

**MINUTES OF THE MEETING OF THE  
STATE OF NEVADA ECONOMIC FORUM  
September 28, 2006**

The meeting of the State of Nevada Economic Forum (created by Senate Bill 23, 1993) was scheduled for 9:30 a.m. on Thursday, September 28, 2006, 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:**

Cary Fisher  
Deborah Pierce  
William Martin

**ECONOMIC FORUM MEMBERS ABSENT:**

Leo Seevers  
Michael Small

**STAFF:**

Gary Ghiggeri, Senate Fiscal Analyst, Fiscal Analysis Division  
Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division  
Bill Anderson, Economist, Executive Budget Office  
Tina Calilung, Deputy Fiscal Analyst, Fiscal Analysis Division  
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division  
Donna Thomas, Secretary, Fiscal Analysis Division

**EXHIBITS:**

- Exhibit A - Meeting Notice and Agenda
- Exhibit B - Attendance Report
- Exhibit C - Meeting Packet
- Exhibit D - State of Nevada – Gaming Control Board, Fiscal Years 2005 and 2006  
Gaming Activity
- Exhibit E - State of Nevada – Department of Administration – Budget and Planning  
Division – General Fund Revenue Forecasts: Methodologies and  
Accuracy – September 2006
- Exhibit F - Fiscal Analysis Division – Forecast Information for the Major General Fund  
Revenues

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

**I. ROLL CALL**

Acting Chairwoman Pierce called the meeting of the State of Nevada Economic Forum to order at 9:40 a.m.

Russell Guindon, Senior Deputy Fiscal Analyst, Fiscal Analysis Division, explained that the State of Nevada Economic Forum was the statutory body required to produce the General Fund revenue forecasts used by the Governor and Legislature to produce the state's General Fund budget.

**II. ELECTION OF CHAIRPERSON AND VICE CHAIRPERSON**

Acting Chairwoman Pierce opened up the nominations for Chairperson.

MR. FISHER NOMINATED MS. PIERCE FOR CHAIRWOMAN OF THE STATE OF NEVADA ECONOMIC FORUM.

MR. MARTIN SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY. MS. PIERCE ACCEPTED THE NOMINATION.

\* \* \* \* \*

CHAIRWOMAN PIERCE NOMINATED MR. MARTIN FOR VICE CHAIRMAN OF THE STATE OF NEVADA ECONOMIC FORUM.

MR. FISHER SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY. MR. MARTIN ACCEPTED THE NOMINATION.

**III. APPROVAL OF THE MAY 2, 2005, MEETING MINUTES**

Chairwoman Pierce asked for a motion to approve the May 2, 2005, meeting minutes included in the Meeting Packet (Exhibit C).

MR. MARTIN MOVED TO APPROVE THE MAY 2, 2005, MEETING MINUTES.

MR. FISHER SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

Mr. Guindon briefly explained that Agenda Item IV presented the tax changes approved by the 2005 Legislature during the 2005 Regular and 22<sup>nd</sup> Special Sessions regarding the changes made to the Economic Forum's May 2, 2005, forecast for Fiscal Year (FY) 2005-06 and FY 2006-07. In addition, the Forum and its staff would have to

consider the implications of the legislative actions on the revenue projections during the current forecast cycle of the Economic Forum.

Under Agenda Item V, the committee would review the prior forecasts compared to actual collections for the seven major revenues: sales tax, percentage fees, insurance premium tax, modified business tax non-financial and financial, live entertainment tax-gaming, real property transfer tax and cigarette tax. The Economic Forum would listen to the various projections and create a consensus forecast.

Continuing, Mr. Guindon noted that staff selected some of the major minor revenues sources with regard to the forecast error for these revenue sources presented under Agenda Item V-B.

Under Agenda Item VI, the committee would review the report included in the packet that presented various forecast error statistics designed to provide a measure of accuracy of the Forum's and the other forecasters' estimates compared to actual collections.

Under Agenda Item VII, the committee would discuss and make recommendations regarding the Forum's use of a private forecast service. Mr. Guindon stated that Global Insight was a national economic forecast service that, under contract, produced forecasts for the Forum for the gaming percentage fees and sales tax revenues.

Under Agenda Item VIII, the committee would discuss contacting outside reviewers, economists from the university system, as well as private consultants to provide an analysis of the economic outlook for the state in addition to forecasts for the state's major General Fund revenue sources, if available.

Concluding, Mr. Guindon stated the Technical Advisory Committee (TAC) was a statutory committee that supported the Economic Forum and was generally instructed to produce the forecasts for the minor revenue sources.

#### **IV. PRESENTATION OF THE TAX CHANGES APPROVED BY THE 2005 LEGISLATURE DURING THE 2005 REGULAR AND 22ND SPECIAL SESSIONS**

Mr. Guindon stated that staff had prepared an overview of the 2005 legislatively-approved changes to the General Fund taxes that the Economic Forum had to consider. Referring the committee to Table 1, page 33 of the meeting packet, Mr. Guindon stated that the table summarized the legislative actions and fiscal impact on General Fund revenues that were applied to the Economic Forum's May 2, 2005, forecast for FY 2005-06 and FY 2006-07. He noted that the changes were primarily to the live entertainment tax (LET), modified business tax (MBT) on financial and non-financial institutions, branch bank excise tax and the business license fee (BLF).

Mr. Guindon noted that in Senate Bill 3, 22<sup>nd</sup> Special Session, there was a change made to the BLF that provided an exemption for entities that had four or fewer rental dwelling units. The BLF was the \$100 annual fee, approved during the 2003 Session that entities were required to pay for doing business in the state of Nevada. During the 2003-04 interim, a committee was established to look at the taxes and determine if any technical changes needed to be made to the tax plan approved by the 2003 Legislature. The recommendation approved in S.B. 3 was estimated to reduce business license fee revenues by approximately \$3 million in both FY 2005-06 and FY 2006-07. A major provision of the bill affecting the BLF provided that an entity operating a facility at which trade shows, conventions or sporting events were held, was responsible for the payment of the BLF for those participants that did not have a business license; the entity operating the facility where the event was held could pay the fee as a one-time annual payment or on a per-show or event basis using a per-business formula. This change was estimated to generate approximately \$134,000 in FY 2005-06 and \$159,000 in FY 2006-07.

The branch bank excise tax was a new tax approved during the 2003 Session. Senate Bill 3 replaced the exemption for one branch office per bank and provided an exemption for one branch office maintained by a bank in each county; collections were estimated to be reduced by \$441,000 in both FY 2005-06 and FY 2006-07.

Senate Bill 4, 22<sup>nd</sup> Special Session, allocated \$7.6 million of the unclaimed property revenues collected by the State Treasurer and deposited it into the General Fund to the Millennium Scholarship Trust Fund. The unclaimed property forecast approved by the Economic Forum at its May 2, 2005, meeting was reduced by \$7.6 million in both FY 2005-06 and FY 2006-07.

Senate Bill 390 modified the Real Property Transfer Tax (RPTT) to increase the collections allowance provided to Clark County and Washoe County for collecting the state RPTT from 0.2% to 1.0%, effective July 1, 2005. This change equated the collection allowance across all 17 counties in the state to 1.0%. During the 2003 Session, the original collection allowance was 0.2% for Clark and Washoe Counties; the smaller counties were 1.0%. This change was estimated to reduce RPTT collections by approximately \$1 million per fiscal year.

Senate Bill 391, approved during the 2005 Session, replaced the North American Industrial Classification System (NAICS) based approach for defining financial institutions with a structure based on a state or federal licensing or regulatory requirement for conducting financial activities. Mr. Guindon explained that the NAICS was a system used by the Census Bureau and the Bureau of Economic Analysis to classify businesses by type of activity and was originally used to draft the statutory language to define financial institutions. During the 2003-04 interim, a legislative committee reviewed this structure, and a decision was made to move away from the NAICS structure to one based on a state or federal licensing requirement or regulatory

environment for conducting financial activities. In addition, the bill removed collection agencies and pawn shops from under the modified business tax on financial institutions (MBI-FI) and explicitly put them under the modified business tax on non-financials (MBT-NFI). The changes approved in S.B. 391 were estimated to reduce MBT-FI collections by approximately \$1.8 million in FY 2005-06 and approximately \$2 million in FY 2006-07, and moving the collection agencies and pawn shops from the MBT-FI to MBT-NFI generated revenue for the MBT-NFI of approximately \$600,000 in FY 2005-06 and FY 2006-07. Mr. Guindon clarified that when the collection agencies and pawn shops were classified from financial to non-financial status, the impactment from a negative \$1.8 million to a positive \$600,000 was because the MBT-FI tax rate was 2%, where the MBT-NFI tax rate was 0.65% and was lowered to 0.63% for the current biennium.

Senate Bill 357, approved during the 2005 Session, allocated \$1 per slot machine per quarter in FY 2005-06 and \$2 per slot machine per quarter in FY 2006-07 from the quarterly licenses imposed on restricted and non-restricted slot machines; the money generated was deposited into the Account to Support Programs for the Prevention and Treatment of Problem Gambling.

Due to the sunset provision of S.B. 357, the current \$2 fee under the S.B. 357 language would expire effective June 30, 2007. Adjustments were made to the Economic Forum's forecast, based on the legislative changes for those two revenue sources, of approximately \$85,000 and \$173,000 for the restricted slot tax, and approximately \$737,000 and \$1.5 million for the non-restricted slot tax in FY 2005-06 and FY 2006-07, respectively.

Senate Bill 523, approved during the 2005 Session, reduced the MBT-NFI tax rate from 0.65% to 0.63% from July 1, 2005, to June 30, 2007. The estimated impact of the reduction was \$6,978,000 in FY 2005-06 and \$7,450,000 in FY 2006-07.

Assembly Bill 554, approved during the 2005 Session, made changes to various provisions governing taxation of events or transactions, primarily regarding the LET and the sales and use tax. Lowering the occupancy threshold from 300 to 200 for determining whether an establishment was subject to the LET was estimated to generate approximately \$3.6 million in additional revenue in FY 2005-06 and FY 2006-07.

The total impact from the legislative changes made during the 2005 Session was estimated to reduce General Fund projections for FY 2005-06 by approximately \$17.4 million; \$18.9 million in FY 2006-07; approximately \$37.5 million in the 2005-07 biennium. These legislative actions resulted in approximately a 0.6% reduction to the Economic Forum's May 2, 2005, forecast.

