

MINUTES OF THE MEETING OF  
THE STATE OF NEVADA ECONOMIC FORUM  
April 29, 1999 – 11:00 A.M.  
Legislative Building  
401 South Carson Street, Room 4100  
Carson City, Nevada

A meeting of the State of Nevada Economic Forum (created as a result of Senate Bill 23, 1993) was held at 11:00 a.m., Thursday, April 29, 1999, in Carson City, at the Legislative Building, Room 4100 and was simultaneously video broadcast to the Grant Sawyer Office Building, Room 4401 in Las Vegas.

ECONOMIC FORUM MEMBERS PRESENT:

Steve Greathouse, Chairman	-	Carson City
Leo V. Seevers, Vice Chairman	-	Carson City
Cary Fisher	-	Carson City
David J. Morgan	-	Carson City
Diane S. Radunz	-	Carson City

ATTENDING IN CARSON CITY:

John Adkins, Chief Deputy State Treasurer, Treasurer's Office  
Bill Anderson, Economist, State Budget Division  
Dan Culbert, Department of Employment, Training and Rehabilitation  
John P. Comeaux, Director, Department of Administration  
Mike Colburn, Gaming Control Board  
Mike Clark  
Connie Davis, Secretary, Fiscal Analysis Division  
Brian Duffrin, Gaming Control Board  
Ed Flagg  
Gary Ghiggeri, Principal Deputy Fiscal Analyst, Fiscal Analysis Division  
Russell Guindon, Research Analyst, Gaming Control Board  
Steve Hixon, Gaming Control Board  
Karen Kavanau, Supreme Court  
Lynne Knack, Department of Taxation  
Dan Miles, Fiscal Analyst, Fiscal Analysis Division  
Bob Murdock, Department of Employment, Training and Rehabilitation  
Tim Ortez, University of Nevada  
Bob Romer, State of Nevada Employees Association  
Mark Stevens, Fiscal Analyst, Fiscal Analysis Division  
Doug Thunder, Nevada Department of Education  
Carole Vilardo, Nevada Taxpayers Association  
Ken Ward  
Ted A. Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division.

ATTENDING IN LAS VEGAS:

Walt Rulffes, Clark County School District  
Teri Jones, Clark County School District

## EXHIBITS

- Exhibit A - Meeting Notice and Agenda
- Exhibit B - Attendance Roster
- Exhibit C - April 29, 1999, Meeting Packet
- Exhibit D - General Fund Revenues – Economic Forum Estimates (Yellow Sheets)
- Exhibit E - 2% Sales and Gaming Percentage Fees “Green Sheet”
- Exhibit F - Fiscal Analysis Division’s backup material.
- Exhibit G - Department of Administration’s backup material.
- Exhibit H - Comparison of 12/98 and 5/99 Revenue Projections
- Exhibit I - Gaming Control Board Charts FY Year-to-Date Gaming Activity and FY 01 Forecasts
- Exhibit J – Treasurer’s Office General Fund – Interest Income Background Information
- Exhibit K – Economic Forum’s May 1999 General Fund Revenue Projections

BECAUSE OF THEIR SIZE, THE EXHIBITS ARE NOT ATTACHED TO THESE MINUTES BUT, UPON REQUEST, MAY BE REVIEWED IN THE FISCAL ANALYSIS DIVISION OR RESEARCH DIVISION LIBRARY OF THE LEGISLATIVE COUNSEL BUREAU, CARSON CITY, NEVADA. YOU MAY CONTACT CONNIE DAVIS AT (702) 687-6821.

### I. ROLL CALL

Chairman Steve Greathouse called the April 29, 1999, meeting of the State of Nevada Economic Forum to order at 11:00 a.m. The secretary called the roll, and the chairman announced all members were present.

### II. APPROVAL OF THE MINUTES FROM THE DECEMBER 1, 1998, MEETING OF THE ECONOMIC FORUM

**MR. MORGAN MOVED TO APPROVE THE DECEMBER 1, 1998, MEETING MINUTES AS PRINTED. MR. SEEVERS SECONDED THE MOTION, WHICH WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

### III. APPROVAL OF MAY 1, 1999, GENERAL FUND REVENUE FORECAST

#### Dan Miles

Dan Miles, Fiscal Analyst for the Fiscal Analysis Division identified himself for the record and announced that a packet (Exhibit C) was mailed to all of the members. The packet contained the following items: the December 1, 1998, minutes; the December 1, 1998, forecast compared to actual collections through March 1999; the major revenue worksheet forecasts of each of the revenue sources by forecasting group; and a loose-leaf packet of material illustrating all of the revenue sources including those considered minor, (Exhibit D). Also included behind Tab VI is a May 1 draft report to be edited by members of the Forum once the May 1 forecast is determined.

For reference purposes, Mr. Miles distributed a report on the 2 percent sales tax and gaming percentage fees (Exhibit E).

The members of the Forum also received backup material from the Fiscal Analysis Division (Exhibit F) and Department of Administration (Exhibit G), which Mr. Miles indicated may be referenced during the discussion.

In addition, the members of the Forum received a document comparing December 1998 and May 1999 Revenue Projections by the Budget Division, the Fiscal Division and the revenue agencies (Exhibit H).

In reference to the Fiscal Division’s forecasts, Mr. Miles pointed out the Fiscal Year 1999 projection for the 2 percent Sales Tax revenue had increased \$11.7 million over the December projection; the projection for FY 2000 increased \$20 million and the projection for FY 2001 increased by \$23 million. The second page of the document (Exhibit H) illustrates a comparison between the Budget Division, the Fiscal Division and the

revenue agencies to the Economic Forum's December 1, 1998 forecast. Page 1 of the document shows the Fiscal Division's forecast by the year 2001 is approximately \$47 million more in total revenue than on December 1, 1998; while the Budget Division's forecast is nearly \$9 million less than it was on December 1, 1998. Mr. Miles explained that the agency estimates only include the 2 percent sales tax by the Department of Taxation and Percentage Fees from the Gaming Control Board because a variety of agencies forecast the other revenues. Additionally, Mr. Miles said that the Department of Taxation's 2 percent sales tax projection is up \$17 million from December and the Gaming Control Board's percentage fees forecast is up \$22 million by year 2001.

### Percentage Fees

#### Russell Guindon

Russell Guindon, Research Analyst, Gaming Control Board, identified himself for the record and began his presentation showing a series of slides (Exhibit I) depicting charts on year-to-date gaming activity and collections.

