined by 5.8% Nevada has declined in jobs by 16.5%. In the fifty years prior to the great recession, the biggest year over year single month decline in US employment was 2.6%, their decline in December after the end of our great recession is still 3.1% so it's exceeding the largest year over year decline in the past fifty years. In Nevada the largest decline in the past fifty years was 4.5%. Both of those largest declines occurred during the 81' – 82' recession. By my estimate using the methodology that Bill Anderson discussed with you, when the numbers for employment are re-benchmarked, which is what happens when they sink up the UI numbers with the employment survey, I believe that we will be posting a 10.5% decline in jobs year over year for December 2009. So the question is what does that mean for us right now? What does it mean for us going forward? The main thing is that it points out the fact that the consumer confidence which right now is at near record lows going back to 1967, the discretionary spending is down, business confidence is down, it is not looking terribly bright at this point. Now twenty three months after the recession ended in 2001 they were reporting green shoots, business and consumer confidence was going up, layoffs were abating, new jobless claims showed a downward trend, stock crisis beginning to rebound, this is reported from September 2003 and it was still another two years before the jobs in the nation had returned to their pre-recession peak. My point with all of this is that I think we face very very weak economic conditions going forward. I think that looking at how Nevada had fared during say the 2001 recession and saying that it's going to have a bearing on how were going to fare in this recession, is probably being quite optimistic. During the 2001 recession I was in Colorado doing revenue forecasts there. Colorado, during that recession, it took three years from the time it peaked and it actually peaked after the end of the official recession, it's employment dropped 6.6% that was at the end of three years after the end of that recession and it did not recover it's jobs for another two years. I am afraid that Nevada is going to fare much closer to how Colorado fared in the last recession than how Nevada fared in the last recession. A jobless recovery at the national level such as what happened in 2001 is going to have a severe impact on consumer confidence and on consumer discretionary spending and that's what we depend on beyond everything else for the vast majority of this state's revenues. So with that said, that is the background from which my forecasts are coming from. My forecasts are done for gaming very different than what Russell and Frank do. It's the method I use, I think it's very good for you to have a very distinct second methodology and that is that I don't separate out slots from games and tables I separate out Clark County as a whole from the rest of the state as a whole. I estimate the change in drop per visitor, the change in win per visitor, and then I build things up. So if you look on page 5 of my handout, you can see how the visitor forecast, which I produced, and then you can see, this is now totaled for the state, but you can see that visitors growing and drop is not growing nearly at the same pace. If you turn to the attachment that is at the end of the handout that you were given of mine, following page twenty six, is a compilation of statistics that the Department of Administration puts together. There is no forecasting in it, it is strictly numbers that have been produced. If you look on page four of that forecast there is a graph that shows, this is now different from what you've seen from Frank and Russell. This is inflation adjusted statewide average daily gaming win. And it's sort of annotated and it shows where we are, this is not per visitor. If you look on page five there's the average gaming win per visitor and you can see how we have trended downwards. Basically going back to 1979. There have been periods of slight increases but on the whole our visitors are not spending what they used to spend. The plot above that one shows the inflation adjusted statewide average gaming drop and the drop dated that I have doesn't go back beyond 1993 my predecessor did not have it. I have not been able to recover it, but you can see that drop is falling still, even with the nice numbers that we got in November, that was a 7.6% decline in drop. The slot win percentage went up by about a percent the drop, the coin in per slots went down by about 10%. So between that and the increased baccarat play, we really would have had a 1.2% decline in win, if you just took out the difference in the win percentage. So I am coming from a very conservative background in terms of what I see coming forth for how the State is going to fare in the next year and a half. I do the forecast the way I do because it dampens the influence of things like a single month of the baccarat, if you're lumping all of those numbers together and not trying to pull it out, you're sort of working with the law of large numbers. The bottom line is that the way my forecast is driven, it is driven by the amount played per visitor. I, like Russell, make an assumption that our visitors come in with a fixed dollar amount and they are going to spend it where they are going to spend it. I do think it's very surprising that in the last three months we have seen a very reasonable uptick in the number of visitors and we have seen no uptick in the amount played, in fact, we have seen further declines. We are year to date on the gaming percentage fees collections, 21 million below the targeted, budgeted amount, that's the amount that the forum came up with last time, we are making an assumption that consumers are unwilling and unable to borrow to spend like they have in the past and that they are not going to do that anytime in the near future. So our forecast is basically for a drop in the win we have, the numbers are on the top of page five, and what we show there is that we will be down for our percentage fees collected and the adjustments are, all I did was lump together all the numbers, the marker credits which are subtracted out, the money collected cash other than pit, I estimate those separately but I just lump them in for the point of the table. So I have declines in percentage fees earned, the estimated fee adjustment is just computed based on the way that number is actually computed and the percentage fees do. And then there is a tweaking that goes on because collections don't seem to always match up with what they should be, so there is a slight adjustment there. So our forecast is that percentage fees will be down 2.4% and then they will decline, well they will be basically flat in 2011 and I would be happy to answer any questions.

Chairman: Questions anyone? Bill did you have a question?

Bill Hartman: I understood your presentation and thank you. You really aren't taking employment into your calculations here, within the state. Did I miss it or is that correct?

Janet Rogers: That is correct. In that, the model that I use is very closely linked and one of the variables that are used to forecast drop is the change in state employment, because that's sort of the health of the local economy. It will also go into, so you're looking at drop per visitor, but you have a variable in there that says our economy is growing or our economy is not growing. I am essentially using Bill Anderson's forecast, I have adjusted my forecast for employment to match his. So employment does play a role, but it's a sort of a secondary role, it's one of the explanatory variables that I use.

Chairman: Mike.

Mike Alastuey: I have a question for anyone here, particularly Mr. Guindon or Mr. Streshley, noticing in Janet's numbers that the win that is projected in the near term is virtually identical to that projected in LCB's numbers but obviously the divergence takes place in the second year. Janet and others, is this simply a question of duration of the circumstances you see or what is it that drives it and I kind of beg a response from the other two presenters as well.

Janet Rogers: My forecast is for, I think I am assuming, that we are going to be luring in visitors based on really good deals and not based on strong desires to come in and game. So I see things as being very tame, the duration of the downfall, downturn being longer. The competition of the twenty other states, or the nineteen other states that now have gaming activity, I think is going to really hurt us, we are going to get a different kind of visitor here, so that's sort of the assumption that's coming in there. I would have to, we would have to go through and sort of look in detail as to where we are diverging. But you are right; we are very, very close on FY 10.'

Mike Alastuey: And to follow, you have indicated that you in fact adopted the numbers from Employment Security for your employment levels. On the local side it being more of a secondary factor.

Janet Rogers: Yes. And what I will say is that I do model employment separately. As you are aware we used to work with Global Insight for their employment forecasts and I did not like their numbers, so I did my own forecast. My forecast is very close to the one that Bill Anderson had come up with and I deferred to his more intimate knowledge of the employment in the state and therefore simply lowered my forecast by a very small amount so that it would match with his.

Mike Alastuey: Okay, and did you use any of Moody's indicators in this model?

Janet Rogers: Oh yes, I've got Moody's.

Mike Alastuey: You indicated that you called on their numbers for your number cases.

Janet Rogers: Yes, any of their US numbers. So per capita income is one of the things, their US employment is something that I put in there. So yes I am using their numbers in a number of places in this area and in the other forecasts as well.

Russell Guindon: Their baseline?

Janet Rogers: Yes, their baseline. Global Insight had one forecast for Nevada and so I would, those of you who are on the panel before would know that I was sometimes using Moody's pessimistic National forecast to account for the fact that I thought that they were a little bit optimistic, or a lot optimistic with regards to Nevada. I think Moody's has a much better handle and I am using Moody's baseline forecast. They also have a number of different scenarios but I am using their baseline.

Chairman: Thank you Janet. I notice on page five of the compendium you do have a chart, or excuse me page six, you have the chart of a Case Schiller index for Nevada, I think or for Las Vegas?

Janet Rogers: Yes, that's just Las Vegas.

Chairman: Did this factor in at all in any of your modeling or is it just here for informational purposes?

Janet Rogers: The compendium at the end, it's stated that I put in the Case Schiller price index. This is strictly Case Schiller; Moody's does a statewide home price index and where I used a home price index that was the number that I would use, not just the Las Vegas one. This is just for information.

Chairman: For information purpose, that's what I thought; I just wanted to make sure. Secondly, just for background information in your ongoing research, have you done any research, or just kept up with the status of where our consumers are not only their confidence and sentiment or spending, but where they are in their debt loads and their debt obligations and those sorts of things? And how that could affect their spending habits.

Janet Rogers: I have looked at that, I have tried getting that into some of the models directly and it does not pan out well. I think part of the problem is that Nevada with the housing bubble that we had really got thrown out of whack. That was driving an awful lot of what was going on. I think that's a lot of the reason for the bump up in slot win. You've got a lot of construction workers down there with money in their pocket and willing to spend. So that has influenced me in terms of when I evaluate the results of the model, but for the most part I have not been able to get those numbers to actually give me any predictive fault value.

Chairman: Any other questions? Guindon.

Russell Guindon: Did Mr. Alastuey still want, he had asked Frank and I to comment, do you still desire that or not?

Mike Alastuey: If you have some comments yes.

Russell Guindon: You're absolutely right. I mean when you look at it that fiscal and budget are relatively close in '10 and then we differ obviously in '11. I think that is, you can see that's Janet's has a little less growth, her growth rate and visitor is less then ours, she is around 2.3, I'm around 3.3, so that's obviously going to be one of the factors that will drive FY 2011. I think one of the other things, so then you can see, she's got win declining about one tenth a percent where I've actually got it increasing two and a half percent. So that is starting to get into probably the assumptions that have been being discussed here today about what are going to be the budgets or more so, what's going to be the amount that they're going to be able to spend on wagering on gaming devices, whether it's table games or slot machines when their here. I think one of probably the other things that then drive the gap between ours is that, you can see that I'm assuming that the ratio TGR to win will come back a little bit in '11 to 95.3. I think when looking at the ratio in Janet's it's somewhere down around 93.7 so then that's going to drive an additional gap between our TGR forecast as we use those ratios to get there. She doesn't do it by using a ratio, but there is the implied ratio that's there. And then again, you can see that probably our effective tax rates aren't too much different, she's got 6.63 and I'm at 6.6313 out there. So I think it's in more of the front end probably on the win and then translating win in the taxable gaming revenue. And then the final note I am just trying to look through, that I have the EFA being a +5.5 in '11 and Janet's got it being a -2.3 so there's almost an eight million dollar difference right there between our two forecasts. Just because of where we think the EFA will be at the end of FY 2011. So I don't know if that helps you Mr. Alastuey, but that's just me looking at probably what's driving the differences, but again I would give it the opportunity that Janet feels she needs it, but I was just trying to look through where we have commonalities in our tables as the data that I could look at.

Linda Rosenthal: Janet on page five where you've got your quarterly chart, it looks like the first two quarters of fiscal '10 were definitely down over the prior year quarter, but Q3 and Q4 are almost right on target with a quarter over quarter comparison, do you know why that would be?

Janet Rogers: I'm sorry I'm not following quite where you are?

Linda Rosenthal: If I look at Q1 '09 the actual percentage fees collected, 165.5, in Q1 '10 that dropped to 152.6, do you see those numbers? Quarter over prior year quarter. And then Q2 from 164 it dropped down to 160 but then in Q3 and Q4 you have FY '10 numbers being very very close to FY '09 numbers so no continued decline? Just curious if there's a, I know it's the result of all of the inputs in your model but if you have an idea?

Janet Rogers: No, the assumption here was that we were just going to see things sort of taper off and no I don't have an explanation for that, it's just sort of where you add it all up and that's where it came to.

Janet Rogers: I suspect that, that in part is EFA coming in there with collections. But as we stop falling as rapidly the estimated fee adjustment starts pushing you in the other direction. Or it pushes you even more so to look like you're growing.

Chairman: Okay, any other questions? Matt.

Matt Maddox: So of all the data that you track Janet, what would alter your forecast? What, over the next couple of months, what is it that you focus on the most?

Janet Rogers: I think that the employment forecast is probably the one that I track the most closely at the national and at the state level. In this particular model it goes in indirectly but it has a big impact for example on the visitors, and it's a timely number. And the gaming numbers come in and you have to adjust them for, was it Chinese New Year, which in fact is one of the variables, I've got a dummy variable that says is this month the Chinese New Year. But in terms of something as a driver that you can see right off it would be employment.

Chairman: Questions? I guess at this point we are going to have to start moving forward on the motions so I'd like to entertain a motion to decide what we are going to do in terms of selecting the gaming percentage fee tax revenue for 2010 and 2011, so I don't know if anyone is ready at this point to make a motion. If you want to look at your numbers a little bit more and look at your calculators and see if there is anyone who wants to make a motion at this time on how we proceed for the gaming percentage fee tax for 2010 and 2011. Mike.

Mike: Not a motion, but perhaps to initiate some discussion. In looking at the three estimates with which we are presented it strikes me that the collecting agency itself in the near term appears most optimistic and I realize our collections last month were probably the best looking that we've had in a long time but then again the aberrations that are evidenced in this particular collection pattern and this particular revenue, I think kind of give one pause to rely to any great extent on that. And I'd also repeat my observation that the other two estimates are virtually the same in the first year of the two that were considering. If there is a sentiment to discuss something in the range of the other two estimates in the first year and then open the discussion for the longer term somewhere in a range between the estimates provided by those same two estimators as opposed to being as optimistic as the Control Board would recommend.

Linda Rosenthal: My observation and discussion on this item, is that if I take fiscal's budget it's basically the year to date numbers without the EFA doubled and then their year in estimate for EFA that gets you to the 640, so that basically says that the rest of the year is going to be like the first six months. While I understand that there is some seasonality from Mr. Streshley and that the second half of the year traditionally should look a little stronger, I am hesitant to count on that just given the fact that we've got month after month after month of continuing declines and the fact that the November results were based on some strong Baccarat play, so I would lean towards going to you know the 640 million that fiscal and budget have in fiscal '10. My comment on fiscal '11 is I do believe there will be growth, so I would move away from the decline that's presented by budget. I do think there will be growth in fiscal '11 I do think the economy is starting to get a little better although, what pace that will happen who knows, and what timing. But I would propose at least some sort of increase in this tax in fiscal '11.

Chairman: Bill, would you like to weigh in on this weighty subject?

Bill Hartman: If I were making a motion, which I may do in a minute, is I would go with budget, because it's the lowest and if it were lower I would probably still go with it. I am very concerned about the locals market in Southern Nevada. I think that 2009 we had a tail all the way through annual 2009, a significant tail with construction projects finishing and those are gone. And that 2010 annual is going to be a substantially worse year than 2009 was for the locals market in Southern Nevada. I have served many clients both north and south and I am getting very strong indications that that's the expectation. So whatever gaming is going to be down in the locals market in Southern Nevada the strips going to have to make up if we do the same the next six months as we did the previous six months and I'm not sure that's going to happen with the national economy and the consumer confidence and all the uncertainty that we are going to be going through, we are going to have a very challenging next six months politically and everything else that's going on out there right now. So I guess I will lean towards the lowest of the 639, I don't know that I have any basis to go below that, certainly don't have the detailed analysis to go below that but I would certainly go on the low end of that. While I want to believe 2011 will be better, I am not certain of that. Again, because I'm not sure the local economy will be rebounding at all and I think the insignificant employment base that has not been seriously affected yet is the public employee base.

And we are going into cities, counties, school districts, state, significant budget challenges that the federal government is not going to just keep making up and that is either going to be fewer, it's going to probably be a combination of fewer employees and employees making less and that's a sizeable base that we also have it still kind of significantly in front of us, not behind us. And so that's just another factor that causes me to say I'm not sure '11 unless the strip, unless the visitors are going to rebound substantially that we're going to see much. And so if there is an increase out there in '11 I think it would be small.

Matt Maddox: I agree with that conclusion. I do have a question though. Do you have an estimate of how much of the gaming win is from locals? I mean, I can look at the gaming report and exclude the Las Vegas strip and that's about 20 or 30% from locals.