Mr. Guindon concluded his summary of the legislative changes. In addition, he noted there were several other legislative changes made with minimal financial impacts.

Many of the changes recommended by the interim study committee codified the regulations adopted by the Gaming Control Board and Department of Taxation when developing the regulations to implement the MBT, LET and the BLT.

Mr. Guindon directed the committee to page 34, Table 2, of the meeting packet (Exhibit C). He stated that Table 2 summarized the forecast implications on General Fund revenues for FY 2006-07, FY 2007-08, and FY 2008-09 from legislative changes approved during the 2005 Session and 22<sup>nd</sup> Special Session.

Senate Bill 4, 22<sup>nd</sup> Special Session, made changes to the unclaimed property. The Treasurer would produce a forecast and the Budget Office and Fiscal staff would review it to make sure that the \$7.6 million allocated to the Millennium Scholarship Trust Fund was deducted from the General Fund forecasts for unclaimed property collections.

Senate Bill 357 allocated \$2 per slot machine per quarter in FY 2006-07 from the quarterly licenses imposed on restricted and non-restricted slot machines; the bill would sunset effective June 30, 2007. The base year forecast (FY 2006-07) would have to account for the net effect of the \$2 allocation; in addition, the forecast the Forum would produce for FY 2007-08 and FY 2008-09 would no longer have the \$2 allocation removed from the forecast.

Senate Bill 523 reduced the MBT-NFI tax rate from 0.65% to 0.63% and would sunset on June 30, 2007. When the Department of Taxation, Budget Office and Fiscal Division prepared forecasts for the Forum's consideration, the forecast for FY 2006-07 would be based on the 0.63% rate, while the FY 2007-08 and FY 2008-09 forecasts would be based on the 0.65% rate.

Assembly Bill 554, approved during the 2005 Session, provided for the submission to the voters of a question of whether the Sales and Use Tax Act of 1955 should be amended to include an exemption from the state sales tax for certain farm equipment and the trade-in value of a vehicle. If approved by the voters at the November 2006 General Election, the change would be effective January 1, 2007, and the exemption for the farm equipment and the trade-in allowance would be applicable to the state rate, resulting in revenue reductions when the exemptions were effective. Under current statute, the exemption for the trade-in allowances was allowed from the local rates, but required a vote of the people to amend the sales and use tax act to provide the exemption from the state rate. If approved by voters at the 2006 election, the sales tax forecasts for FY 2007-08 and FY 2008-09 would have to be adjusted for the estimated impact of the exemptions. Given the January 1, 2007, effective date, the forecast for FY 2006-07 would have to be adjusted for the impact on the last six months of the fiscal year. Based on the FY 2004-05 actual information from the Department of Taxation, the exemption for farm equipment and trade-in allowance would generate approximately a \$20 million reduction in state General Fund revenues. If not approved, the impact would be more marginal on the collection allowances for the state and would be a large change for the local governments, which would gain revenue.

Concluding his presentation, Mr. Guindon stated that S.B. 165 approved during the 2005 Session transferred the General Fund portion of petroleum inspection fees to the Department of Agriculture effective July 1, 2007. The FY 2006-07 forecast would include the amount for the petroleum inspection fees, but the forecasts prepared and presented for FY 2007-08 and FY 2008-09 would not include revenues from the petroleum inspection fees. Mr. Guindon stated the fees were not a substantial revenue source; FY 2005-06 actual collections were approximately \$580,000, or about \$1.2 million removed from the General Fund forecast for the 2007-09 biennium. Thus, the net General Fund revenue effect of classifying collection agencies and pawn shops from financial institutions to non-financial entities was a negative \$1.2 million.

Mr. Fisher asked Mr. Guindon if he could provide a chart at the next meeting displaying the current forecasts and a summary of the estimated impacts on the General Fund revenues. Mr. Guindon replied that Mr. Fisher's request was a good suggestion and staff would provide a table to the Forum members with the current forecasts and the forecasts based on the legislative actions.

**V. REPORT AND DISCUSSION OF FY 2005 AND FY 2006 ACTUAL COLLECTIONS COMPARED TO FORECASTS INCLUDING ADJUSTMENTS FOR CHANGES APPROVED BY THE 2005 LEGISLATURE**

Moving to the next agenda item, Mr. Guindon referenced tab V-A of the meeting packet (Exhibit C), and explained that his intent was to review the December 1, 2004, and May 2, 2005, forecasts for FY 2004-05 and FY 2005-06 for the seven major General Fund revenue sources for which the Forum produced a consensus forecast. Table 1, page 37 of the meeting packet, provided a comparison of the actual collections versus December 1, 2005, and May 2, 2005, forecasts by forecaster for FY 2004-05 for the major revenue sources. The table displayed how each forecaster did for the December 1, 2004, forecast when they produced a forecast for the base year (FY 2004-05) with three to four months of actual collections for the monthly taxes and one-quarter of actual collections for the quarterly taxes available to the forecasters. The table also displayed how each forecaster did for the May 2, 2005, forecast when there were eight to nine months of actual collections for the monthly taxes and two to three quarters of actual collections for the quarterly taxes available to the forecasters. Table 2, page 38, displayed the actual collections versus December 1, 2004, and May 2, 2005, forecasts by forecaster for the first year of the current biennium (FY 2005-06). The difference between the December and May forecasts was the actual information that was available to the different forecasters and the Forum when preparing the forecasts for the base year FY 2004-05. Looking across the chart from the December to May estimates, the forecast error generally went down. Mr. Guindon noted forecasters would hope and expect that the more actual information they had for the base year, the better they would do estimating the base year, which would hopefully translate into a better forecast for the out years of the forecast period.

Mr. Guindon directed the Forum to page 45 of the meeting packet (Exhibit C). Table 3, which displayed the December 1, 2004, forecast, showed how the forecast compared

for the two years there was actual collection information available for the base year (FY 2004-05) and the first-year ahead forecast (FY 2005-06). Table 3 showed how the forecast for the base year (FY 2004-05), which was based on three to four months of actual collections and one quarter of actual collections for the quarterly taxes and the first-year ahead forecast, FY 2005-06, compared to the actual collections reported for each fiscal year period.

Table 4 (pages 49 and 51) showed the May 2, 2005, forecast prepared by the Economic Forum and the different forecasters for the major revenues for FY 2004-05 and FY 2005-06. When producing the May 2, 2005, forecast for the base year (FY 2004-05), there were eight to nine months of actual collections for sales and gaming tax and two to three quarters of actual collections for the RPTT and MBT taxes available.

Continuing with his review of the tables in the meeting packet, Mr. Guindon said that Table 5, page 53, provided the summary tables and general ledger accounts for all General Fund revenue sources that the Economic Forum approved forecasts for at its May 2, 2005, meeting. The Forum provided forecasts for the seven major revenue sources; the minor revenue sources were produced by the TAC, which were approved by the Economic Forum at the May 2, 2005, meeting. Mr. Guindon indicated that the table on page 53 of the meeting packet was just for the Economic Forum's May 2, 2005, forecasts and the forecasts were adjusted for the estimates of the legislative actions approved during the 2005 Session and 22<sup>nd</sup> Special Session.

Mr. Guindon pointed out that all the forecasts in Table 1 through Table 4, in terms of the Economic Forum's forecast for the December and May cycle, as well as each of the individual forecasters, were adjusted by Fiscal staff for legislative actions. Given the estimate of the legislative actions, that information was used to make the same proportional adjustments to each of the forecasts; if staff did not make the adjustments for the legislative actions, they were creating a bias between the different forecasters. Mr. Guindon explained that when staff looked at the analysis, they did the proportional adjustment to the Economic Forum's May 2, 2005, forecast and applied that factor to the other forecasts because he believed it provided the most uniform and consistent treatment of the different forecasts. He reiterated that all the forecasts requiring legislative adjustments were adjusted to try to get to an "apples to apples" basis.

Concluding, Mr. Guindon explained the FY 2005-06 actual collections shown in the tables were preliminary and once the Controller closed the accounting books for FY 2005-06, the Budget Office, Fiscal Division and the Controller would review the collections to see if any additional reconciliation or adjustments needed to be made to the FY 2005-06 actual collections. If any adjustments needed to be made, staff would bring them to the members' attention at the next Economic Forum meeting.

Lastly, Mr. Guindon clarified that the dollar and percent differences in the tables were based on an actual minus forecast computation basis. Since the differences were

based on an actual minus forecast basis, if the dollar difference or the percent difference were positive, it meant actual collections came in greater than the forecast and, similarly, a negative number meant the actual collections came in below the forecast.

## PERCENTAGE FEE COLLECTIONS

*Frank Streshley, Senior Analyst, Gaming Control Board*

Mr. Streshley referred the members to the handout, *State of Nevada, Gaming Control Board, Fiscal Years 2005 and 2006 Gaming Activity* (Exhibit D). Page 1 of the handout showed the percentage fee collections. Actual percentage fee collections for FY 2004-05 came in at \$709.9 million, an increase of 5.1% over FY 2003-04, with actual collections exceeding projections by \$5.7 million or .8%. The total collections included the month-to-month estimated fee adjustment (EFA) amount of \$12.4 million. Fiscal Year 2005-06 percentage fee collections came in at \$790.4 million, an increase of 11.3%, exceeding projections by \$41.7 million or 5.6%. The total collections from the EFA adjustment were \$7.4 million.

Mr. Streshley moved to pages 2 and 3 of the handout, which outlined the statewide gaming win and growth for total win, slot win and game and table win. Statewide gaming win for FY 2004-05 was forecast to increase by 8.2% and 7.8%, respectively. The projected growth was based upon the opening of the Wynn property at the end of FY 2004-05, which was the first new major resort opening on the Strip since the Aladdin in August 2000. Mr. Streshley assumed the Wynn property would be successful from a gaming win standpoint, but he was fairly conservative on how much the existing market would grow with the opening of the Wynn property.

Actual gaming win for FY 2004-05 increased 8.3%, with a total of \$10.9 billion; FY 2005-06 gaming win came in much stronger than anticipated with a record statewide win of \$12.2 billion, an increase of 12.1%. Gaming win increased 13% the first half of the year, followed with 11.3% the second half of the year.

Continuing with the Gaming Control Board handout, page 3, the month-to-month chart showed that starting in August 2004, gaming win took off, followed by 22 straight months of positive growth until June 2006, which posted a decline of 3.5%. The months prior to June 2006 were either monthly records or all-time records in gaming win, with 14 of the months posting double-digit increases. The average statewide gaming growth rate in the past ten years was approximately 5%, so for both fiscal years, the state was well above that average.