The first chart illustrates growth in *win*, *taxable gaming revenue* and *total percentage fees* collected statewide for the past eight fiscal-year historical period and for Fiscal Year 1999 year-to-date. Providing an explanation of the three components *win*, *taxable gaming revenue* and *total percentage fees*, Mr. Guindon pointed out that *win* is the measure of gaming revenue generated by Nevada's non-restricted licensees and represents the total amount being wagered less the payout. Mr. Guindon added that *win* is the measure of gaming activity and revenue that the Gaming Control Board reports to the public on a monthly basis.

While *taxable gaming revenue* represents the revenue on which non-restricted licensees compute their tax liability to the state each month, Mr. Guindon explained that *taxable gaming revenue* represents total *win* after allowable adjustments. He further explained that the major factor creating a difference between *win* and *taxable gaming revenue* each month is the adjustment for credit extended during the reporting period and collections on credit extended during the current and previous reporting periods. Under state statute, credit extended is not considered taxable revenue until it is collected.

Moving to *total percentage fees* collected each month, Mr. Guindon advised that *total percentage fees* represents the net effect of two different components. The first component represents the amount due from taxable revenue, which is determined by applying the 3 percent, 4 percent and 6.25 percent rates to the applicable amount of revenue in each tax bracket. The second component represents the estimated fee adjustment (EFA). Mr. Guindon explained the estimated fee adjustment represents a reconciliation that occurs each month based on the actual tax payment for the current month compared to the estimated payment for the current month. The actual tax payment is computed from the taxable gaming revenue for the current month and the estimated payment for the current month is based on the actual tax payment from taxable gaming revenue three months prior.

Providing an example, Mr. Guindon said that assuming a property's tax liability from its taxable gaming revenue for the current month is \$1 million, and based on its taxable gaming revenue from three months prior, the property's tax liability is \$750,000, the estimated fee adjustment is \$1 million minus \$750,000 or \$250,000. The total tax payment to the state is \$1 million plus the estimated fee adjustment of \$250,000 or \$1,250,000. Each month then, a licensee's payment represents the amount due from their taxable gaming revenue plus or minus the estimated fee adjustment amount.

Mr. Guindon pointed out that the chart (Exhibit I), displays the first nine months of Fiscal Year 1999 compared to the previous seven fiscal-year periods. Mr. Guindon further explained that for Fiscal Year 1999 year-to-date, total *win* is up 6.5 percent over the same nine months in Fiscal Year 1998, while taxable gaming revenue is up 7.6 percent and percentage fee collections are up 10 percent for the first nine months. Comparing that growth to the 1990s, Mr. Guindon recalled that four mega-resorts opened in the second quarter of Fiscal Year 1994. However, Mr. Guindon indicated that Fiscal Years 1997 and 1998 were weak years even though the Monte Carlo, New York – New York and Orleans opened during that fiscal-year period.

Moving on to a month by month basis for the first nine months of Fiscal Year 1999, Mr. Guindon recalled that when the Forum last met in December 1998, actual data was only available for the first four months of Fiscal Year 1999. The second slide illustrates two charts on growth in *win*, *taxable gaming revenue* and *percentage fees*, one collected on a month-to-month basis comparing each month to the same month for the previous year and the second chart tracking growth on a cumulative fiscal year-to-date basis.

Mr. Guindon noted that through the first four months of Fiscal Year 1999, excluding the month of June, growth in collections was not strong. For the first two months of Fiscal Year 1999, *win* was up only 2.7 percent, *taxable gaming revenue* was up 4 percent and *collections* up 2.8 percent. However, Mr. Guindon advised that it had generally been expected that once the Bellagio opened in October, growth would begin to improve especially in the southern market. While growth in Clark County is seen as stronger in the last five months compared to the first four months of Fiscal Year 1999, Mr. Guindon noted that other markets are also performing better. Indicating it had not been anticipated that four of the last five months would post such strong double-digit growth in percentage fee collections, Mr. Guindon explained that for two of the four months of double digit growth, the increase in collections was not due to strong growth in win, but to the interaction of credit activity that month compared to the same month a year ago. Reviewing the figures for December, Mr. Guindon explained that win was up only 6.3 percent, but taxable gaming revenue was up 15.6 percent and added to a net positive estimated fee adjustment for the month, total percentage fee collections were up 25.1 percent while December's win was up only 1.7 percent. However, he said that taxable gaming revenue was up 16.2 percent and percentage fee collections were up 17.4 percent.

While the estimated fee adjustment had a strong positive impact on the percentage fee collections in October, November and January, Mr. Guindon said that weak win growth compared to strong collections growth is a phenomenon that is not sustainable and, most likely, could not be repeated twelve months from now.

In a review of the cumulative fiscal year-to-date information, Mr. Guindon indicated that, as previously stated, total win through the first nine months is up 6.5 percent, or about 2.5 times the rate of growth through the first four months of Fiscal Year 1999. Taxable gaming revenue is up 7.6 percent, almost twice the rate of growth observed through the first four months of Fiscal Year 1999. And, percentage fee collections are up 10.0 percent, almost 3.5 times the rate of growth posted in the first four months of Fiscal Year 1999.

Mr. Guindon spent the next few minutes reviewing the third chart which illustrates the "decomposition" or behavior of the two major components of total win: slot win and game and table win. As illustrated by the chart, total win growth for Fiscal Year 1999 resembles growth in 1995 and 1996; however, Mr. Guindon said that 1999 "in terms of some of the dynamics" draws a closer parallel to 1998. Looking at 1995 and 1996, both game and table and slot win generated comparable rates of growth, but in 1997 and 1998 and through the first nine months of 1999, slot win generates the strength. Through the first nine months of Fiscal Year 1999, slot win is up 8.9 percent while game and table win is only up 2.6 percent. During the nine fiscal year periods shown on the chart, slot win has consistently grown close to 6 percent or more each year except for Fiscal Year 1997, while game and table win was not as strong during that period.

Using another point of reference, Mr. Guindon advised that in Fiscal Year 1993, slot win accounted for 63.5 percent of total win, but after the strong growth in game and table win in Fiscal Years 1994, 1995 and 1996, slot win only accounted for 61.7 percent of total win. By the end of Fiscal Year 1998, slot win accounted for 63.9 percent of total win statewide and accounts for the same percentage through the first nine months of Fiscal Year 1999.