Frank Streshley: This is Frank Streshley with the Gaming Control Board. When I use the combined North Las Vegas, Boulder, strip and balance the county, again there are hotel rooms in that, but that's what we use to measure the locals market. Statewide it's approximately 20%.

Matt Maddox: 20%, okay. I do agree that I think that that market is really going to suffer and could continue to be down double digit. So the amount that the rest would have to increase would have to be well over 5% just to get growth in 2011, so I think that we should really focus on the conservative budget based on that fact.

Chairman: Everyone makes very interesting points that tie into what Janet was saying earlier, and Russ as well as Frank, particularly Janet's presentation, in a sense we have to bifurcate the return of the health of the gaming win that's allocated to the health of the local resident, the Nevada resident, to the health of the national consumer. And the question before us is, I guess, is are the consumers nationally and internationally I guess to a certain extent, getting healthy enough to go back to spending, or discretionary spending, to outweigh the continued challenges that were facing here with Nevada residents in terms of their employment issues and housing problems and all those sorts of things that are going on and that's kind of, I guess, the really big unknown at this point is are the national, the out-of-towners going to makeup for that fact. And I kind of want to through a question back to Matt, what are you guys seeing so far this fiscal year, or this calendar year, in how your heading in terms of visitation, spending, and conventions and all those sorts of things, how is 2010 shaping up and what's your forecast on 2011, using you as a proxy for the outside visitor?

Matt Maddox: I would say that the strip itself is seeing some increases over what it was experiencing during the time when no one was coming which was December, January, February of last year. It's not significant increases but we have seen call volumes pickup on the convention business, we have seen more leads come in, but people are very price focused and so while their visitation appears to be up, the dollars spent are still pretty much the same. I do believe, as I said before, that the strip will probably out perform slightly compared to where it was before, but I'm worried that the other 20% is going to weigh that down.

Chairman: Based on all the comments at this point are their any additional observations? Is anyone ready to make a motion? I would like to entertain a motion if we are ready to do so or we can continue talking some more. Are we ready to move forward? Okay, motion from anyone?

Bill Hartman: To get it started, I am going to make a motion to adopt Budget Division for both 2010 and 2011. The reason I am doing that is that I am concerned even a 2010 estimate of the $639 may be a little high and so therefore, we may have a little growth out there in '11 and I take them and sort of look at them together. In that conclusion, one may be a little low and I hope the second is, well the first may be a little high and I am hoping the second will be a little low and I like the total there, it just feels about right. So that's my motion.

Chairman: Okay, would anyone like to second that motion?

Mike Alastuey: I will second it.

Chairman: Okay, and the motion as it is now, motion by Bill Hartman and seconded by Mike Alastuey, is to go with Budget's -2.4% adjustment in 2010 on the gaming fee tax down to $639,400,000.00 and continue with Budget's forecast for 2011 at a -0.6% increase resulting in a $635,600,000.00 percentage fee estimate. We are all clear on the motion? Am I clear on that? Okay, any further discussion? Okay, we will vote. All ayes. Any nays? No nays, motion approved. Thank you. Move on now to retails sales tax. Is that you Russ? Live entertainment, I apologize, I'm sorry I skipped ahead, live entertainment.

B. Live Entertainment Tax – Gaming

Frank Streshley: Again Frank Streshley with the Gaming Control Board. Fiscal year to date the live entertainment tax with five months collected, collections are down 11% even. We are seeing spending on entertainment is still trimming down. And we've not seen improvements in spending over the last several months, even though visitation has increased. We've also seen a very light large arena concert schedule this year compared to last, especially in the upcoming spring months when it was very strong last year. Most of these larger concerts are held at the MGM's garden arena which can seat over 17,000 people and ticket prices anywhere from, on average, $80 to well over $100, so these shows do have a material impact on the monthly collections. Also, negatively impacting this year's collections was the tragic loss in May of the Danny Gan Show at the Wynn, Las Vegas. However, on the positive side, we have two new shows that have just opened, we have not seen in the collections yet, and again they will generate new collections going forward and that will be the new Circ show, Circ Elvis show at Aria and again the Garth Brooks concerts at Wynn Las Vegas. Both of those shows are in the larger show rooms, well over 1,500 seats, again ticket prices over $100 on average. For our fiscal year, the current fiscal year 2010, were projecting a decline of 8.6% with 102.8

million dollars in total collections. My base collections I do not have declining as much, but I have made adjustments for the lack of revenue from the large venue concerts in the second half of the year. And again, last years schedule during this period was one of the largest or one of the best on record with six major shows and again this year is very light and with this economy no one's touring. For fiscal year '11 I have the live entertainment collections growing 5.2% with 107.8 million total collections. Again, similar to gaming win we are assuming slow sequential improvements through the end of the forecast period with increased visitation, and again the growth from the two new shows that I spoke of, which won't annualize their openings until the middle of fiscal year '11. And that concludes my presentation.

Chairman: Thank you Frank. Any questions for Frank? Next up, Russ.

Russell Guindon: Thank you Mr. Chairman. The Fiscal Analysis Division's forecast for live entertainment tax can be found on page 21 of our packet. You can see that the table at the bottom half of the page here that we try and look at the live entertainment tax collections per Las Vegas visitor, we know this may not be, you know that it's sounding correct, that your taking statewide live entertainment tax collections and then dividing them by Las Vegas visitors, but when you go and look at it in FY 2008 and FY 2009, Clark County accounted for approximately for 97% of the state LET collections. What you need to keep in mind here is that's all we have, your forecasters is the collections, we don't have any information on the shows or how many people attended those shows or the average price per show. All that's required to be reported to the Gaming Control Board is the live entertainment tax collections so that puts us in a less than desirable position as a forecaster to just have the dollars and not have anything that drives those dollars. But be that as it may we still have to produce forecasts to present to you and so I've chosen to look at it as collections per visitor and then look at it in inflation adjusted collections per visitor. So you can see at the bottom half of the table there's the visitors forecast that's been discussed so then we use the consumer price index forecast that comes out of Moody's baseline US model, and so we are actually down, you know this follows the gaming percentage fees, the visitors have sort of started to increase the past few months but the LET collections per visitor are down. Well when I started to go in and look at it, Mr. Streshley had pointed out to me that with the passing away of Danny Gans that took that show off, and now their going to try and replace it with I believe it's Garth Brooks, I don't know what the offset will be for that. But, it is interesting that when you go in and start to look at the LET collections and the LET collections per visitor there is a more substantial decline starting in that May period, so when, if Garth Brooks is supposed to start coming online there could be some offset then to loosing that show compared to that show replacing. But I believe that in the near term here it's probably still going to be relatively negative. So you can see that I've got the LET collections on an inflation adjusted basis per visitor declining about 9% in FY 2010 and an additional 1.6% in FY 2011. So given then the 2.4% growth per visitor in FY 2010 and the 3.3% growth per visitor in FY 2011 that ends up translating into, once you take account for the CPI growth there, which is modest, less than 1% in FY 2010 and 1.5% in FY 2011 we end up getting a 6.1% decline in FY 2010 for LET. Fiscal year to date its down about 11.3% through the first five months and then this is being compared to being down 7/10ths of a percent through the first five months of FY 2009. So you need to average approximately about a -1.7% over the last seven months to hit the forecast at -6.1% and that's against an average of a -12.7 over the last seven months of FY 2010. And so statewide looking at it, again this is statewide LET collections per Las Vegas visitor, there actually down 12.2% through the first five months of FY 2010. And so that would mean that they need to decrease an average about 4.7% over the next seven months to hit our forecast. And so, with that you can see the table, and I will try and shorten this up and I will answer any questions members may have.

Chairman: Any questions?

Linda Rosenthal: I have a question kind of for anybody, just going back to the logic we just employed on the Gaming tax, given the ticket price, I don't know Matt with your experience, and given the ticket price do you think this would be less impacted by a locals market?

Matt Maddox: Yes, I believe this would be less impacted by the locals market; this is much more of a tourist market. But, I think you made the accurate point that the shows schedule is lighter with the big concerts, there aren't as many coming through. Garth Brooks is performing fifteen weeks a year on weekends, so that's a lot different than six days a week. So I think there are going to be significantly less shows actually over the period, which is what you forecasted.

Chairman: Mrs. Rogers.

Janet Rogers: My forecast is done very similar to the way that Russ has done. The one difference being that I actually forecast the year over year change in inflation adjusted LET per visitor to remove stationarity. The model or my results are again predicated on the fact that our consumers are going to be unwilling and unable to pay very high prices. My model includes a component for the inflation adjusted home price index, that's sort of a measure of the allure of Nevada to people coming here, a proxy for residents' perception of wealth for their contribution toward the LET. I use inflation adjusted gaming drop as one of the variables, again a proxy for the visitor's perception of their wealth, a dummy variable and then the standard in pores 500 index, which is another measure of consumers' perceptions of wealth. The forecast in discussed on page 7 of my handout, the details are presented on page 8. Very similar results to Russell's and to Frank's and I would be happy to answer any questions.

Chairman: Any questions for the three forecasters? Anyone? Any discussion? Okay, Matt.

Matt Maddox: The one thing that's quite different is 2011 again, so is it just the same theory as the gaming, just between agency's Budget and Fiscal?

Janet Rogers: Again, we use the same philosophy that we'll see continued growth going out through 2011 as visitors keep coming and again, I don't have the exact dollar amount, or percentage, but probably 90% of the taxes collected on the strip, at the large shows, etc. So again, our forecast is based upon that we assume growth out through 2011 on the strip.

Matt Maddox: And do you know if there are other shows that are, I mean just in talking to other operators, I know what were doing at Wynn, but…

Janet Rogers: No, and again that is why this tax is so difficult because we don't know schedules I mean we know the Circ shoes etc., but some of the other shows we don't know what the duration of some of the schedules is going to be. We don't know what ticket prices are.

Matt Maddox: Particularly, what is Caesar's Palace doing? Have they told you? Per chair? I mean there is a lot of a person it seems like leaving.

Janet Rogers: No, and that's the difficultly of this tax. Yes, we know that maybe going forward by a year, but again sometimes shows just drop off or new shows are added, but the majority of the new shows are added to set those showrooms up, as you know

Matt Maddox: It takes a long time.

Janet Rogers: It can take six months to two years to set up.

Matt Maddox: Yes, at least. That's exactly right.

Chairman: Anyone else? Okay, I would like to entertain a motion to forecast independently, one of each, first the 2010 Live Entertainment cost and then we will talk about the 2011, but let's bifurcate those obviously. Is there a motion on the table? Linda.

Linda Rosenthal: In giving the closeness of the three budgets for lack of any better reason, I would propose that we go with Budget Division's as it is in the middle. I make a motion that the fiscal 2010 LET Gaming tax revenue be 104.7 million.

Bill Hartman: I will second that.

Chairman: Any discussion on that? Okay, any motion on the 2011? Oh I'm sorry I jumped ahead. I would like to ask who's in favor of the motion, a vote please in the affirmative. All opposed? Motion adopted to go forward with the 2010 forecast for Live Entertainment tax of $104,700,000, a decrease of 6.9% and going with Budget's number 2011, 2010 excuse me. Now I'd like to bring up for a motion, what were going to do on 2011? Would anyone like to make a motion on that?

Bill Hartman: I am going to move to once again go with Budget of $104,200,000. My thoughts on that is when you take, and again I am looking at this in both years, when you take both agency and budget and you take first and second year and you add them together you get close together, so I will go along with the $104,200,000 is my motion.

Chairman: Okay do I have a second on that motion?

Matt Maddox: I'll second.

Chairman: Any discussion? Seeing none, all in favor? All opposed? Okay, motions adopted. I will restate the motion that we forward with Budget's forecast for 2011 at $104,200,000 for a decline of -0.5% for the Live Entertainment tax. Okay, next up were back to the 2% sales tax, Russ; or Dino?

C. State 2% Sales Tax

Dino Dicianno: Good afternoon chairman, members of the Forum. For the record, Dino Dicianno, Director for the Department of Taxation. If I could beg your indulgence for just a moment Mr. Chairman. Everything that I am going to start off with will probably flow through all the other taxes that you're going to be looking at today that relate to the Department of Taxation. If I may ask for that little bit of indulgence Mr. Chairman.

Chairman: Yes, go ahead, thank you.

Dino Dicianno: First of all, I need to inform the Forum that you were used to a fixture here, her name was Lynn Knack; she has retired so I guess you will have to get used to me. The other thing that I need to make you aware of is that the Department does not have a full time status station or economist. Actually, your looking at the individual who has the only formal training in mathematics and economics at the Department. I decided not to go full time economics because it is truly the dismal science, and after being here since 9 o' clock I just proved my point. So I decided to become the tax guy, which was less dismal, you go figure. And with that, seriously Mr. Chairman, members of the Forum, I have asked the staff to provide you with a copy of the Departments annual report for fiscal year 09. It was just released on the 15th. For those of you that are listening on the web, it is out on our website, you can take a look at it. I will not spend a lot of time on it Mr. Chairman, but I would like to point out, and if you wouldn't mind turning to page 1 which is the synopsis, which is the letter that goes to Governor on the 15th of each year. If you go to the right hand side and just look at the percentage change, for all the taxes that the Department administers with the exclusion of the estate tax, and I will talk to you about mining here in a moment, every single one is in the negative column. This is the first time in the 27 years that I have been with the Department of Taxation, that I have ever seen statistics like this. Now with the respect to mining, and I think there has been discussion earlier here today that probably that is one sector from a labor market standpoint, from an employment standpoint, from a pay scale standpoint, is probably the only shiny light in this state right now. Everything else is in the negative column. Now with that Mr. Chairman, basically what we have done with respect to the 2% portions for sales tax and all the others including modified business tax and the other ones that we are going to be discussing here shortly, we took a very simple, simple approach. We tried to trend what we knew based upon the historical data that we have at the Department. To be quite frank with you, it is unprecedented; we can't make very good estimates out of what has occurred within the last 26 months with all the reported figures that we get, not only with respect to sales tax but everything in general. So what we tried to do was try to shorten the period in as much as what we know is occurring out there, from a retail standpoint, from a consumer standpoint, from a housing standpoint, from a labor standpoint, and what I can tell you is that it does not look very good. What concerns me the most in developing the projections that we've done for the 2% portion, is I went back and looked at our, what we refer to as our Nevada business registrations, all the way back to fiscal year 05, and looked at each fiscal year to try and determine what is happening out there. And what I am going to talk to you about is, we have new businesses come forward that have to register for the Department in order to be able to conduct their business. Also at the same time we have what is referred to as the churn. And by the churn I mean there are businesses that are going out of business that we have to deal with and close. So for fiscal year 05 and let me back up a bit, what I am going to get at is, what I am trying to indicate to you is what has been the net gain or loss associated with those business registrations going all the way back to fiscal year 05. In fiscal year 05 we had approximately 46,000 new businesses register with the Department, at the same time that fiscal year we only had 22,000 closed. In fiscal year 06 we had approximately 25,000 open, 13,000 closed. Both of those fiscal years were net gains. Starting in fiscal year 07, this is where it changed, we have almost 63,000 new businesses register with the Department, we had 92,000 businesses close for a net loss. In fiscal year 08 there were approximately 59,000 new businesses registered, we had approximately 85,000 close, a net loss. In fiscal year 09 we had 51,000 new businesses register with us, we had 70,000 businesses close, again for a net loss. Now, what I am going to use that for is to try to fashion what we have done with our projections. If we go back and look at the net loss starting in fiscal year 07, it was about 30,000 in fiscal year '08 it was about 26,000 in fiscal year '09 it was about 19,000. What that tells me is that there is some improvement, but overall there is a net loss in the growth business in this state. So for us when we looked at the projections for the 2% sales tax, we do realize that we've experienced double digit negative return not only from the taxable sales standpoint, but from a revenue standpoint and I don't see much of a change going forward. I do see some glimmer of hope, there are certain sectors within the economy in this state that are starting to rebound but the problem is without construction, which is a major driver, and without automobile dealerships selling cars, we've got a long ways to go. And if there isn't job growth, there isn't the disposable income to purchase discretionary items, it just doesn't exist. I don't mean to be that gloomy, but that's the reality that we live in. So, for fiscal year '10 were estimating a percentage drop of approximately 12% and were estimating approximately 743 million dollars with respect to the general fund portion of the sales tax which is 2%. We do believe that there will be some rebound in fiscal year 11. We don't believe that there will be continued double digit negative growth but we will still have negative growth. So for fiscal year 2011 we estimate that the amount of general fund revenues associated with the sales tax, the 2% portion is approximately 710 million dollars. The reason why I believe there is some glimmer of hope is that we are going to release our November sales statistics on Monday, now I have those numbers with me here today. We have experienced in the past probably on average, 18 to 19% drop month over month in taxable sales and probably similarly associated with the revenue. Right now it is looking at 12% drop, November of 2009 versus November of 2008. What I would not take from this is that it is a rosy picture, but I would tell you that, that to me is positive. Hopefully we are not going to continue month over month double digit drops in the range that we were experiencing at that time. So with that Mr. Chairman, if you or the members have any questions for me I would be more than happy to respond.

