

**MINUTES OF THE MEETING OF THE  
STATE OF NEVADA ECONOMIC FORUM  
May 1, 2009**

The meeting of the State of Nevada Economic Forum (created by Senate Bill 23, 1993) was held at 10:00 a.m. on Friday, May 1, 2009, at the Legislative Building, 401 South Carson Street, Room 4100, Carson City, Nevada, with videoconference to the Grant Sawyer State Office Building, 555 East Washington Avenue, Room 4401, Las Vegas, Nevada.

**ECONOMIC FORUM MEMBERS PRESENT:**

Cathy Santoro, Chairwoman  
John Restrepo, Vice Chairman  
Michael R. Alastuey  
Bill Hartman  
Linda Rosenthal

**ECONOMIC FORUM MEMBERS ABSENT:**

None

**STAFF:**

Gary Ghiggeri, Senate Fiscal Analyst, Fiscal Analysis Division  
Mark Stevens, Assembly Fiscal Analyst, Fiscal Analysis Division  
Brian Burke, Principal Deputy Fiscal Analyst, Fiscal Analysis Division  
Tracy Raxter, Principal Deputy Fiscal Analyst, Fiscal Analysis Division  
Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division  
Janet Rogers, Chief Economist, Executive Budget Office  
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division  
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division  
Rebecca Lowe, Secretary, Fiscal Analysis Division

**EXHIBITS:**

Exhibit A Meeting Packet and Agenda  
Exhibit B Attendance Report  
Exhibit C Revenue Projections Using a Five-Year Rolling Average – Knight Allen,  
Private Citizen  
Exhibit D General Fund Revenue Forecasts – Division of Budget and Planning  
Exhibit E Forecast Information Packet – Fiscal Analysis Division  
Exhibit F The U.S. and Nevada Economic Outlook – Global Insight  
Exhibit G Global Insight versus DETR Employment Forecast – Fiscal Analysis  
Division  
Exhibit H U.S. Real Gross Domestic Product – Fiscal Analysis Division

- Exhibit I U.S. Total Nonfarm Employment – Fiscal Analysis Division
- Exhibit J U.S. Total Personal Income – Fiscal Analysis Division
- Exhibit K Taxable Sales Statewide – Fiscal Analysis Division
- Exhibit L Impact of Three Percent Room Tax Increase – Nevada Commission on Tourism
- Exhibit M Gaming Revenue Forecast – Gaming Control Board
- Exhibit N Comments to the Economic Forum – Knight Allen, Private Citizen
- Exhibit O Revised Table 6 – General Fund Revenues – Economic Forum Forecasts Based on May 1, 2009, Meeting prepared by the Fiscal Analysis Division
- Exhibit P Economic Forum May 1, 2009, Forecast

EXHIBITS MAY BE REVIEWED AT THE RESEARCH LIBRARY OF THE LEGISLATIVE COUNSEL BUREAU, CARSON CITY, NEVADA, UPON REQUEST.

**I. ROLL CALL.**

Chairwoman Santoro called the meeting to order at 10:03 a.m. The secretary called roll and all members were present and in Carson City.

**II. APPROVAL OF MINUTES OF THE DECEMBER 1, 2008, MEETING.**

MR. RESTREPO MOVED TO APPROVE THE MINUTES OF THE DECEMBER 1, 2008, MEETING OF THE STATE OF NEVADA ECONOMIC FORUM.

THE MOTION WAS SECONDED BY MR. HARTMAN AND CARRIED UNANIMOUSLY.

**IV. REVIEW AND APPROVAL OF MAY 1, 2009, FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2009, FY 2010, AND FY 2011 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE AT ITS APRIL 27, 2009, MEETING.**

This agenda item was taken out of order.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon said he would first describe some of the tables in the meeting packet (Exhibit A). Table 1 on page 65 of the meeting packet (Exhibit A), showed historical as well as fiscal year to date data through March FY 2009 compared to March FY 2008. Page 71, Table 4, showed the major General Fund revenue sources for which the Economic Forum would come to a consensus forecast.

Mr. Guindon said there were two new revenues for the Economic Forum to consider and forecast. The first new revenue forecast was for the state Room Tax that resulted from Initiative Petition 1, which was approved during the 2009 Legislative Session. In addition, at its December 1, 2008, meeting the Economic Forum elected to move the Secretary of State fees to the major General Fund revenue source. After discussion with Chairwoman Santoro and staff, it was determined that the Economic Forum would forecast Commercial Filings and Securities Fees and leave the UCC Fees of about \$1.23 million per year and Notary Fees of about \$200,000 per year to be forecast by the Technical Advisory Committee (TAC).

Mr. Guindon said page 75 showed Table 7 (which was also provided as a separate handout for easy access). Table 7 showed the sequence of the forecast moving from the November, December, and May forecasts by forecaster for each of the General Fund revenue sources that the body would consider.

Mr. Guindon said Table 3 (page 81, Exhibit A) showed the forecasts for all General Fund revenue sources, for each of the forecasters, for each of the three fiscal years, for both the major revenue sources that the Economic Forum considered, and the minor revenue sources that the TAC considered as directed by the Forum. Data from Table 3 was used in Table 4, Table 5, Table 6 and Table 7. Table 3 served as a record of all the forecasts that were prepared by the Executive Branch agencies that collected each of the General Fund revenue sources, as well as the forecasts prepared by the Budget Office and the Fiscal Analysis Division.

Mr. Guindon said Table 5 on page 85 of Exhibit A showed selected minor revenue sources that were considered by the TAC. He noted that Table 6 on page 87 had been revised and distributed as a separate handout (Exhibit O), so he asked Economic Forum members and the public to either remove page 87 from the packet or cross through the page to indicate the information was outdated.

Continuing to the review and approval of the May 1, 2009, forecasts of minor general fund revenues for FY 2009, FY 2010, and FY 2011 approved by the TAC at its April 27, 2009 (Exhibit O), Mr. Guindon said it was difficult to compare this version of Table 6 to the version that was used at the December 1, 2008, meeting because the Economic Forum elected to forecast the commercial recordings and securities fees collected by the Secretary of State rather than delegate that forecast to the TAC as it had in the past. That created an “apples and oranges” comparison of what the TAC decided at its previous meeting versus its April 2009 meeting.

Mr. Guindon recalled the Legislature was called into the 25<sup>th</sup> Special Session in December 2008 at which time some General Fund revenue enhancements were approved, including a change to the Net Proceeds of Minerals. Prior to S.B. 2, the mining operations made payments based on the mines’ actual prior calendar year business activity. Under S.B. 2, the mines were still required to make that payment. The mines were also required to make a payment in FY 2009 for estimated business activity for CY 2009. In a sense the General Fund was getting two payments: one in

FY 2009 based on the mines' actual CY 2008 activity, and another based on an estimate for the current calendar year. Obviously, in FY 2010, the estimate would be adjusted to the actual taxes due for CY 2009, and the mine would make a payment for estimated CY 2010 activity, and that fed forward to FY 2011. Thus, the amount of revenue for the net proceeds was significantly larger in FY 2009 because of the double payment.

Mr. Guindon said the information on Table 6 provided by the Department of Taxation indicated the amount of revenue collected based on the new law was approximately \$8.2 million above the estimate that was prepared by the Fiscal Analysis Division during the 25<sup>th</sup> Special Session. He recalled that he sent the Economic Forum members a set of tables titled, "The Economic Forum's May 1 Adjusted for 25<sup>th</sup> Special Session Actions."

In addition, Mr. Guindon said the Short-term Car Rental Fees was changed so that for the sixth-month period beginning January 1, 2009, to June 30, 2009, there was an additional 1% fee that went to the General Fund. Under current law there was a 6% General Fund rate and a 4% recovery surcharge, of which 1% would be allocated to the General Fund for January 2009 through June 2009. Effective July 1, 2009, the 1% would be retained by the short-term car rental companies. All of the forecasters took that into account when preparing forecasts for FY 2009. He commented that FY 2010 and FY 2011 obviously did not include the additional 1% portion in the forecast.

Mr. Guindon explained that the final change due to S.B. 22 of the 25<sup>th</sup> Special Session was to change the taxpayers' collection allowance for the State 2% Sales Tax, the Cigarette Tax, the Liquor Tax and Other Tobacco Tax. Under the law there was a rate that a taxpayer was allowed to keep as a collection commission for collecting and remitting the fees to the state. This rate, prior to January 1, 2009, was .50%. From January 1, 2009, to June 30, 2009, the collection commission was lowered to .25%. Effective July 1, 2009, the commission would return to .50%. The effect was to raise revenues for the General Fund from the following four revenue sources: State 2% Sales Tax; Cigarette Tax; Liquor Tax; and Other Tobacco Tax. He said those were the statutory changes the forecasters had to take into account. For FY 2010 and FY 2011, the current forecast for total minor General Fund taxes were revised downward by approximately \$1.1 million in FY 2010 and revised upward approximately \$672 million in FY 2011 compared to the December 1 forecast.

Referring to page 2 of Table 6, Mr. Guindon said the forecast amount for licenses was revised downward by approximately \$1.6 million and \$2.4 million. This was due primarily to downward revisions in insurance licenses. Fiscal year to date, licenses revenue was weaker than anticipated when the agencies, the Fiscal Analysis Division and the Budget Office put together forecasts in December. Total fees and fines was revised downward by approximately \$2.5 million in FY 2010 and \$3.1 million in FY 2011. Almost all the fees and fines revenue were revised downward in FY 2010 and FY 2011. The major driver was the downward revision of Short-Term Car Lease Fees, which through the first two quarters of FY 2009 were weaker than anticipated, thus the

base year forecast as well as the forecasts prepared by the Budget Office and Fiscal Analysis Division. He noted both the outlook for the economy and the visitor volume estimates were lowered by the Budget Office and Fiscal Analysis Division.

Mr. Guindon said, with regard to the total use of money and property table, FY 2010 has been revised downward by approximately \$2 million and FY 2011 has been revised downward by approximately \$4 million. The biggest driver was Treasurer's Interest Income, which was revised downward by approximately \$1.6 million in FY 2010 and \$3.7 million in FY 2011.

In conclusion, Mr. Guindon said the TAC forecast for total General Fund revenue was revised downward by approximately \$7.1 million for FY 2010, and approximately \$8.8 million in FY 2011. This was an approximate \$16 million reduction to the minor General Fund revenue sources for which the TAC prepared its forecast for the Economic Forum's consideration and approval on April 28, 2009, compared to the forecast prepared and approved by the Economic Forum on December 1, 2008. He offered to answer any questions of the Forum members.

Chairwoman Santoro said in December 2008 Mr. Guindon mentioned that the net proceeds of minerals forecast held the price of gold constant through part of FY 2009. She asked how the increase in gold prices that occurred subsequent to December 2008 was addressed. She noted that in December there was an expectation of \$33 million for FY 2009 in Net Proceeds of Mineral, but the FY 2010 and FY 2011 forecasts were unchanged from December 2008.

Mr. Guindon said the forecast used information from the mines' estimates for this calendar year to project FY 2009. The payment in FY 2010 would be based on an estimate of what would occur in CY 2010. Gold prices were expected to continue to remain at the current level, thus the net proceeds of mines would rise. There was concern that the mines could decide to extract the more marginal gold and leave the gold that was more accessible to extract for when prices fell. He explained that the gross could remain up because of the gold prices, but if the more marginal gold was mined, the net may not be as large.

Chairwoman Santoro noted that gold prices changed since December 2008, but there was no change to the current forecast. Mr. Guindon replied it was the consensus forecast based on the forecasts prepared by Taxation, the Fiscal Analysis Division and the Budget Office and presented to the TAC.

Chairwoman Santoro asked if there was an analysis that would reflect the potential benefit to the state if the current gold price had been taken into account. Mr. Guindon said that analysis was not done, because data from the mines was not available. Even if the data had been available, the forecasters did not know what the mines might do by the various mineral types. He said the TAC was fairly comfortable in calibrating FY 2009, then working forward. He explained that there were prolonged discussions among the Fiscal Analysis Division, Budget Office and Taxation about the revenue

source. The result of those discussions was a prediction that the revenue would settle into the “comfort zone” with regard to the forecasts in Table 3. The decision was made by the TAC to average those forecasts for FY 2010 and FY 2011.

Chairwoman Santoro asked what changed to result in the current expectation of \$18 million for interest income. Mr. Guindon said Mark Winebarger of the Treasurer’s Office reported to the TAC that the interest forecast was a little higher now because the Treasurer’s Office was able to maintain its portfolio and earn a little better return than expected. The revenue forecasts were revised downward in FY 2010 and FY 2011, but were revised upward slightly in FY 2009. Three-quarters of FY 2009 interest and distribution was known, and the final quarter was estimated.

Referring to Table 3 (page 81, Exhibit A) Mr. Guindon noted the Fiscal Analysis Division, Budget Office and Taxation forecasts were not much different. After listening to testimony provided by Mark Stevens of the Fiscal Analysis Division and Mark Winebarger of the Treasurer’s Office, the TAC decided to accept the Treasurer’s Office forecast for each of the three fiscal years.

Chairwoman Santoro noted the Fiscal Analysis Division’s December forecast adopted a 2.5% growth rate for short term car lease for FY 2010 and FY 2011. She said it appeared, based on the current environment, that there had been a change in mindset.

Mr. Guindon said due to current actual year to date through the first two quarters, and the visitor forecast, the Fiscal Analysis Division revised its forecast downward significantly for this revenue source.

Ms. Rosenthal asked if the larger amount of the Insurance Fines (GL 3242) in FY 2008 was due to amnesty payments. She asked why it was so large in comparison to FY 2009, FY 2010 and FY 2011.

Mr. Guindon said there was a relatively large fine in FY 2008 that was not anticipated to reoccur in the future. For FY 2009, there was information for three-quarters of the fiscal year, and the forecast was adjusted against that actual information. He said the Fiscal Analysis Division and Budget Office asked the Executive Branch agencies that collected the revenue to provide forecasts based on the current year to date estimate of what was going to come in the last three or four months of the fiscal year, which was reviewed by the Fiscal Analysis Division and the Budget Office. He said Table 1 (page 65, Exhibit A) showed that, historically, the revenue source did not stay at that level. Fiscal year 2008 was treated as an anomaly because of the large, one-time payment. The following years were closer to the average of the previous six or seven years, excluding FY 2008.

Mr. Hartman asked whether the reduction in interest was because there would be substantially less funds to invest, or due to the interest rate. Mr. Guindon replied that both the reduction in funds and interest rate were considered when forecasting the revenue. For FY 2010 the Treasurer’s Office yield was slightly over 1%. That was much lower than what the Treasurer’s Office anticipated in December. Also, the

Treasurer's Office was going shorter on its portfolio, which meant it would probably be at the shorter end of the interest rate yield curve. The reduction in interest was due to a combination of the investable balance, interest rate, and where the portfolio would be on the yield curve.

MS. ROSENTHAL MOVED TO APPROVE THE MINOR GENERAL FUND REVENUES AS PRESENTED BY THE TECHNICAL ADVISORY COMMITTEE FOR FY 2009, FY 2010 AND FY 2011.

MR. ALASTUEY SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

**III. REVIEW AND APPROVAL OF MAY 1, 2009, FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2009, FY 2010, AND FY 2011.**

This agenda item was taken out of order.

Chairwoman Santoro said she would like to review the major revenue sources in the order that was followed at the December 1, 2008, meeting.

Mr. Guindon made Economic Forum members aware that Mr. Knight Allen, a private citizen who followed the Economic Forum closely, provided final revenue projections using a five-year rolling average (Exhibit C).

**CIGARETTE TAX**

*Lynne Knack, Administrative Services Officer, Department of Taxation*

Ms. Knack said that for Cigarette Tax collections for the first eight months of fiscal year 2009, the General Fund portion of the revenue was down 8.14%, with collections of \$66.4 million. The wholesale purchase of stamps fluctuated so much from month to month that it was hard to determine a specific trend related to the decline in consumption or effects of the federal tax increase. There were three months of increased tax results, with four months of decreased tax results; demonstrating that for the eight months collections were all over the board. She said the net results for the eight months were close to the original Economic Forum forecast. The Department of Taxation (Taxation) adjusted its projection downward in FY 2009 to \$100.8 million for an 8.7% decrease. She projected that growth for the next two fiscal years would be flat, assuming the economy would start looking a little better and the rise in visitor volume would flatten the natural decline in per capita consumption, which had been decreasing by approximately 2.5% per year.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said the Budget Office's forecast for the Cigarette Tax was shown on page 23 of the General Fund Revenue Forecasts handout (Exhibit D). She said that the Budget Office used an econometric model shown on page 24. The model was based primarily on tax rates, which were the gross changes in the price of cigarettes. The model accounted for about 57% of the variability in the series. The FY 2009 model output was used, which showed a slight fall based on the anticipation that the large federal tax increase that took effect on April 1, 2009, would negatively impact the last quarter of the year. In FY 2010, the model showed a slight increase in revenue. Given the recent historical trend, this result did not make sense, so she lowered it to a 2% decrease. In FY 2011, she used the 2.5% growth rate from the model.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon said the Fiscal Analysis Division forecast for Cigarette Tax began on page 99 of the Forecast Information Packet (Exhibit E). He said, year to date through the first eight months, revenue was down 8.1% compared to -3.3% one year ago. Turning to page 100, he said the Fiscal Analysis Division forecast was revised downward to 10.2% decrease in FY 2009. To achieve the forecast for FY 2009, collections would have to decline an average of about 14% per month over the last four months of the fiscal year. Over the last four months of FY 2008, collections were actually down only .5%. There was a dramatic change in the Fiscal Analysis Division forecast for FY 2010. In December 2008, the Fiscal Analysis Division had forecast 2% growth for FY 2010, and now forecasts a 5.2% decline. The Fiscal Analysis Division forecast a 3.6% growth in December 2008 for FY 2011 and now forecasts for FY 2011 a .5% increase. The primary reason was the federal tax rate increase of 62 cents. Existing research showed that demand declined approximately 4% for every 10% increase in price. The federal tax increase was effective April 1, 2009, so there would be three months of tax increase in FY 2009, but the decrease in demand might occur later. There would be nine months of the tax increase in FY 2010 as it would be annualized against the same months in FY 2009. With the lack of demand nationally and a reduced visitor forecast, the forecast was revised down. When the federal tax increase impact was annualized, the forecast was for flat growth in FY 2011. It was also assumed that cigarette consumption would come back a little when visitor volume returned a little in FY 2011.