Moving to the chart illustrating the strength of slot win for each month in Fiscal Year 1999, Mr. Guindon indicated that slot win actually grew 8 percent or more each month excluding the month of August. At the Forum's last meeting in December, slot win was up 8.2 percent through the month of September while game and table win was down over 6 percent. Mr. Guindon indicated it had been his expectation at that time that growth in slot win might begin to slow down. Mr. Guindon explained that some strength in slot win was being generated by "mega-bucks." While only accounting for 2 percent of the total slot win, mega-bucks grew 98 percent through the last four months of Fiscal Year 1998, finishing the fiscal year up 63 percent and then grew 108 percent through the first six months of fiscal year 1999. The jackpot was hit in November at Palace Station

for over \$27 million and since then win from “mega-bucks” has fallen and is only up 24.7 percent through the first nine months of the Fiscal Year.

Another factor Mr. Guindon believed might contribute to a slow down in slot win growth is that the strength in nickel slots would begin to slow. Mr. Guindon recalled having discussed the strength of nickel slots at the December meeting and advised that win from the nickel slot denomination grew almost 20 percent in Fiscal Year 1998 posting a 20 to 30 percent growth rate through most of the last three quarters of Fiscal Year 1998. While it was Mr. Guindon’s expectation that it would be difficult to continue strong growth through the first nine months of Fiscal Year 1999, win from nickel slot machines is up 40 percent versus the same nine months in Fiscal Year 1998, averaging a 30 percent growth through each of the nine months of Fiscal Year 1999. After accounting for about 12 percent of total slot win in the early 1990s, nickel slots now account for about 17 percent of total slot win whereas in the early 1990s, it accounted for approximately 12 percent of total slot win.

Moving to Chart 5, A Comparison of Growth in Total Win by Selected Market: June 1998 – September 1998 versus June 1998 – February 1999, Mr. Guindon indicated that, as previously stated, an increase in the strength of growth in win in the last five months was expected due to the opening of the Bellagio. The chart illustrates growth through the first four months of the fiscal year for each of the markets compared to growth of the first nine months of the fiscal year with a comparison to the same period a year ago. Mr. Guindon advised that Clark County was up only 2.2 percent through the first four months and now through the first nine months is up 6.5 percent. Mr. Guindon added that Clark County accounts for about 79 percent of the state’s total win and further advised that the major market in Clark County is the Las Vegas Strip which was down 1 percent through the first four months of Fiscal Year 1999 and is now up 6 percent through the first nine months of the year.

While Mr. Guindon noted that the Las Vegas Strip market accounts for about 48 percent of the state’s total win, he said other markets also showed increased strength for the first nine months of the fiscal year-to-date. Washoe County’s last five months is shown as stronger than the first four months, and it is expected that South Shore will post an increase on a fiscal-year basis for the first time in four years. Mr. Guindon also advised that Carson Valley is posting double-digit growth for the first time in the last four years, and Elko County has shown increased strength in the last five months.

Turning to Chart 6, Mr. Guindon commented on the fact that credit activity drives the gap between taxable gaming revenue to win, and the chart plots the ratio of taxable gaming revenue to win statewide. The chart at the top of the page is illustrated on a month-to-month basis while the chart at the bottom of the page is illustrated on a cumulative fiscal year-to-date basis. Noting that the charts provide an idea of how the interaction of the credit play can create variances in the month-to-month activity, especially in comparison to the same month a year ago, Mr. Guindon pointed out the red highlighted line represents Fiscal 1999 while the blue line represents Fiscal 1998. Pointing to the cumulative fiscal year-to-date chart at the bottom of the page, Mr. Guindon explained that while there is a significant amount of variance from month to month, by the end of the fiscal year period the ratio is usually in the 95 to 96 percent range. Mr. Guindon advised that this implies that for each 12-month fiscal year period, by the end of the fiscal-year period, 95 to 96 percent of the reported gaming revenue (win) actually becomes taxable gaming revenue.

Before delivering his presentation on the Gaming Control Board’s forecast for 1999, 2000 and 2001, Mr. Guindon addressed an issue involving a change in the underlying assumptions for two properties, one that will open this fiscal year and one scheduled to open next fiscal year. Mr. Guindon explained that the change in assumptions affects the forecast for advanced license fees and necessitates changes to the percentage fee forecast. Since the December forecast, Mr. Guindon learned that the Venetian, under Gaming Control Board regulations, was approved for temporary closure in late 1996, and, thus as a continuing license, won’t be required to pay advance license fees after the first full month of operation. Indicating there was a misunderstanding on the specifics of the issue, Mr. Guindon advised that advance license fee payments were mistakenly included for the Venetian property in previous Gaming Control Board forecasts. Additionally, due to a prior Attorney General’s opinion, the Paris property will, most likely, be permitted to operate under Ballys’ current gaming license. Although the Gaming Control Board and Gaming Commission have not officially acted on this issue, Mr. Guindon advised that the appropriate adjustment in assumptions has been made which means that the Paris property will also not be required to make advance license fee payments.

In terms of the latest forecast versus the December forecast, Mr. Guindon advised that the Paris and Venetian advance licensee fees have been removed from the advance license fee collections forecast. He said, however, that additional payments will be made to the percentage fee collections account. Mr. Guindon briefly explained that when the two properties complete their first three months of operations and compute their tax liability based on the properties' taxable gaming revenue during each of their first three months of operations, there will be no estimated payment from activity three months ago. Because the Venetian is expected to open in early May, only one payment will be made in Fiscal Year 1999 and thus, one extra payment in Fiscal Year 1999. The Venetian's second and third months of operations provide payments to Fiscal Year 2000. Thus, two additional payments are included in Fiscal Year 2000. The Paris property is expected to open in September and will make all three additional payments within the Fiscal Year period. Mr. Guindon concluded that the percentage fee forecasts for Fiscal Year 1999 and Fiscal Year 2000 reflect one extra payment in Fiscal Year 1999 and five extra payments in Fiscal Year 2000. He advised the members of the Forum that the information has been provided to the Budget Office and the Legislative Counsel Bureau so that they can make the appropriate adjustment to their forecasts. Mr. Guindon asked the members of the Forum to keep in mind the impact on net general fund collections from gaming taxes and fees is marginal and that in reality payments are being transferred from the advance license fee account to the percentage fee account.