Chairman: Thank you Dino and I'm sure your colleagues to the right would like to say thank you for you joining the dismal scientists sitting next to you for your presentation.

Dino Dicianno: Thank you.

Chairman: Questions please from anyone? Mike.

Mike Alastuey: Mr. Dicianno, this is Mike Alastuey, did you say that your new number which you carry close to heart would represent a 12% decline year over year or year to date over year to date?

Dino Dicianno: That is month to month.

Mike Alastuey: Month to month, year over year.

Dino Dicianno: That is correct.

Mike Alastuey: Thank you.

Chairman: Mike go ahead.

Matt Maddox: Hi, it's Matt Maddox for the record. So year to date including the 12% how is the fiscal year shaping up? Where do we stand right now through November? Year to date?

Dino Dicianno: Unfortunately I don't have that number year to date.

Matt Maddox: But it's significantly more then your forecast of 11.8, for the fiscal year of 2010?

Dino Dicianno: It was definitely considerably more.

Matt Maddox: It's in the 16 or 17% range I would think.

Dino Dicianno: I believe for fiscal year '09 is was approximately 13%.

Matt Maddox: Okay.

Chairman: I think what Matt is asking year to date, fiscal year to date is closer to 16 or 17% but I know you don't have the numbers.

Dino Dicianno: That is correct, I apologize. It's more in the range of 18 to 20% rough.

Chairman: 18 to 20% from July through November?

Dino Dicianno: That is correct.

Matt Maddox: So to get from 20% drop through November to an 11% drop for the full year, I guess I am just trying to understand.

Russell Guindon: I can answer Matt's question. So if we take November of 2009 which was down 11.1% and take that times the 12% decline, then that would mean fiscal year to date were down 17.8% compared to being down 5.5% fiscal year to date in FY 2009 through the first five months.

Chairman: For that same period.

Matt Maddox: So if we're down 17% through the first five months and were forecasting that we will only be down 12% for the year? I am just trying to understand, I just want to understand the next seven month decline, you know month over month.

Dino Dicianno: I understand what your asking. I believe that there will be some growth and it will diminish the drop from that average of approximately 17% to about 12%. I am just saying that there is going to be some growth. I am not saying that we are going to get into the positive range or positive growth in revenue change, absolutely not. That is not going to happen.

Linda Rosenthal: Mr. Maddox actually in Janet's presentation on page 10 she's got a quarterly breakout of the numbers which might help you.

Chairman: Dino let me ask you a question while everyone is looking at the numbers if you don't mind, you indicate that you anticipate some level of improvement in the remaining seven months right, seven months of the fiscal year, where do you see that improvement? Do you see that improvement in the local residence spending or the tourist spending, where do you anticipate that improvement?

Dino Dicianno: I believe that there are certain improvements, Mr. Chairman again for the record Dino Dicianno, what I'm seeing is that there is some stability and flattening out in some of the sectors. I know that Russ had gone through the graphics with respect to some of the different sectors under the NAICS definition that we have data. I believe that there is still, like you probably saw in the sporting goods area, people are staying home, their purchasing items for recreation at a local level and not necessarily traveling. I think there is some glimmer of hope within the automobile sales that are starting to pick up a little bit. I think what helped is the 'cash for clunkers,' that was part of it. But what is not going to be positive is under the use tax collected with respect to construction and some of the specialty trades associated with that. You might see some additional spending, there is always the spending associated with the necessary needs that anyone purchases to just basically live, but their not going to spend a lot on discretionary items like maybe additional flat screen TV's, things of that nature. I mean, their going to just do what they normally do and that's about it.

Chairman: Thank you Dino. Any other questions for taxation? Okay Russ, your turn.

Russell Guindon: Fiscal Analysis Division's forecast for the state's sales tax begins on page 27 of the Fiscal Analysis Division packet. So this is one of the revenue sources that we actually do use econometrics and do lease square regressions. We did this last May, it's been I think a challenge and I won't speak for the other forecaster's but as I was pointing out the last three to four quarters have been unlike any other history, so even I think sometimes regression analysis has a hard time trying to find the relationships between variables that you think that would make sense and then when you actually estimate the equation. And so, I have actually had to go through and change my equation a little from the one in May based on now having three or four more quarters of history from both US data, state data and actual taxable sales reported by the Department of Taxation. The Fiscal Analysis Division's equation that they use is its inflation adjusted taxable sales that, their seasonally adjusted, that's divided by the same variable, the same quarter a year ago. So your modeling the change in taxable sales in a sense compared to a year ago and so that's modeled as a function of the personal income, excuse me, inflation adjusted Nevada personal income, Las Vegas visitors, existing single family house sales in Nevada, new car registrations and this is a series that's put out and we also get forecast from Moody's it's new cars and light trucks, new registrations, and also construction employment. And so all those variables ended up being statistically significant, trying to think about variables that might affect taxable sales. Sometimes as you now, in a regression analysis sometimes it's hard to get sort of everything you'd like in there, but you do the best that you can. Before I really go into our forecast, sort of like Janet, I need to set the stage for us for sales tax it also goes into NBT and insurance where were doing regressions. If you could turn to page 36 of our packet you'll see a chart here that shows Nevada total non-farm establishment employment so the chart before that one shows you more history so you can see what's going on but it's much easier to see in this detailed one what's going on. So I just thought, we did this at the main meeting it helped me, it sort of helps the members of the Economic Forum that the blue line is the global insight November 2008 forecast, the red line is global insight November 2009 forecast. So these would have been the ones that were used to produce the forecast that this body considered back in December 2008 and May 2009. Now you can see, here's Moody's, we've got Moody's 2009 forecast, and we had our concerns that it might not be pessimistic enough when you look at it. But what you can see is as Bill Anderson talked about, using the covered employment there is going to be this benchmark that is going to occur. So what we did is we took the data that Bill Anderson was able to provide us and went back and adjusted the history for what we think the benchmark is going to be using that. Then we used Moody's growth rates and so that's the yellow line. So that's the employment outlook that we use in our taxable sales equation is that yellow forecast. So you can see it shifts down a lot here historically and then in the few quarters, but then it parallels Moody's because were using the same growth rates for the out period. Were just adjusting the take off point because we know the employment is going to get revised down based on the data that Bill has and he is going to provide it to the Bureau of Labor Statistics and they are going to benchmark their employment series down. So you can see based on theirs that they think the trough is out here somewhere probably around the second – third quarter but it comes down and it just sits there flat and then you finally get some growth in the first and second quarter of calendar year 2011 which would be the last two quarters of FY 2011. Also what we did is we put in, that's DETR's forecast there, the green line, if you took Bill's growth rates and took them back and applied them to the adjusted benchmark series then that would be the outlook that we did. So then the other charts are, what we did is took that yellow line for employment and said 'well let's take Moody's average wage per employee and you can rebuild a wage series and then you can take that and rebuild a personal income series based on this lower employment path. Thus, you can look at the other charts, their going forward if you'd like, is that on page 37 or 38 are the personal income outlook, so you can see it shifts it down there on page 38 with regards to adjusting employment down. Now, as you now, this is not the perfect world for a forecaster because what you'd really like to do is take that lower employment series and run it through like Moody's which probably has a simultaneous equation structural model. That as you pull employment down it will let the dynamics work through right, but we don't have their model, we don't have that ability, but we at least wanted to make the adjustment for employment and then wages and personal income. The next chart is wages and then the last one is non-wage and that's sort of the interesting one that you see the green line, you can see that the Bureau of Economic Analysis has revised, this is on page 41 page 42, that they revised this component of personal income all the way back to the 1990's even back, there's a little bit before 1990. And what we've gone and looked at, this was transfer payments, was where the revision and so this caused me pause because as Bill Anderson talked about this morning in his presentation, the federal government has been continuing to extend unemployment benefits. What's that do? It goes into transfer payments, components of personal income which is in this non-wage piece and so that's holding personal income up because of the transfer payments right. So then the question becomes what's going to happen if the feds ever decide to quit extending unemployment benefits, right? But I don't have the ability to run that through my model. Then I guess as an economist I also start to sit here and wonder well do transfer payments really influence taxable sales a lot, right? Because these are unemployment benefits they are other sort of probably social programs that are receiving money, well I'm sure that some of that goes to taxable sales, but probably in an economy like this a lot of it goes to probably food which we don't put the sales tax on and room and board those types of things. The funny thing is we are in a regression trying to break out wages, non-wages and transfer payments and you find that transfer payments isn't a statistically significant explanatory variable for taxable sales. I choose not to use that equation because you get into other issues of econometrician that I wouldn't get in here. So this is the yellow lines that we use for employment, wages, personal income, that went into the model here. And what I didn't plot here, but I think you saw probably from Bills chart, he's got construction employment falling very dramatically. So if I could now have you turn to page 29 that's where you will actually see the taxable sales forecast. At the bottom half is on a quarter to quarter basis and then at the top is just what you see in fiscal year in terms of the forecast during taxable sales and then the collections that come from that by applying the 2% rate and making the adjustments for the taxpayer collection allowance. Then I put there the average collections per employee. So again, this is using that yellow line, what were calling Moody's benchmark adjusted forecast. What we do is take and run that green line and the adjusted employment for that. When we ran that we ended up getting a forecast, well first let me pause you can see the forecast under Moody's benchmark is a 13.4% decline or about 729.8 million and the thing that caused me pause when I ran this equation because I like the equation econometrically it seemed to have pretty good statistical properties, but when it forecast I got a -14.3% decline in the first quarter, that is FY 2009 fourth quarter and I remember at that point in time I only knew October, so I knew one month of the quarter and then for the actual collections they ended up implying a -13%. Well when I went in and put that in that said 'given that you know October what would it imply that November and December have to be to hit that for the quarter, it was going to half to be about -12%. So that was my concern, are we going to be doing double digit negatives against double digit negatives and now I have one observation that can occur and the 12% is what I need to hit at. So now when I put that in, as I was sitting here playing around with my computer, now that I know that November can be that -12 now I need -12.2 for December, but that is going against a very weak December a year ago, it was down 17% a year ago. I at least have one more observation now that the -12 wasn't out of line, so in a sense I was worried that maybe this thing was pulling down too hard on the front side, now there is some information that it's not. So then you can see the rest of the forecast that comes out of there that it would then only decline 3/10 of a percent in FY 2011. And the Fiscal Analysis Division made the choice after seeing Moody's that it might be a little optimistic but then adjusting it for the benchmark, thinking the trough in employment could possible be out there based on Moody's and somewhere in the third, fourth quarter of this year, somewhere probably around the third quarter that we decided to run that forecast and bring it forward so that you could see a forecast that came out of Moody's forecast which we pay money as a contract to produce forecasts for us, but I'm not faulting Moody's, they'll see the benchmark probably in March or April when they'll get it incorporated. We just, because of Bill Anderson was nice enough to provide it to us and present it, we can incorporate it now in a sense. But I did take the DETR's forecast and run that through and it doesn't change things too much for FY 2010. It's 729 million or a 13.5% decline compared to the 729.8 or the 13.4 because remember when you looked at the green and yellow lines, the difference really, the wedge get outs there in FY 11, so when we run that through, its 677 million I mean it 676.97, that's a 7.1% decline. That caused me the pause that could it be that bad, yes. The question came to me that probably the things that's driving that big decline here is remember I have construction employment in there as a proxy to try and capture construction activity because it's hard to get some of the other construction measures in there and with Bill having it come down so dramatically then it's pulling the forecast down and Janet said she went with DETR and you can see it's pulling it down below the methodology she used for DETR but I will let Janet go through that. That's all I just wanted to go through that that's what we did is took the Moody's, adjusted it for what we know is probably going to be the benchmark, ran that through, decided to put that in the sheet so that you could see it because I just had concerns that perhaps when I ran the DETR forecast through that econometric equation it was maybe pulling things down too much out in FY 2011. But I did want to tell you what the numbers were so that you could see what came out of that methodology.

Chairman: When you did the DETR numbers your -0.3 went to a -1.7 is that what you said?

Russell Guindon: Excuse me, in the second year it went to basically 676.97 million or a -7.1% decline.

Chairman: -7.1% okay I had it reversed.

Chairman: Any questions for Russ? No questions, Ms. Rogers.

Janet Rogers: I would like to point the Forum to attachment one again. If you look on page two of that attachment, it's a variation on the information that Russell gave you regarding statewide sales. I offer this mostly as background, I do not try and break out the sales tax forecast by sector. Just to go through very quickly, this is the last twelve months of the data that we have received, it is by the major three digit NAICS categories so it's not the same breakout that Russell gave you. In some cases I have lumped some of them together. For each category you have year over year change, the share of total taxable sales that, that particular month represented and then the rank of what that share is. For example, for food services and drinking places that's number one consistently, you can see that in miscellaneous retail and non-retail stores the rank has varied, you can see motor vehicles which have just been tanking at rates that if I made it up nobody would believe, so I offer you that just for background information. If you turn to page 4 of that same attachment it shows you the historical data for inflation adjusted, again this is average daily sales tax receipts and I do daily because between a February and a March that's actually a 10% difference in the number of days so this normalizes things. You can see from that on inflation adjusted basis in October the actual level of retail sales and used tax receipts are the same level on an inflation adjusted basis as we were in January 2003. The top of page 5 of that same handout shows the year over year change that's represented by the chart on the facing page. That's just by way of background for you as you digest these numbers. Given that the bulk of our retail sales comes from food services and drinking places, which is essentially your restaurants and your bars, you're looking at a very large percentage of our retail sales. Again, depending on discretionary spending. The model that I am using which is very similar to the model that Russell uses is showing the weakness that you would expect given the weakness that I am projecting for the US consumer and the Nevada consumer over the course of this biennium. The forecast itself is listed on page 10 and what the forecast is for a decline in the sales and use tax of 12.1% in FY '10 and this is again, as the year progresses we are going to be continuing to fall but falling from a lower level, and then a 4.7% decline. I think the difference there is that I have a much weaker perception as to how both the national and the state economies are going to do. Given the size of our visitor volume, the national economy really does play in quite a bit into what our sales tax receipts are going to be. With that, I would be happy to answer any questions.

Chairman: Do we know at the state level, may be difficult to answer, what sales tax are attributed to tourism versus Nevada residents? The distribution? Is there any way to calculate that do you know?

Dino Dicianno: Unfortunately we don't have those statistics. The reason why we don't have those is that when a business reports it's basically reporting by county regardless and it's difficult to extract that from the returns because we don't ask for it in that format. I know there have been studies in the past trying to estimate that, but off the top of my head I don't recall what that was.

Chairman: Could we get some kind of minor proxy I guess by seeing retail expenditures tax collections from the strip? Obviously they wouldn't report it that way but I'm just curious.

Dino Dicianno: I have to be very careful when I start talking about individual businesses, I mean I can talk about individual sectors, but when I start getting into individual businesses I get into a confidentiality issue within the statute. In the conglomerate, yes if you were to ask us to go back and look at those businesses that are located on the strip I would probably be able to tell you in the aggregate what that might be.