Moving to the individual markets, page 4 of the Gaming Control Board handout (Exhibit D), Mr. Streshley stated that the Las Vegas Strip made up 52.4% of the total gaming win, so most of the trends in the statewide chart were a result of what happened on the Strip. In FY 2004-05, the Strip grew 8.6% with the opening of the Wynn property

in the last two months of that fiscal year. In FY 2006, gaming win on the Strip grew 16.6%, with a growth rate of 17.8% the first half of the year and 15.5% growth the second half of the year. Slot win on the Strip increased 12.6% in FY 2005-06, with game and table win increasing 21.5% with strong activity from the high-end premium baccarat play.

In addition to the Wynn opening, Mr. Streshley stated that Bellagio and Caesar's Palace added 1,000-room towers during the forecast period, adding to the number of rooms and visitors on the Strip.

Moving to the Las Vegas local's market gaming win, page 5 of his handout (Exhibit D), Mr. Streshley said the chart displayed the combined gaming win for North Las Vegas, the Boulder Strip and the balance of Clark County, and these areas were some of the fastest growing markets in the state over the past ten years. Ten years ago, these markets comprised 13.4% of statewide gaming win and in FY 2005-06, gaming win was up to 19.6% with \$2.4 billion, which made it one of the larger gaming markets in the county. In FY 2004-05, the combined market grew 16.5%; FY 2005-06 grew 11.8%. These markets continued to increase with strong population growth in the Las Vegas and Henderson areas, which were currently showing some slowing. Some of the newer properties in those markets had added amenities and were competing for higher-end guests who normally stayed on the Strip. During the forecast period and in the last year, the South Coast property opened in December 2005, followed by the Red Rock Station in April 2006.

Some of the other reporting areas in Clark County not shown on the charts were the downtown Las Vegas area where gaming win declined 1% in FY 2005-06; Laughlin gaming win was up 3.9% and Mesquite grew 16.6%.

Moving outside of Clark County, Washoe County gaming win rebounded, growing slightly in FY 2004-05, up .3% following three straight years of declining revenues. Fiscal Year 2005-06 gaming win increased 5.4%, and Washoe County benefited from strong growth in the locals market similar to Las Vegas, with an upturn in the tourism side with growth in the convention and small meeting market. The completion of the train trench and the addition of the Reno Convention Center were positive factors for the downtown properties. The closing of the Sundowner and Golden Phoenix casinos over the past two years had to be taken into consideration, making the growth that much stronger.

Mr. Streshley referred the committee to page 7 of the Gaming Control Board handout. South Shore Lake Tahoe gaming win declined 4.3% in FY 2004-05 followed by an increase of 3.7% in FY 2005-06; this market, along with Washoe County, continued to face increased competition from tribal gaming, specifically in California. In addition, the declining local population impacted South Shore and, unlike the other markets throughout the state, South Shore lacked the ability to expand its market.

Two other northern Nevada markets not shown in Gaming Control Board's charts were Elko County and the Carson Valley area, which performed well over the forecast period. Elko County benefited from the strong rebound in the mining industry with increasing gold prices. Gaming win grew 9% in FY 2004-05 and 7.4% in FY 2005-06 after four years of decreasing or flat revenues. The Carson Valley area was consistently one of the strongest markets in the northern part of the state; gaming win increased 10.9% in FY 2004-05 followed by 4.8% in FY 2005-06.

Moving to slot and games win, pages 8 and 9 of his handout, Mr. Streshley said statewide slot win grew 9.7% in FY 2004-05 followed by 9.8% in FY 2005-06. Slot win increases were a result of strong visitation numbers for the leisure traveler and individuals attending conventions. Also, there was strong growth in the locals market throughout the state, which was predominately a slots market. In FY 2004-05 and FY 2005-06, there was strong growth in coin-in and win per unit per day. Coin-in per unit per day increased 8.1% each of the fiscal years, with the win per unit increasing 12.1% in FY 2004-05, 10.1% in FY 2005-06; the state was now up to \$125 per slot machine per day. Both of these numbers were pushed up even with the large number of slot machines that were pulled off the floor since 2002. At the end of FY 2001-02, there were approximately 187,000 reporting units; currently there were about 179,000 units, which included the 7,000 units that came on-line with the opening of the new properties. In addition, there was a steady decline in the number of slot machines as properties installed the new ticket-in and ticket-out systems. Many of the older slot machines that would not communicate or work with the new ticket-in ticket-out systems were removed from the floor. Mr. Streshley believed the state was at the bottom of that trend and possibly would start seeing small growth in the base of the existing machines.

Statewide, games and table win increased 5.5% in FY 2004-05, followed by an increase of 16.9% in FY 2005-06. In FY 2005-06, all major table games had strong increases; twenty-one increased 15.2%, craps was up 9.2% and roulette revenue jumped 16.6%. Mr. Streshley indicated that the largest increase came from the high-end premium play, with baccarat win increasing 30.8% in FY 2004-05 followed by a 31.9% increase in FY 2005-06, reaching an all-time high in win of \$735.7 million. The previous high was \$588.9 million in FY 1999-2000.

The trends in the high-end gaming segment remained strong, stemming from increased play from Asia. Mr. Streshley attributed this growth to Macau's significant influence in the region with the Las Vegas Sands and the recent opening of a Wynn property now operating a property in Macau. The weak U.S. dollar had increased the amount of baccarat play, with a large percentage of those players coming from the international market. Even though he annualized the Wynn opening in April 2006, a slowdown was not seen in baccarat play, which continued to be strong.

Concluding his discussion concerning the percentage fee forecast, Mr. Streshley noted that the impact of the Wynn opening on the market was much stronger than forecasted,

with the existing market growing at a higher rate than anticipated. A major part of higher rate came from the baccarat play, which was much stronger than anticipated. In addition, all major games saw strong play, and slot win came in slightly above the forecast. The forecast for a strong locals market came in-line with the forecast; however, the 5% growth in Washoe County was unexpected.

*Bill Anderson, State Budget Office*

Mr. Anderson directed the Forum to page 6 of his handout, *State of Nevada, Budget and Planning Division, General Fund Revenue Forecasts: Methodologies and Accuracy (Exhibit E)*. The Budget Office had forecast errors that were in the low single-digits, which masked the absolute forecast error of plus or minus 5% to 6% and cancelled each other out and as a result brought him down to a relatively low forecast error that was somewhat deceiving. He stated that percentage fees were a very volatile revenue source, and similar to the other forecasters, the Budget Office under-forecast this revenue in FY 2004-05 and FY 2005-06. Referring to page 9 of his handout, Mr. Anderson said his forecast was visitor-driven; he generated a forecast of visitors and then gradually moved to a forecast of win and percentage fee collections. The bottom chart on page 9 of his handout (Exhibit E), displayed that inflation-adjusted win on a per-visitor basis broke trend, especially in FY 2005-06. Real win per-visitor had been flat for basically a decade and then increased by approximately 6% in FY 2005-06 which caught him off guard and explained why he under-forecast this revenue source. The reason for the increase in win on a per-visitor basis was due to the rapid expansion in high-end play, especially in baccarat play. In addition, because of the value of the dollar in international currency markets, a trip to Las Vegas was relatively affordable and attractive to the foreign visitors and they could play somewhat cheap, given the value of the dollar they paid.

Mr. Anderson stated that he looked into the future for visitor volume and believed the state would be relatively flat for visitor volume in FY 2006-07, increasing some in FY 2007-08. In FY 2008-09, some new major properties would come on-line and visitor growth would approach 3.5% to 4%, which would be the driver behind the Budget Office revenue forecast that would be presented at the next Economic Forum meeting.

*Russell Guindon, Fiscal Analysis Division*

Mr. Guindon pointed out that table 4, page 49, of the meeting packet (Exhibit C) showed the actual percentage fee collections for all forecasters in addition to the dollar forecast error and percent forecast error for FY 2004-05 and FY 2005-06. Actual percentage fee collections for FY 2004-05 were approximately \$709.6 million; the Economic Forum's May 2, 2005, forecast was approximately \$3.2 million below actual collections, or 0.5%. Moving forward to FY 2005-06, actual collections were approximately \$790.2 million, which was around \$41 million over the Economic Forum's forecast. He pointed out that the actual collections of \$790.2 million were preliminary based on the numbers obtained from the Controller's system compared to the \$790.4 million referenced by

Mr. Streshley. As the Controller would soon be closing the accounting system with regard FY 2005-06 revenues, staff would be working with each of the agencies to obtain the final reconciled numbers for FY 2005-06.

Mr. Guindon said the Fiscal Division under-forecast the percentage fee collections for FY 2004-05 by approximately .5%; FY 2005-06 was under-forecast by approximately 5%. He referred the Forum to the Fiscal Division handout, *Fiscal Analysis Division, Forecast Information for the Major General Fund Revenues* (Exhibit E). The handout included tables that were compiled to help with a forecast error decomposition of the different forecasts to assist staff in understanding why the forecast was missed and help when producing the next forecast.

Moving to page 8 of the Fiscal Division handout (Exhibit E), Table 1A showed the historical activity and collections for the last seven fiscal years for taxable sales, sales tax, gaming win and the components that drove taxable gaming revenue. Also shown on the chart were the percentage fees that came directly from the taxable gaming revenues, EFA and the total percentage fees, as well as several indicators of economic activity. Mr. Guindon noted that the more notable indicators of economic activity were employment and personal income. He informed the members that the local news recently reported that the Bureau of Economic Analysis released the second quarter 2006 personal income estimates, and Nevada led the nation in personal income, population and employment growth, which was not a unique event for the state.

Continuing, Mr. Guindon reported for FY 2005-06, Nevada's total employment grew approximately 5.1%; the nation grew 1.4%. Personal income for Nevada in FY 2005-06 increased approximately 7.8% after increasing 11.1% and 9.7% in the prior years. Mr. Guindon commented that Nevada had a phenomenal economic run for approximately 36 months, and Nevada's population versus the U.S. was four to five times the national average in terms of population growth. Mr. Guindon reiterated that it was not surprising the revenue collections for the state were so strong, and thus that was why the forecasters under-projected revenues. He did not believe there were any forecast models from forecasters for personal income, employment or population that thought that the trend would continue in terms of continued year-over-year type of behavior.