Using Chart Number 8, Mr. Guindon presented the Gaming Control Board's forecast for 1999, 2000 and 2001 illustrating a comparison of how the current forecasts compare to the December forecasts. With significantly more data available than was available in December, Mr. Guindon pointed out that the chart illustrates the only major difference is in Fiscal Year 1999. Currently, for Fiscal Year 1999, the Gaming Control Board is expecting percentage fees to increase by 7.9 percent up from the 3.6 percent forecast in December. For Fiscal Year 2000, the forecast is slightly stronger in all three categories with the largest difference showing percentage fee collections to increase to 5.8 percent from taxable growth of 5.6 and win of 5.9 percent. For Fiscal Year 2001, percentage fees are expected to increase by only 1.3 percent, instead of around 2.0 percent, because of the impact of the additional payments in Fiscal Year 2000 that don't reoccur in Fiscal Year 2001.

Mr. Fisher asked Mr. Guindon to elaborate on the ratio between taxable gaming revenue and win illustrated on the chart as always low in December and reflecting a lag between win and collections.

Mr. Guindon explained that the month of December, because of the holidays, brings in a lot of credit activity with collections occurring in January or February driving a gap between the win and taxable. Mr. Guindon, further explained that on a month-to-month basis, there are frequently large gaps between win and the taxable, but on a cumulative fiscal year basis consistently at the end of the fiscal year, 95 to 96 percent of reported gaming revenue is taxable revenue.

Mr. Fisher asked Mr. Guindon to explain the "range of lag" typically seen.

In response, Mr. Guindon indicated he could not provide an accurate statement concerning the "range of lag" on collections since only information on credit extended and collections on the credit is reported to the Gaming Control Board. However, he said that collections could be within the period or from a previous period and just depend on the timing and events occurring in that month.

#### Ted A. Zuend

Ted Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division identified himself for the record and turning to the Fiscal Division's backup information (Exhibit F), reported the Fiscal Division expects that gaming percentage fees will finish Fiscal Year 1999 with a gain of 8.4 percent. Revenue growth in the upcoming biennium is expected to be 5.4 percent in Fiscal Year 1999-2000 and 1.4 percent in Fiscal Year 2000-2001. Mr. Zuend advised that the growth figures translate into revenues from gaming percentage fees of \$497,757,000 in Fiscal Year 1998-1999; \$524,776,000 in Fiscal Year 1999-2000 and \$532,246,000 in Fiscal Year 2000-2001.

Mr. Zuend reported that the Fiscal Division anticipates taxable gaming revenue growth, on a monthly basis, will be slow throughout the forecast period with the growth rate for the 27 months averaging 1.8 percent per year. However, Mr. Zuend indicated that because increases have been strong since the opening of the Bellagio,

revenue for each of the three fiscal years, absent a collapse in gaming activity, would be better than reported in the December 1 forecast. While the assumptions for the 1999-2001 biennium are lower than those used for the December forecast, Mr. Zuend said the higher base revenues in Fiscal Year 1998-99 result in higher revenue totals for Fiscal Year 2000 and Fiscal Year 2001 as well.

Reporting that percentage fees have been growing at a 10 percent rate for the first nine months compared to the prior year figures, Mr. Zuend said the unexpected strength has been coincidental with the opening of the Bellagio. However, he pointed out that some of the revenue gains are attributed to growth in taxable gaming revenue which has exceeded the growth in gaming win, as discussed earlier by Mr. Guindon. Indicating such growth is not likely to be repeated, Mr. Zuend advised the members of the Forum that the Fiscal Division's forecast assumes the trend will be reversed over the next six months. The forecast also anticipates that the Venetian will have less of a net impact than previously believed primarily because the Bellagio has had a better-than-expected net impact. Since this appeared to be contradictory, Mr. Zuend explained that the Fiscal Division's basic assumption is that "the market to which these properties cater is somewhat limited." Further, Mr. Zuend indicated that the Fiscal Division believes that "the Bellagio has pre-empted a greater share of the market expansion than had been assumed for both properties combined." And, that "the reduction in net impact to the Venetian reduces the baseline amount of taxable gaming revenue by 0.2 percent by July 1999."

Turning to page 2 of the Fiscal Division's back-up material (Exhibit F), Mr. Zuend reviewed the column titled MONTHLY % CHANGE, and noted that monthly growth rates in the March through August periods are sluggish despite the recent openings of the Mandalay Bay and the opening of the Venetian next month. Mr. Zuend explained that the sluggish monthly growth rates result, in part, because of lower net impact to the Venetian and because the growth rate has been factored down during those six months to bring taxable gaming revenue back into alignment with the expected growth in gaming win. Mr. Zuend indicated this single adjustment of factoring down reduces the baseline amount of taxable gaming revenue by a full 2 percent by August 1999.

Mr. Zuend attributed the difference between the percentage fee forecast and expectations for taxable gaming revenue to the "regular effects of the estimated fee adjustment as the growth in activity of the existing properties is affected by properties which open during a concurrent period." In addition, he said there are special one-time estimated fee adjustment effects because two new properties are operating on continuing licenses and would, in effect, be paying double the percentage fees as previously discussed by Mr. Guindon. The fee forecasts, including the estimated fee adjustments, are shown at the bottom of the Taxable Gaming Revenue table on page 2 of Exhibit F.

Comparing the chart on page 2 of Exhibit F, to the chart presented in December, Mr. Zuend pointed out the figures "that have been plugged" are the same as used in the December forecast for each of the 27 months remaining through the next biennium. However, he explained that the "factoring down mechanism" had been used to compensate for the excess taxable gaming that had been occurring, and secondly, the smaller adjustment for the Venetian to remain consistent with Fiscal's original view of how much additional market the Bellagio and Venetian could carve out on their own. The May number for Fiscal Year 1998-99, shows a taxable gaming result at 8 percent which is up from net current figures because Mr. Zuend anticipated the additional months should continue to show strength. The chart at the bottom of the page shows a slightly positive estimated fee adjustment for the year compared to a year ago and a reverse of what Fiscal had projected in December. Mr. Zuend pointed out that currently the estimated fee adjustment, is adding \$5 million to the growth rate in percentage fees alluded to earlier by Mr. Guindon and \$1 million more for the Venetian's one-month double payment for the current fiscal year bringing the total collections to \$497 million + resulting in 8.4 percent rather than the 8 percent projected for taxable gaming revenue.