Mike Alastuey: I have a question for Ms. Rogers, noticing your estimates of 740.4 and 705.4 you indicate that in some portions of your written presentation that you relied on Moody's but you indicated earlier that you departed from Moody's for purpose of deferring to DETR's employment numbers. Do I recall that correctly? Okay, well I was looking at the Moody's sales and use taxes and in adding the fiscal year '10 quarters one through four in the Moody's presentation, unless I am misaligning the numbers, I come to exactly the number that you are suggesting for fiscal year 2010 which might, unless I am mistaken, indicate that you did adopt Moody's and anything that is implicit in their assumptions for the first year but incorporated the departure in the employment statistic in some fashion for the second year. That doesn't even rise to the point of speculation, but you see my question especially because the chart that Mr. Guindon provided on page 34 shows the two graphic representations of jobs diverging before that time.

Janet Rogers: I think I may be able to actually come up with a theory that might make sense. I actually spoke with Moody's regarding their employment forecast because of my concerns that it was not reflecting the UI data, the QCEW data that is more accurate. They listened to me, they went through and actually ran the states with the four largest survey results, those are the ones that Bill Anderson referred to as being the most timely, and then compared those with the QCEW data. They found that all of the states were tracking very, very close between the two except for Nevada. We discussed whether or not they should be reporting the QCEW rates rather than the CES and because their trying to match a published CES theories they said no they did not want to do that.

However, I do believe based on our discussions that they may very well have taken their taxable sales forecast and made the adjustment that was required based on the fact that they recognized the data is going to be re-benchmarked. The difference then becomes where they think employment is going to go after calendar year 2009 because they know what the benchmark should look like for 2009. I think what their seeing in 2011 is a faster pick-up in Nevada's employment then Bill was saying. Does that sort of make sense? No, okay I think the basic is that I believe that their sales tax forecast is based on numbers very similar to Bill's employment numbers even thought the employment numbers that they are forecasting are different.

Mike Alastuey: When I add the second year sales tax numbers from their table on page 7 I come up with something in the neighborhood of 40 million dollars more then the amount that you suggest. I understand that you need to have interchange with Moody's and other services to which you subscribe, but I am looking at page 7 and it's 740.7 versus 744, I am comparing the 744 versus the 705.

Janet Rogers: Yes, so I think that their forecasting stronger growth in that out year but I don't think it's entirely based on employment. It's based on other things. I think they see the uptick in Nevada's economy as occurring sooner then I do. The forecast they publish will be adjusted down come March when that particular series is officially adjusted, but I believe that the numbers that they are using based on the discussion that I had with them is very likely to be the adjusted numbers when they are actually doing their forecast. But you right, their forecasting a stronger year.

Mike Alastuey: So you bought their number in the first year but you're wrestling with them on the second year number?

Janet Rogers: No, I'm saying that they bought my number in the first year and they came up with a more positive outlook in the second year.

Russell Guindon: Mr. Alastuey, I might be able to address this. Looking at that page, page 8 of 9, they were nice enough to provide us here at the bottom, table 2, their regression equation. So their modeling the sales tax revenues as a function of Nevada retail sales, this is a census series that's put out so they can look at the history and then they forecast that. We actually have access to this part of our forecast service. I actually tried looking at their Nevada retail sales and tried running it against taxable sales, I didn't have a lot of luck with it because I think, remember you've got stuff in retail sales that we might not be picking up in out taxable sales. I didn't like the equation and the fits and the stuff that was coming out of it, but I did try. Again, Moody's could have better luck with it, I want to be very careful here because were under contract with Moody's to do this and their not here to talk or defend their equation. We hear it from fall meetings. But then their second variable is US personal consumption expenditures on recreational services and then their third one is Nevada housing completions. So those are the three variables that their using in their equation. Then when you go up to the top box Mr. Alastuey and you look under forecast drivers you can see their Nevada retail sales is that it's only forecast to decline 1.7% in FY 2010 and then grow 2.8% in FY '11 and then US personal consumption expenditures are actually forecast to only decline a half a percent in FY 2010 and then increase 2.5% in FY 2011 and then we don't really have anything good to say about Nevada housing completions there, so that's probably why their getting the pull down and they end up sort of close to where Janet is I guess. That could be more of an anomalous event then it is that they got an equation like Janet and Janet's using the same data and all that. That's just where their three variables in the forecast form and the estimated coefficients came out at 740.7 but then because you see they got growth it probably ends up outweighing the declines that you see in housing completions and you can see that's probably true down below because the coefficient on housing completions only point to one and I don't know if these are elasticity's but you can see the estimated coefficients on the other two. So the growth out there in the other two is outweighing the drop in completions and that's probably why the net is you get a little bit of growth in FY 2011. And I apologize that's sort of a econometricians talk, but when I looked at it that's what's going on and I saw a few heads nod up there that could be tiredness or it could be yeah.

Chairman: Thank you Mike that was a pretty important observation that you made and I think that's really interesting to see what happened there. Janet, correct me if I'm wrong, in 2011 you went to DETR as more of your main focus on your retail sales and then Dino, what is your thought process for 2011?

Janet Rogers: I adjusted my employment forecast which independent of DETR is very close to theirs. Given that I was very close, I was very comfortable with the forecast that they came up with, so I went ahead and made the minor adjustments that were required in my employment forecast.

Chairman: You say minor, what was required?

Janet Rogers: Mine was turning around a little bit sooner then theirs was. Looking at what happened in the 2001 recession and evaluating things based on that I was perfectly willing to say that under the circumstances maybe being a little bit less aggressive and less soon turn around was better. It was a very small adjustment basically toward the very end of fiscal year 2011.

Dino Dicianno: Mr. Chairman to answer you directly, basically all we did was try to trend what we know. If that did take into consideration some of the comments made by Russ or Janet they have been included, although we did not specifically try to draw them out. If I may Mr. Chairman, there are a few things I would like to add before you go forward with the 2%. I think it's important to keep in mind first that on both a national level and a statewide level what you are seeing is that the purchases of tangible personal property which is subject to sales tax is diminishing. The purchases associated with services are going up and services are not taxable. The other item is that there is an ongoing discussion with respect to purchasing products online. The convenience of going on the computer and getting on a website, instead of having to travel to a store and they do comparative pricing on their computer and purchase items off the web. As you all know, remote sellers are not subject to sales tax. That's why Nevada has been involved heavily in the initiative with respect to streamline. There is a bill that has been drafted at the federal level, but it has not be introduced. Until all this business with health care and the financial institutions is settled I don't think you will see much movement in that but unless Congress acts the states will not be able to share in that revenue associated with the sales over the internet. I just wanted to add that, thank you Mr. Chairman.

Chairman: No, Dino I am glad you brought that up before I did because I think that's a very critical point. There are major cultural and technological changes that are occurring around the world that are affecting Nevada and that is the size of the service economy, the non-basic service part of the economy is growing at the expense of the durable goods economy and that's just the reality of life today. And you are right the growth of internet sales over the last few years has just gone through the roof so that's something we need to factor in. It takes us beyond saying when do jobs return and when does consumer spending return because it may return, but it may return to a different venue that is non-taxable. That is something that we really need to consider in our deliberations.

Dino Dicianno: Mr. Chairman, if I may I beg your indulgence. I had a quick conversation with Russ here. I do want to make it clear for the record that if one of those remote sellers does have nexus here, I mean you've seen Barnes and Nobles, you've seen Amazon.com, and they do pay sales tax for purchases made by Nevada residences. Under streamline there are a number of voluntary sellers that have come forward and are paying the State of Nevada. It is a small amount, but they have come forward. But unless Congress acts, we're not going to get the big money.

Chairman: Well here it is before us, any other questions? Observations? Matt.

Matt Maddox: Based on the 2010 and '11 forecast for sales tax what level are we going back to? The history I have only goes back to '05. Are we going back to '03, 98'?

Janet Rogers: Is the plot on page 4 of the Silver Sage what you're looking for? That's inflation adjusted.

Matt Maddox: Inflation adjusted back to '03?

Janet Rogers: Yes.

Matt Maddox: Then as it continues to decline; in your forecast it looks like your going back to the late 90's.

Janet Rogers: Yes I believe that would be correct. I think that the 12% decline that Dino was just talking about will probably take us back pushing that just with the actual.

Chairman: Any more discussion? Questions from the staff? Russ, did you want to say something?

Russell Guindon: No, I thought that Mr. Maddox was asking that if you look at the 705 what is that compared to how far back we'd have to go. So on page 29, 1A I have the fiscal year collections for the state sales tax going back to fiscal year 96', so there really wasn't a 705 but you can see FY 2003 was 680 and then 2004 was 775 and remember the charts that I showed you, that's right when we took off. Had we not done the takeoff that we did in '04, '04 might have been around that level by guessing.

Chairman: If there is no more discussion I would like to move forward and entertain a motion to develop a forecast for the state sales tax 2% for FY 2010 and FY '11. Anyone have a motion?

Matt Maddox: I actually have a question, Mr. Chairman.

Chairman: Okay, Matt go ahead.

Matt Maddox: Can we mix and match or do we have to pick one?

Chairman: Absolutely. We can mix and match or we can come up with our own forecast if we don't agree as a group.

Matt Maddox: Just so I understand, the jobs data that came out today and the sales tax declines that came out today, did you have those numbers in advance? The December jobs you did not and how was that compared to your forecast?

Janet Rogers: I don't have it recorded there.

Matt Maddox: Fairly close, okay.

Russell Guindon: For me, I had stated that given my forecasted decline of 13.3% for the quarter that I needed a -12% on average for November and December. So basically I have the first -12 and then when I put that in, that would mean now to hit the quarter it needs to be -12.2% for December against that -17 a year ago.

Matt Maddox: I just did some quick math and it looks like for the next six months it would need to be down 8%. Declining at 12% I know it's off a much lower base.

Russell Guindon: I think I may have calculated it. I haven't had a chance to put the November number in but based on the fact that the November number was fairly close to what I needed then for my forecast for 2% that since collections are down 19.1 and now they are done 17.8 after November, then I would need to average about a -10.1% over the next eight months to hit the forecast. So that would probably be close given that the 12 was pretty close to what I needed.

Chairman: To get to your 13.4 you would have to do about 7 or 8 for the remainder of the period?

Russell Guindon: Yes, that would be the correct interpretation as close as we can get without me actually plugging all the numbers in the sheet.

Matt Maddox: Just a quick question for all three of you. This one to me feels like its most at risk because of the state of the locals in the State of Nevada. That we could really see significant declines. Do you share my opinion?

Janet Rogers: Yes, I agree with you. I am a little bit more optimistic in '10 than Russell and more pessimistic in '11. I think that if I had to guess which way 11 was going to be, this is clearly my best forecast, but if I were going to bet I would bet that it's going to come in below it.

Russell Guindon: If I may respond to your question Mr. Maddox, like I said I was concerned that maybe it was a little too negative here but now I have some information that the takeoff part of this current quarter is not too bad, but I absolutely do agree with your statement that again, we can talk about this dichotomy that even if visitors pick up they may come, but if they are still on a budget, that could soften the rates of decline because of the visitors coming and spending compared to a year ago. But, you've got the 2 employment forecasts, the one like I said so you could see the forecast generator Moody's and what that means and then you've got sort of the ones that come out of DETR that without people having jobs you don't have wages, you don't have disposable income and then as an economist I think we have to think about the fact that people aren't in really good equity positions in terms of real property equity or paper equity. So there are people that are five years, even eight years, or maybe ten years from retirement their in very different positions then they were two years ago in terms of how they give back. So you can see when we ran DETR's through our equation we got -7.1% decline out there.

Matt Maddox: On top of your 13? The 7.1 in '11 on top of the 13?

Russell Guindon: Yes. That just caused me to pause, so again I made the decision to present to you Moody's so you could see that forecast that came out of it, but then also gave you DETR's so you could see that we did run both but our DETR pulled us way down and I think part of that is because of the impact of construction employment.

Chairman: I think this is a reoccurring issue of consumers rebuilding balance sheets essentially because of the financial duress that they are in and one that they are going to turn around to be reflected in retail spending here in Nevada assuming, correct me if I'm wrong, most retail sales at the gross level are generated by Nevada residents and not visitors. It could be a 50/50 split. That's kind of critical because if the consumer is starting to feel a little better nationally because the economy in general is better the question is will they make up for the lack of spending at the local level. That's what I am struggling with a little bit is which way to go. So the question is will the tourists save us 2011.

Russell Guindon: Remember that the chart showed the eating and drinking places as one of the biggest categories, so can the visitors again soften that? That is what I think we are hoping that we're going to see here and that's when you look at the quarterly forecast. We are still going to have declines but the rates of the declines will start to decrease. It is again that start decreasing at a decreasing rate instead of decreasing at an increasing rate kind of thing. Under the Moody's because they have the trough out there, it starts to come back but you can see it is still down slightly. The last two quarters are really the only two quarters that get positive growth but they are not enough to offset the front part of FY 2011. But again we ran DETR's, and if we would have had more time, you know this is a hard business to do, and as I said you would really like to take that revised employment and run it through a structural model to get all the dynamics. But my feeling when looking at this is that it is somewhere between that yellow and green line that the trough is a little deeper then Moody's but it is a little flatter out there towards the end then DETR. It is just my gut check as an economist thinking that the troughs a little further out and it's a little deeper. It is not going to come back as much as DETR has it coming back.

Dino Dicianno: Getting back to answer Mr. Maddox's question, clearly all we did is try to trend. There is know question that there are weaknesses in the economy. Should you be more conservative? I wouldn't bet against that, bottom-line. To address the question that you brought forward Mr. Chairman, the difference between the locals and the visitors, it depends upon the type of tangible property that's being purchased. Clearly eating and drinking is indicated as a large percentage, so are automobiles but those automobiles are purchased by local residents. If that were to come back it would be a benefit but at this point in time it is difficult to say. You are correct, unless the job market improves there isn't that discretionary income to purchase newer vehicles, brand new flat screen TV's and the like. It is just not there.

Chairman: Thank you. In addition to that, we need to factor in a flat population growth into the equation. Mike.

Mike Alastuey: Yes, Mr. Chairman just a comment. I appreciate Mr. Maddox's question to the estimators as to whether this is one of those revenues that is most at risk, if you will, of the Nevada economy and I agree and appreciated the answers given. Additionally, I would say that part of the tough thing that we have to do between now and close of business today is to digest, in effect, a couple of numbers we have only received today by verbal report and try to incorporate them into what Russ Guindon has characterized as the chasm between two employment estimates. Ours is not to wish nor to receive the best of all possible worlds, but this particular timing could be more fortuitous. Nonetheless, we have a task to do today.

Chairman: Very important point thank you Mike. Matt another observation?

Matt Maddox: I think I tend to agree with you in that I feel like it is going to be in between the orange and the green line. I think if we were looking at all of their estimates and we were to take the Fiscal in '10 and the Budget or Agency in '11 that pretty much will plot you right in the middle between the DETR and the Moody's forecast. Isn't that correct? Because when you ran DETR alone weren't you down 7% in 2011?

Russell Guindon: So if I take the 705.4 and compare that to the 729.8 then that's about a 3.3% decline so it gets you close to in between it is a little more towards the 4.7.

Matt Maddox: Which would be right between the Moody's forecast and the DETR? I'm saying just as a general observation.

Russell Guindon: They are at 740.7, which is very close to Janet's number in '10, and then there is 744 in '11 because remember they have growth in '11 none of the other forecasts have growth.

Matt Maddox: I'm sorry I didn't mean Moody's, I meant in between the yellow and the green.

Russell Guindon: I don't know if I can answer that question because I would have to have an employment forecast.

Matt Maddox: Didn't you say that 2011 would be done 7% if you trended the green line?

Russell Guindon: Correct.

Matt Maddox: All I am suggesting is if we were to choose the 2011 from either Agency or Budget, basically I think you're plotting it somewhere in the middle between the yellow and the green. You would be down 13% in 2010 and 4% off that base in 2011. Do you follow me?

Chairman: Question Russ, or are you working on something?

Matt Maddox: I guess I am taking the worst case scenario between these two.

Russell Guindon: I understand what he is trying to look at. I don't have anything to add to that that will be for the five of you to work out.

Chairman: If you look at your chart on page 40 of Russ's package on the wages. Russ have you done an analysis either on a quarterly or annual basis looking at the total dollars in wages and the total taxable retail sales during those same periods and done some kind of ratio or anything that shows if there are any patterns there that you are able to identify?