Mr. Guindon said in November and December 2008, the State Demographer projected 3% growth in statewide population for FY 2009, FY 2010 and FY 2011. Based on information provided in January, the State Demographer's latest projections were in the 1.1% to 2.2% range. The Fiscal Analysis Division's lower forecast was based on a combination of the reduction in the population growth, the reduction in visitor growth and the probable reduction in demand due to the federal tax increase.

Chairwoman Santoro said the Fiscal Analysis Division's December 2008 forecast was very close to actual current revenue. She asked if the changes to the Fiscal Analysis Division forecast since December were due only to the new information, and whether the model used the same logic and methodology for the following two fiscal years.

Mr. Guindon said that fiscal year to date was tracking very closely, but the revenue was down 8.1% in FY 2009 versus -3.3% year to date in FY 2008. Over the last four months of FY 2008 the revenue was only down .5%. In a sense, the last four months of FY 2008 were probably a little stronger than the first eight months of FY 2008. The revenue was down 8.1% versus -3.3% one year ago, and it would have to decline 14% to reach the forecast. The last four months would be weaker against growth one year ago because of the tax rate increase, the visitor volume outlook and the economy. The Fiscal Analysis Division staff decided to trend it out using the lower population and lower visitor forecast.

Mr. Alastuey said a 14% decline between now and the end of the year seemed a little strong. However, the fact that a loss was sustained in the second year reflected people reassessing their smoking habits. There would be a full annualized effect of those decisions in FY 2009 and continue through their lifespan. He thought the decline seemed a little strong in the near term, but in the long term, the tax would continue on a product of declining demand. The only question was how fast the demand would decline. He understood where the Fiscal Analysis Division's forecast was headed. He noted that Ms. Rogers' model was sensitive to tax rates as well, which he thought was important.

Mr. Restrepo noted the decline in FY 2010 was -5.5% and that was raised to a positive .5%, which was almost zero. He asked why it was raised.

Mr. Guindon had concerns that he was too pessimistic when looking at the path. However, because of what was going on in the economy and the tax rate increase, there would probably be some reduction in demand. The reason the revenue was falling so much in FY 2010 was that there were nine months of the federal tax increase in FY 2010 that came into effect in FY 2009. There was a continued decline as the reduction was annualized, along with the lower visitor forecast and the lower population outlook. As that was annualized, there were 12 months of the tax increase in FY 2011 and 12 months of the tax increase in FY 2010, so there should be some stabilizing of the demand effect due to the federal tax increase. Visitors would start to return, but per capita consumption of cigarettes had been declining for some time. The forecast stabilized against these factors in FY 2011. There would be slight growth when the visitor volume came back, because some of those visitors were still smokers.

Chairwoman Santoro noted that Ms. Rogers was accounting for 57% of the variability and output. She asked if that was a similar percentage to the December 2008 forecast, and if it was trending the same  $R^2$ . Ms. Rogers said she did not recall, and did not have the December model with her. She said the model did not change significantly, so she assumed that it was approximately the same as it had been.

Chairwoman Santoro asked if the significance in the variables would have been in a similar range. Ms. Rogers said all of the variables in the models reported for the Economic Forum since the forecast of one year ago were highly significant. Most were at the 1% level and almost all were at the 10% level.

Mr. Restrepo asked if Ms. Rogers' model was heavily weighted with an emphasis on return visitors. Ms. Rogers said her model used year-over-year change in cigarette sales related to year-over-year changes in employment. Employment was influenced by visitor volume, so that factor was in the model indirectly. The increase in visitors influenced the employment forecast, which had an effect on cigarette sales.

Chairwoman Santoro said the primary differentiator between the Fiscal Analysis Division and Budget Office forecasts was in FY 2010. The forecast got to the same place with different models in FY 2011, and the forecasts were close in FY 2009, but there was about a \$5 million difference in FY 2010. She asked the reason for this result.

Ms. Rogers explained that she looked closely at the model because it forecast a 1% increase in FY 2010. Considering recent history, she did not understand why. She lowered the forecast for that reason. Based on her model, she did not know why the difference was larger.

Mr. Guindon said he did not know whether he could answer the question explicitly, other than by explaining the mathematical results. He noted the forecasts were very close in the first year. He said the Budget Office forecast did not pull down as hard as the Fiscal Analysis Division forecast, but then the Fiscal Analysis Division forecast came back a little and the Budget Office continued to go down. It was a mathematical result of starting out at the same point on a path, but diverging in the second year and then coming back together in the last year. The Fiscal Analysis Division forecast a comeback in FY 2011, and the Budget Office forecast cigarette tax collections to continue to decline in FY 2011.

Chairwoman Santoro asked how the Fiscal Analysis Division and Budget Office addressed visitor count and population. Ms. Rogers replied that the model she used was for change in tax per job and employment was closely tied to the visitor forecast. There was no direct accounting for population in her model.

Mr. Guindon said his forecast took almost 2% off the population growth rates, also cigarette sales per capita (page 100, Exhibit E) were projected to fall 11.3% in FY 2009 compared to -11.6% in the December 2009 forecast. There was not too much difference between -11.3% and -11.6%. For FY 2010, the current forecast is -6.3% versus -.9 in the December forecast, which was a dramatic change. He explained that the cigarette tax forecast was based on the number of packs per capita, and as visitor volume fell, that was not in the denominator, but was affecting consumption. As consumption declined, the smaller numerator was divided by the population number, and there was a much bigger decline in consumption per capita. The visitor forecast

was lower, and the demand was going to be lower, so it was a double negative impact on consumption on a per capita basis. People in Nevada might smoke less in this economy, even without the tax increase, but the tax increase would cause a change in the elasticity in demand. With fewer visitors, who would not smoke as much, there was a dramatic decline in the per capita factor.

Chairwoman Santoro noted there was a degree of consistency between the Fiscal Analysis Division and Budget Office forecasts in FY 2011. The forecasts were close together in FY 2009. It was somewhat of a judgment call in FY 2010. She suggested all three fiscal years be addressed together.

Ms. Rosenthal agreed that Fiscal Analysis Division and Budget Office forecasts were fairly close in FY 2009 and FY 2011. She said the Fiscal Analysis Division had a proven track record of coming in very close with its model. She believed in the Fiscal Analysis Division forecast because it declined more dramatically in FY 2010, and recovered some in the outer years with the expectation of visitors returning and population growth as business returned.

Chairwoman Santoro said she would entertain a motion to support the Fiscal Analysis Division forecast.

MR. ALASTUEY MOVED TO ACCEPT THE FISCAL ANALYSIS DIVISION FORECAST FOR CIGARETTE TAX REVENUE FOR FY 2009, FY 2010 AND FY 2011.

THE MOTION WAS SECONDED BY MR. RESTREPO AND CARRIED UNANIMOUSLY.

### **MODIFIED BUSINESS TAX**

*Lynne Knack, Administrative Services Officer, Department of Taxation*

Ms. Knack said for Modified Business Tax (MBT) the combined collections from general businesses and financial institutions for the first two quarters of FY 2009 was approximately \$149 million for an 8.63% increase. The increase could be attributed to a two major factors. The first factor was the amnesty program conducted by the Department of Taxation, which recorded approximately \$5.6 million in FY 2009. The second major factor was the ongoing deficiency reporting program that compared what was reported to the Department of Taxation to what was reported to the Employment Security Division (ESD) for the state unemployment taxes. This program consistently averaged around \$3 million to \$4 million per quarter since it was implemented. Without the amnesty filings, the percentage increase would be 4.56% for the fiscal year to date versus the actual current increase of 8.63%. The department projected the revenue using the combined result of percentage wage growth and employment growth that was provided by Global Insight for general business employment and the financial institutions sectors. The combined rate for FY 2009 resulted in a decrease of 2.5%,

which was used to project the last two quarters of this fiscal year, plus actual collections for the first two quarters, including the amnesty collections. This results in the forecast for FY 2009 of \$271 million for a 2.8% increase. Fiscal year 2010 was projected by applying the combined wage and growth decrease of 1.2% from the FY 2009 projected amount, less the amnesty. This resulted in an estimate of \$262 million for FY 2010, a 3.2% decrease. For 2011, the combined rate increase was 2.4% for an estimated \$269 million. The same methodology was applied to the financial institution component of the tax. The combined rates for wage growth and employment resulted in a 3.8% decrease for the last two quarters of FY 2009, plus the actual collections for the first two quarters. This resulted in revenue estimated at \$21.4 million for FY 2009, a 1.9% increase for FY 2010, bringing the revenue to \$21.8 million, and a 4.6% increase in FY 2011 to \$22.8 million.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said the Budget Office forecast for the MBT financial and nonfinancial began on page 15 of Exhibit D. She said the same procedure was used for both the financial and nonfinancial sectors. The forecasts were computed from the output from the model results of employment and wages. The employment situation was deteriorating over the course of the coming years. The Budget Office employment forecast was on page 37 (Exhibit D). She noted that Figure C1 showed several of the major employment contractions in Nevada since World War II. It was noteworthy that once the bottom was hit, it was seven months in each of the contractions before employment returned to the peak level. If Nevada's unemployment rate was at the bottom, employment would not be back to the level it was before the contraction began until November 2009. She said it would be several months before the rate of decline started to slow, and her forecast showed the employment situation would be fairly rough for the remainder of FY 2009, FY 2010 and into FY 2011 (Figure C2, page 39, Exhibit D).

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon said the Fiscal Analysis Division forecast for the MBT was on page 65 of Exhibit E. Table 1 on page 69 showed the forecast broken into nonfinancial and financial. Referring to page 78 of Exhibit A, Mr. Guindon said the Fiscal Analysis Division forecast for the nonfinancial sector was for a 1.1% increase, which was not much different than the 1.3% forecast in December. It was lower in FY 2010, declining 4.6% compared to -2.6% in December, and growing 2.4% in FY 2011, which was not much different than the 2.7% growth in December for nonfinancial sector. For the financial sector the forecast was for growth of 3.8%, 1.1% and 4.6%, in FY 2009, FY 2010 and FY 2011, respectively, which was not much different than the December 2008 forecast.

Mr. Guindon said the revenue was fairly strong through the first two quarters because of the amnesty payments in the first quarter of FY 2009 and some, but fewer, amnesty payments in the second quarter of FY 2009. The comparisons to the unemployment

insurance reported wages generated additional tax collections as reported by Ms. Knack. The issue for the Fiscal Analysis Division was whether to apply the growth rates to the actual collections that included the deficiency notice collections. After a discussion with Ms. Knack, it was decided to apply the projected growth rates to amounts reported from the deficiency notice collections versus excluding these collections while preparing the forecast.

Mr. Guindon said there was one issue in regard to the Fiscal Analysis Division forecast that he would like to present to the Economic Forum. He said Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation (DETR), provided forecasts produced by his division to the Budget Office, Taxation and the Fiscal Analysis Division. Mr. Anderson's forecasts were based on employment covered by unemployment insurance. This forecast was compared to the Global Insight forecast in a chart prepared by the Fiscal Analysis Division (Exhibit G).

Mr. Guindon explained that DETR's forecast was shown as a red line showing growth rates compared to the same quarter one year ago. The blue line represented Global Insight's April 2009 forecast based on its April 2009 United States forecast. He said Global Insight used Bureau of Labor Statistics (BLS) data and made adjustments for the employees that were not covered under the unemployment insurance program.

Mr. Guindon said in FY 2009, fourth quarter, there was a gap between the blue and red lines. The DETR forecast incorporated the latest quarterly census of employment and wages (QCEW) and covered employment forecast data. Before that data was incorporated, the DETR forecast was close to the Global Insight forecast. Referring to page 2 of Exhibit G Mr. Guindon said the blue line included seasonally adjusted data coming from BLS and the red line included QCEW data that was not seasonally adjusted, which was the difference between the two paths.

Mr. Guindon said the dilemma for the Fiscal Analysis Division was which forecast path to use. Obviously the employment forecast path drove wage disbursements. After looking through many of the different sectors, the Fiscal Analysis Division decided to use Global Insight's forecast for projected growth over the forecast period. The Global Insight forecast rate of negative growth reached the bottom by the end of calendar year 2009, and then started to stabilize. It was still declining, but at lower rates than DETR's forecast. The inflection point was somewhat at the end of the FY 2009, and then it started to decline at smaller rates. Positive growth did not return until the beginning of CY 2011, the second half of the last year of this biennium for which the Economic Forum was forecasting. In the DETR forecast, positive growth never returned. He said the public and private sector forecasters provided their best estimates in this tenuous world. The Fiscal Analysis Division opted to use the Global Insight forecast because of the wages, and thus the wage growth, that came out of the forecast. The Global Insight forecast had a bit more recovery in the leisure and hospitality sector than DETR. There should be some increase in hospitality when the new resorts opened. It might not be a net increase – neither DETR nor the Global Insight forecast showed a net increase. There would still continue to be some

“cannibalization” of the leisure and hospitality job sector. Thousands of jobs would be added when the new properties opened, but there would not be a net increase. When Fiscal Analysis Division staff considered that, and then looked at the construction employment forecast between the two different forecasts, a decision was made to use the Global Insight forecast.

Mr. Guindon explained that the Fiscal Analysis Division used DETR’s benchmarked employment data and rebuilt employment by industry using this data and Global Insight’s projected growth rates. This amount was multiplied by the Global Insight average annual wage rates to rebuild a wage disbursement series and run this through the model to produce the MBT forecast.

Chairwoman Santoro noted Taxation’s forecast, from December 1 to May 1, increased from the base year into the out years. She reasoned that if the logic used to forecast from December to May was off, then the forecast for the out years would be off as well. Although there was still a downward expectation in FY 2010, the revenue was going in the opposite direction as opposed to the Fiscal Analysis Division and Budget Office forecasts, which indicated the downward trend would increase. She asked for the primary reason the Taxation forecast increased from \$264 million to \$271 million.

Ms. Knack explained the projections were based on the decrease of the employment and the wage growth numbers from Global Insight for the last two quarters of FY 2009 compared to the last two quarters of FY 2008, which resulted in a net decrease of 2.5%. The Budget Office and Fiscal Analysis Division may have used other factors related to employment.

Mr. Hartman asked Ms. Rogers how her employment forecast compared to the forecast on the graph showing the Global Insight and DETR forecasts (Exhibit G). Ms. Rogers replied that her forecast was a bit more pessimistic than DETR. The adjustment made for the segment covered by unemployment insurance data was shown in the graph on page 37 (Exhibit D). Employment was down in the second quarter of FY 2009, which was the last quarter of CY 2008. She said the Budget Office forecast was lower than DETR’s forecast.

Mr. Alastuey said he realized that this forecast was driven by employment wages, and levels of decline in employment. He asked Ms. Rogers and Mr. Guindon if either had considered using the rate of unemployment, rather than employment. Mr. Guindon said he had not considered using unemployment, because employment drove wages.

Ms. Rogers said she forecast unemployment (page 41, Exhibit D), but it was not in any of the Budget Office models because when individuals dropped out of the labor force, unemployment could decline, even if the number of jobs declined.

Chairwoman Santoro observed that in December 2008, Ms. Rogers used Global Insight's more pessimistic national forecast, and Mr. Guindon used Global Insight's baseline forecast. Global Insight predicted there was a 25% chance that the pessimistic scenario would occur. She said the differentials were caused by using the baseline forecast versus the pessimistic forecast.

Ms. Rogers said part of the reason she used Global Insight's pessimistic forecast was that Nevada was being impacted by the recession more than any other state. She did not use the Global Insight Nevada forecast. She thought that using its pessimistic U.S. forecast would correct for any upward bias that would have occurred had she used its baseline forecast, given that Nevada was at the bottom in employment and the top in unemployment.

Mr. Guindon referred to a chart that showed Global Insight's forecasts for U.S. real gross domestic product (Exhibit H). He explained that the thin red line showed the November 2008 U.S. forecast and the thick red line showed the April 2009 forecast. The thick and thin blue line was the baseline forecast, the thick and thin green line was the optimistic forecast and the thick and thin red line was the pessimistic forecast. He said the graph showed the trough between the optimistic baseline and pessimistic scenarios in the April 2009 forecast versus the November 2008 forecast. He agreed with Ms. Rogers that the pessimistic forecast was the right call in November. Looking at the troughs between the thin and the thick lines, the lines pushed out one to two quarters in terms of where the bottom was, but the bottom was much further down now for every one of the forecasts, whether optimistic, pessimistic, or baseline in terms real gross domestic product.

Mr. Guindon introduced a graph that showed U.S. total non-farm employment (Exhibit I). He said the red and blue lines represented the same periods as in the previous graph. The blue lines represented the baseline forecast, the red lines represented the pessimistic forecast and the green lines represented the optimistic forecast. Again the graph showed that the trough was projected to be further out, and was much further down.

Finally, Mr. Guindon said inflation adjusted personal income was represented on the chart showing U.S. total personal income (Exhibit J). The thick blue line was the U.S. forecast that would have driven the Nevada forecast. He did not have a Nevada optimistic forecast based on Global Insight's pessimistic scenario.