Mr. Guindon directed the members to Table 2A, page 9 of the Fiscal Division handout (Exhibit F), which showed historical total gaming win by the different markets the Gaming Control Board reported. Mr. Guindon believed this chart allowed staff, Forum members and the public to look at what had happened in the state for total gaming win by market. He found it interesting that for FY 2005-06, Clark County had approximately 84% of the statewide total gaming win; the Strip alone was almost 53%.

Moving to page 10, Table 3A, the chart showed the taxable sales by county. Mr. Guindon explained that as staff was doing the forecast, he knew that FY 2003-04 had grown 13.6% and the state had multiple months of double-digit growth in taxable

sales. He did not think that trend would continue, but 14.9% growth was posted for FY 2004-05 and 9.6% in FY 2005-06. Clark County accounted for approximately 74% of taxable sales for the state.

Moving to Table 4A, page 11 of the Fiscal Division handout, Mr. Guindon indicated the chart showed statewide statistics from the Gaming Control Board for the gaming market, which was broken out by slot win, slot coin-in, slot win percent, win per slot, coin-in per slot and the number of slots. He noted that Mr. Streshley talked about these during his presentation and they were the different variables Fiscal looked at when trying to produce its forecast. In FY 2000-01, which was before the 9-11 event, there was a reduction in the coin-in in FY 2001-02 and thus in the win. Slot machines were coming off the market, but yet the per unit activity and the win coming off that coin-in was phenomenal. Looking at the number of slots in FY 2000-01, for calendar year averages, there were 188,342 slots and approximately 177,512 slots statewide in FY 2005-06. Looking at the indexing FY 2001=100 number for FY 2005-06, the index number was 94.2, which meant there were 5.8% less slots in FY 2005-06 statewide than in FY 2000-01 which was the peak in the table. More slots were added in FY 2001-02 which was more of the carry-over into that year. The coin-in per slot and win per slot index numbers for FY 2005-06 were 123 and 137.9 so the coin-in per slot and win per slot were 23% and 38% higher than the FY 2000-01 period, respectively. Slot win percent was approximately 12.1% higher, which translated into slot win at approximately 30% higher and slot coin-in was approximately 16% higher. It was no surprise that if devices were coming off-line, per unit activity would increase because the denominator was getting smaller so the per unit activity would increase. The machines being swapped out in the replacement cycle were very productive machines in terms of the amount of coin-in they were generating per machine, and they tended to hold more on average resulting in increased slot win. He added that if he assumed that the 188,342 slots that were in place in FY 2000-01 would have been on-line in FY 2005-06 and used that to compute the coin-in per slot and win per slot, the coin-in per slot would still be almost 16% higher than FY 2000-01 and the win per slot almost 30% higher. Even if the 188,342 slots would have been on-line in FY 2005-06, the state still would have had seen fairly phenomenal increases in win activity telling him that these per unit numbers were not increasing just because they were pulling machines off the market; they were increasing because they were more productive and generally held more of the coin-in on average.

Mr. Guindon explained that when Fiscal staff was doing their forecast in April 2005 and the changeover in machines was already occurring, he thought the state might be reaching the end of the increase by FY 2005-06, but it actually continued through FY 2005-06. The main concern was what FY 2006-07, FY 2007-08 and FY 2008-09 would look like if he extended the chart to include them. The "swap-out" or replacement that was taking place was not done as soon as he thought it would be and probably also missed the productivity and continued increase in the average hold that was occurring throughout the markets in the state.

Mr. Guindon directed the Forum members to page 1 of the Fiscal Division handout (Exhibit F). Table 1 displayed the forecast error decomposition of the different pieces of the percentage fees on the gross gaming revenue forecast. Similar to the Gaming Control Board, Fiscal had forecast the slot and games win and because of the credit play, the win had to be translated into taxable gaming revenue, which was used to create an average tax rate to obtain the percentage fees from taxable gaming revenue along with taking into account the EFA.

In May 2005, the first nine months of the fiscal year were known, so only the last quarter of the year had to be forecast. Table 1 showed the comparison of actual versus forecast for the fourth quarter of FY 2004-05. Looking at the dollar difference and percent difference columns, total win was missed by approximately \$111 million, or 3.8%. Mr. Guindon explained that he needed to translate that into taxable gaming revenue by looking at the ratio of taxable gaming revenue to win to account for the impact of credit play. Although he missed total win by \$111 million, taxable gaming revenue was only missed by \$33.4 million, so the forecast error was just 1.2%. Mr. Guindon stated that he assumed much more of the win would become taxable in his model, which was not the case based on actual information. Because he under-forecast the win but over-forecast how much of the win would become taxable gaming revenue, he ended up under-forecasting taxable gaming revenue by only 1.2%. He was almost "dead-on" for the percentage fee collections from the taxable gaming revenue with a forecast error of only -0.3%, because he assumed too high of an average tax rate for the quarter. Mr. Guindon indicated gaming percentage fees were difficult to forecast because of the uniqueness of the industry, what could occur when changing devices, the number of visitors and how gaming revenue was taxed in terms of the credit play. The tax rates were increased .5% in the 2003 Session, so Fiscal staff was trying to figure out the average tax rate being imposed in the market because as the market grew, and more revenue was pushed into the top revenue bracket, the average tax rate should tend to increase a little every year because more money was pushed above the \$134,000 threshold.

In FY 2005-06, both slot and games win were under-forecast by approximately 4.8% and 7.3%, respectively. However, Mr. Guindon said because he was almost "dead-on" in the ratio of taxable gaming revenue to win and the average tax rate in terms of what actually occurred, there was some consistency in the forecast error; he missed total win by 5.6%, taxable gaming revenue by approximately 4.7% and percentage fees from taxable gaming revenue by 4.7%. Because of the forecast error on the EFA, he missed total percentage fees by approximately \$39.7 million or 5% in FY 2005-06. The win generating variables portion of the table indicated that he had under-forecasted the average hold in terms of the productivity of the slot machines. On the games side, Mr. Guindon said he did not forecast the rebound that occurred in the high-end segment of the gaming market. He noted that the table game win was a particularly difficult segment to forecast.

Mr. Fisher asked Mr. Guindon to explain how the gaming tax rate was missed. Mr. Guindon explained that unlike the sales tax rate, which was a flat 2%, total statewide gaming tax was 3.5% on the first \$50,000; 4.5% on the next \$84,000 with a threshold of \$134,000; and anything over \$134,000, on a monthly basis, was taxed at 6.75%. Licensee payments each month to the Gaming Control Board were based on how much money there was in each bracket. Therefore, as the market grew and a property generated more win, more revenue would be shifted into the \$134,000 bracket, which was taxed at 6.75% and consequently would pull the average tax rate up per year. As Fiscal staff was forecasting gaming, they tried to figure out the forecast for the win growth and how much of that was taxable and what it would end up doing to the average tax rate in order to calculate what the collections should be. Obviously, if the forecast was too high or too low, staff could be spot-on in taxable gaming revenue, but if they missed the average tax rate, then the percentage fee forecast would be off.

Since those revenue tiers were not inflation adjusted, Mr. Fisher asked how much of the gaming revenue now was above the top bracket and how much variability was there when jumping from a lower bracket to the last bracket?

Mr. Guindon responded that he thought the \$50,000 and \$134,000 had been in place since 1945 or 1955 and were never inflation adjusted. He would argue that even the smaller operators were obviously going over the \$50,000 or \$134,000. He indicated that the average tax rate based on actual activity statewide was 6.64%, so with a top rate of 6.75% and the average rate statewide for a twelve-month period at 6.64%, much of the taxable gaming revenue was over the \$134,000 threshold. Mr. Streshley interjected that over 90% of the statewide revenue was taxed at the highest tier. In addition, the variability should start going away.

Mr. Guindon clarified that it was possible from quarter-to-quarter or period-to-period that the average tax rate could move around because of the credit play, but over a twelve-month period, looking at a historical plot, the average tax rate was relatively stable but increased some each year because of the growth in gaming markets. When looking at the average tax rate over total percentage fee collections, it gets more difficult because it allowed for the effects of the EFA and that was why they did not include the EFA impact and just looked at the taxable gaming revenue which was really the direct relationship that needs to be accounted for when forecasting percentage fee collections.

Chairwoman Pierce commented that she found the increased productivity of slot machines interesting and thought it was due to the multi-coin and multi-denominational games. She believed the multi-coin and multi-denominational games were a more efficient way to gamble rather than dealing with the loose coins.

Mr. Streshley stated that Chairwoman Pierce's assumptions were correct. He explained that they were seeing the same trend four years ago when establishments changed out dollar and quarter machines, that held in the 4% range, for nickel machines which held at 5% range. He stated the average range for the penny machines was 8%. The

ticket-in, ticket-out machines were more efficient because people did not have to wait for their jackpots to be paid out, or if the machines ran out of coins, they did not have to wait until the machine was refilled.

Mr. Martin asked if he was correct in assuming that the impact from the casinos trading out the slot machines to ticket-in, ticket-out was seen several years ago. Mr. Streshley stated that the change did start occurring approximately four years ago, but it had taken the state through the last six-month period to complete the change to ticket-in, ticket-out machines. Thus the change to the ticket-in, ticket-out style machines was continuing to occur over the forecast period. Since the change-out in machines was probably close to being finished, some of the variability should be taken out of the forecast.

Chairwoman Pierce asked Mr. Streshley if he knew the exact percent of slot machines that had converted to ticket-in, ticket-out and how many were multi-denominational and multi-coin machines. Mr. Streshley replied that he did not have those numbers. The process with ticket-in, ticket-out machines was that there was a slot floor in the casinos and new machines were brought into that floor. The majority of the old machines could communicate with the new system depending on the age of the machine, but there were a handful of machines that could not communicate and were removed from the floor. Mr. Streshley noted there was a base cost for the new system and an additional cost per machine, so many casinos started out small and added over a period of time.

Chairwoman Pierce asked Mr. Streshley if he had access to the percentage of ticket-in, ticket-out machines in the state. Mr. Streshley responded that information was not reported to the Gaming Control Board.

## **LIVE ENTERTAINMENT TAX**

*Russell Guindon, Fiscal Analysis Division*

Mr. Guindon referred to Table 4, page 49 of the meeting packet (Exhibit C). He explained to the committee that the LET was the old casino entertainment tax that was based on the changes made during the 2003 Session in addition to legislative adjustments made in the 2005 Session. The LET was imposed on gaming and non-gaming establishments, but the Economic Forum only considered the gaming piece; the non-gaming piece was considered a minor revenue source forecast by the TAC.