Russell Guindon: No, I can't say that I have done anything explicit. I think as Mr. Maddox has pointed out, what we try and do after I have my spreadsheet is that it solves the taxable sales and collections then it runs plots that I just bring up on the screen and look at such as taxable sales per wages, taxable sales per employee, taxable sales per personal income, those types of things just as a gut check to see what it going on. But I did not do a detailed analysis that you are requesting or asking about.

Chairman: Any further discussion at this point? I would like to entertain a motion for the 2010 and 2011 2% state sales tax, is anyone ready to provide a motion on that?

Bill Hartman: I think consistent with some of the other comments and the risk associated with this one and the difficulty continuing to believe that Southern Nevada has significant issues still in front of it. I look back at the visitor volumes and while there is some expectation of some improvement in those it's not significant and I guess if Matt would like to jump in, it isn't clear to me that those additional visitor volumes are necessarily going to come in with a whole lot more to spend, so I am not sure of the effect on food and beverage versus the gaming. In our previous discussion around the gaming I think we approved some numbers expecting that visitors are going to put additional funds into gaming when they come in. Now we expect them to cover significant sales tax shortages as well, I don't know if that is going to make a lot of sense. I am going to move for Fiscal's of 2010 for $729,819,000.00.

Chairman: We can do them together if you would like.

Bill Hartman: I am just going to do them one at a time.

Chairman: Okay, one at a time that's fine. A second on that motion?

Matt Maddox: I will second.

Chairman: The motion before us is to accept Fiscal's forecast of 2010 for 729.8 million which reflects a -13.4% reduction. All in favor? All opposed? Motion is approved. Mike question?

Mike Alastuey: Mr. Guindon, once again reflecting on the two jobs trend lines, within which range was it that you said reality might fall?

Russell Guindon: I don't know if I used the word reality, so first I want to clarify that. What I said was, had I had more time to probably sit down and go through this and think about it, just my gut feeling is that it is somewhere between the yellow line which is the Moody's benchmark and the green line which is DETR. In a sense, I think that the trough is a little deeper, it is a little further out on the timeline and that it is probably flatter out there versus starting to come back. That was my comment. Now if you are going to ask me if it is closer to the green line or the yellow line, that is your reality not mine I guess.

Chairman: I entertain a motion to forecast these 2% state sales tax for 2011. Is anyone willing to make a motion at this time?

Matt Maddox: Just to share my thoughts where I am. I am looking at either making a motion of the lowest or thinking about revising it even further downwards. I am very nervous about this one. I think I could probably be comfortable if we took the Budget Division's estimate for 2011 combined with Fiscal in 2010, but I believe that this could be one of the one's that sneaks up on everybody. I would be interested in the other Forum members' thoughts.

Chairman: Any other questions? Bill.

Bill Hartman: This is Bill Hartman, if you make that motion you will have a second.

Chairman: Matt?

Matt Maddox: I would like to make the motion that we adopt the Budget Division's forecast of 705 million in 2011.

Chairman: Bill?

Bill Hartman: I will second.

Chairman: I will restate the motion. The motion is to accept Budget's forecast of 2011 for 705.4 million or -4.7% reduction. Is there any discussion? All in favor? All opposed? Motion carries. It's now five to four; let's take a twenty minute break till about 4:15.

Recessed Until 4:15p.m.

Chairman: I would like to reconvene the January 22, 2010 meeting of the Economic Forum. We are now going to go to modified business tax of both non-financial institutions and financial institutions. Dino are we ready to start?

D. Modified Business Tax of Both Non-Financial and Financial Institutions

Non-Financial Institutions

Dino Dicianno: I am going to be very brief and to the point on this one. Again, the Department only tried to trend the level of wages and then the associated revenues to come up with our estimates. Basically what we did is we went back and took the total taxable wages for fiscal year '07, '08, '09, and for the first quarter of fiscal year '10 to create that regression line. As speakers before me and I know Russ has indicated to you that there was a legislative change in fiscal year '09 which basically created the two tier system for the modified business tax. That wages up to $62,500 at the 0.5% rate and those wages above that are taxed at the 1.17%. We had to go back and look at those wages that were reported for those fiscal years and try to recast them into that tier in order to calculate an effective tax rate to come up with revenue projections for both fiscal year '10 and fiscal year '11. In a nutshell we came up with an effective tax rate for fiscal year '10 of approximately 1.02% and for fiscal year '11 1.07%. When we applied that and trended it out for the general business for fiscal year '10 we estimated approximately 362 million dollars in revenue and for fiscal year '11 a little over 371 million dollars. I am not going to talk about the percentages because it will just add confusion because the prior periods were based upon the old rate. With that Mr. Chairman, I would be more than happy to answer any questions.

Chairman: Thank you Dino. Just a quick question, does 2011 essentially represent a kind of stabilization?

Dino Dicianno: That is correct Mr. Chairman.

Chairman: Thank you. Any questions from the members of the committee? Matt.

Matt Maddox: I know the percentage change is not relevant but how about the underlying number? Is it up or down?

Dino Dicianno: If you go back and recast the prior fiscal years based upon those newer rates, it is down. We're showing a downward trend.

Matt Maddox: Is the payroll is down 8%, 10%?

Dino Dicianno: I don't have the exact percentages Mr. Maddox. What I can do is draw some inference. Clearly, back in fiscal year '07 the overall taxable wages were considerably higher then they are right now. So, that percentage drop is significant as far as I'm concerned.

Chairman: I would like to refer the members to go to page 56 of Russ's packet. It shows the quarterly changes in the non-financial MBT, in table 1. That may help.

Russell Guindon: Mr. Chairman, I can answer Mr. Maddox's question. I took Dino's forecast for FY 2010 and divided it by his average effective rate and I think it is about a 11 or 12% decline. Mr. Chairman, I also think page 57 might be better to look at if I can move on to Fiscal's forecast.

Chairman: Yes sir.

Russell Guindon: On page 57 you can see the wages that drive our forecast. You can see that we would be down 11.6 in the second quarter and then the fiscal year is at the bottom. On the right hand side, you can see our average effective tax rate. As Dino pointed out, obviously in going from a single flat rate to this bifurcated rate it creates some interesting things for staff to try and go through it. The average effective rate is going to be a little higher in the second year than in the first quarter and then it is going to continue to go up. The reason for this is that the Department of Taxation have wages and collections that come from prior period returns and as you get further in, the prior period is going to be at the new higher tax rate. You should start to see less wages from prior periods of 0.63 and more under the new tax. Based on the information that the Department of Taxation provided us with to do an analysis during session we think that once you back that out the average effective rate was about 1.05. That is why you see that it is increasing. We assumed that it would be about 1.05% under the new tax and then you will have things that come in through audits and prior period stuff at the 0.63. Obviously as you get further out in the forecast, the old stuff starts to go away and you get more new stuff at the 1.05. If I could have you look at page 62 for a moment. This is the same issue for sales tax. For the non-financial employment components only, we rebuilt the employment series based on the benchmark and ran that through to get non-financial wages and now you have a yellow and a green line again. With that Mr. Chairman, what's in table 1 on page 56 and then table 1A on page 57, those forecasts are the yellow line. They are the one's that come out of Moody's benchmarked forecast. We actually did run DETR's through and it doesn't change too much. Instead of the 41.5% growth that you get for FY 2010 in table 1A you would get about 38.7% growth or about 351 million versus the 358.2. In the second year you are going to expect a greater change. It would go down in fall by 3.1% versus the 2.1 and you would end up at 340.2 million versus the 365.8. Again, this is a pretty dramatic difference between running the green line through versus running the yellow line through. Mr. Chairman, that is Fiscal's forecast and unless there is questions I will conclude that and let Janet go.

Chairman: Any questions for Russ? Ms. Rogers.

Janet Rogers: As everyone has pointed out we have a huge bump in the first quarter of FY '10. I think I worked a little bit backwards from what the others did. I reduced that number in order to be able to forecast based on the historical data and then adjusted the data upwards. Based on that, I had a 14% decline in the first quarter had we not had the two tiered system in effect. The tax rate that I used is simply the net taxable wages, the taxes collected for non-financial divided by the net taxable wages. A very simplistic way of coming up with the tax rate. I don't think that the tax rate is going to increase over the course of the biennium because we are going to loose jobs, which is going to make the lower portion of the tax rate, the 0.05%, become a larger percentage. As we do start to pick up new employment, if we do, those are going to be most likely low firms that are all going to be charged at the 0.05% rate. I've been a little bit more pessimistic in FY '11 based on that information. Ideally what I would have liked to have had would have been a forecast for the number of firms, but I don't have that series, Moody's doesn't have that series, and without that I didn't feel that there was any way to try and split out the two halves of the two tiers. My forecast is shown on page 14. The increase is 38.8% with the rate change and then a fall of 3.9% in the next year. This is based primarily on falling non-financial payrolls. I would be happy to answer any questions.

Chairman: Just kind of an observation, if you look at the agencies and Fiscal's change in 2011 they are both in the 2.1 to 2.6 range, Janet's at 3.9 just to refresh everyone's memory. If Russ run's his methodology using Bill Anderson's employment forecast it is at 3.1%. So, we have two estimates in the mid-2's and two estimates in the mid-3's. Just something to think about. Any questions from anyone? Any observations?

Linda Rosenthal: It seems like the main difference is whether we are using Moody's or DETR's right, between Budget and Fiscal. I know they are pretty close in '10 on the budget and then in '11 they diverge a little bit. I would propose maybe considering taking a midpoint between the two.

Mike Alastuey: I don't know if that is arithmetically exact but I think that it is a range to discuss given some of the range sorts of discussions we have had including Ms. Rogers and Mr. Guindon.

Matt Maddox: The numbers that the Department of Taxation was giving us before, I believe it was companies actually closing? In '09 there were 51,000 new business licenses and 70,000 actually closed. Do you have any more data behind the jobs? I know we have the jobless numbers too, but how is that correlated to this?

Dino Dicianno: Unfortunately I don't have those statistics here, but to answer your question directly, the answer is yes. Although, I would caveat it a little bit because there are certain businesses that are service related that may not have a sales tax consequence but have an MBT consequence, and vice versa. That is possible. You could have home based businesses that are not subject to the modified business tax and things of that nature. The percentage of that may not be significant to the bigger picture, but those anomalies exist.

Chairman: Correct me if I'm wrong Dino, on the MBT if you have a firm where most of your employees are contractor's, let's say a real estate brokerage firm, the employees, the firms secretaries, admin staff are under the MBT, but are the independent contractors under the MBT?

Dino Dicianno: Mr. Chairman that is a good question because independent contractors are not subject to the modified business tax. There are other industry types the brothels, the exotic dancers, things of that nature, there are people that are under contract that provide other kinds of services that are not subject to the modified business tax. They do have to have a business license but they don't pay the modified business tax because of the definition in NRS 612 for UI purposes they are not considered an employee. If this is an employee leasing company, yes they are subject to modified business tax.

Bill Hartman: This is Bill Hartman, quick question. Are public employees subject to it?

Dino Dicianno: No.

Chairman: Further discussion? Okay, I would like to entertain a motion to more forward with a forecast for FY 2010 for the MBT, modified business tax, for non-financial institutions. Would anyone like to make a motion?

Matt Maddox: Really quick, how has it been trending? Do we have the November numbers for this?

Russell Guindon: This is a quarterly tax so all we have is the first quarter of FY 2010. At the end of February we will get the second quarter which will be for October, November, and December. You can see the quarterly stuff in my sheets if you want to see how the quarterly's have been behaving.

Chairman: You said in February for that Russ?

Russell Guindon: Yes, they are due right now at the end of January and they will be reported by the Department of Taxation in February for the October, November, December quarter.

Matt Maddox: In your forecast wages are down 11.6 in the second quarter? I am on page 57. But that is coming off a very easy comp isn't it? Meaning October to December is only down 5.3%? Do you see what I'm saying?

Russell Guindon: The difficulty here is that this non-financial taxable wage series is not as clean a series as say the wages reported by the Bureau of Economic Analysis. If you go and compare those series you can see where the BA wages fell 10%, this could be because the Department of Taxation is at the mercy of the taxpayers paying on time, turning their returns in on time, and through audits, so they could have stuff that is in that quarter that may not be tied to the actual underlying business activity for taxable wages for that quarter. That's why you can get some of these growth rates that get out of line. So what we do is go back and see if we can line it up and then apply the non-financial wage growth rates that come out of Moody's benchmark.

Matt Maddox: I have a problem with this one because in '10 and '11 wages are actually in the '06 range and of all the other metrics that we've looked at, we've been loosing ten years. I would think salaries and wages would be very correlated to jobs. I don't know many businesses in the State of Nevada that feel like they are about to go back to '06 levels in terms of staffing, salaries.

Russell Guindon: I don't disagree; remember this is coming out of the yellow line. What I don't have created is a table for the green line. So they would obviously be continuing to fall.

Matt Maddox: Because jobs lag revenues, companies higher late because they like the bottom line profit.

Russell Guindon: You're absolutely right, you're not going to bring a warm body on because I can work the current employees I have more before I can hire new bodies, but that's wages. So you can start to get a differential between wages and employees and that's what we were concerned with. We thought about if that could go on. Can you work your employees more and thus average weekly hours will start to increase a little before you will see employees actually increase but that will generate wages because you have to pay those people for the hours that they are working.

Matt Maddox: I would contend that all companies through this have gotten a lot more efficient. While I don't think that it is a direct relationship to revenues and hours, you have actually found ways to make more money with less. That's our experience, I don't know about IGT if you have been experiencing anything differently in the gaming business. I am only saying that this to me feels like it's very high, that we think that wages will be back to 2006 levels by 2011.

Janet Rogers: If you look on page 14 of our handout, what I have there is non-financial payroll, which is average wage times number of employees. The actual for the first quarter in FY '10 is back to about FY 2005. Those are just the payrolls as Russell pointed out, you would think that this would be just a straightforward multiply time the rate and you would be good, and it is not nearly as clean as that. We run an econometric model. Payroll is what we use as the explanatory variable and it's highly correlated, but the coefficient is not 1.

Russell Guindon: Mr. Maddox, the ratio between BEA wages and the taxable wages for non-financial reported by Taxation, it is somewhere around 94 to 95%.

Chairman: Any further questions or discussion for staff? Comments? I would like to entertain a motion to forecast the FY 2010 MBT for non-financial institutions. Would anyone like to make that motion?

Bill Hartman: I will make the motion that we adopt the Budget Division 351.3 for 2010. Conservative number, I have the same concerns as other members that this may be high so I am going to go with the most conservative on this one.

Chairman: Anyone to second the motion?

Linda Rosenthal: I second.

Chairman: Okay, the motion before us is to accept the Budget Division's forecast for FY 2010 for the MBT non-financial institutions of 351.3 million dollars which reflects a 38.8% increase in change over the previous year. Any discussion on that item? All in favor? All opposed? Motion carries. Moving onto FY 2011. Is there any discussion on the various forecasts for FY 2011 on the MBT non-financial?

Bill Hartman: I am going to make a motion on that one. I remember that Linda Rosenthal brought up the idea of splitting between Fiscal and Budget and I think when I ran that number and you can check this, I came in around 351.665 which interestingly is a number flat with the number that we just approved. So that's going to be my motion. I am hoping that we will be flat, but we could also be down and this could be a little optimistic so I am going to express that concern but that is my motion, 351.665 for 2011.

Mike Alastuey: I will second.

Chairman: Any discussion? The motion before us is to split the difference between Fiscal and Budget's forecast and the result is the forecast of 351.7 million dollars for FY 2011 for the MBT non-financial. All in favor? All Opposed?

Russell Guindon: Mr. Chairman, staff just wants to make sure we get this one. It was the 351.3 for FY 2010 and I agree with Mr. Hartman, the average is 351.665 and so that was what was the motion and the vote, correct?

Bill Hartman: That is correct that was the motion.

Chairman: Motion carries. Thank you very much. Next we move on to the MBT financial institutions, Dino.

Modified Business Tax on Financial Institutions

Dino Dicianno: Thank you Mr. Chairman, members of the Forum, again Dino Dicianno Director for the Department of Taxation. Again I will be real brief. The Legislature did not change the effective rate with respect to financial institutions; it is still at the 2%. Basically all we did again was trend line what we know historically. Basically, we're saying that it is very flat at best. For fiscal year 2010 we estimate approximately 21.5 million and for fiscal year 2011 about 22 million.