Moving to Fiscal Year 2000, taxable gaming revenue is projected at 5.8 percent for May, and Mr. Zuend pointed out that he had factored the number down so that it should be trending with gaming win. Mr. Zuend indicated that he assumed the growth rate for taxable gaming revenue would be relatively level after factoring it down in the next six-month period; however, because of the new properties which absorb some of the market from the existing properties, he projected the estimated fee adjustment for the year at \$2 million reducing the basic total revenue to \$519 million. However, because of the special estimated fee adjustment due to the Paris and the remaining two months of the Venetian, Mr. Zuend added what he indicated was an estimated amount of

a one-time \$5 million + for those double payments which are counted as an estimated fee adjustment resulting in \$524,776,000 and a 5.4 percent increase in percentage fees.

For Fiscal Year 2000-01, Mr. Zuend projected low growth rates with the exception of the Aladdin opening. However, Mr. Zuend explained that because of using a three-month rolling average, it would take the Aladdin three months to fully affect the data. And, after the Aladdin opens, a .07 percent per month increase is shown which Mr. Zuend indicated is an underlying growth rate of 1 percent per year, so that by the end of the year there is a 2 percent gain in taxable revenue that results in a positive number for the estimated fee adjustment because that 2 percent gain is largely generated from existing properties. While normally growth should occur in the estimated fee adjustment with growth in existing properties from year-to-year, Mr. Zuend advised the reverse is true in this case. Adding \$206,000 for the estimated fee adjustment brings the total to \$532,246,000 for the year, but the additional one-time \$5 million in the prior year lowers the growth rate to 1.4 percent after the positive and negative effects of the estimated fee adjustments are determined.

### Bill Anderson

Bill Anderson, Economist, State Budget Division, identified himself for the record, and turning to page 9 of the Budget Division's handout (Exhibit G) began his presentation with the forecast for Fiscal Year 1999. Mr. Anderson recalled that in December the Gaming Control Board, the Budget Office and WEFA expected that the gaming collections trend would be up through the remainder of the year, due to the opening of the Bellagio. The Budget Division in December was at about 2.8 percent year-to-date growth and anticipated growth in the remainder of the year at 6.5 percent, which would have ended at 4.1 percent for the year as a whole. Mr. Anderson advised the members of the Forum that the 6.5 percent anticipated growth rate for the remainder of the year had nearly doubled and is reflected in the Budget Division's revised forecast, which has increased since December by approximately \$19 million. Mr. Anderson added that the revised forecast includes the technical changes Mr. Guindon described earlier.

Anticipating a slowdown for Fiscal Year 2000, Mr. Anderson noted that while the Budget Division's forecast was fairly close to the forecast prepared by WEFA, it differed from both the Gaming Control Board and Legislative Counsel Bureau. While acknowledging that the gaming market in Nevada is "relatively healthy," Mr. Anderson expected to see some slowdown in Fiscal Year 2000 with growth reduced to approximately 2 percent.

Moving to Fiscal Year 2001, Mr. Anderson advised the members of the Forum that the Budget Division's forecast is structurally sound and that a 2.4 percent increase is anticipated. Indicating that an average 3 percent growth rate in percentage fee collections over the next ten years would be typical of the underlying growth trend in the market, Mr. Anderson said a 2.4 percent growth is reflective of that trend. Reviewing the chart at the bottom of page 11 (Exhibit G), Mr. Anderson pointed out that the Budget Division's forecast looks at percentage fee collections on a per room-night basis and shows a continuation of the downward trend in that structural measure. While noting the "slight uptick" for the current year, Mr. Anderson said a review of ten years of non-stop declines in percentage fee collections on a per room-night basis is expected to continue.

Addressing the differences in the forecasts and forecasting approaches while at the same time acknowledging "five months of good gaming numbers," Mr. Anderson indicated that neither the Budget Office or the Governor were willing to increase the forecast two and a half years into the future by \$20 to \$25 million. Looking at the changes in the forecast since December, Mr. Anderson pointed out that the Budget Division's forecast has increased roughly \$6 million since December and is about \$1 million higher for Fiscal Year 2001. Adding that the Budget Division budgets on dollars not growth rates, Mr. Anderson indicated that five months of good gaming numbers included in their historical analysis wasn't enough to increase the forecast by \$20 to \$25 million a year.

Mr. Greathouse asked Mr. Anderson to explain the gap concerning the ten-year decline between available room nights and gaming revenue growth, compared to the anticipated increase of 8 percent in room nights in Fiscal Year 2000 over Fiscal Year 1999.

Responding that there isn't a direct correspondence between growth in room nights and growth in percentage fees, Mr. Anderson indicated that while there would be an 8 percent increase in room nights, not all of those



rooms would be filled. Mr. Anderson also pointed out that while occupancy rates were on the rebound, there had been some concern about six months ago when rates were in the 85 to 90 percent range. Currently, he said occupancy rates are in the low 90 percent range in southern Nevada. Further, Mr. Anderson advised that the market had been supply driven and with gaming growth in other states, there were no longer any guarantees. Mr. Anderson also reported that the transportation problem concerning bottlenecks at the airport and the lack of plane capacity might be easing; however, he said that a certain amount of caution is still necessary. Additionally, Mr. Anderson advised that the 1.9 percent growth during the current year had occurred during one-time only developments, and he placed emphasis on the fact that 1.9 percent is reflective of the underlying growth rate of about 3 percent with a slight reduction for technical reasons.

Mr. Greathouse indicated that it was his understanding the one-time developments had been factored into the numbers.

Mr. Anderson responded that while the revenue from the estimated fee adjustment had been strong and that technical adjustments would add to that strength during the following year, there were other reasons to be cautious. He added that the Budget Division believes its forecast is good and stands behind it.

Mr. Greathouse again questioned the fact that only the Bellagio, which had opened in mid-October, had been factored into the numbers and asked about numbers for the Mandalay that opened in early March.

Mr. Guindon advised that there are no numbers on the Mandalay Bay reflected in the numbers currently available.

Mr. Greathouse asked that Mr. Guindon, Mr. Zuend and Mr. Anderson each express their thoughts on the impact of Indian gaming on gaming revenues for Fiscal Year 2001.

Mr. Guindon responded that because the issue is still pending a court decision, there wasn't any explicit account for Proposition V having a negative impact on Nevada gaming in Fiscal Year 2001. Mr. Guindon indicated that the low forecast for Fiscal Year 2001 is more a reflection of the Aladdin being the only new property opening.