Chairwoman Santoro noted that on the graph showing gross domestic product (Exhibit H) the thin red line represented Global Insight's pessimistic view in December 2008 and the thick red line was the current view. The thick blue line was its view of the baseline forecast. Mr. Guindon concurred. Chairwoman Santoro asked Mr. Guindon if Global Insight changed the underlying premise of its pessimistic scenario. In its fall and winter forecasts, Global Insight's view had been that the national economy could experience an economic period analogous to the 1970s.

Mr. Guindon apologized that Jim Diffley of Global Insight could not be in attendance. He said the Global Insight pessimistic forecast from the December 2008 meeting was lying on top of the baseline in the out part of the forecast (Exhibit G). He added that it was pulled down significantly through the FY 2009 third and fourth quarters, and then the paths came together, and showed comparable levels in FY 2010 second quarter.

Chairwoman Santoro agreed the lines for both the baseline and pessimistic scenarios would come down, but the question was to what degree. In the out years, they were still projected to trend down, but the lines would eventually rise. She asked Ms. Rogers about her forecast for FY 2011.

Ms. Rogers replied that the chart (Exhibit H) used U.S. gross domestic product. While it had bearing to employment, she forecast the revenue to fall into FY 2011, because wages trended down and employment had fallen so far.

Ms. Rogers noted Global Insight's April 2009 prediction for the probability of its pessimistic forecast was 20%, versus 25% probability in December 2008. Also, Figure C1 on page 37 (Exhibit D) showed the current employment decline was much worse than the previous low point for Nevada in 1982 and 1983. The decline was approaching post-World War II 1947 and 1948 levels.

Mr. Guindon said employment declines were much more dramatic. Real gross domestic product could do a little better than employment. He agreed with Ms. Rogers that the national figures were different than the Nevada figures. He cautioned that the charts were based on levels rather than growth rates. He asked the Economic Forum members to look at the location of the troughs versus the recovery; it was hard to get the four quarters of FY 2011 above the four quarters of FY 2010 because of the trough pulling down the front end of FY 2011 such that there might be some growth in the back half, but not enough to get growth over FY 2010, versus when you look at the baseline that drives things.

Chairwoman Santoro said, it was ironic that in FY 2009 there was a degree of correlation between the Fiscal Analysis Division and Budget Office forecasts. But in FY 2010, the forecasts deviated. She asked Ms. Rogers if her forecast was based solely on econometric modeling without taking into account the subjectivity happening in the world. She asked Mr. Guindon if his analysis was objective without any degree of subjectivity.

Mr. Guindon said there was subjectivity in analyzing and comparing the employment forecasts provided by DETR and Global Insight and deciding to use Global Insight's forecast. After reviewing employment in various industries, Fiscal Analysis Division staff decided to use the wage path that came from the employment path for Global Insight versus using the wages that would have been applied using DETR's employment forecast. The objective part was applying the wage growth rates to the MBT nonfinancial and financial growth to arrive at the numbers shown on Table 2 on page 70 (Exhibit E). Those numbers excluded the financial part and showed the disaggregation into the disbursements versus employment versus growth in average annual wage.

Mr. Guindon said it was hard to forecast in the current economic environment. Fiscal Analysis Division staff considered that the average annual wage for nonfinancial was growing in each of the three fiscal years. He said that could be too optimistic. He thought there could still be some wage growth in the economy; there were lots of layoffs, but there could still be some wage growth. He did not know how to adjust that, so he did not make any subjective adjustments to the wage path.

Mr. Restrepo asked why Mr. Guindon used Global Insight's employment forecast as opposed to the forecast provided by DETR.

Mr. Guindon answered that he was in no position to criticize anybody's forecast. He spent several hours looking over DETR's forecast. He noted that Table 2A (page 71, Exhibit E), showed the different employment sectors (construction and mining, leisure and hospitality, and professional and business services). He looked at DETR's employment forecast growth rates for those entities for covered employment versus the growth rates forecast by Global Insight. He said there was some subjectivity in anticipating what would happen in the Nevada economy over the next two years. He wondered whether the new properties would come online, and if so, how many employees would be hired. He considered the change in jobs by sector. Both Global Insight and DETR forecast construction employment to fall much more than was previously expected. However, Global Insight did forecast a different path in the leisure and hospitality sector compared to DETR. Global Insight forecast a decline in FY 2009 and FY 2010, with a slight recovery in FY 2011. The forecast provided by DETR had that sector continuing to fall throughout the forecast horizon.

Mr. Guindon said when the new properties opened, there would not be a full net increase of whatever new jobs were created. Therefore, there was more comfort in Global Insight's forecast for that sector. This was the logic used in selecting the Global Insight employment path that forecast a little positive growth at the beginning of calendar year 2011. The new properties would come online at the end of this calendar year, and the employment would be annualized against that, and the economy might start to recover.

Mr. Restrepo said the reason he asked was that DETR might have a better idea of what was happening on the ground in Nevada than Global Insight with its global model. Mr. Restrepo said that in speaking with Mr. Diffley last December he learned that some of the unique aspects of the Nevada economy were not factored into the model as much as necessary. In particular, the housing situation, the potential wave of commercial real estate defaults and delinquencies, followed by issues of automobile loan defaults and the next wave of residential defaults in the prime loan market. He was concerned with the forecast for FY 2010. There may be a bit of a recovery in FY 2011, but some of the issues facing Nevada in FY 2010 were not fully captured by the Global Insight forecast. As an economist, he tended to lean more toward DETR's forecast for Nevada.

Mr. Guindon did not disagree with Mr. Restrepo's comments. He noted the forecasts were close, but then diverged because Global Insight's rate of decrease began to decrease while DETR believed the trend would continue. He did not doubt that event could occur, but that was not the scenario selected by the Fiscal Division.

Mr. Guindon said for comparison purposes, the Fiscal Division produced an MBT forecast using DETR's employment forecast. He then used Global Insight's average annual wage per industry to arrive at wage disbursements for the nonfinancial sector. This produced a growth rate for the nonfinancial institutions of .9% versus 1.1%, or \$266.294 million (Table 2A, page 71, Exhibit E). For FY 2010, again running DETR's employment growth rates through Global Insight's wages per employee, the result would be -5.8%, or \$250.753 million. In the out year, it was close to the Budget Office's forecasted rate of decline of .5%, or \$249.398 million. This would be the forecast if DETR's employment growth rates were applied to Global Insight's wage levels to arrive at wage disbursements for nonfinancial. The Fiscal Analysis Division was comfortable with Global Insight's employment path that showed a bit of recovery and slight positive growth in employment in calendar year 2010.

Mr. Alastuey commended the forecasters for the level of detail provided to the Economic Forum. He said the Economic Forum was confronted with determining the current revenue amount, and where it was headed. He recalled recent projections by DETR that unemployment would peak at just over 11%. He observed that the unemployment rate was virtually at that level now. In Washoe County, unemployment rates were in the 11% range, and Clark County would probably soon follow. There was mention of adjustment in the numbers in terms of level of employment by sector of industry under the expectation that certain resort properties would open. He noted that in recent days one significant project went from a level of uncertainty, to a level of reprieve for the near term. Another significant property on The Strip, the Fontainebleau Resort, had issues as well. There were thousands of workers onsite, and thousands of related jobs in the community affected by the uncertainty. The worst projections of recent weeks were on our doorstep. Now the Economic Forum was faced with the question of determining, not necessarily which projection had the greatest level of rigor behind its calculation, but where the economy was, and how far down it would go. Some of the numbers reported in the recent weeks indicated the economy was closer to the bottom than he believed.

Mr. Restrepo said Mr. Alastuey made an excellent point. Another thing that needed to be considered was that those qualitative subjective factors that took away from the excellent research the forecasters had done. Nationally, there was a little bump in consumer confidence noted recently by the Conference Board. He did not think consumer confidence would be at the same level in Nevada considering what the state was going through. Nevada might go through an extended downturn, but that was not known. He was trying to get a sense of where consumer confidence, business confidence and investment spending was headed. He thought it would be lower because of the weak construction, and losses in retirement plans, savings and housing prices. With the level of layoffs and wage contraction in southern Nevada, and without

increases in wages, there would be a material impact for a longer timeframe than had been experienced in previous downturns. He wanted the forecast to consider the unique nature of the depth of the downturn. The state was experiencing some challenging economic times and the Economic Forum needed to fully understand underlying forces such as the psychology of how people and businesses would behave and how that would effect the MBT or other revenue.

Chairwoman Santoro said for FY 2008 nonfinancial revenue was \$263 million. Obviously a lot happened in FY 2009 and more would happen in FY 2010. Visibility into the future was extremely challenging and there was a belief that FY 2009 would be more challenging than FY 2008. She asked Mr. Guindon to explain the highlighted areas that showed the appropriate base for FY 2009 (page 69, Exhibit E).

Mr. Guindon explained the yellow highlighted area was the forecast and the white area was actual collections. Referring to the column titled Actual and Forecast Nonfinancial Collections he said the first quarter growth was up 15.2%. He said, as Ms. Knack mentioned, Taxation had compared what was reported under the UI versus the MBT, finding delinquencies and sending billings for those delinquencies, which generated extra collections. Also, there was some amnesty collections in that quarter. Fiscal year to date nonfinancial revenue was up 8.3%, which included amnesty and if that were removed, collections would only be up 1.2%. The Fiscal Analysis Division forecast included the fairly strong first half, and the next two quarters were projected to decrease 3.6% and 7.9%. Part of the bigger decline in the fourth quarter was because of the 13.9% increase one year ago because of the amnesty collections. There was a bigger decline of 10.5% in the first quarter of FY 2010 due to the amnesty that was included in the first quarter of FY 2009. There was negative growth in MBT nonfinancial collections until the fourth quarter of FY 2010. For FY 2009, there was growth because the actual revenue was up 8.6% through the first half of the year. The Fiscal Analysis Division forecast 1.1% for the fiscal year, because the revenue did so well, although artificially, because of the amnesty and other factors through the first half.

Chairwoman Santoro asked if those were actual numbers for the first two quarters. She noted there was artificial inflation due to the amnesty, and the downward trend shown for the third and fourth quarters was captured to produce the number.

Mr. Guindon said that was an accurate assessment. The last quarter of FY 2008 and the first quarter of FY 2009 were most influenced by amnesty. A bit of amnesty came in the second quarter of FY 2009, in addition to the wage comparison results. The revenue started to decline, and it was an even bigger decline when the amnesty was included.

Chairwoman Santoro asked if the fourth quarter FY 2010 forecast of \$63.668 million was analogous to the first quarter of FY 2007 and the third quarter of FY 2007.

Mr. Guindon said that was a correct statement. In terms of the sheer yield of the MBT on a quarterly basis, the \$63.668 million amount was comparable to the amounts in the first three quarters of FY 2007.

Chairwoman Santoro said it was challenging to draw a parallel between FY 2007 and FY 2010. Since FY 2007, there had been property openings, but construction projects were cancelled, unemployment was much higher, and there were many more layoffs than in prior periods.

Mr. Guindon said that was a valid observation. He asked the Chairwoman to look at the information on Table 2 of page 70 (Exhibit E) that showed the disaggregation of wage disbursements for nonfinancial businesses. The total wage disbursement for nonfinancial would be \$44,883 million in FY 2010. The \$44,539 million amount was wage disbursement for FY 2007. The disbursements were kept up due to projected growth in the average annual wage per employee. When he was going through the forecast, he thought about that for a long time wondering if it could be a little high. He did not know what it should be, and nobody came forward to tell him what it should be, so the Fiscal Analysis Division chose Global Insight's forecast. Fiscal Analysis Division staff used the same reasoning as the other forecasters in terms of looking at the wage disbursements compared to prior periods. Employment was declining, but it was employment multiplied by employee wages that determines wage disbursements. If employees were laid off, but there was a return in the demand for the goods and services produced, the remaining employees might work more hours. The average annual wage could stay up for a bit. This could be one hypothesis, and he did not know if it was valid. Perhaps the amount should be lower, but he did not know how to revise them downward in terms of the average annual wage growth rates. Annual wage growth rates were rising 1.6% in FY 2009, basically flat in FY 2010, and 1.7% growth in FY 2011. He did not know if that gave any comfort, but that was the information set available. He said forecasting in this economic climate was less about technique or equations than about having a comfort level.

Ms. Rosenthal asked for the actual numbers for the last six quarters without the amnesty.

Mr. Guindon said he did not have that information broken out, but he had the first two quarters of FY 2009 compared to the same period one year ago, adjusted for amnesty. He noted the amount was fairly large.

Ms. Knack reported that for the September quarter, overall MBT collected was approximately \$74 million. That was \$9.5 million over the same quarter in the prior year. Of that \$9.5 million, \$5.5 million was from amnesty payments. There would have been an increase of approximately \$4 million just for general purposes, or due to the ESD comparison program.

Chairwoman Santoro asked if Ms. Knack subtracted \$5.5 million from the September quarter of FY 2009 putting the amount in the \$63 million range. Ms. Knack said that

was correct. Chairwoman Santoro said she was looking at nonfinancial and Ms. Knack said she had been looking at the gross total of \$74 million. The amount for general business for the September quarter was \$68.9 million, so if \$5.5 million were removed it would leave \$63.2 million.

Ms. Rosenthal thought that, other than a bit in the fourth quarter of FY 2008, the numbers were true without amnesty payments. If so, the trend had increased, and with the forecast, was decreasing significantly.

Mr. Hartman said he thought the Economic Forum was close to an agreement for the forecast for FY 2009, and the focus was on FY 2010 and FY 2011. Global Insight did not understand the economy of the state of Nevada as well as the other forecasters. He thought Global Insight was understating the effect in FY 2010 in employment reduction. He would align his beliefs with the Budget Office much more as to the dramatic reduction in FY 2010 as construction projects were completed. Referring to Table 2A (page 71, Exhibit E) Mr. Hartman thought construction and mining employment reduction would be higher, but he did not understand why it continued to decline. The severity of the recession was causing people and businesses to take action faster than in the past. He thought the drop would be deeper than what the Fiscal Analysis Division forecast, but it would recover a bit faster than the Budget Office forecast. None of the forecasts aligned perfectly with his thoughts, but he agreed more with the Budget Office forecast if there was some improvement in FY 2011.

Ms. Rogers said she saw a recovery occurring in Nevada in FY 2011, but not to the point where it was strengthening sufficiently to cause an increase in FY 2011 MBT revenue. It was showing a decline, but, .5% for two years was not terribly significant. It was basically flat. She thought wages would be lower due to a number of factors. The current stickiness of wages was going to give way, and wages were going to be lower. Her forecast for employment was the primary difference between the Fiscal Analysis Division and Budget Office forecasts. She did not expect employment to drop more than the almost 7% it was dropping, and it was not going to improve soon enough to bring strong growth in FY 2011.

Ms. Rosenthal asked Mr. Guindon what the Fiscal Analysis Division forecast would have been if the alternative forecast had been used. Mr. Guindon said for nonfinancial, using DETR's employment growth rates by sector the result would have been \$266.294 million for FY 2009, and \$250.753 million for FY 2010, and \$249.398 million for FY 2011.

Chairwoman Santoro said if that modification had been made to the Fiscal Analysis Division forecast, it would be in between the Budget Office forecast and the Fiscal Analysis Division forecast using Global Insight's employment forecast.

Mr. Restrepo asked whether the Economic Forum could mix and match forecasts from the three forecasters.

Mr. Guindon said the Economic Forum could recommend whatever forecast it wanted; it could select all or part of the forecasts presented, generate a new forecast, or any combination.

Ms. Rosenthal said the Budget Office forecast might be too low, and Fiscal Analysis Division forecast might be too high in FY 2010 and FY 2011. The Fiscal Analysis Division's revised numbers were a bit more middle ground. She asked whether the Economic Forum members would prefer to use the middle ground between the Budget Office and Fiscal Analysis Division forecasts in FY 2010 and FY 2011, or to develop its own forecast.

Mr. Restrepo said he tracked these numbers regularly for his clients. Various data from the county, state, federal, and global numbers from the IMF had dire forecasts in terms of when the economy would come out of recession. The Economic Forum would need to be fully cognizant that this was not a run-of-the-mill recession. In April, the recession was in its 17<sup>th</sup> month, making this the second longest downturn since the Great Depression. He did not mean to say that the economy was in a depression, but it was a significant downturn. He felt more comfortable with DETR's numbers knowing what his clients were going through in the private sector economy of Clark County. He said the DETR numbers were midway between the Fiscal Analysis Division and Budget Office forecasts. He thought it made more sense to have the numbers at \$266 million, \$250 million, and \$249 million, because this set of numbers may reflect the hazy future more than the other two forecasts.

Chairwoman Santoro said it was clear that there was volatility, so all the points were valid. She thought the members of the Economic Forum were close together in their thoughts on the revenue. She suggested a motion for discussion.

Mr. Hartman asked Mr. Guindon for the forecast based on using the DETR scenario for FY 2010 and FY 2011. Mr. Guindon said \$250.753 million (rounded to the nearest thousand) for FY 2010, \$249.398 million for FY 2011.

MR. HARTMAN MOVED THAT THE ECONOMIC FORUM FORECAST  
MBT NONFINANCIAL REVENUE OF \$264.203 MILLION FOR FY 2009,  
\$250.753 MILLION FOR FY 2010 AND \$249.398 MILLION FOR FY 2011.

THE MOTION WAS SECONDED BY MR. RESTREPO AND CARRIED  
UNANIMOUSLY.

Chairwoman Santoro said the Economic Forum would discuss the financial part of the MBT revenue.