Chairman: Thank you Dino. Any questions? Russ do you want to go next?

Russell Guindon: You can see on page 66 the yellow and green line, so again we did the same thing. Re-benchmarked the DETR financial employment, ran it through keeping the average and the wages between the same. Here you can see that in the financial there is not going to be quite as much benchmark going on here so the lines actually lay on top of each other and then you take off and get the difference because of Moody's path out there in the future versus DETR's projections. Our financial forecast is down 19% or 19.757 for FY 2010 and up 2% to 20.148, and that is again the yellow line. So if we ran the green line through the financial it is not too much different, it is a 20.3% decline in FY 2010 or 19.442 million and then a 4/10ths of a percent decline in FY 2011 and it would be 19.363 million under the green line, DETR. That is Fiscal's forecast if there are any questions?

Chairman: Any questions for Russ? Janet.

Janet Rogers: The forecast from the Budget Division is shown on page 16 with the discussion on page 15 of our handout. Methodology is exactly the same except we have a fixed rate, so it is not quite as tricky to decide what the bump is going to be. I do point out to the Forum that the payrolls for financial, private financial, while negative the second derivative is positive. In first quarter of 2009 we were down 8.3, it bumped up to

14 went down to 13, 11, and 9 and that trend sort of continues. We don't see growth but we see a lowering rate of decline. Based on the first quarter the revenues are down only 1.1% which if you just took that and trended it out it would be a 24 million revenue, but I have it declining a little bit more than that. So we have a 22.4 a decline of 8.2% in FY '10 and a decline of -0.9% in FY '11.

Chairman: Thank you. Any questions? Just a quick comment, there seems to be a very broad variation. I understand your methodology Janet, but when you look at -8.2, Russ is -19 and Dino is -12, that is a pretty large range, at least between you and Russ. I assume that it is just a difference in methodology's and assumptions and where wages are heading and how you are doing the calculations, is there anything more revealing than that Russ?

Russell Guindon: If you could turn to page 63 of the Fiscal Analysis Division's packet and go to the right hand side under the column labeled "Taxation's Actually Reported MBT – FY Tax Collections." You can see how this thing starting in FY 2009 how it was 5.2 million, 5.2 million, 8.4 million, back down to 5.6 and then the latest quarter we have is 5.2, we were quite perplexed by the 8.4 so we talked to the Department of Taxation. About 2.6 million dollars is in there that had to do with them having to make an accounting correction for getting the right recording between financials and non-financials. So, what we did in our forecast is we backed the 2.6% out before we applied the growth rates. That would obviously pull down FY 2010 first quarter and FY 2011 first quarter because we took the 2.6 out and did not let it grow because we knew it was an anomalous one time thing. I am guessing then, that's what is driving the difference.

Chairman: Okay, any other questions? Bill.

Bill Hartman: By any of you, any considerations of closings of financial institutions over the next eighteen months? Is there any consideration of that built into your thoughts?

Russell Guindon: I can't say that that was explicitly built into our thoughts because it's in there to the extent that it is built into Moody's employment forecast and/or Bill Anderson's. We used their employments and we did not go in and try to make adjustments for what we thought might be any financial institutions that would close. I can't comment on Bill Anderson in his stats forecast, but Moody's explicit assumptions are with regards to that.

Chairman: That is a very good point if the rumors are correct and we are going to see additional turmoil in at least the community bank sector here in Nevada. I know in Las Vegas there is a lot of turmoil, there is some turmoil in Reno as well. This could be a challenging time at least in the first fiscal year. I think a lot of the ones that are going to fail are going to fail between now and the end of the fiscal year, maybe it will go a little bit into the fall of 2010, but that's something that we need to make sure to factor into our deliberations even though we don't have the hard data at the present time.

Mike Alastuey: Well really this is only one of those taxes that is collected quarterly and here we are halfway into the year and we only have one quarter worth of data. I recall some of our previous discussions kind of separating this particular business sector out from others and just asking ourselves the question 'how does this sector perform?' What are its characteristics? Given the collapse in so many areas are there some sectors within financial businesses that are actually well up in volume and decisive of hiring and retaining people. My understanding is that there are certain aspects of mortgage brokerage that in fact are well done but there is still a heck of a lot of transactions out there and a lot of banking to do.

Chairman: Any discussion on 2011 from the presentations? Any other discussions at all? Comments? I would like to entertain a motion for the forecast for the modified business tax for financial institutions of 2010. Would anyone like to make a motion?

Linda Rosenthal: I think given the accounting anomaly, the accounting adjustment that was called out that somewhat reconciles the difference between Budget and Fiscal and it seeming prudent to remove that from a forecast going forward, I would make a motion that the MBT financial budget for FY 2010 that we go with Fiscal Division's budget of 19.757 million and for FY 11 again Fiscal's budget of 20.148.

Mike Alastuey: Second.

Chairman: The motion on the table right now is to go with Fiscal's forecast for 2010 and 2011 for the MBT for financial institutions with the 2010 forecast being 19.757 million and the 2011 for 20.1 million. Any discussion?

Matt Maddox: In all other segments we have targeted the tourists and said 'well they are going to help out the State of Nevada' because the State of Nevada is really struggling, whether it is sales tax or gaming tax, we think that that will help boost the declines in the local. When I think about the modified business tax that is purely local. What am I missing because we are forecasting that it is going down less than all of the others on the biennium basis? Why are we more confident in this then all of the other tax bases?

Janet Rogers: The one thing which is pretty obvious, this is a rather small revenue so large percentages translate into a small dollar amount.

Matt Maddox: I am looking at MBT total. Do you think that's small?

Janet Rogers: No, MBT total is not small. I'm sorry I was thinking financial. It is definitely not small. The model that I use for average wage does have a component that builds in the number of visitors.

Matt Maddox: I am just wondering why this is down less then all of the others when it doesn't have the tourism kick that gaming and the others do. That's why I am struggling with this I mean I can look at the numbers but just taking a step back I don't know why this out performs.

Janet Rogers: Good question, I don't have an answer.

Russell Guindon: I would venture to guess that this is people earning wages so we have unemployment that's going in here and generating wages as MBT. Well we have employment and/or personal income probably in our taxable sales, well you can earn wages but you don't have to buy things. So to me in my mind, taxable sales could fall much more than wages could because you could still have some people earning some income their just not buying houses, their not buying appliances, their not buying cars, so potentially they could be trying to restock their portfolio. It does seem like a quandary but then thinking that you could get a larger decline when you are running the same employment through wages and thus MBT.

Matt Maddox: I guess with savings rates going up that makes sense.

Russell Guindon: So that's how I reconcile it in my mind is this is wages which we attach the MBT tax to, but those wages aren't generating taxable sales.

Matt Maddox: Because people are saving more or paying down debt, okay thank you.

Chairman: Any further discussion on this? The motion before us is that we accept Fiscal's forecast for 2010 and 2011 in the MBT financial institutions which would be 19.757 million in FY '10 at a 19% increase and 20.148 million in 2011 at a 2% increase. All in favor? All opposed? Moving on to the next item insurance premium tax, Dino.

E. Insurance Premium Tax

Dino Dicianno: Basically the insurance premium tax, as you all know, has got a rate of 3.5% against the net direct premiums. There is one exception to that rule and that is for those who write premiums for risk retention groups and that is at 2%. As Russ had indicated earlier in his discussions, the insurance premium tax always seems to be the go to tax. It looked like it was bullet proof. Sadly to say, this no longer the case. Basically what the Department did was again, basically just do a straightforward linear regression and it just basically trended historically, what we know. I believe that this tax will continue to go down not only for fiscal year '10 but for fiscal year '11. The reasons for that again have to do with employment; it has to do with what has occurred within the housing market in this state, the lack of automobile sales. If you don't have a home there is no need for insurance, if you don't buy a new vehicle there is know need to purchase insurance for that vehicle. What you're seeing that was indicated earlier, people are saving more but I am not so sure that they are purchasing annuities in that case. Given that, the Department believes that for fiscal year '10 were showing approximately a 4.4% drop in the insurance premium tax to approximately 228 million dollars and in fiscal year '11 we're showing at 6.7% drop to approximately 213 million dollars in the insurance premium tax. With that Mr. Chairman I will answer any questions that the Forum may have.

Chairman: Thank you Dino, any questions for Taxation? Russell.

Russell Guindon: The Fiscal Analysis Division's insurance premium tax forecast is displayed on page 45. We model just the quarterly piece, so those are the quarterly tax collections. You can see a list on that sheet where all the other pieces come in to make up the insurance premium tax. We took that quarterly piece and model that as a function of collections per employee modeled against Moody's benchmark adjusted personal income per employee, single family home sales per employee and the percentage of total mortgage loans and foreclosure per employee. So we run the regression and then we get the quarterly forecast. After declining about 8.4%, it would decline about 6.1% then 8.3% and then 8% and you can see as you move out in FY 2011 this is the yellow line, the Moody's benchmark personal income in employees and you can see that by the third and fourth quarter FY 2011 that the negatives are gone and it starts to come back a little positive. Then you can see the assumptions for the surplus line and the other pieces that are there, so thus our forecast is for 222.879 or 6.6% decline and then declining 3/10ths of a percent in FY 2011 to 222.223 million. So if we ran the green line through with regards to employees and personal income, the forecast would be for a 7.1% decline in FY 2010 or about 221.662 million and in FY 2011 it would fall 1.7% to 217.924 million. So we use the equation to get the quarterly and then we go through and look at fiscal year to date and talk to the Department of Taxation about potential refunds to get some of those other pieces set and that's our forecast methodology. I will answer any questions.

Chairman: Thank you Russ. Questions anyone? Matt.

Matt Maddox: Is there a pie chart, where there is home insurance, auto insurance?

Dino Dicianno: Mr. Maddox it is property and casualty insurance and then there is other types of insurance. That's why I was referring to home sales or home insurance that's all part of that.

Matt Maddox: I mean is that half? Is it a third?

Dino Dicianno: That I do not know I would have to find out.

Russell Guindon: Yes, because what we don't have is the premiums. They don't get reported. We try and get the premiums from the Insurance Division but it is difficult to match that up with the collections collected by the Department of Taxation.
I know you don't have the pie chart. Is commercial equipment insurance significant? I am particularly focusing on the construction industry.

Dino Dicianno: Mr. Hartman off the top of my head I do not have that, but given what has happened I can extrapolate what has happened from the construction industry. That equipment is probably gone. If it is no longer in this state I don't think there would be premiums associated with that. I am purely guessing here, because I don't have the figures in front of me, I don't have that information.

Bill Hartman: My experience is that a lot of it is not gone it is sitting in yards and if any of it is owned and there is no debt on it they are all going bare without insurance now. It is a very common discussion that I have with my clients now is what can we stop insuring, and what I am also seeing is a significant movement to stop insuring people with significant life insurance, etc. that has been in place in the past and it's getting pulled across the board. So this one is, once again, highly at risk. I also am trying to sit here and think about what's going to happen as houses and real estate come down in value, now I know it's still a replacement, and probably replacement is starting to fall also as materials and labor has also fallen. People are going to be really pushing, and whether or not they start going bare with their equity piece of their property. People are taking a lot of risk right now to stay in business and this one is really getting pushed.

Chairman: Thank you Bill. Anyone else? Dino you make an excellent point that the ongoing turmoil in the commercial and the residential development industry now and typically the foreclosures, we haven't seen huge levels of foreclosures yet in the commercial but the huge amount of foreclosures that are occurring in the housing market are continuing and many of the foreclosed homes are turning into rentals. I assume these owners pay insurance and the investors pay insurance, but I assume that they are buying them from the bank or they are buying them cash I am not even sure that they are insuring them. Have you seen any patterns there?

Dino Dicianno: The direct answer Mr. Chairman is I don't know. What I find curios is when a home goes under bank foreclosure does the bank insure it?

Russell Guindon: We have actually tried to find out the answer to that question because we had it to and when we started to see the premium tax going down we wanted to know what was driving it. We were told that it depends. That was a good answer, so I asked for more clarification which was that the bank could self insure it, thus there wouldn't be an insurance premium tax or they could carry a policy on it and thus there would be premiums and there would be a tax. So that's the answer I got. I don't know if that guides you anymore than it guided me. It does come down to it depends, but we don't have any statistics to know how to quantify that.

Dino Dicianno: Mr. Chairman I guess the question that I would ask, would the bank carry the insurance under its own umbrella policy that it already has or would they have to take out a new policy? If the bank has a policy it's paying the insurance premium tax, if I am the owner of a home and I have fire, casualty, whatever I'm paying it, but if it goes under the banks umbrella this other piece is gone.

Russell Guindon: Mr. Chairman; I had gotten an e-mail from the Insurance Division and this is for FY 2008 and I can't attest to the accuracy but they went out for us and tried to get information on what made up the insurance premiums. They had a category called fraternal, for fraternal organizations and for FY 2008 it was less than 2/10ths of a percent.

They have a category called life that is about 33.5%, property is about 39% and then title 2%, and then health at 25.4%.

Chairman: Janet.

Janet Rogers: Our insurance premium tax forecast is on page 12. We are using basically a simple trend. We tried up until this forecast taking it apart the way Russell had and we were just getting swirly numbers so we switched to a simpler trend. However, we do forecast the insurance premiums per employment so there is an implicit factor that the employment forecast is having even though it's not one of the explanatory variables. Our employment forecast produced on a different method came up with the same number that Russell came up with in 2010, I thought that was quite interesting, and then we've got a 2.6% decline in FY '11. This is primarily driven by the fact that employment we are forecasting to decline and coupled with the fact that although it is not an explanatory variable we know that housing prices are likely to continue to go down, so while those are not significant in the regression they bias the economist's perception of how the results are coming out. I would be happy to answer any questions.

Chairman: Thank you Janet. Any questions from anyone? Bill.

Bill Hartman: Somebody guide me to it and I am sure you went over it earlier. We've got an actual for the first quarter, what does that look like? Can somebody that one in perspective for me and perspective historically?

Russell Guindon: Well basically on page 45 of Fiscal Division's packet, the firsts quarter of FY 2010 was about 56.2 million which it was down 8.4%. You can see that that was pretty much in line that you had almost three straight quarters ending FY 2009 in that 55 56 million dollar range and then you can see that you had a couple in that range in 2007 and 2008. This thing does have some seasonality to it with regards to what can happen especially when you plot it and look at it, you can see the seasonal side. I apologize that we don't have more history there to display. You can see our forecast is almost like a step function, we had almost four quarters of 55-56 and then it's going to settle down to 52 and then it's going to stay around that 51-52 range for the rest of '10 and '11.

Chairman: Any other questions? I would like to entertain a motion please on the FY '10 and the FY '11 insurance premium tax.

Mike Alastuey: For discussion purposes I could word it as a motion. Given the fact that we were just introduced with the employment numbers today and the fact that the DETR numbers, at least in part, have influenced some of the recommendations that we have made, I move to consider adopting the Budget Division's recommendation.

Bill Hartman: I will second that motion.

Chairman: The motion before us is to accept the Budget Division's 2010 forecast for the insurance premium tax of 222.9 million dollars a -6.6% decrease. Any discussion on the motion? All in favor? All opposed? Motion carries. Now the 2011 insurance premium tax is before us. Any comments or questions before we move on to vote?

Russell Guindon: Excuse me; I thought the motion was to accept Budget's for both years?

Chairman: I'm sorry I misunderstood you Bill. To accept in FY 2011 Budget's recommendation of 217 million or -2.6% increase, I am going to start over again so that we do it all at one time. To accept Budget's recommendation for FY 2010 and FY 2011 on insurance premium tax, FY 2010 will be 222.9 million and FY 2011 will be 217 million dollars. Any further discussions or questions? All in favor? All opposed? The next item on the agenda will be the real property transfer tax, Dino.