Taking the opportunity to comment on what drives the Gaming Control Board's forecast for Fiscal Year 2000 and 2001, Mr. Guindon agreed that there are risks concerning the forecast. However, he expressed confidence in the Gaming Control Board's 5.8 percent forecast for Fiscal Year 2000 based on the strength of taxable gaming revenue growth, that the market appeared to be supporting the Bellagio and that numbers would soon be available from the Mandalay Bay. Mr. Guindon also pointed out that gaming stocks on Wall Street were doing very well. Other positive factors included that demand created by the new properties had increased the number of flights to the Las Vegas market, and National Airlines coming on line in May has provided the possibility of bringing in 1,900 people per day. Adding that the Board's forecast is developed by looking at the "coin in per slot" and "the drop in game or table" translated into a "win per slot," Mr. Guindon said that for Fiscal Year 2000, the Board showed the "coin in per slot" only growing 2 percent, so the growth in the Board's forecast is being created by the number of devices being brought on line. For the 2001 forecast, the "coin in per slot" is shown falling slightly because it is the Board's assumption that while people will come to the Bellagio or the Mandalay Bay, Venetian and Paris, there is some tendency that repeat business may not be as high.

#### Ted Zuend

Mr. Zuend reiterated that the Fiscal Analysis Division's forecast has remained consistent through the out years with its December forecast. Mr. Zuend indicated that the reason for the increase to Fiscal's forecast is due to the much higher base than had been anticipated.

Concerning the Indian Gaming issue, Mr. Zuend referred to a March 22, 1999 article in the Las Vegas Business Press, titled *Analysts Rethink Indian Gaming Threat* which discussed issues concerning stock indices being up and the fact that there is much more optimism concerning the outlook for Las Vegas. Additionally, Mr. Zuend said that while Governor Davis, is more amenable to Indian gaming than Governor Wilson, it appears he does not want to see Indian gaming on every corner in California because of the social problems it would bring and

also because there would be pressure on businesses, i.e., bars, outside the Indian gaming community to ask for gaming in order to compete.

Bill Anderson

Mr. Anderson identified himself for the record and said a number of factors went into the Budget Division's forecast especially for the out years. One of those factors concerned the potential impacts of growth in Indian Gaming and growth in gaming elsewhere. As a result, Mr. Anderson said the Budget Division wanted to be certain they had solid reasons to increase their forecasts by appreciable amounts. The Budget Division determined that there was enough uncertainty to remain cautious, especially concerning the growth in gaming.

Mr. Morgan noted that the Fiscal Division's "green sheet" (Exhibit E) showed gaming percentage fees during the previous four months at double-digit rates and dropped to a slight loss in March. Mr. Morgan asked for comments concerning the drop.

Mr. Zuend attributed the drop in percentage fees to the beginning of a reversal in the ratio between gaming win and gaming percentage fees and explained that the gains for November, December, January and February were not being sustained by gaming win causing a reversal in the figure for March. A drop in percentage fee gains is reflected in Mr. Zuend's forecast.

While in agreement with Mr. Zuend's comments, Mr. Guindon further indicated that Chinese New Year in February 1999 was a factor in driving March's collections on February's activity. Mr. Guindon explained that win for February 1999 had been expected to be strong because Chinese New Year brings in "high rollers" and involves a concern on the amount of credit play expected to be collected back within the period. Mr. Guindon pointed out that with the net estimated fee adjustment, collections were driven down to the negative side, and, specifically, March's collections on February's activity is attributed to Chinese New Year.

In response to a question from Mr. Morgan on whether the trend was expected to continue, Mr. Guindon responded that it was; however, he advised that determining the credit issue is difficult in any particular month. Mr. Guindon reiterated the expectation that at the end of the fiscal year about 95 to 96 percent of credit play is going to be taxable revenue.

Noting that each of the forecasters had raised their gaming revenue estimates from the December projections, Mr. Fisher asked for additional information concerning the underlying reason for the increase in projections.

Mr. Anderson responded that the Budget Division's change for Fiscal Year 1999 was about \$18,600,000 and attributed the upward revision to a "bad forecast" in December. Indicating that a mistake in one forecast must be reflected in the next, Mr. Anderson further advised that the Budget Division's forecast for Fiscal Year 2000 is revised upward about \$6.3 million. Mr. Anderson explained that 80 percent of the upward revision is due to the technical changes described earlier by Mr. Guindon. For Fiscal Year 2001, the Budget Division's forecast is increased by \$1 million, which Mr. Anderson advised is the amount the Budget Division believes they can increase their forecast 2.5 years into the future based on the strength of the previous four to five months.

With respect to Mr. Morgan's question, Mr. Guindon agreed with statements concerning the four positive months of double-digit growth and collections being an anomaly. However, indicating that the four months were just a part of a twelve-month period, Mr. Guindon pointed out that the Gaming Control Board had projected win growing around 7 percent. And, because it is not expected that the ratio of taxable gaming revenue to win would finish higher than in Fiscal Year 1998, taxable gaming revenue is projected at growing close to 8 percent. Mr. Guindon recalled keeping in mind during his analysis that the double-digit growth and collections for the four months were just a part of a fiscal year and rather than being mislead thought about the activity and how much of that activity would become taxable.

In reference to Mr. Morgan's question, Mr. Zuend advised that while all the forecasters were fairly consistent on the current year's number, only about 2 to 3 percent increases would be required in April, May and June in the year-over-year collections to meet projections which he said were likely to occur. Mr. Zuend added that in order for the projections not to be met, one would have to determine actual win activity would have been declining from a year ago.

Insofar as the forecast for the out years, Mr. Zuend said that Fiscal's position is that "growth is a dynamic process and does not occur from discreet jumps from a prior year." However, Mr. Zuend continued that once the level of market penetration/saturation is reached, it would likely hold.

Mr. Anderson disagreed with Mr. Zuend's hypothesis on growth. Turning to the chart on page 9 of the Budget Division's backup material (Exhibit G), Mr. Anderson pointed out that growth is seen in the chart as being "all over the place." Specifically, Mr. Anderson pointed out that growth of zero percent is seen in a year when the Monte Carlo and New York--New York opened, and reiterated that the Budget Division does not believe growth is a given nor that it would continue at a certain pace. Given those reasons, Mr. Anderson said the Budget Division did not choose to increase their forecast for the out years by \$20 to \$25 million.