*Lynne Knack, Administrative Services Officer, Department of Taxation*

Ms. Knack said she used the same methodology to forecast the financial and the nonfinancial components. The combined rates for wage growth and employment growth resulted in a 3.8% decrease applied to the last two quarters of FY 2009, and then she added back the actual collections for the first two quarters. This resulted in projected revenue of \$21.4 million for a 3.5% increase in FY 2009, \$21.8 million for a 1.9% increase in FY 2010 and \$22.8 million for a 4.6% increase in FY 2011.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said the methodology used for the financial sector forecast was exactly the same as what was used for the nonfinancial sector, but with financial sector wages. She forecast a 2.4% decline in FY 2009, an 8.4% decline in FY 2010, and a 1.1% decline in FY 2011.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon referred to Table 1 on page 69 of Exhibit E. He said collections for the first two quarters were up 9.5% and 15.8%. According to information provided by Ms. Knack there was a little bit of amnesty, but not much. There was not much impact from the ESD wage comparison, either. He noted the Fiscal Analysis Division forecast was declining. The decomposition of the wage growth was shown on Table 3 (page 78, Exhibit E). Much like MBT nonfinancial, MBT financial was strong through the first two quarters, then declined. It turned more quickly under Global Insight's forecast for financial, which caused him some concern. All he could conjecture was that there must be a new taxpayer that was generating the kind of actual growth reported in tax collections. It was not amnesty or ESD, but it was money in the bank. It was hard for the Department of Taxation to investigate without spending a significant amount of time. Table 3 showed the decomposition of employment versus the average annual wage. Again the Fiscal Analysis Division used Global Insight's forecast. He said for the record if that had he used DETR forecast, the amount the revenue would be \$21.459 million in FY 2009, which was not much of a change. In FY 2010 it would be \$21.113, which would be a 1.6% decline compared to the growth of 1.1%. In FY 2011 it would be \$21.280 million, an .8% increase versus an increase of 4.6%.

Chairwoman Santoro asked Mr. Guindon if he had any idea where the payment came from, and whether it would continue.

Mr. Guindon said it was not known where the payment came from. He explained that the law was changed in 2005 to redefine financial and nonfinancial MBT. Businesses did not want to be categorized as financial because the financial category was taxed at 2% versus .63% for nonfinancial. The businesses appealed to Taxation to be taxed at the lower rate. He said the bottom line was to look at the numbers, which were up strongly for the first two quarters, then falling for the next four or five quarters, then coming back under Global Insight's path for the financial sector.

Chairwoman Santoro said, from this perspective, it was important to have some logic that would follow MBT nonfinancial. Employment in general would follow similar trends across the state. There was not a tremendous difference. In December 2008 the Budget Office forecast was \$18.696 million, and that was raised for both FY 2010 and FY 2011. She asked Ms. Rogers to comment on that change.

Ms. Rogers said FY 2009 represented what actually came in for the first half of the year. The model took that data as given. She was not quite sure why the first half was so strong. She explained that her model treated that quarter as the data that came in. It did not increase the base for the out years.

Chairwoman Santoro said in essence, FY 2009 was updated for actual collections, but the logic was not carried forward to FY 2010 and FY 2011.

Ms. Rogers said she did not assume that the tax base had increased by that amount, rather she simply treated that as the actual data and it fed forward from there.

Chairwoman Santoro said Taxation and the Fiscal Analysis Division followed each other closely, and she presumed that Taxation built its forecast from the current base, and then kept going. There was a question about whether it was an anomaly or permanent situation. If it held, Taxation and the Fiscal Analysis Division forecasts would be more likely, if it did not hold, then the Budget Office forecast would be more likely. She said it was tough to make that decision because she was not sure what the anomaly was. She asked if there were any thoughts on what it could be.

Mr. Alastuey said he was not sure of the reason, but noted that a year ago, the residential market was frozen. There were few transactions and very few mortgages being written. There was something happening in the financial sector that was not happening last year. It might be a manifestation of the dire circumstances of the market. He noted the finance business was based on the number of transactions rather than dollar volume.

Chairwoman Santoro thought Mr. Alastuey's observation was valid. She noted that for the outer years, the Taxation and Fiscal Analysis Division forecasts were close at \$44 million, and the Budget Office forecast was \$36 million. It would appear the impact of taking the potential anomaly out of the equation resulted in a cumulative effect of about \$8 million.

Mr. Restrepo said the financial industry was different than the nonfinancial industry. The financial industry was impacted by the economy, particularly the real estate sector, the construction sector, the resort industry in Nevada, and how that flowed to the individual consumer. He said it may behoove the Economic Forum to err on the conservative side. He thought taking the middle road might underestimate the potential issues the state faced. He suggested the Economic Forum might want to consider the Budget Office's forecast. The volume of transactions may be improving due to

refinancing, but the lenders in Nevada had serious issues. A number of lenders holding “toxic assets” had been identified by the local media. He thought the Economic Forum may consider looking at this revenue a little differently than the others, understanding the potential impact to the banking system in Nevada.

Chairwoman Santoro recalled that in its December 2008 forecast, the Economic Forum reached a consensus of \$18 million. All of the forecasts appear to have been raised.

Ms. Rosenthal agreed, and wanted to raise the FY 2009 forecast accordingly. She also agreed with Mr. Restrepo’s comments. She said, given that the cause of the increase could not be identified, she did not want to forecast based on the assumption it would continue.

MS. ROSENTHAL MOVED TO APPROVE THE BUDGET OFFICE FORECAST FOR THE MBT FINANCIAL REVENUE FOR FY 2009, FY 2010 AND FY 2011.

THE MOTION WAS SECONDED BY MS. ROSENTHAL AND CARRIED UNANIMOUSLY.

The Chairwoman called a recess at 12:20 p.m.

### **INSURANCE PREMIUM TAX**

The Economic Forum reconvened at 12:54 p.m.

*Lynne Knack, Administrative Services Officer, Department of Taxation*

Ms. Knack said so far this fiscal year Taxation collected Insurance Premium Tax revenue for the September and December quarters, and the annual filings that were due March 15. The September quarter realized a 1.92% increase while the December quarter realized a 4.27% decrease. Overall, the Insurance Premium Tax stood at about a 2.5% decrease fiscal year to date, if not for the refunds requested and issued to insurers during the period. Refunds had a profound effect on reducing collections for this period. To date, Taxation has refunded about \$5.4 million to insurers that were using credits on the books against future taxes owed. She indicated an additional \$5.2 million in credits would be recorded against the collections of this tax through the end of the fiscal year. Taxation projected a 5% decrease for each of the quarters for March and June and increased the amount of refunds anticipated for the fiscal year to total \$10.6 million. This resulted in additional projected reductions to Taxation’s original estimate for FY 2009 to \$233 million for a 9.1% decrease. Although Taxation projected FY 2010 to be flat with no growth over FY 2009, there would not be refunds to the magnitude of this fiscal year. For FY 2010 it was projected to be \$244 million for a 4.6% increase and \$251 million for a 3% increase in FY 2011 as employment growth and personal income started to rise again.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said the Budget Office's forecast for the Insurance Premium Tax was shown on page 13 of Exhibit D. The model for the quarterly component of the revenue, which accounted for 90% of the collections, was shown on page 14. It was modeled as inflation adjusted Insurance Premium Tax per job, which was a way of normalizing it for purposes of stationarity. The model accounted for about 55% of the variability and the numbers shown in the forecast were produced from the model. The numbers were impacted by the housing market, which was one of the explanatory variables. She noted that as shown on page 14, the number of homes sold was a variable rather than the inflation adjusted average single family home price.

Ms. Rogers said the forecast was impacted by the housing market and by falling employment.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon referred to a flowchart of the forecast model for the Insurance Premium Tax on page 57 of Exhibit E. He said the Fiscal Analysis Division's forecast for the revenue was on page 60. The table showed the components of the revenue in terms of actual collections, as well as the components that were forecast, which were highlighted in yellow. By going into the Controller's Office system to see what was posted, and by talking to Taxation, there was a preliminary view of collections for the second quarter as shown in the FY 2009 year to date. The revenue was down about 4% to 4.1% in the second quarter based on the quarterly insurance premium component of the tax. The third and fourth quarters of FY 2009 were projected to decline about 4%. Fiscal Analysis Division staff began the forecast by regressing the quarterly collections against personal income. He made adjustments to the forecast based on what was going on, and the comfort zone of the forecasters.

Mr. Guindon said, as Ms. Knack pointed out, last time there was \$4 million in refunds, and now \$10.6 million in refunds projected for FY 2009. He said the Fiscal Analysis Division forecast this revenue to decline about 4.5% without the impact of the refunds. After considering the impact of the \$10.6 million in refunds, the Fiscal Analysis Division forecast a decline of 8.6% in FY 2009. Going forward, in FY 2010, the first quarter was negative and after that in the low 1% to 2% range. The revenue would grow only .7%, but would actually increase 4.8% because the refund was a one-time event in FY 2009 and once the refunds were depleted, it would not impact FY 2010 to that level. Finally, that was annualized in FY 2011, and before refunds, the forecast would grow about 2.9% and then rise a little because the refunds continued to decline in FY 2011.

Mr. Restrepo asked Mr. Guindon for the Fiscal Analysis Division's annualized change on receipts prior to the peak in FY 2006-07. Mr. Guindon said Table 1 (page 65, Exhibit A) showed the actual revenue collections from FY 2002 to the current period.

Ms. Rogers added that she had numbers for growth rate going back to FY 1999.

Mr. Restrepo asked for the average annual change during that period. Ms. Rogers said it was in double digits: 13.8% in FY 1999, -5.4% in FY 2000, 31% in FY 2001, 7% in FY 2002, 10% in FY 2003, 12% in FY 2004, 12% in FY 2005, 10% in FY 2006, 8% in FY 2007, and -1% in FY 2008.

Mr. Guindon added that the table on page 62 of Exhibit E showed the change in the revenue collections of the Insurance Premium Tax compared to growth in nonfarm employment and personal income. This revenue source traditionally outpaced employment and personal income growth, so it was under forecast. He said it was a new world where even the Insurance Premium Tax was declining. Employment, housing and the nonresidential sector was influencing insurance policies that were being written, thus the tax being paid on those premiums.

Chairwoman Santoro asked if any of the forecasters adjusted for the potential issues in the commercial real estate market.

Mr. Guindon said he had not explicitly made adjustments, but that had been discussion that the commercial and retail real estate markets might experience a downturn similar to residential real estate. This was why the Fiscal Analysis Division forecast relatively weak growth. Some of the foreclosed homes were starting to be purchased. Fiscal Analysis Division staff was concerned about who was responsible for the insurance on a foreclosed home. The banks could self-insure the foreclosed homes, so the policy that had been taxed could disappear. He wondered whether foreclosed homes that were purchased would return to the insurance premium rolls. Mr. Guindon said he tried not to keep too much growth there.

Chairwoman Santoro asked if there was a breakdown of detail for the various components of the Insurance Premium Tax. She recalled there was discussion at the December 2009 meeting of the Economic Forum about the decline in the market value of homes, home sales and cancellation of policies.

Mr. Guindon said that detail was not reported to Taxation, and the Division of Insurance could not give information that matched Taxation's information. However, the insurance premiums were basically for homeowners' policies, cars, and personal property. The car sales were very bad for over a year. One of the only components to hold up a little was health insurance. He wondered what would happen to that component as employers made layoffs. If those laid-off employees had been provided health insurance, the premiums to which the tax was applied would also disappear.

Mr. Alastuey asked Ms. Rogers about the estimate of \$193 million for FY 2011. He asked when in the past the revenue had been at that level.

Ms. Rogers said in FY 2004 \$192 million was collected in Insurance Premium Tax.

Mr. Hartman asked Ms. Rogers to help him understand the difference in the December forecast between the Fiscal Analysis Division and Budget Office. Ms. Rogers explained that the pessimistic Global Insight forecast was not used in the November Budget Office forecast. She said that when she lowered the forecast in December, it matched better with the pessimistic forecast. That was part of the reason the difference began to occur in December. The employment forecast was a strong component of this particular forecast. She believed the Fiscal Analysis Division used the Global Insight forecast, which was much more optimistic.

Chairwoman Santoro said if home sales prices fell, that would impact insurance premiums. If values continued to fall, or did not rise over this period, insurance premium revenues would not come back.

Mr. Guindon said that was an interesting observation, and Fiscal Analysis Division staff had considered the same thing. Home prices were falling dramatically and that would have some effect on insurance premiums. Insurance premiums were based on the replacement cost of a house rather than sales price. He said there was no equilibrium in the market. A house that had sold for \$300,000 now sold for \$150,000. The insurance premium would not decline if it still cost \$300,000 to build the home. He did not know how to resolve that question.

Chairwoman Santoro said Taxation and the Fiscal Analysis Division's forecasts tended to follow each other because the two forecasts were working from a similar logic. She asked Ms. Rogers to explain what drove the rather substantive difference that accumulated over time.

Ms. Rogers explained that in developing the model she attempted to use personal income, but it did not have the explanatory power that home sales and employment seemed to have. Personal income tended not to fall as much as employment. For home sales and home prices she did not consider the replacement cost of homes. Certainly the number of permits issued in the state was down to levels not seen since 1980. If that was the driver, then that was causing the big difference in the out years. She said pages 20 and 21 of Exhibit D had some information on home price indexes and the Budget Office forecast for single family homes, which was an important driver for the total number of home sales.

Chairwoman Santoro asked Ms. Rogers if she had information on insurance premiums collected around the FY 2001 period. She said there was discussion about home prices coming down to levels not seen since that period. Ms. Rogers said the insurance premium revenue collected in FY 2001 was \$145 million.

Chairwoman Santoro asked for projections for state's population. Mr. Guindon said November projections for FY 2009, FY 2010 and FY 2011 were near the 3% range. Based on information provided by the State Demographer in January, the projection was for 1.0% to 1.1% growth in population statewide for FY 2009, FY 2010 and FY 2011.

Chairwoman Santoro asked for the population growth rate for FY 2001. Ms. Rogers said in FY 2001 the population of Nevada was approximately 2.0 million and the current population forecast from the State Demographer was 2.7 million.

Chairwoman Santoro said one sales tax update reported sales tax collections for motor vehicles was off 25% year-over-year. She asked about the component in the Insurance Premium Tax that pertained to automobile sales.

Mr. Guindon said it was unfortunate that there was no breakout of the Insurance Premium Tax to show automobile tax. He agreed that was probably a major component driving down that part of the revenue.

Ms. Rogers said she did not use automobile sales as a component because the series did not go far back enough in time. She could not use that to model what happened in previous downturns. She would like to use that variable, but the automobile sales data went back a significantly shorter period than the Insurance Premium Tax.

Chairwoman Santoro said it appeared there was a belief that the revenue would increase in FY 2010 and FY 2011. For that to occur, there would have to be increases in population growth, automobile sales, home prices, commercial real estate holding or wages because those were the elements that would drive increases. She asked if the Fiscal Analysis Division or Taxation had any thoughts as to one or two of the primary elements that might contribute to an increase.

Mr. Guindon said it was hoped that the bottom would be reached by the beginning of next year. The Fiscal Analysis Division expected negative growth through the first quarter of FY 2010 and then a return to growth of 2.0%, 1.7%, and 1.3% in subsequent quarters. As foreclosed homes were bought and sold, the homes would return to the insurance premium rolls. He did not know the outlook for automobile sales. He did not think sales would be robust, but there could be some sales. There would be some stabilization in the market. He did not disagree about a potential downturn in the retail and commercial real estate market, but he did not know what impact that could have. Jobs were an important factor, but retirees had to carry insurance too. Although the economy was in a deflationary period, as inflation picked up, some premiums would increase. There was a demographic as well as an inflationary component. This was why the Fiscal Analysis Division forecast the revenue to grow slightly in FY 2010 and FY 2011.

Mr. Restrepo said Deutsche Bank prepared a national chart showing the wave of residential mortgage rate resets anticipated for 2010, 2011 and peaking in 2012. These were Alt-A loans, also known as "liar loans" or stated income loans. The loans were not subprime. There was a second wave of foreclosures anticipated on adjustable rate mortgage loans, particularly in the high growth markets of 2004 through 2006. He asked if any of that was factored into the thought process as to the resurrection of the home market. Obviously, the banks took over the houses and paid the insurance premium. He asked about the period between the time of foreclosure and when the property became real estate owned (REO). He was unclear as to how that would affect Nevada, but on a national basis it would affect the state as well.

Mr. Guindon believed that was a valid observation, but he could not say it was explicitly incorporated into the Fiscal Analysis Division forecast. Without a number, he could not incorporate the variable into the forecast.

Dino DiCianno, Director, Department of Taxation, said components of the Insurance Premium Tax that were being overlooked: medical insurance and annuities. Medical costs were rising, and people were saving money for retirement. Those factors were part of the component growth, and were not driven by labor or housing. This was why Taxation believed it would increase, but not necessarily inline with labor or housing.

Chairwoman Santoro said at the June 20, 2008, meeting of the Economic Forum, FY 2006 insurance premium was \$238 million and in FY 2007 it jumped by \$20 million in actual collections. She asked if construction was a significant component of the insurance premium tax.

Mr. Guindon said construction was not a significant component because there were no numbers to confirm our hypothesis.

Mr. Alastuey said this was the same situation the Economic Forum confronted at its first meeting. The forecasters did not know which lines of insurance were most influential in swinging the numbers. The data was not available because it was not collected. He suggested the state consider additional reporting at the time of collection so that these questions could be answered in the future.

Mr. Alastuey thought it was remarkable that Taxation and the Fiscal Analysis Division predicted some rebound and it was equally remarkable that the Budget Office predicted a slide. The level of revenue collection projected by the Budget Office for FY 2011 has not been seen since FY 2004. He wondered, considering the state's population then versus now, was it realistic to think the amount of insurance purchased between FY 2007 and FY 2011 would decline by 25%? He was not persuaded that there was a rebound to be had, even on a low base. He appreciated Mr. DiCianno's comments about the different lines of insurance and products subject to the tax. Some of the events that precipitated this decline may have already been partially absorbed. He was not saying the effects of the downturn were behind us. Appreciation in property values was no longer a factor in insurance, but the number of occupied buildings and homes probably was. Health insurance would be related to employment, and the assumptions in other revenue collections related to employment probably warranted some consideration. New construction would have driven a rapid acceleration in newly insured property; intuitively, some of that was already built into the current collection levels. That said, it was simply a question of belief going forward since there was little information. He wondered if the slide was expected to continue for another two and one-half years, resulting in a four-year slide.