*Frank Streshley, Gaming Control Board*

Mr. Streshley referred to the last chart in the Gaming Control Board handout (Exhibit D), which outlined the casino portion of the LET revenue collections and growth rate. Actual collections in FY 2004-05 were \$99.4 million, an increase of 17.1%, exceeding forecasts by \$2 million or 2.1%. Actual collections for FY 2005-06 were \$108.4 million;

an increase of 9.1%, and this missed the forecast and was lower by \$13.7 million or 11.2%. In FY 2005-06, the Board over-forecast the calculations for base growth for existing properties and collections on the new venues that came on-line. He projected base collections from existing properties to grow at approximately 5%, which he felt was fairly conservative compared to prior years; base collections actually came in below the previous year (FY 2004-05). In previous years, collections from existing properties had seen continuous growth with increases in show ticket prices and with the addition of night clubs that had become so popular with strip operators.

For the past two years, there were no material changes in pricing, and the majority of the new night clubs and existing night clubs that were previously taxed were not taxable under the new regulations and statutes governing the LET.

Mr. Streshley explained that the Board's forecast model missed on collections for the new venues. The main showroom at the Wynn property was running Le Rêve with only one show a night until recently. When the Board produced its forecast after the first month, Le Rêve was running two shows an evening. The other showroom in the Wynn property running Avenue Q closed after only nine months of operation and a replacement show was not scheduled to open until February 2007. The Phantom of the Opera, which opened in the Venetian several months ago, had already reduced its number of shows.

Mr. Streshley believed the number of shows added over the past four years in the upper ticket range had become very competitive and there were not as many repeat customers as seen in previous years. Shows used to be filled to capacity on the weekends and slightly less during the week, and now they were not running at capacity on the weekends.

Mr. Streshley stated that when he looked at the Las Vegas Visitor Convention Authority's visitors profile, 82% of visitors attended ticketed shows in FY 2003-04, and that number dropped to 71% in FY 2004-05. In addition, the average age of a visitor coming to Las Vegas over the past several years dropped from fifty to forty-seven years of age, and he believed the younger visitors were more likely to spend their entertainment money at a nightclub versus going to a showroom, and, again most of the nightclubs were no longer taxable.

Concluding, Mr. Streshley noted the one area that he slightly under-forecast was the revenue from the large event centers such as the Mandalay Bay, MGM, Aladdin and the Orleans. Strong growth was seen in the major concert schedule the past fiscal year with U2, Rolling Stones and Madonna concerts. This area was hard to project without knowing the upcoming concert schedules and ticket pricing.

*Bill Anderson, State Budget Office*

Mr. Anderson proceeded with the LET and said when looking at the various analyses of the forecast accuracy, the Budget Office did a fair job of forecasting the LET and no major changes had unfolded lately to change his approach to forecasting this revenue source. Looking at page 29 of the Budget Office handout (Exhibit E), when going about the forecasting process, Mr. Anderson assumed collections would grow in step with visitor volume plus an inflationary premium, taking into account the fact that spending on a per-visitor basis had increased steadily over most of the last decade. Spending per-visitor had a 6% average annual increase. There was a great deal of variability in the LET forecast during the last forecasting cycle, and the Budget forecast was an outlier; when he thought his forecast for the LET would be lower than the other forecasters, he got “cold feet” toward the end and artificially bumped up his forecast, which proved to harm the accuracy of his forecast. The preliminary forecast was visitor driven, and visitor volume was expected to be flat in FY 2006-07 which translated into 6% to 6.5% growth in LET collections. Mr. Anderson noted that as visitor volume growth improved in FY 2007-08 and FY 2008-09, the state would see the growth in LET collections increase and probably approach the 10% range by FY 2008-09.

Mr. Martin asked if he heard Mr. Streshley correct that 82% of visitors attending ticketed shows was down to 71%. Mr. Streshley commented when the Las Vegas Convention Authority conducted its survey, visitors were asked where they spent their money and if they attended a major or ticketed show; that number dropped from 82% in the 2004 customer profile to 71% in 2005.

Mr. Martin commented that was a huge percentage difference, and Mr. Streshley agreed it was a large number. He stated that four years ago there were only a handful of shows like the Celine Dion and the Cirque du Soleil show; however, new shows like the Beatles and Phantom of the Opera were added since the last Forum meeting. A number of high-end shows had been added, making the market more competitive. Although the Board did not receive the numbers to show his assumption was correct, Mr. Streshley believed there were not many repeat customers at the high-end priced shows.

Mr. Martin asked Mr. Anderson why he had visitor volume flat in his forecasts for FY 2006-07 and up in FY 2007-08 and FY 2008-09. Mr. Anderson replied that the increase in the forecasts for FY 2007-08 and FY 2008-09 were capacity driven especially as the Palazzo and Encore came on-line. He noted that over the course of the last several months, there were no major properties scheduled to open, contributing to the flat number for FY 2006-07. Looking at the recent months in Las Vegas, visitor volume had been slightly negative on a year-over-year basis, and Mr. Anderson believed it would continue until new properties started coming on-line.

Chairwoman Pierce commented that she thought it was interesting that the tax was going down because she believed there would be some offset with the night club

entertainment. She questioned if the percent change had anything to do with where the tax was generated. Mr. Anderson responded that the tax was increasing in absolute terms but he believed growth would continue moderating some. During the late 1990s and in early 2000, during the opening of four or five major projects, casino entertainment tax (now LET) collections were in excess of 20% year-over-year, but he did not believe that would happen again and was looking more toward the high single-digit or low double-digit growth.

*Russell Guindon, Fiscal Analysis Division*

Mr. Guindon referred the committee to Table 4, page 49, of the meeting packet (Exhibit C). Actual LET collections in FY 2004-05 were approximately \$99.4 million, 1.5% higher than the Economic Forum's May 2, 2005, forecast. Actual collections for the gaming portion of the LET were approximately \$108.4 million in FY 2005-06, \$14.5 million less than the Economic Forum's May 2, 2005, forecast, a 13.4% error. The Fiscal Division forecast was off about \$400,000 in the base year (FY 2004-05) forecast, approximately a 0.4% error; FY 2005-06 was over-forecast by approximately \$18.8 million or a 17.4% error.

Mr. Guindon stated that unfortunately he did not have the ability to decompose his base forecast because he did not see the property-by-property information that Mr. Streshley did. He noted that in general, all the forecasts were in trouble in FY 2005-06 once the Wynn and other properties started cutting back on the number of shows, which was the leading indicator that most likely the FY 2005-06 forecasts were too high.

Mr. Guindon stated that given the actual information available today and looking back when the forecast was prepared, he would have presented the same projections that he did at the May 2005 forecast meeting based on the information he had available at the time on the number of shows coming on-line, the average price of the shows and the traditional occupancy levels. He stated it was just one of those times when actual activity did not turn out as estimated because the shows did not come on-line or perform as expected.

Mr. Guindon noted that the latest visitor profile statistics available on visitor behavior were interesting. He wondered if there was a change occurring in the market regarding the level of retail spending by a visitor relative to the amount spent on live entertainment with the latest opening of the new properties compared to what was observed historically. A visitor's budget had to be allocated between shows, retail, gaming and rooms. Room prices had been higher on average, and if more was spent on retail shopping, the amount available out of a visitor's budget to attend shows may be reduced.

Mr. Guindon observed that as the live entertainment forecast was being prepared, one had to consider the new shows coming on-line, the target price set for the shows, and the information provided in the visitor profile with regard to the activities to which the

visitor allocated his budget. Mr. Guindon stated that if it was true that visitors may be spending more of their budget on retail activity versus entertainment, then from a revenue point of view, the state would get tax revenue from the state sales tax versus the live entertainment tax.

Mr. Guindon noted that Chuck Chinnock, the former Executive Director of the Department of Taxation, had recently retired and unfortunately no one from the Department of Taxation was able to attend the Economic Forum meeting. Dino DiCianno, the current Executive Director, had a prior commitment in Las Vegas and was unable to attend, and Lynne Knack from the department was on vacation.

### **STATE 2% SALES TAX**

*Russell Guindon, Fiscal Analysis Division*

Directing the committee to Table 4, page 49, of the meeting packet (Exhibit C), Mr. Guindon stated that actual collections for the sales and use tax for FY 2004-05 were approximately \$896 million, roughly \$17 million above the Forum's forecast, a 1.9% error. The Department of Taxation's forecast for FY 2004-05 was approximately \$25 million below the actual collections, or approximately a 2.8% error. Fiscal Year 2005-06 actual collections were approximately \$985 million, which was around \$53 million above the Forum's forecast, a 5.4% forecast error, and approximately \$61.8 million above the Department of Taxation's forecast, a 6.3% error.

*Bill Anderson, State Budget Office*

Mr. Anderson stated the Budget Office did a relatively good job of forecasting the sales and use tax and ended up with forecast errors that hovered in the low to mid-single digits. The Budget Office forecast approach was driven by jobs, and he assumed that as jobs increased in the state, that increase would push up the sales tax base. He referred the committee to page 5 of his handout (Exhibit E), and pointed out that the Budget Office looked at its forecast on a per job basis to make sure it conformed to historical trends. The chart on page 5 displayed an easily identifiable, relatively sturdy and stable upward trend in sales tax collections per job. In the mid-2000s, the sales tax collections per job suddenly broke trend by increasing at a rate much faster than expected which given historical norms, explained why Mr. Anderson under-forecast sales tax revenues. The reason for the up-tick in sales tax collections per job was due to visitor volume increasing at a strong pace in addition to stronger growth, especially in some higher-wage industries, most notably construction, which was growing much faster than forecast.

*Russell Guindon, Fiscal Analysis Division*

Mr. Guindon asked the Forum to turn to Table 2, page 2 of the Fiscal Division handout (Exhibit F). The Fiscal Division under-forecast the state 2% sales tax for FY 2004-05 by

approximately \$17 million, approximately a 2% error, and FY 2005-06 actual collections were under-forecast by about \$35.5 million, a 3.6% error. He indicated that the state 2% sales tax had phenomenal collections and, looking back at the May 2005 forecast, the state had produced several months of double-digit growth and he had concerns whether the state could continue to grow at a double-digit pace. Looking back at the actual 2% collections over that last three years and 27 of 36 months in FY 2003-04, Mr. Guindon noted that FY 2004-05 and FY 2005-06 posted double-digit growth. He believed that the state could not have double-digit growth on double-digit growth, but he was wrong, eleven straight months, over the last half of FY 2004-05 and the first half of FY 2005-06, showed double-digit on double-digit growth; for example 14% on top of 17% a year ago. However, a slowing was occurring in the state and over the last four months of FY 2005-06, collections growth slowed to an average of 6.8% compared to the same last four months of FY 2004-05.