Mr. Morgan expressed concern in reference to the percentage fee projections shown for the current fiscal year using a comparison for the current year to the original 1999 projections made two years ago. Recalling the Forum's original projection of a 5.6 percent increase for percentage fees, with a revision in December downward to 3.5 percent, and the current projections at approximately 8 percent, Mr. Morgan indicated it didn't appear to be unreasonable to also project conservatively for Fiscal Year 2000 and 2001.

In response to a question from the Chairman, Mr. Morgan indicated his support for a projection of \$497 million for Fiscal Year 1999, \$518 million for Fiscal Year 2000 and \$527 million for Fiscal Year 2001 based on the revised figure of \$497 million for Fiscal Year 1999 and using the 4.4 percent and 1.7 percent projections for Fiscal Year 2000 and 2001 determined by the Forum in December.

Mr. Seevers expressed agreement with Mr. Morgan's projection for Fiscal Year 1999 and also agreed with the 4.4 percent increase for Fiscal Year 2000. However, Mr. Seevers indicated he was less optimistic concerning the 1.7 percent projection for Fiscal Year 2001 and preferred Gaming Control's projection of 1.3 percent.

In response to a question from Ms. Radunz on the average percentage increase per year for the triennium, Mr. Morgan indicated an 8.3 percent increase for Fiscal Year 1999, 4.4 percent for Fiscal Year 2000 and 1.7 percent increase in Fiscal Year 2001.

Mr. Zuend clarified that in just looking at the percentage figures, there is an average of about 4.4 percent per year over the three year period.

Mr. Greathouse expressed support for Mr. Morgan's suggestion of a \$497 million projection for Fiscal Year 1999 and a 4.5 percent increase for Fiscal Year 2000 based on the magnitude of private investment in southern Nevada, as well as growth in Laughlin and northern Nevada. Mr. Greathouse, however, shared Mr. Seevers' concern in reference to the projection for Fiscal Year 2001 based on the absence of significant growth in Fiscal Year 2001. With some added concern in reference to Indian Gaming, Mr. Greathouse voiced support for the Gaming Control Board's 1.3 percent increase for Fiscal Year 2001.

**MR. SEEVERS MOVED TO APPROVE PERCENTAGE FEE COLLECTIONS OF \$497 MILLION FOR FISCAL YEAR 1999, INCREASE THE PROJECTION FOR FISCAL YEAR 2000 BY 4.4 PERCENT OR \$418.9 MILLION AND INCREASE THE PROJECTION FOR FISCAL YEAR 2001 BY 1.3 PERCENT OR \$524.1 MILLION. THE MOTION WAS SECONDED BY MR. FISHER AND UNANIMOUSLY APPROVED.**

#### Quarterly License Fee Collections: Non-restricted Slots

##### Russell Guindon

Mr. Guindon advised the members of the Forum that the Gaming Control Board's forecast anticipates collections for Quarterly License Fees for Non-restricted Slots to increase 3.2 percent in Fiscal Year 1999. The forecast reflects the first three-quarters of collections and new properties expected to come on line before the end of the fiscal year that will include pre-payments as well as final quarter payments. For Fiscal Year 2000, the Gaming Control Board anticipates collections of 4.7 percent and in Fiscal Year 2001, 1.6 percent. Mr. Guindon added the Fiscal Year 2000 and 2001 forecasts reflect the underlying assumptions concerning base

growth, new properties coming on line as well as their pre-payments and quarterly payments.

Ted Zuend

Moving to page 3 of the Fiscal Division's backup material (Exhibit F), Mr. Zuend advised the members of the Forum that the Fiscal Division estimates that revenue from the quarterly fees on non-restricted slots will grow by 2.8 percent for Fiscal Year 1999; 3.6 percent in Fiscal Year 2000 and 1.2 percent in Fiscal Year 2001. Mr. Zuend used a 1 percent attrition rate on existing properties for the remainder of Fiscal Year 1999 and Fiscal Year 2000 and 0.5 percent for Fiscal Year 2001. Translated into numbers, the Fiscal Division's forecast is \$14.8 million for Fiscal Year 1999, \$15.4 million for Fiscal Year 2000 and \$15.6 million for Fiscal Year 2001.

Bill Anderson

Noting the forecast comparisons were very much in line with the Forum's previous forecast, Mr. Anderson declined debating over a few hundred thousand dollars.

**MR. FISHER MOVED TO LET THE DECEMBER FORECAST STAND. THE MOTION WAS SECONDED BY MS. RADUNZ AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

Quarterly License Fee Collections: Games

Russell Guindon

Mr. Guindon advised the members of the Forum that the methodology used for Quarterly License Fee Collections is the same as the method used for non-restricted slots providing projections of a 2 percent increase for Fiscal Year 1999, 2.2 percent for Fiscal Year 2001 and 1.4 percent for Fiscal Year 2002.

Ted Zuend

Mr. Zuend advised that the Fiscal Division also follows the same methodology and arrived at a \$17,000 difference with the Gaming Control Board over a three-year period and agree with the Gaming Control Board's forecast.

Bill Anderson

Mr. Anderson offered no additional information from the Budget Office.

**MR. SEEVERS MOVED TO APPROVE THE GAMING CONTROL BOARD'S PROJECTIONS OF \$7,185,000 FOR FISCAL YEAR 1999, \$7,344,000 FOR FISCAL YEAR 2000 AND \$7,448,000 FOR FISCAL YEAR 2001 ON QUARTERLY LICENSE FEE COLLECTIONS FOR GAMES. THE MOTION WAS SECONDED BY MR. FISHER AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

Quarterly License Fee Collections: Restricted Slots

Russell Guindon

Again, using the methodology previously described, Mr. Guindon advised that the Gaming Control Board's forecast for Quarterly License Fee Collections on Restricted Slots is growth of 4 percent for Fiscal Year 1999, 4.2 percent for Fiscal Year 2000 and 3.3 percent for Fiscal Year 2001.

Ted Zuend

Mr. Zuend advised that the Fiscal Division supports the Gaming Control Board's forecast.