Mr. Guindon noted that the Fiscal Analysis Division forecast the revenue to grow only .7% in FY 2010 (page 60, Exhibit E). The \$9.6 million swing in refunds moved the percentage up to 4.8%. This was almost 4% of the projected growth in collections in

FY 2010. The refunds would play a role here. The refunds drove down the growth in FY 2009, and that was kicking us back in FY 2010. Looking at the subtotal, the revenue percentages would have been -4.5%, 0.7% and 2.9% for FY 2009, FY 2010 and FY 2011, respectively. With the refunds, the revenue percentages were -8.6%, 4.8% and 3.1%, respectively. The refunds were causing a difference in the growth with and without the refund in FY 2009, then it was annualized in FY 2011.

Chairwoman Santoro noted the Budget Office's model used the average Nevada wage per employee in various forms, whether lagged or inflation adjusted. She asked Ms. Rogers to explain that calculation, because there was a consistent move in a direction opposite of the Fiscal Analysis Division and Taxation forecasts. One of the primary variables in the Budget Office econometric models for MBT financial and nonfinancial, as well as Insurance Premium Tax, was the average Nevada wage per employee. She wondered if there was a correlation to the fact that in FY 2010 and FY 2011, under both Insurance Premium Tax and MBT, the Budget Office forecast moved in directions opposite Fiscal and Taxation.

Ms. Rogers did not think the average wage caused that movement, rather it was that she was modeling value per job, and her forecast for jobs was lower than the Fiscal Analysis Division or Taxation.

Chairwoman Santoro asked for the components of that average and Ms. Rogers replied the average wage was total wages as reported by DETR divided by total number of jobs. Chairwoman Santoro said if the forecast for the number of jobs was low, then the forecast would move in the opposite direction.

Ms. Rogers said that was correct. She said the forecast for wages was down slightly, but that was not the significant driver. The significant driver was the number of jobs. That was the primary difference in her employment forecast.

Chairwoman Santoro said if it was a function of jobs, because retirees would not be included in the medical insurance calculation. Ms. Rogers explained that she divided the total Insurance Premium Tax by the number of jobs. It was an inflated number in that she did not have a measure of the actual number of people who had premiums.

Mr. Hartman said he found it difficult to believe there would be an increase in insurance premiums. In fact, he thought insurance premiums would decrease in FY 2010 because all of his clients were aggressively renegotiating insurance, or dropping insurance to reduce costs. In addition, he thought there were issues concerning commercial real estate that would cause further decline. He did not think automobile sales would recover quickly. The existing automobiles would continue to age and the associated insurance premiums would decline.

MR. HARTMAN MOVED TO USE THE FISCAL ANALYSIS DIVISION'S FORECAST FOR THE INSURANCE PREMIUM TAX REVENUE OF \$234.713 MILLION FOR FY 2009, THE BUDGET OFFICE'S FORECAST OF \$231.240 MILLION FOR DECEMBER FY 2010 AND THE FISCAL ANALYSIS DIVISION'S FORECAST OF \$253.752 MILLION FOR FY 2011.

Mr. Hartman said he proposed to use the Fiscal Analysis Division's forecast for FY 2011 because automobiles would need to be replaced. Global Insight forecast a significant increase in light vehicle sales for that period. Cars would wear out and would be replaced. He recognized that there would be a reduction in FY 2010, but he did not think it would go down to \$208 million. He thought the economy would start to improve, so he had a difficult time with a forecast of \$193 million or even the low \$200 million in FY 2011.

Mr. Restrepo asked what the change in FY 2011 meant in terms of percentage increase or decrease.

Mr. Guindon said the FY 2009 forecast of \$234.715 million was -8.6%, the FY 2010 forecast of \$231.240 million was -1.5% and the FY 2011 forecast of \$253.752 million was 9.7%.

Mr. Hartman said the 1% decrease in FY 2010 did not take refunds into account. The reduction was greater in FY 2010 if the refunds were considered.

Mr. Guindon said if the \$9.6 million amount were removed there would be a larger decline for FY 2010. The \$231.240 million included the effect of the refunds.

Mr. Restrepo agreed with the motion for FY 2009 and FY 2010, but did not agree with the amount of growth forecast for FY 2011 because it was almost 10%. He suggested using a 3% growth rate rather than the \$253.752 million amount in FY 2011.

MR. HARTMAN AMENDED THE MOTION TO FORECAST A 3% GROWTH RATE FOR FY 2011 OF \$238.177 MILLION.

THE MOTION WAS SECONDED BY MR. ALASTUEY AND CARRIED UNANIMOUSLY.

Chairwoman Santoro said that more granularity as to what comprised the insurance premium would help to make more accurate forecasts in the future.

## REAL PROPERTY TRANSFER TAX

*Lynne Knack, Administrative Services Officer, Department of Taxation*

Ms. Knack said, with the continued drastic downturn in the housing market, Real Property Transfer Tax (RPTT) collections for the first two quarters of FY 2009 amounted to \$39.4 million, which was down 17.8% from FY 2008. Most of the counties had posted third quarter RPTT collections with the Controller's Office. For the third quarter of FY 2009, Clark County reported a 26.5% decrease. Washoe County reported a 36% decrease for an expected 29% decrease overall for the third quarter compared to the same quarter last year. Although recent reports indicated home sales were starting to move again, the deflated value and the sale of foreclosures at lower prices would continue to reduce these revenues. Taxation projected the June quarter would be consistent with March quarter collections on record, ending the fiscal year with approximately \$64.6 million for a 24.8% decrease. For FY 2010, Taxation projected a 15% decrease for \$54.9 million, and flat growth for FY 2011.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said the Budget Office computed the RPTT forecast from the numbers forecast for home permits, which translated into new home sales. The Budget Office used Global Insight's forecast for existing home sales and the home price was based on the Case-Schiller Home Price Index and Global Insight's estimate for home prices. The value was a computation from those three forecasts.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon referred to page 85 of Exhibit E to the Fiscal Analysis Division forecast of the RPTT. Global Insight's housing data was used to prepare the forecast. He recalled that Forum members had been concerned that Global Insight's new and existing single family home prices were higher than actual home prices. The average prices were based on MLS information from the National Association of Realtors. Fiscal Analysis Division staff decided to continue to use the MLS data because it gave a ratio to calibrate against the collections. In the last cycle, the Fiscal Analysis Division forecast that the second quarter would decline about 17.1%, but it actually declined 22.8% as shown on the table on page 85. The Fiscal Analysis Division forecast a decline of 13.3% for the third quarter. The actual collection of approximately -12.7% was known because the information was available on the Controller's Office system.

Mr. Guindon said the Fiscal Analysis Division lowered the forecast path fairly significantly. The Fiscal Analysis Division was the lowest forecaster on Table 7 (page 75, Exhibit A). There would not be much activity on the new home side, and the existing homes must be cleared out. He did not think there would be a lot of activity on commercial and retail sides of the market. There may or may not be a situation where commercial real estate went into foreclosure; if so, there could be fire sales of commercial and retail properties.

Mr. Guindon said the chart on page 87 of Exhibit E showed the actual and forecast General Fund RPTT collections going back to the third quarter of 1998. He noted that Chairwoman Santoro commented there had been some indication that home prices were falling back to the 2002, or even 2001 levels. Even if the homes were sold at those prices, almost two or two and one-half homes would have to be sold to be back at the price one home had previously sold for. When equilibrium was reached of selling homes at 2001, 2002 prices, that would be the yield of the tax on a quarterly basis. He noted the green bars representing the forecast compared to the red bars representing imputed collections on the chart moved between the \$10 million and \$12 million range before it rose in FY 2003 and peaked in FY 2006. He said the Fiscal Analysis Division forecast was for a 24% decline to \$65.3 million, then another 26% decline to \$48.2 million, and finally stabilizing and growing slightly to \$48.6 million. He said those were dramatic changes compared to the Fiscal Analysis Division's December 2008 forecast, and the numbers were a little bit lower than the other forecasts.

Chairwoman Santoro said there was a big change in the Fiscal Analysis Division forecast from FY 2009 to FY 2010, which carried into FY 2011. In December, the Fiscal Analysis Division was using an average home price of \$405,900. Now the average home price was more in line with the current reality.

Mr. Guindon said that was correct. It was reported in March that the median home price was \$135,000 in Clark County. He explained that was the Clark County median home price, and these home prices were statewide averages. He said the average home price in Washoe County was around \$200,000. That amount was not high enough to raise the statewide average. Global Insight lowered the average home price, but it could still be a little bit high. He asked the Economic Forum members to consider what the forecast would have been if the prices had been lowered to the average existing single family home price (column E, page 85, Exhibit E) of \$150,000 or \$135,000. He was forced to drive the ratio up so the quarterly amounts were at a more reasonable level.

Mr. Restrepo asked Mr. Guindon to talk more about the ratio at a lower median price.

Mr. Guindon said the median existing single family home price in Clark County could be down around \$135,000. If the numbers in column E were too high, and were reduced to \$150,000 or \$130,000, and if the ratio in column I was not changed (ratio of actual collections to implied General Fund revenue) the revenue would be down around \$6 million, \$7 million, or maybe even \$5 million per quarter. He did not believe that, so he had to adjust column I ratios upward to 3.0 or 4.0 instead of 2.0 or 1.4 to capture the difference. He said the chart on page 88 of Exhibit E showed RPTT growth rates from quarter to quarter. There have been several quarters in negative numbers above the 20% and 30% range. He said the first quarter of FY 2009 was a good quarter, but was -28%. There would be three more bad quarters before the revenue got a little better in terms of negative growth, then turned positive. He said it was a fairly pessimistic scenario.

Mr. Restrepo asked for the formula for column I (page 85, Exhibit E). Mr. Guindon said column G, the implied General Fund collections, was column F multiplied by the tax rate. Column H was the actual collections. There was a gap between column G and column H. The ratio of column H to column G showed there was measurement error, and accounted for commercial, land, retail and other real estate for which data was not broken down. The revenue was collected by the county recorders and the state's General Fund portion was remitted to the state.

Chairwoman Santoro said because there were three-quarters of collections for FY 2009 the expectations were easy to work from. Also, there was not a notable degree of difference among the forecasts for FY 2009. She said the forecast for FY 2010 would drive the forecast for FY 2011. The Fiscal Analysis Division forecast was declining more notably than the others. She wondered whether the state's real estate market had reached the bottom.

Mr. Restrepo said Home Builders' Research collected that kind of data and showed the median new home price in Clark County at the end of March was \$220,000. The median existing home price was \$142,000. The weighted average of the medians was \$152,000. He did not know the comparable numbers for Washoe County, but thought the numbers were a bit higher and might push the median upward a little. He thought the median home price used previously was off, so he was glad to see downward adjustments. Mr. Restrepo recalled that the Economic Forum members were concerned when it was given average prices of \$400,000 at the state level at its December 2008 meeting, which did not make any sense with the reality of home prices. He wondered whether the Economic Forum believed the average price of \$200,000 in the second quarter of FY 2009. He noticed the Fiscal Analysis Division had trended down the average in column E.

Mr. Guindon said that was Global Insight's forecast, which included a couple of big quarters of adjustment in the average existing price. The price would decline almost all the way through the forecast period, but the rate of decline would start to stabilize a little.

Mr. Restrepo asked for the source of the information in column E. Mr. Guindon said the information was from the United States Census Bureau and the National Association of Realtors, which provided MLS data. The averages might be overstated, but if the price was driven down to \$150,000 and the ratio of actual collections remained the same, the forecast would be well below a 48% decrease.

Mr. Restrepo said if Global Insight was using National Association of Realtors' MLS data, the average was more heavily weighted toward existing homes. He was more comfortable with a heavier emphasis on the downward pressure oriented toward existing homes. On the other hand, there was a massive adjustment in the value of homes, 50% in some cases, in southern Nevada.

Mr. Guindon said the chart on page 87 (Exhibit E) showed the yield of the tax on a quarterly basis if home prices were at 2001 and 2002 levels, then this was not what was seen from FY 2003 through the bust. The green bars showed the yield of the tax was comparable to the yield back in that period. This was where the Fiscal Analysis Division got a comfort factor with its forecast. He did not think the data in the chart was perfectly calibrated to the market, but when he saw the dramatic change to what was presented to the Economic Forum on December 1, 2008, considering what was known and the dramatic revisions from Global Insight, then looked at the yield, there was a certain comfort level as the economy found a new equilibrium of prices, employment and population. He noted that was the subjective part of the forecast.

Mr. Restrepo said that was a good point, but there might be a dip in the yield for the first year or so before a return to historical norms.

Mr. Alastuey agreed that no matter how the average existing family home price in column E (page 85, Exhibit E) was derived, it appeared to be high compared to actual observations in the state. If a forecaster were simply given that information without including column I, the projection would be so irretrievably low that it might be beyond reason. It was counter-intuitive, because if one was lower, then the other would be lower. He then looked at the percentage change from one year ago under column E and thought it did not track with actual experience in Nevada because the average price of a single family home declined by 40%. The prices appeared to be slightly overstated. The glut of residential foreclosures had started to feed through the market. Sales volume was up, but prices were down. It was very difficult to project where the bottom of the market was. He agreed with the Chairwoman's observation that FY 2009 was a "push." He said given the protracted declines in the economy it would not surprise him if the revenue was into the 20% decline range going forward in FY 2010.

Ms. Rosenthal concurred with the last part of Mr. Alastuey's comments. She said projected revenue compared to actual collections, even with the dire economic times of the last 6 to 12 months, collections were still around \$20 million. To drop to \$16 million and then all the way down to \$10 million in FY 2010 seemed too conservative. She said the economy had seen some bad times and there could be more bad times to come, but she did not expect that dramatic a decline. She thought the decline would be in the range of what was experienced in the first quarter of FY 2009.

Mr. Hartman said when he first reviewed the forecasts for this revenue he felt the Fiscal Analysis Division was overly conservative. Then he considered how housing prices were falling dramatically, with no reason to rebound quickly. There would be transactions, but the dollar amounts would be 40% or maybe even 50% lower. Commercial real estate was entering a similar phase. He thought at this moment the commercial real estate market was a bit frozen and trying to figure out the value of property. Land values were plummeting. Vacancy rates were rising quickly. Until that stabilized there was potential for a reduction in transactions outside the residential real estate market. The residential market was about a year and one-half ahead of commercial in the cycle. Therefore the estimates from the Fiscal Analysis Division in

column I could be too high because there might be fewer transactions in the next year or so. The transactions that would occur would be at amounts substantially lower than in recent years. He was becoming persuaded that the Fiscal Analysis Division estimate may not be too conservative.

Chairwoman Santoro said there was a clear consensus that the revenue would decline in FY 2010, and that level would be used to build the FY 2011 forecast. There was consistency between the Taxation and the Budget Office forecasts of 15% downward growth. The question was whether the revenue was down 15% or 25%. There was a cumulative potential of \$10 million to \$12 million in FY 2010 and FY 2011. It was important to reach a degree of consensus as to FY 2010. She thought all points were valid and fair, but it was not known when the market would return, or where the bottom really was. She noted that forecasts were down again in the third quarter. There was a 26.5% decline in Clark County, 36% in Washoe County for a cumulative total of 29%. She asked if there were statistics for the second quarter to indicate whether the revenue was decreasing at a decreasing rate.

Ms. Knack said she did not have the percentage for December, but Clark County contributed almost \$12.3 million, down to \$10.5 million from December to March. Washoe County collections for December were about \$2.8 million and for the March quarter \$1.4 million. Between the two quarters there was a total of \$16 million for December. Taxation estimated about \$12.5 million for March.

Chairwoman Santoro asked if third quarter collections were \$12.5 million and Ms. Knack said that was correct. Chairwoman Santoro said if the economic environment did not worsen in the third quarter, the revenue would be somewhere near \$50 million. However, if the economy continued to deteriorate, \$12.5 million could be a bit aggressive. The climate that created the \$12.5 million level would need to remain steady over four quarters. This would be somewhat in line with FY 2010, which was predicated on no further deterioration on the housing market in Nevada.

MR. HARTMAN MOVED TO ADOPT THE FISCAL ANALYSIS DIVISION'S MAY 1 FORECAST FOR REAL PROPERTY TRANSFER TAX REVENUE FOR FY 2009, FY 2010 AND FY 2011.

THE MOTION WAS SECONDED BY MR. ALASTUEY AND CARRIED WITH ONE OPPOSING VOTE FROM MS. ROSENTHAL.

## STATE 2% SALES TAX

*Lynne Knack, Administrative Services Officer, Department of Taxation*

Ms. Knack said collections for the State 2% Sales Tax through February 2009 amounted to \$576 million fiscal year to date, which represented a 9.27% decrease compared to the same eight month period in the previous fiscal year. The Economic Forum only had statistics through September at its December 2008 meeting. For the period October through February, Nevada realized its worst collection results in the 30 years she had been tracking the statistics. For the last 18 months there was a decrease in sales for every roll period, with the exception of August due to amnesty collections. The last four months resulted in double-digit decreases. The largest decrease was in February and it was assumed part of that decrease was because February 2009 was a leap year month that was being compared to the previous February, which was not. Given the ongoing decline in sales tax revenues, Taxation projected additional reductions from its December forecast and estimates that the revenue would decrease the remaining four months of this fiscal year by 10% on average. The department also projected an approximate 10% average decrease for the first nine months of next fiscal year and then hoped the revenue would start improving, or remain flat at that particular point.