F. Real Property Transfer Tax

Dino Dicianno: As you all know there is a component that goes into the general fund with respect to the real property transfer tax, it's $1.30 per $500 of value on the transfer of real property in the state. Again, the Department given the timing and everything basically what we did again was to trend the historical revenue collections. Although, we do believe and I would caution based on our numbers that there is a concern that because of the housing market values that they are deflating and I don't know if they have hit bottom yet, they can continue to deflate. The increased level o f foreclosures drives some of that deflation in the value and considering the level of the number of sales, I don't have a good feeling about where or when this tax is going to either bottom out or turn positive. That's what has driven our estimates. For fiscal year 2010 we're estimating, and again I am going to round this figure, 47 million dollars which is a 28.8% drop. For fiscal year 2011 approximately 43.6 million and a 7% drop. I am hoping here that there is some trend back up sometime in 2011. Again, that is just a gut feeling. I don't know whether that's going to occur or not. With that Mr. Chairman I will be more than happy to respond to any questions.

Chairman: Thank you Dino. Any questions? Mike.

Mike Alastuey: One thing that is noticeable and I can't speak for the Northern Nevada residential market perhaps Bill or Linda can, but we're noticing that the median closing price is bouncing along within a narrower range then was the case some months ago. The percentage declines same month year over year are moderating, not to say that it couldn't take another dip. But, that's the pattern that we have seen for about the last four to five months within basically a 3 or $4,000 median range. I couldn't comment on the north however. Now with that said, even if there is some stability on the residential side, given the fact that the volume is considerable at these prices, there would be a question on the commercial side as to whether foreclosed commercial properties might flood into the market at lower prices or whether loan modification is more prevalent on the commercial market then it might be in the residential market.

Linda Rosenthal: When there is a foreclosure and the bank takes over the property is there transfer tax applied at that time or just when the bank sells the property?

Dino Dicianno: Just when the bank sells the property.

Russell Guindon: Mr. Chairman would you like me to proceed then with Fiscal's?

Chairman: Just to add onto what Mike was saying, we have seen a slow decline in the rate of decline in new home price and resale price. Just as a brief indicator, year over year from November '08 to November '09 in Southern Nevada new home price declined by 19.4% which is a little bit of an improvement over the year over year declines and the resale price declined by 27.5%, this is data from home builders actually closings. So that is definitely an improvement over the low to mid 30% declines we have seen in the past year over year, so there is some movement in the right direction in terms of the rate of decline and we have seen pretty significant increases in the rate of absorption sales. The other issue that we are facing here on the national level that we need to factor in a little bit is that there is going to be a wave of interest rate resets on adjustable rate mortgage and all day loans sometime in 2010, 2011 and 2012 with kind of a peak in mid 2011 and mid 2012. For the time being, there seems to be some moderation in the rate of decline in Southern Nevada. Russ, go ahead.

Russell Guindon: Thank you Mr. Chairman. Fiscal Analysis Division's forecast for the real property transfer tax is on page 69. We have sort of had to change how we forecasted this when we went to Moody's we lost some of the variables that we were getting from Global Insight. We model it as using linear regression and modeling the quarterly RPTT collections as a ratio of collections for the same quarter a year ago and that's as a function of the product of the existing single family home sales and the case Schiller price index and the change in single family home completions. We tried to get foreclosures and tried to use employment and personal incomes but we didn't have a lot of luck. It is very difficult to find something that picks up the non-residential side. Given that, we have the 2009 fourth quarter declining 16.1% but when it originally came out of the equation the forecast for 2009 fourth quarter was somewhere around in excess of a 30% decline, which we weren't uncomfortable with given what we have been seeing. But we know that the second quarter for Clark was 11.3 million which is only a 10.4% decrease. Clark County makes up about 80-81% of the RPTT collections. To give you an idea Clark County in the first quarter of FY 2009 was down 38.7%. So when we saw the actual for the second quarters going to be down 10.4% and were able to obtain Washoe Counties actual for the second quarter which was down 41% and Clark makes up 12%, so you have these two counties making up over 92% of collections. We decided that obviously the equation for that quarter was going to overstate the decline, so we went in and since we knew Clark and Washoe we went in for all the fifteen smaller counties and just made up a number. The number that you see, $13,767,000 that's knowing Clark and Washoe's actual and guessing for the few counties that we don't know yet. Thus, then you can see the forecast that comes out for the rest of the forecast to rise in is the -21, -23, -26 and so forth. So that's our forecast, the equation was indicating that it was going to over project the rate of decline given that we know the actual for Clark and Washoe so we adjusted the forecast for that first quarter. Thus, you can see in table 7 that our forecast is for 26.2% decline and an 8.8% in FY 2011.

Chairman: Thank you Russ. Matt.

Matt Maddox: The home tax credit, is that factored into this? Meaning that there has been a flurry of people buying homes especially when they thought it was going to expire in Las Vegas, because they wanted to get the $8,000. In fact, they were overpaying for a house because they wanted to get this tax credit. Is that factored into this?

Russell Guindon: The answer I would have to give you Mr. Maddox is that when we saw that Clark was only down 10% that's where our minds went was that it was the tax credit generating all these sales. That's why when the first quarter declined almost 39% and then the next quarter declines only 10% that's what we thought was going on.

Matt Maddox: It was going to expire in that quarter right?

Russell Guindon: Yes. Now there is this judicial policy that we didn't feel uncomfortable that it might only decline 21 and 23%. But your right, it is eventually going to time out. Hopefully by then some of this stuff has cleared out, again this is one of those that is still decreasing but at a decreasing rate.

Chairman: Not only was the tax credit continued but it was expanded to another group so I think it expires in April or May. Any questions for Russ? Janet.

Janet Rogers: The recent case Schiller adjusted price index that was discussed earlier is on page 6 of attachment 1. In addition, the graphs following that shows the number of single family home permits issued, I offered that just as background information. Our results for the real property transfer tax are shown on page 18 of our handout and the discussion is on the previous page. One half of the homes in Nevada are considered underwater. I think that that's going to have a very dampening effect on the number of homes sold except for the fact that people are going to be loosing their jobs and walking away from some of them. Our model is based primarily on the home price index and Moody's estimate along with their estimate on the number of new and existing private homes sold. The forecast reflects the fact that as the prices fall more there are more homes that are going to be sold. Our forecast will be for a 27.9% decline in FY '10 and that's 47.5 million and then an additional 11.7% decline which is the combination of falling home prices coupled with increased number of sales at these lower prices.

Chairman: Thank you Janet. Any questions? I know in Las Vegas they have had a series of auctions of raw land combined with half built commercial projects or some completed projects that are not occupied or just partially occupied and are going through these large investment groups that are buying these for the mortgage paper for $0.20 on the dollar, that sort of thing. How do those transactions flow into this tax?

Dino Dicianno: Mr. Chairman are you talking about just a transfer like a stock purchase or are they actually identifying a value associated with the transaction?

Chairman: They are specific assets and they are buying basically the mortgage paper. So does that flow into the real estate transfer tax because they are transferring ownership but it is the ownership of the mortgage, I guess?

Dino Dicianno: Were just talking about the transfer of paper? That may not be subject to real property transfer.

Chairman: Right because it's not actually transferring owners they are still remaining the owners.

Russell Guindon: The law sort of goes into that, it's the transfer of real property, so when some of the casinos have been bought or sold it is a paper and asset transfer versus an actual sale, we don't get the RPTT.

Chairman: Now I assume if they transfer and then foreclose on some of these, if we sell them again to someone else, once that investment bank or investment group takes over that asset as a foreclosure does it become a transfer at that point?

Dino Dicianno: I would say no until it comes out of foreclosure and there is a bid and separate purchaser then that establishes the transfer tax on that value, but if we are just talking about paper changes and ownership changes no.

Chairman: I thought that was the case but I wanted to make sure I understood. Any discussion? Bill.

Bill Hartman: If I may I am going to make a motion. I would like to move to accept Budget Division's, these are all very close in total and this one happens to be the lowest, so for both years 2010 and 2011 we will take the Budget numbers, 47.5 million in 2010 and 42 million in 2011.

Chairman: Would anyone like to second that motion?

Linda Rosenthal: I second.

Chairman: Discussion? Comments or questions? The motion before us is to go with Budget's forecast for both 2010 and 2011, in 2010 for 47.5 million and the 2011 period for 42 million. All in favor? All opposed? Motion carries. The next item up would be the cigarette tax.

G. Cigarette Tax

Dino Dicianno: With respect to the cigarette tax, the state rate is basically $0.70 per pack of 20. Basically what we have done is trended the supposed sale. The tax is not based upon the sale of the pack, it is based upon the value of the stamp that is put on the pack and then sold at retail. All we did was take the historical information on that and trended it out. However, I need to caution again when you started doing linear regressions and trending there are some anomalies here. There is a new federal excise tax that had to do with health, the $0.61 and what we noticed was that the wholesalers, prior to that tax rate going into effect, starting raising the per pack cost. Because we don't have a floor on the stamps we had know ability to adjust for that change so that directly impacted the revenue. I think you also have to look at what is occurring to the cigarette tax and the excise tax that is being charged by other states. As you all know there was a bill during this last session to raise the cigarette tax that did not go through, that puts Nevada at a better competitive situation if you have cross border sales. There are other situations occurring with respect to the internet sales cigarettes and respect to the Jenkins Act. We have not pursued that part of the law as of yet because what you are doing is going after the consumer because the consumer is the one that's purchasing those cigarettes off the internet. Plus, there is a big push from a health standpoint. I think more people are weighing the cost of buying a pack of cigarettes versus their health. There are a lot of people that are quitting; I am not one of them. But seriously Mr. Chairman, members of the Forum, with respect to the cigarette tax we believe that this tax will continue its decline for a lot of different reasons. The Department estimates that for fiscal year 2010 the receipts from the cigarette tax will be approximately 89.4 million which would represent about an 8.1% drop. For fiscal year 2011 we estimate that the revenue associated with the cigarette tax will be approximately 81.8 million and an 8.5% drop. With that Mr. Chairman if there are any questions I would be more than happy to respond.

Chairman: Thank you Dino, just more of an informational question. Sales at tribal enterprises, how is that affecting us?

Dino Dicianno: As far as their input as far as the sales?

Chairman: Yes, are they taking sales away?

Dino Dicianno: Not that I am aware of, no.

Chairman: Any questions from anyone? Russell.

Russell Guindon: The Fiscal Analysis Division's forecast for cigarette tax can be found on page 81 of the Fiscal packet. Again, as Dino pointed out, the tax is not the retail sales of cigarettes but the stamps. So, this is one of those that is hard to tie to consumption. This one we don't do a regression analysis. Here we try and look at it on a per capita and a per visitor basis. As I go through it I look at packs per visitor and packs per capita and looking at the visitor and population forecasts you come up with the total number of packs and then obviously you take that times the rate, less the taxpayers collection allowance and you end up with the forecast. We have it declining 9.2% in FY 2010 and 4.9% in FY 2011. Fiscal year to date through the first five months, the number of packs is down 10.7%, the collections are down 10.3% so to hit our forecast you would have to average about 8.1% over the remaining seven months. This is one that is declining and I believe that it is for the reasons that Dino discussed.

Chairman: Thank you Russ. Any questions?

Matt Maddox: Just clarification. To hit the 9.2% decline in fiscal year 2010, could you just walk through again where we are year to date and what the remaining seven months need to be.

Russell Guindon: The first five months that we were down 10.3% from the collections so to hit the -9.2 growth for the year we would have to average a decline of about 8.1% over the remaining seven months of FY 2010 and that would be going up against an average of a -13.6 over the last seven months of FY 2009. So you would have to decline an average of 8.1 against an average of being down 12.6 against '09.

Chairman: Good question. Janet.

Janet Rogers: The Budget Division's forecast is on page 20 with a discussion on page 19. The shrinking Nevada population and declining employment both influence our forecast. We forecast the number of packs per employee as a more timely measure per capita cigarette packs. We use the federal and state tax rates along with seasonal variables. We tried putting in visitors to try and compensate for that component and it was not statistically significant. Our forecast is for 7.4% decline in FY '10, that is 89.8 million and then a 4.4% decline in FY '11 which is 85.8 million.

Chairman: Thank you Janet. Questions? Observations? I would like to entertain a motion on the FY '10 and FY '11 cigarette tax.

Bill Hartman: I noticed that once again these are quite close in total and especially agency and Fiscal. I am going to move that we adopt Fiscal Division for 2010 and 2011, 2010 being 88.162 million and 2011 being 83.811.

Chairman: Thank you Bill, would anyone like to second that motion?

Matt Maddox: Second.

Chairman: Motion seconded. The motion on the table is to accept Fiscal's forecast for 2010 and 2011, 2010 is the forecast of 88.162 million and in 2011 83.811 million. Any Discussion? All in favor? All opposed? Motion passes. Next up, Secretary of State Fees.

H. Secretary of State Fees

Scott Anderson: Good evening Mr. Chairman, members of the Forum, my name is Scott Anderson, Deputy Secretary of State for Commercial Recordings and I am standing here today on behalf of the Secretary of State Ross Miller. Today you have selected to review the revenue forecast of our Commercial Recordings Division and in the essence of time I will give you a brief overview of this revenue source. The Secretary of State's Commercial Recordings Division is responsible for processing and filing the organizational and amendatory documents of approximately 300,000 entities currently in good standing under the laws of the State of Nevada. These entities include for profit and non-profit corporations, limited partnerships, limited liability companies, limited liability partnerships, limited liability limited partnerships, professional corporations and associations, and business trusts. Additionally, the Division recently took over the Administration of the State Business License. Our office collects revenue at the time the organizational documents and related amendatory documents are filed. Annual list revenue is collected throughout the year, generally honored before the anniversary data of an entities organization. We have taken into consideration months that tend to be larger filing months in forecasting revenues as well as considering other factors including an increase in backlogs that will be discussed in just a moment. For your information, new entity formations have decreased approximately 13% in annual, amended, and initial. List filings have decreased approximately 16% during fiscal year 2010 as compared to fiscal year 2009. Expedited service revenue has also decreased approximately 10% due to the economic conditions of our own office and processing efficiencies and increased usage of our enhanced online services. We had forecast a decrease of 20.22% in our expedited revenue for the past Economic Forum and it down approximately 10%. One of the reasons is the backlog because with the backlog more people are filing on an expedited basis. As usage of our online services continues to increase and we continue to expand these services to our customers, we do expect that expedited revenue to continue to decline. Due to the increase in processing times, one because of the mandated furloughs, two the new functions of administrating the State Business License function without additional resources, and the fact that more customers are utilizing the expedited services, currently our expedited services revenue are decreasing at a lesser rate than we previously forecasted. The number of entities in good standing with our office is presently approximately 300,000 and has decreased approximately 6% in fiscal year 2010 as compared to fiscal year 2009 due to a drop in new filings and renewals of those filing their annual reports. Coming up with our forecast our office analyzes filing activity and also shaded revenue on a monthly basis. Current fiscal year '10 estimate is based on actual revenue recognized through December 31, 2009 extended through fiscal year and based upon current filing activity and it takes into consideration the backlogs that we are currently experiencing. Another factor that we have considered in our forecast is the document processing turn around times that are currently 11 to 30 days as compared to 5 to 6 working days for the same time last fiscal year. Significant staffing reductions in the Commercial Recordings Division, legislatively mandated furloughs, and the increase of filing activity associated with the State Business License function, are additional causes for this processing time change. Since revenue is recognized at the time documents are processed, and if the processing through dates were the same as they had been last year, we estimate that 5.2 million dollars in additional revenue would have been recognized as of 12-31-09 and we have accounted for this experience in our forecast as this timing difference is unprecedented. We fully expect the economy to recover and we are seeing indications of that, however, we hesitate to forecast any future increases at this time. Back in 2003 when there was a little bit of the downturn, we saw flattening of our numbers. In 2004, 2005, 2006 we started to see double digit increases and we expect that we will see increases again as the U.S. economy recovers. Since that is still an uncertainty we had left our forecast flat for fiscal year '11 and fiscal year 12'. We do understand that Fiscal has forecasted a decrease of approximately 2.8% for 2011 and we are okay with that. Currently, our forecast reflects a decrease in revenue for fiscal year '10 of 4.8 million dollars or 6.8% over fiscal year '09. I would be happy to answer any questions that you might have at this time.

Chairman: Thank you. Any questions from anyone?

Matt Maddox: What is it you're seeing that is indicating a recovery?