Turning to the forecast decomposition on page 2 of the Fiscal Division handout, Mr. Guindon noted the top chart on the page reflected the forecast for the third and fourth quarters of FY 2004-05 and, in actuality, all but the last four months figures were known, so the forecast really included the last month of the third quarter and all of the fourth quarter of FY 2004-05. The Fiscal Division missed the state 2% sales tax for the third and fourth quarter of FY 2004-05 by approximately \$17 million, or 3.7%, because taxable sales were under-forecast by approximately \$557 million, or about 2.5%. Mr. Guindon used regression-based structural models using construction employment, retail trade employment, Nevada personal income and Las Vegas visitor volume. Global Insight provided the forecast for construction, retail and personal income for the state, and Mr. Guindon had forecast the Las Vegas visitor volume. He noted that the Nevada personal income was under-forecast by Global Insight contributing to the Fiscal Division's forecast being below actual activity. Referring to the middle chart on page 2 of the handout, Mr. Guindon stated that Nevada personal income was again under-forecast by \$8.2 billion, or about a 2.4% error; Global Insight also under-forecast construction and retail employment. Moving to FY 2005-06, Mr. Guindon indicated that he missed the state sales tax by \$35.6 million, a 3.6% difference. With regard to the forecast drivers, Mr. Guindon said that Global Insight had under-forecast construction employment by approximately 4.2%, retail employment by about 0.7%, and Nevada personal income by about 2.4%, but he had over-forecast Las Vegas visitor volume by approximately 3.3%.

Mr. Guindon said when he used Nevada personal income and employment as his forecast drivers in the regression equations, history was revised several times, so the statistical information he believed to be actual back in May 2005, in terms of the Nevada personal income and the construction and retail employment, had been revised upwards. The Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau and the federal agencies that produced these numbers used a statistical methodology to generate the reported numbers and then produced benchmarks, so personal income and employment could be revised up to five years back. Mr. Guindon said he would have cut his forecast error in half if he had the current information

available on the higher personal income and higher employment compared to the information available back in May 2005. Part of his error was due to the historical information released by the Bureau of Economic Analysis being revised upwards, which was common in states that grow very fast. The federal agencies that produced the forecasts were doing the sampling to measure the growth, but when they went back to get the detailed information and perform the benchmark revision, they realized they were under-estimating the level of economic activity. Thus, it was no surprise that Global Insight forecasts were too low because they were using the same historical information that was under-stated. Mr. Guindon noted that was just one of the dilemmas faced in a fast-growing state when using the historical information that could be revised. Given the actual information he had in May 2005 and the equations he used, there was no way that he could have produced the growth that was actually observed.

Concluding his presentation, Mr. Guindon said Fiscal staff would have to go back and look at the equations; since the last four months had slowed down, he wondered what that would mean for FY 2006-07, FY 2007-08 and FY 2008-09.

### **INSURANCE PREMIUM TAX**

*Russell Guindon, Fiscal Analysis Division*

Mr. Guindon stated that actual collections for the insurance premium tax were approximately \$215.4 million in FY 2004-05, \$2.5 million above the Forum's May 2, 2005, forecast equaling a 1.2% error. Actual collections in FY 2005-06 were approximately \$238.3 million, approximately \$4.3 above the Forum's forecast, or a 1.8% error.

The Department of Taxation's forecast was approximately \$3.1 million below the actual forecast in FY 2004-05 and approximately \$5.8 million below actual in FY 2005-06.

The Fiscal Division's forecast error was approximately \$3.2 million in FY 2004-05 and \$5.9 million in FY 2005-06, resulting in a forecast of approximately 1.5% and 2.5%, respectively. Mr. Guindon remarked that collections for the insurance premium tax were previously forecast to grow approximately 10% per quarter, and given what the personal income growth was estimated to be over the forecast period, he did not think the forecast was unreasonable.

*Bill Anderson, State Budget Office*

With respect to the insurance premium tax, Mr. Anderson stated the Budget Office had a simple approach, which had served them well in the past. Referring to Table 4 on page 49 of the meeting packet (Exhibit C), Mr. Anderson had pointed out a 1.3% forecast error for FY 2004-05 and 2% forecast error for FY 2005-06. He said he was pleased with the approach used, which was driven by real personal income. Moving to

the chart on page 15 of his handout (Exhibit E), Mr. Anderson said there was a solid fit between personal income growth and insurance premium tax collections; he looked at that fit historically, and with the personal income forecast, extrapolated that out into the future.

## **MODIFIED BUSINESS TAX**

*Russell Guindon, Fiscal Analysis Division*

Referring to page 49, Table 4 of the meeting packet (Exhibit C), Mr. Guindon stated that the modified business tax (MBT) was actually two different taxes: the MBT financial (MBT-FI) and MBT non-financial (MBT-NFI). Although they were structurally and statutorily the same in the sense that the MBT tax was based on wages less allowable healthcare deductions, the rates were different; 63% on non-financials, 2% on financials, and the taxpayers were different. The Fiscal Division had asked the Economic Forum to produce two separate forecasts rather than combining the MBT into one tax. The taxes were looked at as different taxes, which allowed a base to calculate the legislative adjustments, because combining the taxes would have made it difficult to compute the impact of going from .65% to .63% as approved by the 2005 Legislature.

The MBT-NFI actual collections were approximately \$205.3 million in FY 2004-05 and \$232.8 million in FY 2005-06. The Economic Forum's forecast, which was basically the Fiscal Division forecast, was \$4.6 million higher than actual collections in FY 2004-05, a 3.2% error; FY 2005-06 actual collections were approximately \$12.4 million higher than forecast, approximately a 5.3% error.

Actual collections for the MBT-FI were approximately \$21.6 million in FY 2004-05 and actual collections were approximately \$22.5 million in FY 2005-06. The Economic Forum and Fiscal's forecasts were approximately \$2.9 million below actual collections, or 13.5%, and approximately \$4 million below the actual collections in FY 2005-06, or approximately 17.9%.

Mr. Guindon noted the Fiscal Division forecast was on page 4 of the Fiscal Division handout (Exhibit F). In the MBT forecast, the Fiscal Division looked at wages from the financial entities for the financial institutions tax and non-government wages for the MBT on non-financials reported by the Bureau of Economic Analysis. Global Insight provided forecasts of non-government wages and financial activity wages. Given what the Department of Taxation reported for the MBT-FI and MBT-NFI, the Fiscal Division tried to calculate what percent of the non-government and financial activities wages were taxable under Nevada's statutory tax system and then created a ratio to generate a forecast of taxable wages.

Continuing on page 3, Mr. Guindon said the average ratio of the forecast drivers for MBT-NFI to gross wages and non-government wages was where he assumed what percentage of the non-government wages would be the tax base for the wages for the

MBT-NFI. He then had to figure out the second ratio, which was the deduction for the healthcare expenses against those wages to obtain the net gross taxable base. The actual average ratio was approximately 78.3% for the third and fourth quarters of FY 2004-05; he thought it would be 87%. He assumed too much of the wages would become taxable which worked to his advantage from a forecasting point of view, because he ultimately under-forecast non-government wages, so the two errors offset each other. The forecast was close to the amount of the healthcare deductions ratio, which would net out against those wages. Mr. Guindon stated that for the third and fourth quarters, the MBT non-financial was missed by approximately \$4.7 million, or about 4.5%, due to the fact that he over-forecast the amount of taxable wages because he assumed 87% of wages would become taxable, and the actual was 78%.

Moving to page 4 (Exhibit F), which displayed the table for the financial institutions, Mr. Guindon stated the third and fourth quarters of FY 2004-05 were under-forecast by \$2.9 million. The Fiscal Division under-forecast the amount of financial activities wages and under-stated how much of those wages would become taxable and over-stated the amount of healthcare deductions against those wages.

Mr. Guindon noted that since this was a new tax, it was still sorting itself out, and there were only five quarters of actual information available. Since the tax was first enacted in FY 2003-04, the Department of Taxation had been developing regulations to determine what was considered a financial or non-financial institution, and businesses were appealing whether or not they should be considered a financial institution. For the first several quarters of this tax, the reported wages and healthcare expenses for the financial versus non-financial tax were moving around a lot, and as staff looked at the table, it was hard to make sense of some of the forecasts relative to the actual data reported. Mr. Guindon reiterated that without much historical information, it was a difficult tax to forecast; he would be meeting with the Department of Taxation to get a handle on the reported wages in healthcare before the next forecast cycle. Because it was a new tax, Mr. Guindon said that it could be a few years until there was enough year-over-year data to understand it.

*Bill Anderson, State Budget Office*

Mr. Anderson proceeded to page 11 of the Budget Office handout (Exhibit E) and said the MBT appeared to be a relatively stable revenue source, recently fluctuating in a fairly narrow range with a little more volatility. Due to the fourth quarter of MBT collections per job, Mr. Anderson stated the Budget Office under-forecast the MBT in FY 2005-06. After discussions with Lynne Knack from the Department of Taxation, his understanding was that some of the MBT returns were audited and adjustments were made during the first quarter, which caused the MBT to be under-forecast and, except for that quarter, this revenue source appeared to be fairly predictable. When forecasting this revenue, Mr. Anderson relied on job information from the Department of Employment, Training, and Rehabilitation to generate the MBT projections. This revenue source would expand due to job growth and wage inflation, and during the last

forecast cycle, the Budget Office under-forecast the wage inflation premium. He utilized approximately a 3% wage inflation figure, which proved to be higher due to the job growth in the high paying construction industry; he forecast a 4% to 5% wage inflation to capture that in this forecast cycle.

Mr. Martin observed that Mr. Anderson had mentioned the construction wages and the slowdown of housing construction, but there still was the construction of the City Center project in Las Vegas. He remarked that he did not see the component of the construction income salaries going down and thought other properties could possibly take up the slack.

Mr. Anderson understood there would be thousands of construction workers on the City Center job site, offsetting the decline on the residential side of construction.

Responding to a question from the Chairwoman, Mr. Anderson stated that according to the Las Vegas Convention and Visitor's Authority construction bulletin, the opening of the Las Vegas City Center was expected at the end of the next biennium, so the state would not see the gaming or retail impact, but the construction impact would be seen.