Ms. Knack said Taxation's assumptions were based on predictions that overall recession indicators would show signs of improvement beginning with FY 2011. As a result, Taxation's FY 2009 collections were estimated to be \$873 million for a 9.6% decrease and for FY 2010, \$841 million for a 3.6% decrease. For FY 2011 Taxation was conservative in projecting a 3.0% increase in anticipation of a slow but steady economic recovery by the end of FY 2010.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said the Budget Office's forecast for sales and use tax revenue was on page 9 of Exhibit D. It followed the same pattern as the other Budget Office forecasts modeling inflation adjusted taxable sales per Nevada job shown in Figure 3 on page 10. The actual amount of sales per job would start to rise by the end of calendar year 2009. However, the number of jobs was still falling, and that accounted for the declines that were reported in FY 2009 and FY 2010. Demand from lack of spending for two years, coupled with employment that was not falling nearly as badly as predicted would produce a slight increase in FY 2011.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon said the Fiscal Analysis Division sales tax revenue forecast was on page 45 of Exhibit E and the regression equation used was on page 42. There was a change to the econometric specification used for the weighted average of home prices and the weighted average of sales. Fiscal felt it was not forecasting well, so the equation was changed. The new equation was still inflation adjusted taxable sales per

employee, but was modeled as a function of inflation adjusted personal income per employee, Las Vegas visitors per employee, statewide construction employee per employee, and statewide retail trade employment per employee. He said Table 1A on page 45 (Exhibit E) was the Fiscal Analysis Division's forecast for the State 2% Sales Tax revenue to decline 11.4%. The revenue was down 9.4% through the first eight months, so the revenue would need to decline an average of 15.3% over the last four months compared to -2.9% over the last four months of last year. Sales tax revenue was forecast to decline by 6.7% in FY 2010 and then finally an increase of only 2.1% in FY 2011. The Fiscal Analysis Division forecast was the lowest for FY 2011, especially with regard to the expected rebound.

Mr. Guindon referred to a set of charts showing statewide taxable sales (Exhibit K). He said the chart showed the dramatic turn in the series. The chart on the following page showed taxable sales in actual and inflation adjusted terms, seasonally adjusted. Again there was a dramatic change in the series. Page 3 showed the ratio of taxable sales to total employment. This was the dependent variable that was being forecast in the equation. Page 4 showed the ratio of personal income to total employment, and it was inflation adjusted. Page 5 showed the ratio of Las Vegas visitors to total employment. When he plotted the chart, it gave him a start to see the dramatic jump in the forecast period. This was because he had visitors starting to recover in FY 2011 because of the rooms coming on and the economy recovering a little. But Global Insight forecast no positive growth in employment until the beginning of CY 2011. Visitors could return without necessarily having to increase the number of employees, which was why the ratio jumped up. Page 6 showed a dramatic change in construction employment, which was a factor pulling the Fiscal Analysis Division forecast down. The DETR forecast had construction employment falling longer and harder than the Global Insight forecast. The chart showed Global Insight's construction forecast compared to its total employment forecast, and it falls dramatically throughout the forecast horizon. When the projects on The Strip were completed, where were all the construction workers going to go? No homes needed to be built, nor was there a need for commercial or retail construction. Some workers may be hired by stimulus projects, but that was transitory. He did not think that was sustained. Page 7 showed retail employment. He said retail activity could start to bounce back when the new projects' retail components were open.

Chairwoman Santoro said the Fiscal Analysis Division forecast had come down radically from December. She asked if it was because the statistical side of the equation came into play, or whether some subjectivity was applied.

Mr. Guindon said the change to the forecast was due to the equation. The subjective adjustments to the forecast were to account for the gap between taxable sales and actual collections. He said Fiscal Analysis Division staff still added back for this difference, but was no longer subtracting for the comp food issue. He said Taxation indicated that most operators quit paying the tax on comped food in March 2008. Otherwise the forecast was coming directly from the equation. He said it was obvious that things were dramatically worse than what was expected based on the information that was used in the December 2008 forecast.

In response to a question from Mr. Hartman, Mr. Guindon said running DETR's employment numbers through the wage disbursements, and then using that to build a personal income series produced strange results. The forecast was actually more optimistic. The ratio of construction to total employment did not fall as much in DETR's employment forecast versus Global Insight's, so over the forecast horizon using DETR's employment produced a slightly higher number.

Mr. Hartman asked how much of the forecasts were construction related.

Ms. Knack said for the eight month of FY 2009, for the three major construction indicators of construction of buildings, heavy and civil engineering construction and specialty trade, taxable sales revenue was \$1.458 billion. Last year at the same point the revenue was \$1.423 billion. There was a slight increase for the eight-month period. She noticed with taxable sales when lots of the properties were still being built and going strong in southern Nevada, those numbers were significantly high. In the last couple of months, the numbers decreased dramatically.

Chairwoman Santoro said taxable sales could be expected to rise as the projects got closer to completion, considering the way that the billing cycles worked with construction projects.

Ms. Knack said for the month of February alone in those three areas there was a 40% decrease. In response to a question from the Chairwoman, Ms. Knack said the total taxable sales for February 2009 was approximately \$135 million compared to \$215 million for February 2008.

Chairwoman Santoro said the related taxable components were part of sales tax. There was a lag in timing between construction project billing and payment. The MGM CityCenter was slated to open in December 2009, and as the project neared completion, taxable sales pertaining to that project would rise. Across the spectrum probably 50% or 60% of the sales tax revenue was related to the gaming industry as durable goods sold by wholesalers.

Mr. Alastuey said it was notable that the Fiscal Analysis Division and Budget Office forecasts were different by \$15 million, which represented roughly 2% of \$750 million in taxable sales. He wondered when construction would resume after these major projects were completed in FY 2010, in what form would it resume, and if there would be anything to encourage us in the second year. He thought the Economic Forum should consider that with caution.

Chairwoman Santoro said if it were not for the timing of some large construction projects, FY 2010 might look different. For that reason, FY 2010 has some nuance to it. From a construction perspective, commercial real estate and the state of the financial markets were going to have a big impact on construction. The housing market had an impact also.

Mr. Restrepo asked the Economic Forum not to forget construction activity or the rapidly rising vacancy rates in the commercial sectors in Clark County, and to a certain extent in Washoe County. In addition there was growing unemployment, so the issue of job losses and income, combined with the massive loss of value in 401K plans, retirement plans and home prices could have a depressing effect on retail sales through the biennium. His opinion was that for FY 2010 the forecasters were underestimating the downturn, and the decrease between FY 2010 and FY 2009 should be higher. He did not think there would be positive growth in FY 2011, rather, there might be negative or flat growth. He was concerned that there were serious problems with unemployment, regardless of what happened with gross domestic product, visitation volume, and the opening of new resorts like MGM's CityCenter. He believed the worst of the employment picture had yet to be seen and this should be factored into FY 2010 and to a certain degree FY 2011.

Mr. Alastuey asked Mr. Guindon what level of decline was needed to reach an 11.4% decline for the year.

Mr. Guindon replied the revenue was down 9.4% through the first eight months. The revenue would have to average -15.3% over the last four months of FY 2009. That was compared to -2.9% for the four months of FY 2008. January and February collections were known, so March was the only month being forecast for the third quarter of FY 2009. January and February revenues were down about 15.1%, so to reach the level shown in Table 1B (page 45, Exhibit E) of -13.8%, the revenue would have to decline 11.7% in March 2009 compared to -3.3% in March 2008. He did not think that -11.7% for March, compared to -3.3% one year before, was unreasonable. The -16.6% forecast for FY 2009 second quarter may be too high or too low, but he did not have grave concerns.

Mr. Alastuey observed that Mr. Guindon had captured a precipitous decline, at least to the end of the year.

Mr. Restrepo said the numbers were all relatively close, but the Fiscal Analysis Division number was the one he felt most comfortable with for FY 2009. He wondered whether the rates would be in the double digits in FY 2010 as opposed to the upper single digits.

Ms. Rosenthal asked if Global Insight's forecast was countrywide rather than based on Nevada. Mr. Guindon said Global Insight prepared a U.S. forecast and had a state of Nevada model to run the U.S. forecast through their econometric equations. The model was based on Nevada, but it did not necessarily capture the nuances of the state. Global Insight probably did not fine-tune its equation to some of the things Nevada would like to see.

Ms. Rosenthal agreed with Mr. Restrepo that the Fiscal Analysis Division's forecast was the most comfortable for FY 2009 because of the level of detail captured. In FY 2010, the Budget Office and Fiscal Analysis Division forecasts were almost identical. The question was whether it should be lower. In FY 2011, there was \$15 million difference

between the Fiscal Analysis Division and Budget Office forecasts. Given the state of the nation's economy, she felt confident there would somewhat of a rebound, such as 2.1%. But if the Economic Forum was going to consider the forecasts presented, she would be in favor of the Fiscal Analysis Division forecast for all three years.

Mr. Alastuey agreed that FY 2010 was a bit of a wild card given the completion of the major projects. However, the hope of the industry was that the projects would attract visitors, and visitors' spending levels could be restored to a degree. He realized that his comments had been pessimistic, but FY 2010 was the fulcrum.

Chairwoman Santoro concurred with Mr. Alastuey that the projects' completion would be a positive factor. To what extent was hard to predict, but there were some things to be optimistic about in FY 2010.

Mr. Alastuey commented that recent news was encouraging, but there was considerable uncertainty in the industry over opening a great deal of capacity. He offered that comment for the Economic Forum's consideration to punctuate his level of concern about FY 2010.

MS. ROSENTHAL MOVED TO APPROVE THE FISCAL ANALYSIS DIVISION FORECAST FOR SALES AND USE TAX REVENUE FOR FY 2009, FY 2010 AND FY 2011.

THE MOTION WAS SECONDED BY MR. HARTMAN AND CARRIED UNANIMOUSLY.

### **GAMING PERCENTAGE FEE TAX**

*Frank Streshley, Senior Analyst, Nevada Gaming Control Board*

Mr. Streshley said he would keep his presentation brief, as his forecast was discussed at length in the November and December meetings. The Gaming Control Board (Board) forecast was presented as Exhibit M. In December, gaming win was reported through September, and collections through October. February's gaming win and March's collections have been reported, leaving three months to complete the fiscal year. Fiscal year to date gaming win was down 13.2%, and there have been 14 straight months of declining gaming win. Revenues were down to levels reported in FY 2004. Clark County was down 13.5% and The Strip was down 15.3%. The Strip continued to be hurt by a decline in visitation and a 12.1% decline in wagering activity. However, some of the major operators indicated there were signs of improvement in the upcoming quarters. Cancellations slowed and advanced bookings were gradually stabilizing. The Las Vegas local market, which comprised over 20% of the state's gaming win, was down 9.3% fiscal year to date. This market had been heavily impacted by the jump in unemployment and the continued decline in housing.

Mr. Streshley said gaming win in Washoe County was down 11.6%, South Shore Lake Tahoe was down 13.8% and Elko County was down 4.5%. Preliminary numbers for March, which were nowhere near complete, indicated improvement over the 18% decline reported for the previous four months. He assumed the April numbers would be similar. May had the potential to be a good month. May collections for the previous year declined 15.2% making for a soft comparison and the special events calendar for this period was the strongest in several years starting with the Hatton versus Pacquiao fight and a UFC fight at the MGM, followed by concerts by Dave Matthews Band, Jimmy Buffet, and Fleetwood Mac. All of these events should have strong draws for the high-end play.

Mr. Streshley forecast FY 2009 gaming win to decline 12.2%, which was a small improvement. For FY 2010, projected gaming win was -.7%, which was consistent with the last quarter of FY 2009. He forecast gaming win would be down for the first half of the year, but there would be very small improvements thereafter each quarter in the areas of advance booking, average daily revenue (ADR), visitation and most importantly consumer confidence levels, which should have a positive affect on spending levels. This was compared to a very soft period in the previous year when gaming win declined approximately 11%. As for the second half of FY 2010, gaming win would finally increase with the openings of MGM's CityCenter and Fontainebleau Resort. The Board's forecast expected that the new properties would generate some growth for the market, and not simply cannibalize the market of existing properties. Because of the weak economy, growth would be nowhere near what was seen with prior openings such as the MGM Mirage, Bellagio and Wynn, but there should be some pent-up demand for Las Vegas along with the must-see new properties. Consistent with its December forecast the Board has not included the Cosmopolitan property due to the uncertain completion date and the lack of an operator. For FY 2011, the Board forecast 5% growth for gaming win. The new property openings would not be annualized until mid-year, and again assumed small, sequential improvement in the economy through the end of the forecast period. In FY 2011 this would be slightly ahead of what the Board reported in FY 2005.

Mr. Streshley said the Board's forecast assumed a recovery in the local market in Las Vegas and the balance of the state in FY 2010. He did not predict those markets would turn around until the beginning of FY 2011, lagging behind the recovery on The Strip. Unemployment, housing, and a soft economy would continue to put pressure on those markets.

Mr. Streshley said fiscal year to date, Gaming Percentage Fees were down 16.3%. Collections on taxable revenue were down 12.6% with a -\$40.7 million estimated fee adjustment (EFA). The Board revised its growth rate for FY 2009 to decline 14.3% with \$660.6 million in total collections. Collections on taxable revenue for FY 2009 were forecast to decline 12.6%, which was slightly lower than the Board's gaming win forecast due to a lag in credit collections. The EFA was forecast to end the year at approximately -\$29 million. After a preliminary review of April's collections, EFA revenue should be well over \$10 million with additional collections in May as advanced

fee payment from February's collections. Three months of the fiscal year will be compared to a period where percentage fees declined 13.7% in the previous year. For FY 2010, percentage fees were forecast to increase 4.1%, with \$687.8 million in total collections. Collections from taxable revenue were projected to decline the same as gaming win, -.7%, however, there was a \$32 million swing in the EFA forecasted. As discussed at the November meeting, when gaming win started to improve there could be a 3% to 5% difference in the growth rates between gaming win and total collections. This was the reverse of what happened in FY 2009 when gaming win declined 1.5%, but total percentage fees declined 6% because of a \$29 million decrease in the EFA. This was why it was important to account for the collections from the EFA.

Mr. Streshley said that for FY 2011 he forecast percentage fees to increase 6.6% with \$733 million in total collections. He predicted collections from taxable revenue would grow 5.8% ahead of the gaming win growth rate of 5% as collections on credit play improved with the economy. The additional percentage fees would come from the EFA, which he predicted would increase \$4.5 million over FY 2010.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said the Budget Office's forecast for Gaming Percentage Fees was on page 3 of Exhibit D. The primary variable was the Clark County gaming drop-per-visitor shown in Figure 1 (page 4). She described the variable as being quite volatile. The model accounted for about 30% of the variability over the 13-year span of monthly data. She reported that the amount of gaming drop-per-visitor had been falling, with the notable exception of the period from FY 2003 to FY 2006. The model forecast the various components, including the EFA. The model output was presented in Table 2 on page 3 for the Budget Office's forecast.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon referred to Table 1 (page 11, Exhibit E), which was the forecast, and decomposition of the forecast between the slot win, games win, taxable gaming revenue and various components of the Gaming Percentage Fees. The Fiscal Analysis Division forecast that in FY 2009 revenue for slot win would decline 10.6%, games win would decline 16.2%, with total win declining 12.5%. The Taxable Gaming Revenue (TGR) for FY 2009 would fall 12.3% compared to -6.8% last December. Total Gaming Percentage Fee collections were predicted to fall 14.0%. As Mr. Streshley pointed out, year to date, with nine months in the bank, the EFA was -\$40 million, net. The Fiscal Analysis Division forecast the revenue to recover slightly for the same reasons Mr. Streshley cited. With the credit play there would be a little kick back in the last three months. It would come back only about \$8 million, but that would help because it added another 1.9% in growth. There was still a \$12.1 million net negative impact in FY 2009 because of the EFA. The growth rates for slot win and games were shown going forward into FY 2010. Percentage fees for TGR were falling .8% percent, but total percentage fees actually increased 3.4%. Although the economy started to stabilize, total gaming win would still be down, because the first half of FY 2010 was going to be

bad. The EFA should be the smaller negative in FY 2010, but that was a \$28.5 million swing from the EFA in FY 2009. Total Percentage Fees from TGR would grow 5.6%, but 2% was added due to the impact of the EFA as the economy and gaming started to come back. The end of FY 2011 should be significantly stronger than FY 2010. The Fiscal Analysis Division estimates the EFA to be \$10.5 million, thus about \$13.9 million would be added in that year from EFA, and that was where 2% additional growth came from in FY 2011.

Mr. Guindon said the slot market statistics for the biggest market, Clark County, were on page 18 (Exhibit E). He said the Las Vegas visitor forecast had fallen dramatically and would remain down for a while. There would be some cannibalization when the new properties opened, but by the end of the forecast horizon the revenue would be back where it had been in the prior biennium. He explained that he modeled Clark County rather than The Strip and other Clark County markets. The Fiscal Analysis Division projected the revenue to fall throughout the forecast horizon. He was not sure that the local market would be strong, given what was happening with unemployment. He said the revenue starts to stabilize somewhat at the end of the forecast horizon. He said the slot win per visitor was the same scenario because it fell throughout the forecast horizon. The coin-in-per-slot was even more dramatic. He said the productivity created by the large numbers of visitors and the electronic gaming devices during the boom days was probably over.

Mr. Guindon said game win fell dramatically, but per visitor it held up a little better. Because the type of clientele that the new property would bring, as well as the entertainment events that Mr. Streshley mentioned, it would hold a little throughout the end of this fiscal year and into next fiscal year. The games drop flattened out and then fell a bit more. The Fiscal Analysis Division thought the hold percentage on table games would stay up, and forecast the win per visitor would not fall as much as the drop.