Scott Anderson: Indications from some of our resident agents, we're seeing it from other states filings that they are starting to see an increase in corporate filings. We are starting to see a few more for this January then we had last January and we're just hearing that people are starting to have a little more confidence and file more.

Russell Guindon: There is no information in our packet on Secretary of State Commercial Recordings. As Scott Anderson pointed out, this is a revenue source that historically had been assigned to the Technical Advisory Committee by the Economic Forum to produce a forecast and then this last cycle it was added as a major. It is a tough one, all these different Title 7 people file their list or start a new business entity and then file the new paperwork for that, if you want to get an idea go to their website and see all of the different fees that they charge for all of the different services and transactions that you can do under the law with regards to business entities. It is also a hard one to get a good historical read on because the fees were increased significantly in the 2001 session and then they were increased again in the 2003 session. Thus, it is hard historically to get a read on and now in this economic event it again is hard. The way I had historically forecast this was by discussing it with the Secretary of State's Office. We either get a comfort level with them or not after meeting with them, to the extent that I think any of us can be comfortable forecasting something that has this type of many different filing activities that can go on. We were comfortable with it. I think he talked about the backlog of the entities and paperwork that they have to file and when we looked at that and what would imply where they would have been fiscal year to date and then where they would be at the end of the year we weren't uncomfortable with the -6.8% for FY 2010 but looking at where the current months have been and looking at the economy we thought there would continue to decline in FY 2011 and thus we just pulled it down 2.8%.

Chairman: To clarify Russ, you are saying that you were comfortable in 2010 with the exception of Secretary of State's statement on '11?

Russell Guindon: Yes. It's not that I don't think that Scott could be right that this thing could flatten out because it has behaved differently then you would expect given when the economy is growing and when the economy has gone down. We just thought that given the weakness that we are thinking that it could continue to fall in 2011 by the 2.8%.

Chairman: Thank you. Any questions for Russell? Janet.

Janet Rogers: The Budget Division's forecast for Commercial Recordings is shown on page 22 with the discussion such as it is on page 21. As has been pointed out, this is a very complex revenue. What we have done is done a linear regression and simple trend using single family permanents as a proxy for economic health. That sort of picks up a little bit of increase in activity during the time of the housing bubble. Our forecast is for a decline of 11.2% in FY '10 and -7.1% in FY '11.

Chairman: Thank you Janet. I was looking here Russ at how far off we were in May as compared to the actual. Could you go over that real quickly for us?

Russell Guindon: Again, you're asking where the FY 2009 ended up? It was basically $140,000 that it was missed by. But remember there we would have known probably about seven or eight month's worth of the fiscal year.

Chairman: Thank you. Any questions from anyone? Matt.

Matt Maddox: Maybe you explained it but the 25% decrease last quarter?

Scott Anderson: As you may be aware, in October we took over the State Business License from the Department of Taxation. We have had some backlogs in regards to that and also because of the furloughs that are out there we are approximately 11 to 30 days out in any of our processes. Therefore, there is approximately a month worth of revenue sitting out there that should have been recognized by December 31 that was not. We are currently taking steps to reduce that backlog so that revenue will be expected to be recognized within the fiscal year.

Chairman: Thank you. Bill.

Bill Hartman: I am going to advance this. This is an agency if I remember correctly, that is pretty accurate, it does this quite well historically in coming up with their estimates. I also listened very carefully to Scott's presentation and you indicated that you were fine with Fiscal's 2.8% reduction and I'm sure our Secretary of State carefully reviewed your presentation. Given that, I am going to move to approve fiscal for both 2010 and 2011, that's 66.051 million for 2010 and 64.202 million for 2011.

Chairman: Thank you Bill. Is there a second?

Linda Rosenthal: I second.

Chairman: Thank you Linda. The motion before us is to accept Fiscal's forecast for 2010 and 2011 for the Secretary of State's recording fees. In 2010 the number would be 66.051 million and in 2011 64.202 million. Any questions or comments? All in favor? All opposed? Motion passes. Next up is the room tax.

I. Room Tax

Steve Woodbury: Good evening. For the record Mr. Chairman and members of the Forum, my name is Steve Woodbury I am the Deputy Director for the Nevada Commission on Tourism and I have with me David Peterson, who is our Senior Research Manager. We will try to be brief; we know it has been a long day. As we watched the proceedings today we have gone from a four page presentation to three, to two, and now done to one, so we will try to be quick. Our forecasts were developed starting with the 3/8 of 1% that the Nevada Commission on Tourism is funded upon and then grossing those figures up to whatever percentage is applicable by area under IP 1. For Clark County we used actual data through November of this fiscal year including LVCVA members for visitor volume, room inventory, room nights occupied, and occupancy. For our FY '10 forecast we assume cash room nights at 80% of total room nights occupied, a 2.4% increase in visitation, the addition of just over 8,000 rooms and a 1.3% increase in room nights occupied. We do not expect visitor volume growth to match the additional supply of rooms during FY '10 and expect occupancy to drop to 80%. We are forecasting for FY '10 an ADR of $90.25, an 11.1% drop from FY '09. Based on this methodology using a ratio of actual collections to spread the revenues between the various reporting authorities our FY '10 forecast for room tax collections for Clark County excluding Boulder and Mesquite is just over 91 million dollars. For FY '11 we assume a 2.7% increase in visitation, the addition of just over 3,700 rooms, a 1.7% increase in room nights occupied, a drop in occupancy to 78.5% and a modest increase in ADR to $92.31. Based on those assumptions, our FY '11 forecast for Clark County, again excluding Boulder and Mesquite, is about 95.4 million dollars or an increase of 4.7%. For Mesquite and Washoe County we used similar assumptions and methodology, we have the detail and I would be happy to go through that, but in the interest of time you can see our projections for Mesquite are $535,000 for FY '10 and an increase of 3.9% in FY '11 to $556,000 and Washoe County going from 1.21 million dollars in FY '10 up to 1.23 million in FY '11. That concludes my remarks, if you have any questions we would be happy to answer them.

Chairman: Thank you. If you don't mind, would you go over one more time the FY '10 forecast for Clark County?

Steve Woodbury: The assumptions?

Chairman: No, just the numbers.

Steve Woodbury: For FY '10 it's just over 91 million.

Chairman: Okay, and FY '11?

Steve Woodbury: FY '11 is 95.4 million.

Chairman: Thank you. Mike.

Mike Alastuey: Did you or can you split the average daily rate between strip and other markets in Clark County, besides Mesquite and Boulder City?

Steve Woodbury: We don't have that included here.

Mike Alastuey: I see that you were able to apply the various rates as they are capped throughout the entities so I thought that perhaps you would have that but I guess not.

Dave Peterson: For the record Dave Peterson, Senior Research Manager with the Nevada Commission on Tourism. That average rate that we use is a blended countywide average rate and that comes from the LVCVA, and that excludes Boulder and Mesquite, so yes there is know detail behind the individual area of the strip or off-strip.

Chairman: So that is how you get it from them?

Dave Peterson: That is correct, yes.

Matt Maddox: Could you explain the revenue decline from '09 to '10?

Dave Peterson: It is a new tax collection so we could generate hypothetical information.

Matt Maddox: No, hypothetical is what I am asking. I am trying to understand the trend. It looks like your saying that 2010 will be down what 10% over '09? I am just taking room nights occupied times ADR.

Dave Peterson: Yes, it comes out to about 13.7 or 13.8%. Theoretically if we used the 3/8 of 1% and then grossed that up to the 3% where applicable 2% per city of Las Vegas, so it's about a 13.8% decline, theoretically, using those collections.

Matt Maddox: I am trying to say on an apples to apples basis, room revenue not the tax base. I mean are the numbers really that it's 42 million room nights occupied times the ADR?

Dave Peterson: And then factoring out about 20% for comps.

Matt Maddox: Right. So when you look at these with ADR going down and room nights occupied only going up slightly then that numbers the 13% is what your saying?

Dave Peterson: Correct. If you looked at fiscal year '10 versus fiscal year '09 that is correct.

Chairman: Anyone else? Russell.

Russell Guindon: The Fiscal Analysis Division's revenue forecast is on page 85. This is a new tax, so we don't have anything. You can go back and try to recreate history but that is hard because remember you have the downtown area where you can't pick up the whole rate and the shares can change. What I did was decide to forecast the 3/8 of 1% and obviously you can convert that into a full 3% rate. Through the first five months that we have collections for you can start to calibrate what the shares have got to be so I take that full 3% in shared out so you can see that the only market that you will loose money because you can't impose the full 3% is Las Vegas. So that's what we do is we do the visitor's room nights occupied, average number of rooms for fiscal year, the occupancy percentages, the average daily room rate, and all of that ends up generating the 3/8 of 1% which is what comes back to support the Nevada Commission on Tourism. I can then convert that into a 3% rate and break that out between Clark, Henderson, Las Vegas, and North Las Vegas because remember Mesquite and Boulder are not part of the LV CVA's reporting statistics. I ended up using Dave Peterson's forecast for Boulder and Mesquite. Similarly I use Dave Peterson's forecast for Washoe County. You can see that we have the ADR declining 11% to a little over $90 and then it goes up 3/10 of a percent just thinking that there might be some ability in the later part of FY 2011 for the casinos to try and bring room rates up just a little bit. Again, that could be an optimistic outlook.

Chairman: Thank you Russell. Any questions? Matt.

Matt Maddox: I just think that it is interesting that we have room revenue declining 12 to 14% and gaming revenue, under the most pessimistic forecast, was going down by 2%.

Russell Guindon: I think that we might be reverting a little bit back when I first came to this state in 94' and 95' and gaming as an economist was a little bit foreign to me, and this concept of these what seemed like ungodly low room rates for the type of properties that you could stay in and then in the late 1990's through 2000's the market moved away and went to much higher room rates. Now you might have to go back a little bit and use the rooms to get people here.

Matt Maddox: No, your right we have and it is the midweek business where we really have had to discount with the wholesalers and online travel agents. So definitely rooms will be down more then gaming without a doubt, I am only pointing out that it is quite significant.

Chairman: I have a question for Matt. Do you find this differential troubling, or unrealistic?

Matt Maddox: No, I think that it is probably pretty close. Rooms are going to take longer to rebound, we have to get the convention business back and it's really midweek. A lot of our casino customers are still coming on the weekends, but it is the midweek that's killing us.

Chairman: I appreciate that. Janet.

Janet Rogers: Our forecast for the room tax is shown on page 24 with discussion on page 23. I apologize I don't have quite as much detail here as one might have wanted. I have used the 3/8 of 1% sales tax to generate a series for the 3% and then I am forecasting the state as a whole rather than trying to separate out the separate markets. Again this is sort of the idea of the law of large numbers that you end up with, your overestimation in one place being compensated by an underestimation in another. You can sometimes come out better that way even though conceptually you would think that you should be going in as fine a detail as possible. The model uses visitor's occupancy rates which I have actually shown room rates. It is forecasting for FY '10 a 14% decline and then I have a 0.5% increase in FY '11 at basically flat occupancy rates sort of trending down but room rates going up.

Chairman: Thank you Janet. Any questions for Budget? Matt.

Matt Maddox: In 2011 the 8,000 rooms which rooms are you picking up?

Dave Peterson: The 8,000 rooms is fiscal year '10. It is just over 3,700 for fiscal year '11. Picking up City Center and various properties there for this fiscal year and fiscal year '11 the Harman Hotel property and the Cosmopolitan.

Matt Maddox: Which may only open 800 rooms.

Dave Peterson: Yes, and in our forecast it does put in the full 2,998 and I have them in January of 2011.

Bill Hartman: Matt, there is a lot of forecasting going on that calendar 11 is going to be better than 10 on a global basis and also on a U.S. basis, do you have a feeling whether that is going to give you a pricing ability for rooms out there that you don't currently have?

Matt Maddox: That is the right question. There is so much supply that has come into Clark County that our pricing ability I think is going to be very difficult without major rebound in the convention business and companies really coming back. And lead volume is up, that is a fact, we are getting more calls on the convention side to book in 2011 so those are all true, but there could be more supply than this, so I think that could cause a challenge for pricing in 2011. I would say that a 4.7 increase for the entire room base feels high to me for 2011. The Las Vegas strip itself may achieve that again because of the dynamics, but for the entire room base it feels a little high.

Mike Alastuey: The fact that the assumption does include the full opening and full capacity of the cosmopolitan, we have sort of been up against that scenario before and some of those properties didn't happen. So as a point of observation looking at the second year it seems that the agency and Fiscal are very close, perhaps we might discuss something between the Fiscal and the Budget just to accommodate the possibility that this major property might not open at full capacity.

Chairman: Thank you for that observation Mike.

Matt Maddox: And again if you look at the last few openings whether it was the Plato or Encore, we really haven't seen demands stimulated by new hotel rooms at all. It is really more of a macro call on the U.S. economy. So I agree, I would move to adopt the average of Fiscal and Budget for 2011.

Chairman: Is that your official motion?

Matt Maddox: Yes.

Chairman: So do you have a motion for 2010?

Matt Maddox: Yes, for 2010 I would like to adopt the agencies and then for 2011 it would be the average of Fiscal and Budget.

Chairman: Just a point of observation, that number would be a -3; -6.8 plus 0.5 divided by 2.

Matt Maddox: No, I am taking the dollar amounts, 95.191 million.

Chairman: Alright and that equates to?

Matt Maddox: About a 2.5% increase.

Chairman: Is there a second?

Bill Hartman: Could you clearly restate the motion and then I will second it.

Chairman: The room tax for FY 2010 will be Fiscal Division's.

Matt Maddox: No, the agency.

Chairman: The Agency's 92.863 million and the average of Fiscal and Budget in 2011 for 95.191 million.

Bill Hartman: I second the motion.

Chairman: Discussion? All in favor? All opposed? Motion carries. Do we have public comment at this point? Just before we adjourn I would like to make an observation.

Russell Guindon: Excuse me Mr. Chairman, don't adjourn. What you want to do is stand down for recess because my staff just ran back; they have been over there putting the numbers in that table I showed you. We are going to check them all and bring copies back so that you can look it over as the Economic Forum and make sure you all agree that those were your forecasts. Once that is done then you will have to have a motion and a second to approve that as your January 22, 2010 Economic Forum.

Chairman: I understand that Russ; I would just like to make a point while your staff is doing that and we go through the process of accepting the forecast. I would just like to put on the record that these are very challenging times for us and very precedent times and just an observation and a suggestion for our elected officials is that we look at, at least through this calendar year meeting quarterly as the economic forum and revisit these numbers and look at these things again and adjust things in a semi-real time as opposed to waiting so long because there is so many things flooding up the fluidity of the situation. So that is just an observation that I thought I would make and I just thought I would throw that out there for future consideration.

Russell Guindon: Yes, and it will only be about 15 to 20 minutes. And again that will be the table that will be going to the Governor and his staff and then the legislators that I serve and also that will be provided to the press and the public. We will try and get it on LCB's website along with the Economic Forum's forecasts that are up there.

Chairman: I would like to call the meeting back to order, the January 22, 2010 Economic Forum, Russ.

Russell Guindon: Thank you Mr. Chairman: What you have is the table before you and staff has looked it over and we think we have all the right numbers. What this table does is compares your Economic Forum May 1, 2009 and the one held today. For these 10 general fund revenue sources your revised forecast for FY 2010 is approximately 237.971 million and for FY 2011 it is 342.386 million for a combined adjustment of 580.357 million for the current 2009-2011 biennium that the state is in.

XI. Public Comment: None

XII. Adjournment

Chairman: Any questions or comments from members of the Forum? I will entertain a motion to accept the 2010 and 2011 forecast for the 10 revenues that we are responsible for as the Economic Forum that was just provided to us by Russ.

Bill Hartman: So moved.

Linda Rosenthal: Second the motion.

Chairman: The motion before us it to accept the forecast provided to us by Russell Guindon dated January 22, 2010 at 6:30 p.m. as our forecasted biennium for the 10 revenues that we are responsible for forecasting. Any questions? All in favor? All opposed? Motion carries. We are adjourned. Thank you everyone.

ADJOURNMENT
The meeting was adjourned at 6:30 p.m.

Respectfully submitted,

____
Jessica Trulin, Administrative Assistant

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.