Mr. Guindon added that Mr. Streshley indicated the projected opening for the City Center project was December 2009. The construction impact would be occurring until the completion of the project; taxable sales would be streaming off of that, as well as wage growth that generated taxable wages and MBT collections.

## **REAL PROPERTY TRANSFER TAX**

*Russell Guindon, Fiscal Analysis Division*

Mr. Guindon referred the members to Table 4, page 49, of the meeting packet (Exhibit C). The real property transfer tax (RPTT) had been in place at the local level for many years, but was imposed as a state tax during the 2003 Session. Actual collections in FY 2004-05 were approximately \$148.7 million; actual collections for FY 2005-06 were approximately \$164.8 million; and the Forum's forecast, which was the Fiscal Division's forecast, was approximately \$4.2 million below the FY 2004-05 forecast, a 2.8% error. The Forum and Fiscal Division's forecast for FY 2005-06 was approximately \$22.7 million below that, or about 13.8%. Turning to pages 5 and 6 of Exhibit C, Mr. Guindon said the chart showed the decomposition of the forecast process, as well as the forecast errors. He mentioned there had been discussions about whether the state was in a "bubble" and he had his forecast falling off in FY 2005-06 and FY 2006-07. In his forecast methodology, Mr. Guindon looked at the activity coming from new and existing single-family home sales and used a ratio to calculate the amount from non-single family home sales. The Fiscal Division over-stated the amount coming from the single-family home sales but under-stated the ratio, which meant that the amount coming from the non-residential activity, which was the commercial and industrial segment, was under-stated. The actual collections for the

new single and existing single-family homes came from the various reporting bureaus and the forecasts came from Global Insight. Mr. Guindon believed the housing industry had started to settle down in terms of the median prices and sales, and the forecasted slowdown was possibly missed by a year for FY 2005-06 and FY 2006-07. He forecast a slowdown which did not happen; he believed he had some low-growth or slightly negative growth forecasts for FY 2005-06 and FY 2006-07 because of the fairly phenomenal levels they were being compared to the prior year.

Moving to page 6, which displayed the RPTT forecasts for FY 2005-06, Mr. Guindon said the Fiscal Division under-forecast the amount that would be coming from new single-family homes and over-forecast the amount that would be coming from existing single-family homes; again, he was not translating enough into the commercial and industrial side, so he ended up under-forecasting the RPTT. He reiterated that this was an existing local tax with some historical data, but at the state level, there were only about five quarters of actual collections. In addition, this was a very interesting economic period; he tried just to produce forecasts in the very strong residential market, and he probably should have realized that the commercial side would be a little stronger also. He noted that the commercial side was hard to forecast because not all commercial transactions in terms of sales, under the statutory language, required the RPTT to be paid, and the Fiscal Division was not putting enough from the commercial side into its forecasts.

*Bill Anderson, State Budget Office*

Mr. Anderson stated the RPTT was an extremely difficult revenue source to forecast, although he provided a relatively accurate forecast at the May 2, 2005, meeting of 1.6% forecast error for FY 2004-05 and 3.5% forecast error for FY 2005-06. There was history that dated back to mid-1998, and the counties had levied this tax identical to the state; he was able to pick up on the county data going back to mid-1998 and carry on with the statewide data beginning in 2003. The chart on page 22 of his handout (Exhibit E) showed the difficulty with forecasting this revenue source, and there was no way to forecast double-digit growth on double-digit growth with respect to RPTT. The RPTT growth peaked at 70%, and it was impossible to predict that type of growth rate. Mr. Anderson remarked that as an example of how things could change over the course of the next two years, from mid-2004 to mid-2006, growth had basically gone down to zero and it was entering a more stable period. He reiterated that the RPTT was an extremely difficult revenue to forecast, and historically he relied on trend analysis in determining the RPTT. Since this forecast cycle, he had been able to identify some other statistical sources that he believed would help him to get a better handle on the actual tax base in terms of starts, permits and appreciation or depreciation, which should help when forecasting the next time around.

Mr. Martin commented that vacancy rates were very low and he wondered if that would drive more expansion in that area. Two years ago, there was talk about the number of “spec” homes in Clark County, and he thought it would be 18 months before this trend

returned to normal with less than 25,000 resale homes on the market. He indicated that cancellations of new homes sales were at 29% to 41%, and people were just walking away from their earnest money and home upgrades.

Mr. Anderson interjected that in addition to people walking away from their homes, some home builders were walking away from their proposed projects and waiting until the market calmed down.

## **CIGARETTE TAX**

*Russell Guindon, Fiscal Analysis Division*

Mr. Guindon stated that the cigarette tax was the last revenue on Table 4 of the meeting packet (Exhibit C). Actual collections were approximately \$113.3 million in FY 2004-05, about 1.9 million lower than the Forum's forecast, a 1.7% error. In FY 2005-06 actual collections were approximately \$114.7 million, a 0.4% error in terms of the forecast being above actual. He commented that this revenue source had a tendency to be relatively flat, but because of the nature of the state's gaming industry, he thought there would be a larger percentage of smoking versus non-smoking visitors. In addition, there was 4% to 6% growth in population, and he believed some of those people were smokers and some year-to-year growth in the cigarette tax would be seen. Even though cigarette consumption per capita was declining nationally, he thought the state would pick up some collections, since Nevada's growth was five times the national average.

*Bill Anderson, State Budget Office*

Mr. Anderson added the cigarette tax was a relatively flat revenue source and would come in at \$116 million over the course of the forecast period.

Before moving to the next agenda item, Mr. Guindon wanted to bring Table 5, page 55, of Exhibit C, to the members' attention. The table showed actual collections for FY 2004-05 for the total General Fund was approximately \$2,742.7 million, which was about \$19.8 million above the Forum's May 2, 2005, forecast, less than a 1% error. Actual collections for FY 2005-06 were approximately \$3,058.8 million, approximately \$187.6 million greater than the Forum's May 2, 2005, forecast adjusted for legislative actions approved during the 2005 Session, which was approximately 6.1% higher than forecast.

Moving to Agenda Item V-B of the meeting packet (Exhibit C), Mr. Guindon reviewed some of the selected minor revenue sources forecast by the TAC to the Economic Forum. Table 9, page 77, displayed actual collections versus the May 2, 2005, forecasts by forecaster for FY 2004-05 and FY 2005-06. The LET non-gaming was a new tax added during the 2003 Session, which caused great consternation to Mr. Guindon as the amount of collections that would be generated from the LET was

significantly over-estimated. Some changes were made to the tax during the 2005 Session; when the threshold went from 300 to 200 seats, it was estimated the change would generate approximately an additional \$3.6 million, but the FY 2005-06 forecast error was a negative \$4.6 million. If the additional \$3.6 million had not been added, the forecast error would have been much smaller. Mr. Guindon added that effective July 1, 2007, NASCAR events and any races associated with NASCAR would be exempt from the LET non-gaming, which needed to be taken into account when producing forecasts for FY 2007-08 and FY 2008-09. He indicated that he would work with the Department of Taxation to determine the impact of the NASCAR events being exempt from the LET.

Moving to the business license fee, the \$100 annual fee was slightly over-forecast in FY 2004-05 and was also under-forecast in FY 2005-06. When Mr. Guindon was first asked to analyze the fee, he believed it would be a \$20 million revenue source, which did not materialize in FY 2003-04. In FY 2004-05, collections for the business license fee were approximately \$14.4 million, and FY 2005-06 collections were approximately \$22 million.

The Secretary of State fees were increased during the 2001 and 2003 Sessions, and actual collections in FY 2004-05 were about \$11.1 million higher than forecast; FY 2005-06 actual collections were approximately \$14.5 million higher than forecast. Mr. Guindon spoke with the Secretary of State's office and they indicated there were significantly more filings than expected. With no good year-over-year comparisons due to the back-to-back tax changes, he stated staff from the Fiscal Division and Secretary of State's Office were a little more cautious with regard to the impact and was still phasing in the increases from the 2003 Session. In addition, there were some backlogs processed in FY 2005-06, so there was more one-time money in FY 2005-06, with a one-time impact of \$1.8 million, which would not be repeated in FY 2006-07. He noted that the various fees collected by the Secretary of State's office were now a \$100 million revenue source per fiscal year.

Mr. Guindon explained that the short-term car lease was a \$26 million to \$27 million revenue source and the forecasts were close in FY 2004-05 and only \$2 million off in FY 2005-06.

Mr. Guindon reported that the Treasurer's Interest Income generated about \$13.5 million in actual collections in FY 2004-05, and the Forum's forecast was only off by approximately \$700,000. The FY 2005-06 forecast was approximately \$17.1 million; actual collections were \$32.7 million, which was not a surprise because he did not think there would be that extra \$19 million and \$187 million sitting in the investable balance resulting in interest income being almost twice what was forecast.

Unclaimed property collections in FY 2004-05 were \$19.8 million and \$22.3 million in FY 2005-06 after reduction of \$7.6 million that went to the Millennium Scholarship Fund. Approximately \$30 million would have gone to the General Fund without the Millennium

Scholarship Fund transfer. Mr. Guindon discussed this with the Treasurer's Office; audits were revealing reportable unclaimed property, and he wondered if this was sustainable or if it was a one-year event.

Net proceeds of minerals were under-forecast by approximately \$1.2 million in FY 2004-05 and approximately \$4.4 million in FY 2005-06, which he believed was due to the strong gold prices.

Concluding, Mr. Guindon stated that approximately \$233 million in actual collections was generated from the seven revenue sources shown in Table 9, and the forecast error for the Economic Forum's forecast was approximately \$46.3 million, or 19% below actual collections. He noted that although the seven revenues generated \$233 million, that amount was only approximately 7.6% of the total General Fund.

Mr. Guindon added that he may ask the Treasurer's office for a breakout of the unclaimed property to see if it was attributed to bonds, stocks, checking accounts or real assets. He stated unclaimed property was a perpetual liability against the state, and the state would have to repay the money if people returned to claim their assets.

Mr. Martin remarked that there were people profiting by identifying owners of unclaimed property and these people charged a fee to return the assets to the proper owner. The percentage of people returning to claim their assets was very small and usually in the banking industry, a dormancy fee was charged. This fee assessed against the dormant account would be refunded when the patron returned to claim their assets. In addition, much of the unclaimed property included inactive accounts, which reached a dormant status after a period of inactivity.