Chairwoman Santoro had questions about the game count forecast on page 8 (Exhibit E). She said in FY 2010 a series of slot machines and tables would come online, which would obviously have a direct impact on the revenue source. She asked whether all of the 6,000 new slot machines were factored into the FY 2010 forecast, and the subsequent FY 2011 forecast. She wanted to understand whether the slot machines were included because there was a degree of uncertainty around certain new projects within the list.

Mr. Guindon said the properties were included in the assumptions that went into the forecast. But the net effect would be much less because of cannibalization. He said the 6,000 new slots were not added to coin-in-per-slot to drive the forecast. Table 2-Q (page 17, Exhibit E) showed the slot market statistics for Clark County. In FY 2010, there were supposed to be 6,000 slots entering the market, but only about 3,800 would come online in terms of the average number of slot machines online in Clark County compared to FY 2009. Even though the new slot machines were included, there was going to be some netting out against that. Similarly, when the properties opened, and

added 5,000 jobs, he did not expect a net increase of 5,000 jobs in the employment market. He did not expect there to be a 6,000 slot increase because other properties would probably pull slots, or some of the properties may not come online.

Chairwoman Santoro said she thought the comment on slot cannibalization was fair. She asked Mr. Guindon what the growth would be if the slots were not factored into the equation.

Mr. Guindon said if all the slots were not included, or if there was more cannibalization, perhaps the coin-in-per-slot would not decrease. The combination of the number of units, the coin-in-per-unit, and the hold percentage drove slot win. As the new properties came online and brought those slots, coin-in-per-slot would fall until the market stabilized. The critical question was whether to decrease coin-in-per-slot more if more slots were added, because the market could not support them. He noted that if the number of slots was reduced in the forecast, the coin-in-per-slot would be higher, because the market might support the lower number of slots relative to the higher number of visitors.

Mr. Guindon said the revenue would grow 3.4% in FY 2010, but without the EFA it would fall -.8%. The 3.4% growth was due to the \$28.5 million expected swing in the EFA, so statewide the percentage fees fell. Mr. Guindon said that was shown on Table 1 (page 11, Exhibit E).

Mr. Guindon said it was difficult to grasp the various dynamics that could influence the taxable activity and the tax collections that came off the taxable activity.

Chairwoman Santoro noted that in the March update gross gaming tax revenue collections for February of FY 2009 were down 43%, and fiscal year to date collections were down 20%. In December there was an expectation that collections would rise, but collections continued to fall. She wanted to understand where collections were at the moment because the Board, Budget Office and Fiscal Analysis Division were close together, but there was a \$10 million difference. She wanted to know the recent actual percentage decline.

Mr. Guindon said for the ninth months of the fiscal year – the latest period for which there was information – revenue decreased 22.6% compared to -42% one year ago. The revenue was moving around quite a bit, because of the EFA and the credit play. Also February was leap year that included Chinese New Year and the Super Bowl. In addition, those events fell on dates that were slightly different compared to last year, which could influence the comparison. Fiscal year to date, the revenue was down 16.4% through nine months. The last three months of FY 2008 the revenue was down 13.6%.

Chairwoman Santoro said it was helpful to know the revenue was down 16.4% through the first nine months of the fiscal year. She presumed that in the months of April, May and June, collections would have to increase to reach expectations of 14% and 15% declines.

Mr. Alastuey asked if there was an EFA recovery expected in the last quarter. Mr. Guindon said he had forecast some recovery in the EFA (page 11, Exhibit E). Through the first nine months of FY 2009 the EFA was -\$40 million, and the Fiscal Analysis Division forecast it to finish the fiscal year at -\$31.854 million.

Mr. Streshley said there were preliminary numbers for March; March was paid with December's gaming win and January's collections. Last year's March gaming win was \$18 million and \$10 million was collected the previous year. The Board had not completed its tax processing, but had already collected \$10 million on the EFA, so he forecast the revenue to finish the year at approximately \$29.8 million.

Chairwoman Santoro said she would like to focus on FY 2009. The Budget Office forecast was -15.6%. The revenue was \$650 million and the percentage decline across the three forecasts was close. She noted the Budget Office forecast changed from \$650 million to \$651 million. She said in this volatility, the economic models become art because of the error term. One would have to presume that growth was flat from FY 2009 to FY 2010, or the revenue would continue to fall at the latter half of FY 2009, and then rise.

Ms. Rogers said the flat growth reflected a fall, then the EFA made up for some of that.

Mr. Alastuey observed that the Budget Office's monthly and quarterly projections were virtually identical FY 2009 to FY 2010. In effect, there was no net response to the additional capacity that might come online during FY 2009 or might be fully annualized in FY 2010.

Ms. Rogers said the model took into account properties coming online and the number of visitors, but in FY 2010 the various components cancelled each other out.

Chairwoman Santoro said visitor volume drove the model to a degree. She wondered whether visitor volume would increase, or hold when a major new project came online.

Ms. Rogers said the model showed visitor volume would rise due to a change in the number of rooms added by the opening of a major property if used as a proxy. This was a positive coefficient as an explanatory variable in terms of visitor volume.

Chairwoman Santoro explained that she asked because an objective statistical analysis found that new projects with a degree of variation from existing properties had a different impact on the market. She asked if the variable for the new project opening was for a property that was similar to or different than existing properties and Ms. Rogers replied there were no assumptions as to the new property being similar or different.

Mr. Restrepo said there was an obvious correlation between retail sales tax and Gaming Percentage Fee. He asked if retail sales tax revenue was influenced by the health of the local economy to a greater extent than gaming fees, because of The Strip's gaming revenue versus the local market gaming revenue. He said the Economic Forum agreed with the Fiscal Analysis Division forecast of a 6.7% decrease in retail sales revenue in FY 2010, but the Fiscal Analysis Division forecasted a 3.4% increase in the gaming revenue. He wondered why gaming revenue increased while sales revenue decreased in the same period. He asked if it was a function of the variables that went into both of those taxes.

Mr. Guindon replied that was a true statement. When he compared the sales tax revenue forecast to the gaming forecast he also had questions. The sales tax revenue equation used visitor volume, construction employment and personal income. He attempted to capture a bit of the visitor volume as well as the local part. He did not use a regression equation for the percentage fees, but did a "gut check" against his visitor forecast. He agreed with the Chair that with the new properties coming online it would pull back a little. He had occupancy rates falling when those products come online due to overcapacity relative to the national and international economy, but the new properties would bring visitors. As Mr. Streshley pointed out, there were some bad months in FY 2009. The gaming side was a little better than the retail side because of the visitor volume. The retail side had a bit more of a local component to it. Visitors eat, shop and gamble, which generates taxable sales and gaming activity. Locals could do all of those things, and buy things like refrigerators and cars that contributed to the taxable sales base. Taxable sales collections were worse off than gaming tax collections because of the employment forecast.

Mr. Hartman said he was persuaded to focus on the Fiscal Analysis Division forecast and deal with the contradiction of gaming rising in FY 2010 and FY 2011. The Fiscal Analysis Division forecast held sales tax revenue down with just a slight improvement in FY 2011. Gaming had taken several body blows in the last 12 months. Gaming relied significantly on consumer confidence, which was starting to improve. He was troubled by the effect of reduced employment and reduced construction on the local operators, which was offset by new operators coming online. Some properties could go through financial reorganization, but historically, properties did not close when that occurred. He thought the overriding factor would be consumer confidence. If it was strengthened it would drive an improvement in the revenue.

MR. HARTMAN MOVED TO USE THE FISCAL ANALYSIS DIVISION FORECAST FOR GAMING PERCENTAGE FEE REVENUE OF \$662.997 MILLION IN FY 2009, \$685.819 MILLION IN FY 2010, AND \$738.114 MILLION IN FY 2011.

The motion failed for lack of a second.

Chairwoman Santoro stated that it had been proven more than once that when a new property opened that was different than existing properties, the market could grow. There was disruption in the industry and nobody could predict a positive or negative outcome. She did not think the magnitude of the situation the industry faced had been seen before. She said for FY 2011, the Board forecast \$733 million, the Fiscal Analysis Division forecast \$738 million and the Budget Office forecast \$678 million. She compared that to FY 2008 revenue of \$770 million. This revenue was generated at a time when there was more hope in the industry than now. She wanted to be positive, but said it was important to be realistic.

Mr. Alastuey appreciated that the modeling used three very divergent methods. The Fiscal Analysis Division technique essentially put the forecaster on the casino floor. The forecast counted tables and devices and invoked the kind of decisions that might be made there. He appreciated the attention of all three estimators in terms of EFA. He was comfortable with the Fiscal Analysis Division near term forecast, but 7.6% in the third year gave him pause given the range of numbers the forecasters recently presented. If the properties opened on time during the midst of FY 2010, there could be a bump. He was not convinced that the revenue would return to the FY 2008 range three years after the industry had been stung so badly. He was willing to be persuaded with further discussion.

Mr. Restrepo agreed with Mr. Alastuey. Assuming consumer confidence was gained in FY 2010 locally and with national and international visitors, people's behaviors might have changed a bit. Discretionary income may be applied to other products and services beyond gaming, at least for a period of two to four years. He was concerned that the revenue may not bump back in FY 2011 to 7.5%, 6% or even 4% because the consumers were saving money and rebuilding 401K plans and savings accounts. For a period, unfettered spending and conspicuous consumption might change a bit. He wanted to believe that was not the case and the revenue would return to the levels of FY 2004, FY 2005 or FY 2006. It could take several years to return to those levels, if the revenue ever did return to those levels. He cautioned the Economic Forum members to be careful about the bumps that were forecast for FY 2011. He would not argue that growth would stay flat in FY 2011. He said there was potential for change in the psychology and behavior of consumers.

Chairwoman Santoro observed that the forecasts were relatively close for FY 2009, there was a belief that there would be growth in FY 2010, but question remained for the FY 2011 forecast.

Ms. Rosenthal asked Mr. Guindon to calculate a 3% increase over the Fiscal Analysis Division forecast for FY 2010. Mr. Guindon said a 3% increase from the \$685.819 million forecast would be \$706.394 million.

Mr. Restrepo asked when actual revenue had last been at that level on an annualized basis and Mr. Guindon responded that in FY 2005 the revenue amount was \$709.6 million.

Chairwoman Santoro said FY 2009 first-quarter figures for many publicly-traded companies were down anywhere from 10% to 30%. She wondered whether positive growth was possible in FY 2010. She asked Economic Forum members to consider the level from which the revenue was building.

Chairwoman Santoro asked how much the local market contributed to the revenue and Mr. Streshley responded the local market was about 22% of the total revenue amount. He explained the local market comprised North Las Vegas, the Boulder Strip and the balance of Clark County.

Mr. Restrepo asked the Chairwoman if she thought 3% might be too low. Chairwoman Santoro said it was a challenging forecast because of how the revenue levels had fallen. There was a significant decline in gaming fee earnings before interest, taxes, depreciation, and amortization (EBITDA) within the industry for many of the companies. The revenue might not return to previous levels. She said the 25% from the local market was a different dynamic.

Mr. Hartman said the reason he was comfortable with the \$738 million amount was that the operators would do everything possible to keep a high rate of occupancy. The operators reduced the price of rooms, food and beverage considerably to keep occupancy rates up. There would be some resistance to raising those prices, which would have an effect on the sales tax revenue. Those sales tax revenue reductions were incorporated earlier. In addition, there would be two or three new significant properties online. He did not think the properties would close, regardless of the balance sheet condition. The operators had ways to bring customers into the properties. He noted the peak revenue amount was \$820 million. He did not think that was a tremendous stretch if there were two or three significant new properties online. For a period there would be some rebalancing of the source of revenue within some of the major properties. The goal of the properties would be for a percentage of revenues to come from sources other than gaming. On the front end, the properties may not be able to do that. There would be a benefit on the gaming revenue side disproportionate to what it cost on the sales tax revenue side. This was why he was comfortable with a forecast for improvement in FY 2011.

Mr. Restrepo agreed to the extent that the resort industry would do anything to put "heads in the beds" through discount packages. However, he was not sure that would translate to increased gambling spending to the level of previous years in this biennium.

He believed there could be a paradigm shift as to how consumers spend money when on vacation.

MR. RESTREPO MOVED THAT THE ECONOMIC FORUM ACCEPT THE BUDGET OFFICE'S GAMING PERCENTAGE FEE REVENUE FORECAST OF A 15.5% DECREASE FOR FY 2009, THE FISCAL ANALYSIS DIVISION'S 3.4% INCREASE FOR FY 2010, AND MS. ROSENTHAL'S 3% INCREASE IN 2011.

Mr. Guindon calculated that if the revenue went from \$650.7 to \$685.819 the increase would be 5.3%.

MR. RESTREPO AMENDED THE MOTION TO ACCEPT A GAMING PERCENTAGE FEE REVENUE AMOUNT OF \$662.997 MILLION IN FY 2009, \$685.819 MILLION IN FY 2010, AND \$706.394 MILLION in FY 2011.

THE MOTION WAS SECONDED BY MS. ROSENTHAL AND CARRIED UNANIMOUSLY.

### **LIVE ENTERTAINMENT TAX - GAMING**

*Frank Streshley, Senior Analyst, Nevada Gaming Control Board*

Mr. Streshley said fiscal year to date Live Entertainment Tax – Gaming (LET) collections were down 5%. He said this was surprising when compared to percentage fee and sales tax collections. The large arena schedule has been light up to this period, but there was not a double-digit drop in entertainment spending as one would expect. He reported that for FY 2009, with four months left in collections, the Board projected a decline of 3.4% with \$117.5 million in total collections. As discussed during the gaming win presentation, the large arena concert schedule was very strong for the rest of FY 2009 compared to the same period in the previous year, which was very soft. The recent Britney Spears and Eric Clapton concerts at the MGM Mirage would also add to collections. The Lion King at Mandalay Bay would generate additional collections when it opened at the end of FY 2009. The Cirque Elvis show at MGM CityCenter was not included in the Board's December 2008 forecast. Mr. Streshley said for FY 2010 LET collections were projected to grow 3.8% with \$122 million in total collections. Similar to gaming win, much of the growth would come in the second half of the year with the new property openings. For FY 2011, he forecast LET collections to increase 5.8% to \$129 million. Some of that growth would come from the new properties because the openings would not be annualized until mid-2011. Mr. Streshley concluded his discussion by saying, similar to gaming win, the Board assumed slow sequential growth throughout the end of the forecast period.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said the Budget Office forecast for the LET began on page 7 (Exhibit D). The values were low because the forecast was driven by an econometric model, and was influenced by a number of Las Vegas variables. Fiscal year to date revenue was down 5%, there would be a greater decline in the final part of the year, then flat growth in FY 2010 before growing 4.9% in FY 2011. The model actually generated a 10% increase in FY 2011. She was not comfortable with that strong of growth given the state of the economy, therefore she lowered the forecast in that year.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon referred to the Fiscal Analysis Division forecast on page 33 of Exhibit E. He considered the visitor forecast and collections per visitor in addition to the information from Mr. Streshley regarding upcoming shows in the new casinos. He predicted the revenue would fall 4.6% in FY 2009. A greater part of the Las Vegas visitors' budget was going toward live entertainment versus gaming and sales tax. He expected the revenue would grow 3.7% in FY 2010. After annualizing the new properties, the visitor forecast would grow 7.1% in FY 2011, and there would be 7.3% growth in LET collections. Mr. Guindon said although the economy seemed to be in a deflationary environment, the cost-per-show had not declined.

Mr. Restrepo ask Chairwoman Santoro whether price and attendance declined for the MGM Mirage shows on The Strip. Chairwoman Santoro replied that across the industry shows tended to bring visitors into the casinos. The Cirque shows had been consistently positive, but attendance was lower than FY 2007 levels. It was still a strong year for live entertainment.

Ms. Rosenthal observed the forecasts were not vastly different from each other, or the Economic Forum's December forecast. She noted that the Fiscal Analysis Division forecast seemed to be in the middle.

MS. ROSENTHAL MOVED TO ADOPT THE FISCAL ANALYSIS DIVISION FORECAST FOR LET REVENUE FOR FY 2009, FY 2010 AND FY 2011.

THE MOTION WAS SECONDED BY MR. ALASTUEY AND CARRIED UNANIMOUSLY.

## **ROOM TAX**

Mr. Guindon began the discussion by reporting on Initiative Petition 1, which was brought forward under Article 19 of the Nevada Constitution. Initiative Petition 1 garnered enough signatures to require the Nevada Legislature to either consider it within the first 40 days of the 2009 Legislative Session, or go on the ballot for a vote of the people in the 2010 General Election. The 2009 Legislature passed Initiative

Petition 1, which became law under the Nevada Constitution although the bill was neither signed nor vetoed by the Governor. Initiative Petition 1 required that up to an additional 3% Room Tax be imposed in Clark County and Washoe County, but the total rate could not exceed 13%. The tax rate as of July 1, 2008, was used to calculate the additional increment.

Mr. Guindon reported that in Clark County the full 3% could be applied everywhere except the City of Las Vegas. Those properties with 75 or more rooms were taxed at 11%, so 2% could be applied, rather than the 3% that was applied everywhere else in Clark County. In Washoe County the Reno downtown and Sparks areas room tax rate was already over the limit at 13.5%. Thus no additional tax under this proposal could be imposed. The tax rate for unincorporated Washoe County and non-downtown Reno was 12%, so only 1% could be imposed. The tax was effective July 1, 2009.

Mr. Guindon said the Economic Forum was to produce a forecast for a full 12-month fiscal year period for both FY 2010 and FY 2011. Staff was working on an accounting accrual issue with regard to how many months may be collected in FY 2010. The Economic Forum's forecast for FY 2010 on a full calendar year basis could be adjusted to reflect either 10 or 11 months, depending upon the resolution of the accounting accrual issue during the legislative session.

Mr. Guindon said staff from the Nevada Commission on Tourism would present its forecast for the Room Tax revenue (page 79, Exhibit A).

Steve Woodbury, Interim Director, Nevada Commission on Tourism, thanked the Economic Forum for the opportunity to present his projections on the impact of the 3% Room Tax increase for the 2009-2011 biennium as a result of Initiative Petition 1.

Mr. Woodbury said the projections were based on the FY 2009 forecast for the 3/8 of 1% Room Tax revenue that funds the Nevada Commission on Tourism (Exhibit L). The projections flowed from what he believed the 3% tax increase would collect in the current fiscal year. The projected net effect of Initiative Petition 1 was broken down by entities in Clark County and Washoe County. In Clark County, for all areas outside of the city of Las Vegas, the Nevada Commission on Tourism's calculations reflected the net effect of the full 3% increase. For the city of Las Vegas, the Nevada Commission on Tourism used the Fiscal Analysis Division's determination that the full 3% should be applied to properties with fewer than 75 rooms, and 2% to the properties with more than 75 rooms.

Mr. Woodbury said that in Washoe County Initiative Petition 1 impacted the areas Reno District B, and Washoe County A and B with a 1% increase from 12% to 13%. The projections were based on a five-year average, FY 2005 through FY 2009. Approximately 53.1% of the total Washoe County revenue came from these three areas. The assumptions were based on those used in the current fiscal year, factoring in the average daily room rate (ADR), occupancy rates, room nights occupied, current trends in cash versus complimentary rooms, room inventory, construction schedules

and expected dates for new rooms coming online. The assumptions also factored in anomalies in FY 2009 collections, current economic conditions and perception issues related to business travel. He anticipated that Room Tax revenues would not return to prior year figures until January 2010, with minimal growth going forward. Based on those assumptions, the Nevada Commission on Tourism projected Initiative Petition 1 revenues of \$102.655 million in FY 2010, an increase of 3% in FY 2011 to \$105.741 million for a total of \$208.396 million over the biennium.

Chairwoman Santoro asked for the ADR rate used to calculate the projections.

Dave Peterson, Senior Manager for Research and Analysis, Nevada Commission on Tourism, said March 2009 numbers showed a 32% to 33% decrease in ADR, which was expected to remain into the fall. The rate going forward was expected to be slightly lower than \$100. Replying to a question from Mr. Alastuey, Mr. Peterson explained the \$100 rate was just for the Las Vegas market.

In response to a question from Chairwoman Santoro about the ADR of \$100, Mr. Peterson explained that ADR rate level was not used for FY 2009, but was used going forward and held constant.

Chairwoman Santoro asked if the room inventory included potential openings in FY 2010. Mr. Peterson said it was assumed the MGM CityCenter project would come online in FY 2010. If the property came online in December 2009, the first full month of Room Tax revenue would be January 2010, which would not be collected until March 2010. Collections for FY 2009 would include only the four months: March, April, May and June.

Chairwoman Santoro noted there were other large projects that had been factored into various analyses. She asked for the room inventory count at the end of FY 2010.

Mr. Peterson said the ending room inventory count for FY 2010 was 199,415 for the state. That included the Fontainebleau Resort and some smaller upcoming properties as well.

Chairwoman Santoro asked how the Cosmopolitan property was addressed and Mr. Peterson said based on the construction schedule provided by the Las Vegas Convention and Visitors Authority (LVCVA) the property would come online in June 2010; those rooms were not included in FY 2010, but were included in FY 2011. The first full month of Room Tax revenue for that property would be July 2010, which would be reflected in September 2010 collections. There would be no impact on FY 2010.

Mr. Restrepo asked for clarification as to whether Initiative Petition 1 only applied to properties of 75 rooms or more in Clark County, and whether the tax rate for unincorporated Las Vegas could be raised by 3%. Mr. Peterson said in the city of Las Vegas properties of 75 rooms or more were already taxed at 11% and the cap was 13%, so there was just a 2% impact. Mr. Peterson said the rate for the rest of Clark County was 9% or 10%, so the tax could be raised 3%.

Mr. Restrepo asked for the current ADR for The Strip and the rest of Clark County. Mr. Guindon said according to the LVCVA, the ADR was \$99 in November 2009, \$105 in December 2008, \$106 in January 2009, and \$109 in February 2009.

Chairwoman Santoro asked why the ADR was held constant through FY 2011. Mr. Peterson explained that the rate did not result from a model, rather it was due to a decrease in the first quarter of 19.9% in January 2009, -23% in February 2009 and an expected 32% decrease in March 2009. It was expected that the rate would experience similar decreases from April through the summer months. He said the operators wanted to draw people to the hotels, and reduced room rates were being used to do that.

Chairwoman Santoro noted that if the ADR increased, the Room Tax revenue would also increase. Mr. Peterson agreed, and said he had not done that analysis. Chairwoman Santoro said it would help the Economic Forum members to have that information.

Mr. Restrepo noted the assumed occupancy rate was 74% at the state level. He asked for the forecasted occupancy rate for Clark County. Mr. Peterson said he did not have a forecast specifically for Clark County.

Mr. Alastuey said it appeared the Nevada Commission on Tourism's forecast used baseline assumptions. The average room rate was not subject to adjustment for two years. It looked as if there were assumptions for additional inventory, but declining occupancy. He thought the numbers were on the conservative side.

Chairwoman Santoro agreed that the assumptions were conservative.

Mr. Woodbury said it was anyone's guess as to what would happen in FY 2011, but based on many conversations, he believed room rates would be slow in coming back. The forecast factored in a slight increase in visitor volume. He did not know what FY 2011 figures for ADR would be.

Chairwoman Santoro said statistical reports within the gaming industry gave some indication as to where room rates were headed. She noted that FY 2008 ADR was \$127. If an ADR amount under \$100 was used and held constant through FY 2011, then there was a the belief that the "heads in beds" theory would continue to hold over the next two years.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Ms. Rosenthal asked why there was an almost \$10 million difference in the Fiscal Analysis Division and Nevada Commission on Tourism FY 2011 forecasts. Mr. Guindon said he did not disagree with the Nevada Commission on Tourism forecast for Washoe County. For Clark County, the Fiscal Analysis Division forecast the Las Vegas market, excluding Boulder City and Mesquite to make the forecast consistent with LVCVA statistics. The Fiscal Analysis Division forecast visitors first, then occupancy percentages. He explained that the key factor was room nights occupied, because the

tax was on the room rather than the visitor. Room inventory was projected to increase by 3.7% in FY 2009, 6.6% in FY 2010, and 5.3% in FY 2011. Occupancy percentage was expected to average 81% in FY 2009, fall to 77.8% in FY 2010, then recover slightly to 79.1% in FY 2011. All three of those fiscal years' occupancy rates were below the rates during the recession from 1990 through 1992. He expected even more cannibalization of the market when the new properties come online at the end of the year.

Mr. Guindon said room nights occupied would decrease 6.3% in FY 2009, increase 2.4% in FY 2010 and increase 7.2% in FY 2011. This was because the average occupancy rate would come back in FY 2011 to 79.1% compared to 77.8% in FY 2010. Also, there was a 5.3% increase in room inventory. The ADR was assumed to be \$105 in FY 2009, which was a 17.6% decline from \$128 in FY 2008. The ADR would fall slightly to \$104 in FY 2010, a 1.3% decline, and would increase slightly at 2% to \$106 for FY 2011. He agreed with the Nevada Commission on Tourism that the full 3% was not applicable to parts of the city of Las Vegas.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said she tried to develop an econometric model to forecast the Room Tax revenue by modeling the inflation adjusted average Room Tax collection per visitor. She realized that was not the best way to stabilize the data. The econometric model did a good job of modeling the 12 years of historical data for the statewide portion, but going forward it showed a 23% decline for FY 2010 and an additional 11% decline in FY 2011, which she did not think was reasonable. Therefore, she increased that to a very small decrease in FY 2010 statewide, and used the proportions of the various tax units to derive \$105 million for FY 2010 Room Tax revenue amount and held that constant in FY 2011.

Chairwoman Santoro said data was needed for econometric modeling. The Fiscal Analysis Division's forecast allowed for a degree of variation in the ADR. The Commission on Tourism held the amount at just under \$100 for two years. She noted that the Fiscal Analysis Division expected the markets to get stronger in FY 2010 and FY 2011, after which the properties would raise room rates. The rooms may be used as a loss leaders, but as the economy improved the operators would move away from that position.

Chairwoman Santoro asked if the \$106 million level could be compared to FY 2008, which was \$127 million. Mr. Guindon said it would be a long time before the revenue returned to that level. In FY 2006 the revenue was \$112 million and in FY 2007 \$128 million, but for the three prior fiscal years of FY 2005, FY 2004 and FY 2003, the revenue amount was \$96 million, \$86 million and \$80 million, respectively.

Mr. Alastuey commended the forecasters for their efforts to predict the revenue amount without much data. He said the Fiscal Analysis Division estimate had more components that were specific to the Clark County market, which was where the great preponderance of the revenue would come from. He suggested that the Fiscal Analysis Division forecast be considered as a benchmark for discussion.

Chairwoman Santoro said it made sense to be conservative in this environment.

MR. ALASTUEY MOVED TO ADOPT THE FISCAL ANALYSIS DIVISION'S ESTIMATES FOR ROOM TAX REVENUE OF \$104.7 MILLION FOR FY 2010 AND \$115.15 MILLION FOR FY 2011.

MS. ROSENTHAL SECONDED THE MOTION.

Mr. Restrepo asked Mr. Guindon to explain the 10% increase between the two years. Mr. Guindon said there were multiple factors. The occupancy rate recovered a little in FY 2011 compared to FY 2010, and there were additional rooms. Some of the properties would only have been open for half of the fiscal year in FY 2010 versus a complete year in FY 2010. Also the ADR was rising slightly. The combination of those things generated the 10% increase in Room Tax revenue collections. The occupancy rate change was from 77.8% in FY 2010, which actually fell from FY 2009, then recovered back to 79.1% in FY 2011, a figure well below historical standards.

Mr. Hartman said he was in favor of the motion, but noted that the Fiscal Analysis Division forecast was the least conservative of the three.

Chairwoman Santoro said that she followed the weekly room rate surveys. She hoped that at some point the rates reached bottom. She asked Mr. Alastuey to restate the motion and he did.

THE MOTION CARRIED UNANIMOUSLY.

### **SECRETARY OF STATE FEES**

Mr. Guindon said Table 3 (page 81, Exhibit A) showed the two parts of the Secretary of State's commercial recordings and fees activity through its Las Vegas office under GL 3106 and through its Carson City office under GL 3130. Rather than forecast the two pieces separately, they were combined as SOS Commercial.

*Kate Thomas, Deputy Secretary of State for Operations, Secretary of State's Office*

Kate Thomas, Deputy Secretary of State for Operations, said the Economic Forum has opted to review the forecasts of two of the Secretary of State's Divisions – Commercial Recordings and Securities.

Ms. Thomas said the Secretary of State's Commercial Recordings Division was responsible for processing and filing the organizational and the mandatory documents of more than 300,000 entities currently in good standing under Nevada laws. These

entities included for profit and nonprofit corporations, limited partnerships, limited liability companies, limited liability partnerships, limited liability limited partnerships, professional corporations, associations and business trusts. The Secretary of State's Office collected the revenue at the time the organizational documents were filed. An annual list revenue was collected throughout the year, generally on or before the anniversary date of an entity's organization. The Secretary of State's Office has taken into consideration the months that tended to be larger filing months in forecasting the revenues, and other factors.

Ms. Thomas reported that new entity formations have decreased approximately 15% and annual amended and initial list filings decreased approximately 6% in FY 2009 compared to FY 2008. Expedited or special services revenue decreased approximately 24% due to economic conditions, office and processing efficiencies and increased use of the enhanced online services. The Secretary of State's Office did consider a 24% reduction when projecting the expedite fees in FY 2009, FY 2010 and FY 2011. Current turnaround time for processing was generally four to eight working days as compared to eight to ten weeks when expedited services were implemented over ten years ago. Use of online services continued to increase and the Secretary of State's Office continued to expand online services to customers and, therefore, expected the special service revenues to continue to decline. The number of entities in good standing was presently 313,000, a 2.76% decrease in FY 2009 as compared to FY 2008 due to the drop in new and annual filing. Filing activity and all associated revenue was analyzed by the Secretary of State's Office on a monthly basis and the current FY 2009 estimate was based on actual revenue recognized through March 31, 2009, and extended through the fiscal year based on the current reduced filing activity. She noted that while the number of filings was decreasing compared to FY 2008, the number of filings per month appeared to be stabilizing. While the Secretary of State's Office expected the economy to recover as it had in past down cycles, because the downturn was unprecedented there was hesitation to forecast an increase in commercial recordings. Since the Secretary of State's analysis showed the decreases in filing volume may have stabilized, the forecast for FY 2010 and FY 2011 were flat compared to FY 2009, except for the 24% decrease in the expedited fee revenues. The Secretary of State's Office would continue to monitor the revenue and filing streams and would report any significant changes to Budget Office and Fiscal Analysis Division staff.

Ms. Thomas said the Secretary of State's Securities Division administered the state's security laws and protected Nevada investors from fraud by licensing investment professionals, registering security offerings, enforcing the state's securities laws, and educating the public through community forums and presentations. Revenues were generated by this division primarily through licensing and registration as Nevada law required that athletes' agents, transfer agents and any person engaging in the offering or sale of securities or providing investment advice for compensation to be licensed with the Secretary of State's Securities Division. Additionally, companies seeking to offer securities for sale in Nevada must register their offerings with the division. Revenue account 3152 was comprised of the registration of these agents, brokers and dealers of

securities as well as inspection fees generated from regulating securities firms via examinations by the division's investigators. Inspection fees accounted for approximately \$50,000 annually. There was a 3.3% decrease in the revenues in FY 2009 over FY 2008 based on projections of licenses.

Ms. Thomas offered to answer questions of the Economic Forum members and noted that Scott Anderson, Deputy Secretary of State for Commercial Recordings, and Carolyn Ellsworth, Securities Administrator, were also available to answer questions.

*Janet Rogers, Chief Economist, Department of Administration*

Ms. Rogers said there was very little data on this series of revenue. The Budget Office forecast for FY 2009 was based on year to date growth. She considered the strength of the state's economy in FY 2010. That was why she produced a lower forecast of \$67.1 million in FY 2010 with a tiny decline in FY 2011 reflecting the final return to growth in the second half of FY 2011, coupled with the decline from the first half. The securities revenue forecast was again based on the decline year to date in FY 2009, a small decline in FY 2010 due to economic conditions, then flat growth in FY 2011.

*Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division*

Mr. Guindon said the Fiscal Analysis Division used the Secretary of State's projections for both commercial recordings and securities. He explained that he had been forecasting these revenue sources with Scott Anderson since 2001, and they did not always agree. In those instances the Fiscal Analysis Division provided the Economic Forum with its own forecast. Because the Fiscal Analysis Division was not uncomfortable with the Secretary of State's forecast at this time, their forecast was used as Fiscal's forecast.

Chairwoman Santoro observed that the forecasts followed each other for the most part. The only anomaly was the Budget Office forecast for FY 2010. She said the forecasting process for this revenue would be simpler than for the other revenues.

Mr. Restrepo said the forecasts were very close together in FY 2009. He asked why there was a small improvement in FY 2010.

Scott Anderson, Deputy Secretary of State for Commercial Recordings, Secretary of State's Office, explained that based on discussions with other states and many customers, it appeared the decreases in filings were leveling out.

Mr. Restrepo asked if the decrease was due to the use of the Internet and Mr. Anderson said the decrease resulting from the use of the Internet was only for the expedited services fee, not overall revenue. The Secretary of State charged an additional fee for expedited services, but with the advent of online services, those fee revenues dropped dramatically. This decline was expected to continue as more online services were developed.

Mr. Restrepo asked Ms. Rogers to explain the 5.4% decrease. Ms. Rogers said she was forecasting an additional decline due to general economic conditions that would have an effect on commercial recordings.

MR. HARTMAN MOVED TO USE THE SECRETARY OF STATE'S MAY 1, 2009, FORECAST FOR COMMERCIAL RECORDINGS AND SECURITIES FEE REVENUE FOR ALL THREE FISCAL YEARS.

MS. ROSENTHAL SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

Mr. Guindon said Fiscal Analysis Division staff would update the forecast tables to include the updated forecasts of the Economic Forum to be presented to the Governor and the Legislature. The tables would then be reviewed by the Economic Forum members.

Mr. Guindon said that Knight Allen had intended to speak to the Economic Forum, but had to leave the meeting. Mr. Allen sent a letter to the Economic Forum members by facsimile thanking them for their efforts, and for considering his proposal (Exhibit N). Chairwoman Santoro thanked Mr. Allen for his participation in the Economic Forum process.

**V. APPROVAL OF THE ECONOMIC FORUM'S MAY 1, 2009, REVENUE FORECAST REPORT.**

Chairwoman Santoro asked for a recess while Fiscal Analysis Division staff updated the forecast tables. The Economic Forum recessed at 4:25 p.m.

The Economic Forum reconvened at 5:18 p.m. Chairwoman Santoro explained that the members of the Economic Forum had reviewed the updated forecast tables and signed letters to the Governor and the members of the 75<sup>th</sup> Legislature approving the actions that were taken by the Economic Forum.

MS. ROSENTHAL MOVED TO ACCEPT THE MAY 1, 2009, ECONOMIC FORUM REVENUE FORECAST FOR FY 2009, FY 2010 AND FY 2011.

THE MOTION WAS SECONDED BY MR. HARTMAN AND CARRIED UNANIMOUSLY.

**VI. PUBLIC COMMENT.**

There was no public comment.

**VII. ADJOURNMENT.**

The meeting was adjourned at 5:20 p.m.

SUBMITTED BY:

---

Rebecca Lowe, Committee Secretary

APPROVED BY:

---

John Restrepo, Committee Chair

---

Date