## **VI. REPORT ON FORECAST ACCURACY BY FORECASTER FOR SELECTED REVENUES**

Mr. Guindon reported that Agenda Item VI contained the error decomposition for the major revenues going back to the December 1, 1994, forecasts through the current forecasts. Pages 87 and 89 of the meeting packet (Exhibit C) displayed the state 2% sales tax error analysis by forecaster. Rather than combining the December 1 and May 1 forecasts, he provided separate forecast error analyses because he believed the actual information available for the December forecast was different from the actual information available for the May forecast. Looking at the May 1 forecast error for the state 2% sales tax over the five cycles of biennial information, the average percent forecast error for the Forum's forecast was 2.8%. Mr. Guindon noted that the absolute forecast error was 5.6% which he did not think was too bad for this revenue source considering the construction boom and rapid growth in the state.

Mr. Guindon said there were recent back-to-back cycles in which the Forum under-forecast sales tax and the errors were probably larger than they had been; many people believed it was a common occurrence to under-forecast the sales tax revenues.

However, to address this misconception, it was necessary to review the Economic Forum's forecast performance over each of the different forecast cycles. Referring members to the table on page 87 of the meeting packet (Exhibit C), Mr. Guindon pointed out the Forum's sales tax forecast error was plus 7.1% for the first cycle of the 1994-95 biennium. Moving to the 1997-99 biennium, the May 1 forecast was -3.1%, which meant the 2% sales tax was under-forecast. The 1999-2001 biennium had a forecast error of 1.9%, and the 2001-03 biennium was under-forecast by 4%. Continuing to the 2003-05 biennium, because of the forecast error in FY 2004-05, the forecast error in the 1-year ahead for FY 2003-04 was 7.8%; 15.8% forecast error for FY 2004-05 in the 2-year ahead forecast, which ended up at 12.1% for the combined forecast. Pulling the average and absolute forecast error up for FY 2005-06, the 1-year ahead forecast was 5.4%, and Mr. Guindon believed the FY 2006-07 forecast would also show a fairly large positive forecast error.

Mr. Guindon directed the committee to the gaming percentage fees on page 93 of the meeting packet (Exhibit C). He said the gaming percentage fees were not biased in one direction or another because the average error over the five forecast cycles was 0.6% for the May forecast. In absolute terms, the average percent forecast error was 4.4%. He could not speak on behalf of his colleagues, but he did not believe the forecast errors were bad, considering it was a difficult revenue to forecast and the forecasts were only missing in absolute terms by approximately 4.4%.

Mr. Guindon moved to the insurance premium tax on page 95 of the meeting packet and noted that the projections for that tax were always under-forecast. The average percent error and the absolute percent error for the May 1 biennium forecast were 6.6%, which was an indication the revenue source was always under-forecast.

Mr. Guindon then directed the committee to the casino/live entertainment tax shown on page 97 of the meeting packet. The average forecast error was 4.5% and the absolute average percent was 6.8%. He remarked that the forecasters had a tendency to under-forecast and over-forecast this revenue source. In the 1997-99 and 1999-2001 biennia, this revenue was under-forecast, which he believed was due to the phenomenal cycle when the state saw property expansions with new properties coming on-line with high-end shows.

Moving forward to the cigarette tax on page 99 of the meeting packet, Mr. Guindon said the average percent error was 1.1% over the five forecast cycles for which the Forum produced forecasts, which was approximately 4.9% in absolute terms.

Page 101 displayed the total General Fund revenues and the average forecast error analyses by forecaster. The average percent forecast error was 2.6% and the absolute percent forecast error was 4.6%. The 6% forecast error for just one year was approximately \$187 million, and the absolute forecast error of 4.6% over five biennia was approximately \$180 million. Mr. Guindon commented that even though

\$180 million seemed like a large forecast error, it was not a large amount of revenue considering the biennium total was in the billions.

Mr. Guindon concluded that even though it was viewed as a common thing for the sales tax and gaming to be under-forecast in the last two cycles, he believed that was not the case. Looking at the total General Fund revenues in the beginning of the forecast cycle, actual collections were under-forecast by approximately 4.5% in the 1995-97 biennium and over-forecast by 1% in the 1997-99 biennium; approximately 5.4% under-forecast in the 1999-2000 biennium; -4% in the 2001-03 biennium; and 8.3% in the 2003-05 biennium, which was the largest error in absolute terms. Mr. Guindon believed the forecast error would be closer to that magnitude for the 2005-07 biennium.

Given the information available back in May 2005, Mr. Guindon did not believe he would have done anything different for the Fiscal Division's analysis and forecasts. He thought the projections were reasonable and the state was lucky to have seen such phenomenal growth. Because of the state's tax system, more actual revenue was generated than forecast but Mr. Guindon cautioned that it should not be assumed that this would continue into the next biennium and the state would have another \$187 million in extra revenue.

Mr. Martin remarked that every football plan was great until the kickoff, and he believed the Forum should provide the best projections as possible. Mr. Guindon agreed with Mr. Martin and added that it was very easy to be the Monday morning quarterback and after the game was over and actual results were seen, it was easy to say the team was going to grow stronger.

## **VII. DISCUSSION AND RECOMMENDATIONS REGARDING OUTSIDE REVIEWER'S USE OF A FORECAST SERVICE**

Mr. Guindon remarked that since the inception of the Economic Forum, it was common to have an outside forecaster, under contract with the state, present projections for the sales tax and percentage fee tax. Historically, Global Insight had provided the sales and percentage fee forecasts, and the contract was shared between the Fiscal Analysis Division and Budget Division. Typically, Mr. Diffley made a presentation on the national, regional and state forecasts at the second meeting of the Economic Forum. Mr. Guindon stated that the members of the Forum needed to decide if they wanted to continue to have Global Insight produce the forecasts and analysis. In addition, the forecasts provided by Global Insight were utilized when conducting a legislative analysis and long-term projections.

Chairwoman Pierce called for a motion to continue using Global Insight's forecasts for the sales tax and percentage fee tax.

MR. FISHER MADE A MOTION TO CONTINUE TO HAVE GLOBAL INSIGHT PROVIDE FORECASTS OF THE STATE'S 2% SALES TAX AND THE PERCENTAGE FEE TAX.

MR. MARTIN SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

Mr. Martin expressed that clearly the Economic Forum wanted the outside forecaster or "honest broker" to provide its insight on the state so the Forum would not be criticized for being biased.

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

Mr. Guindon said that previously the Forum had contacted outside reviewers, such as economists and research centers from the university system, private consultants that conducted economic and applied analyses and people from the private sector to see if they were willing to provide comments and economic input to the Forum. He noted that the purpose of the agenda item was to see if the Forum would like to continue this procedure, and if so, a motion was needed to direct staff to contact these people to provide voluntary insight to the Forum. Responses received from the outside reviewers would be included in the last meeting packet so the committee could review them when looking at the December 1 forecast. Mr. Guindon added the December 1 forecast was used by the Governor to develop the budget brought to the Legislature.

Mr. Martin believed it was a wonderful strategy to have other opinions on the economy from outside the Forum. Mr. Fisher concurred with Mr. Martin.

MR. MARTIN MADE A MOTION TO CONTINUE TO HAVE OUTSIDE REVIEWERS VOLUNTARILY PROVIDE INFORMATION TO THE ECONOMIC FORUM.

MR. FISHER SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

**IX. INSTRUCTIONS TO TECHNICAL ADVISORY COMMITTEE**

Mr. Guindon explained that the TAC was a seven-member body directed by the Forum to produce a preliminary set of all the minor revenue forecasts decided upon by the Forum. The members of the Forum needed to direct the TAC to produce forecasts of all the other revenue sources, except for the seven major revenues prepared by the Forum. The TAC would meet prior to the next Economic Forum meeting to produce a final set of forecasts to bring forward to the November 1, 2006, Forum meeting.

Chairwoman Pierce commented that she would like to see the Forum continue with the same list of minor revenue sources. Mr. Guindon added that letters from the Budget Office and Fiscal Division had been sent to the Executive Branch agencies that collected the major and minor revenues for the state General Fund requesting their forecasts. The Budget Office and Fiscal Division would look at those forecasts and meet with the agencies if they had any concerns. If they did not concur with the agencies' forecasts, different forecasts would be presented to the TAC. Based on the Chairwoman's direction, the TAC would produce the minor revenue forecasts that would be brought forward to the Forum at the next meeting.

#### **X. SCHEDULING OF FUTURE COMMITTEE MEETINGS**

Mr. Guindon referred the Forum members to the calendar provided and noted that generally the second meeting was always held the end of October; however, because the timing of the next meeting was dependant on when the Department of Taxation completed its roll and when the minor revenue forecasts were received from the TAC, he thought it would be best to have the meeting on November 1, 2 or 3, to allow staff to process the information obtained from the Department of Taxation and allow the TAC to meet prior to the meeting.

Chairwoman Pierce commented that after discussing possible meeting dates with the members present at the meeting, November 1 was the best date for the second Economic Forum meeting. Mr. Guindon stated that staff would contact Mr. Seevers and Mr. Small to see if a November 1 meeting date would work for them. If that date was not good, staff would be in touch with the members to work out a new date that would accommodate the members' schedules. He indicated that three committee members had to be present for a quorum in order to conduct business.

Lastly, Mr. Guindon said the Forum needed to schedule the December meeting, which was normally held on December 1, since it was the statutory deadline. He indicated that Friday, December 1, looked best for the members in attendance; staff would contact Mr. Seevers and Mr. Small to see if that date worked for their schedules. Because of the tight schedule between the next two meetings, Mr. Guindon said that staff would work to meet the deadlines, but he wanted to forewarn the committee members that the meeting packet might not arrive as early as this meeting packet.

Chairwoman Pierce suggested electronic transmission of the meeting packet. Mr. Guindon indicated the PDF version of the meeting packet was very large, but he intended to provide electronic copies of the tables so the committee could review them in advance.

Concluding, Mr. Guindon said that staff would work to establish the dates for the upcoming meetings, and once they were determined, the Budget Office would make the travel arrangements for the committee members.

**I. PUBLIC TESTIMONY**

There was no public testimony from anyone attending the meeting in Carson City or via videoconference from Las Vegas.

**XII. ADJOURNMENT**

Chairwoman Pierce adjourned the meeting at 12:30 p.m.

SUBMITTED BY,

\_\_\_\_\_  
Donna Thomas, Committee Secretary

APPROVED BY:

\_\_\_\_\_  
Deborah Pierce, Chairwoman