**MR. FISHER MOVED TO STAND ON THE FORUM'S DECEMBER FORECAST OF 4.6 PERCENT GROWTH IN FISCAL YEAR 1999, 3.7 PERCENT FOR FISCAL YEAR 2000 AND 3 PERCENT FOR FISCAL YEAR 2001. THE MOTION WAS SECONDED BY MR. SEEVERS AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

Advance License Fee Collections

Russell Guindon

Mr. Guindon briefly revisited the issue concerning the Venetian's approval for a continuing license and the fact that they are not required to make the advance license fee payment after their first full-month of operation. Due to a misunderstanding on the specifics of the issue, Mr. Guindon indicated that advance licensee fee payments were mistakenly included for the Venetian property in the December Gaming Control Board forecasts. Mr. Guindon explained that removing the Venetian's payments reflects the Bellagio's actual payment versus the last forecasted payment that was under forecasted and with some smaller properties providing advance license fee payments this year, the Gaming Control Board's forecast for Fiscal Year 1999 is \$8,887,000.

Moving on to Fiscal Year 2000, Mr. Guindon provided information that the Paris property would also not be required to pay advance licensee fees on its first full month of business while the resort at Summerlin's first full month would be made in Fiscal Year 2000. These changes are reflected in the Gaming Control Board's forecast of \$2.4 million for Fiscal Year 2000.

The Gaming Control Board's forecast for Fiscal Year 2001 reflects the opening of the Aladdin and the Sun Coast for a projection of about \$4.7 million.

Ted Zuend

Not as "bullish" as the Gaming Control Board, Mr. Zuend advised that his projections for Advance License Fee Collections were somewhat lower. The Fiscal Division's forecast is \$8,293,000 for Fiscal Year 1999, \$1,878,000 for Fiscal Year 2000 and \$3,370,000 for Fiscal Year 2001.

Bill Anderson

Indicating the projections for advance license fee collections were "an educated guess," Mr. Anderson turned to the last page of the Budget Division's backup information (Exhibit G) which provides forecasts and estimates on what the Budget Division believes fees will generate for each property. The Budget Division's projections were in line with the Fiscal Division at \$9,087,000 for Fiscal Year 1999, \$1,785,000 for Fiscal Year 2000 and \$4,246,000 for Fiscal Year 2001.

Mr. Morgan noted that since the December forecast, the Gaming Control Board added about \$1 million for each of the three forecast periods while the Legislative Counsel Bureau took away about a \$1 million.

Mr. Zuend agreed that after pulling out the Venetian and the Paris and recalculating the numbers, his position had somewhat "switched."

With respect to the Gaming Control Board's forecast, Mr. Guindon said that he may have been too pessimistic on the figures for the Bellagio and Mandalay Bay and was being less pessimistic in forecasting for the new properties' first full month.

Responding to Mr. Morgan's statement concerning the Gaming Control Board's optimism and a change in timing, Mr. Guindon said that while there was a slight change in timing, the strength in his projections were primarily attributed to "indirectly pumping up" the numbers for what he believed each of the large major properties would do in their first full month of operation.

Mr. Greathouse discussed revising the Forum's projections for Fiscal Year 1999 since the other forecasters were all below the Forum's forecast while the projections for the out years were in line with the other forecasters.

**MR. MORGAN MOVED TO APPROVE THE GAMING CONTROL BOARD'S PROJECTIONS OF \$8,877,000 FOR FISCAL YEAR 1999, \$2,381,000 FOR FISCAL YEAR 2000 AND \$4,689,000 FOR FISCAL YEAR 2001. THE MOTION WAS SECONDED BY MR. SEEVERS AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

Casino Entertainment Tax

Mr. Guindon

With casino entertainment tax being up 3.8 percent through the first four months of Fiscal Year 1999, Mr. Guindon pointed out that the forecast in December was for 11.6 percent. However, with collections up 15.1 percent through the first nine months, the Gaming Control Board has projected Fiscal Year 1999 ending at 16 percent, particularly with the new properties coming on line.

Moving to Fiscal Year 2000, Mr. Guindon pointed out that the assumption is some strong growth will continue to be experienced because of the number of payments coming off of the large properties. Because of the base Fiscal Year 1999, Mr. Guindon indicated a downward revision from the 13.6 percent growth rate projected in December to 12.9 percent.

For Fiscal Year 2001, Mr. Guindon advised that the Gaming Control Board's projections are up with a 3.8 percent growth rate or .6 of a percent stronger than the December projection.

Ted Zuend

After reviewing the numbers, Mr. Zuend advised the members of the Forum that Fiscal Division supports the Gaming Control Board's estimates.

Bill Anderson

Turning to page 32 of the Budget Division's backup material (Exhibit G), Mr. Anderson pointed out that the Budget Division's forecast for casino entertainment taxes were raised relative to the December forecast. Mr. Anderson explained that the Budget Division raised their forecast by roughly \$2 to \$2.5 million a year. Illustrated on page 30 of the Budget Division's backup material (Exhibit G), is information concerning higher collections per room night and the Budget Division's methodology that uses a per-room night basis. Mr. Anderson explained that the Budget Division's research suggests that going back to 1990, 80 to 82¢ a room night has been received in casino entertainment tax collections and has been increasing since that time. Mr. Anderson expressed confidence that with the expansion in Las Vegas, and from discussion concerning diversifying from a gaming industry to a gaming and entertainment industry, the per-room-night collection rate can be increased.

**MR. SEEVERS MOVED TO APPROVE THE GAMING CONTROL BOARD'S PROJECTIONS OF \$45,380,000 FOR FISCAL YEAR 1999, \$51,248,000 FOR FISCAL YEAR 2000 AND \$53,187,000 FOR FISCAL YEAR 2001.**

Mr. Greathouse expressed his preference for the Budget Division's projections.

The motion on the floor died for a lack of a second.

**MR. MORGAN MOVED TO APPROVE THE BUDGET DIVISION'S PROJECTIONS FOR CASINO ENTERTAINMENT TAX OF \$45,076,000 FOR FISCAL YEAR 1999, \$49,468,000 FOR FISCAL YEAR 2000 AND \$51,672,000 FOR FISCAL YEAR 2001. THE MOTION WAS SECONDED BY MR. SEEVERS AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

Sales Tax Collections

Lynne Knack

Lynne Knack, from the Department of Taxation, identified herself for the record and after a brief presentation advised the members of the Forum that the Department of Taxation's forecast remained virtually unchanged since the previous meeting in December. Sales Tax Collections for Fiscal year 1999 are projected at \$558,644,000, and for Fiscal Year 2000 and 2001 are projected at \$592,162,000 and \$621,771,000 respectively.

Ted Zuend

Turning to page 6 of the Fiscal Division's backup information (Exhibit F), Mr. Zuend discussed the Fiscal

Division's projections concerning sales tax growth and correlated measures.

Mr. Zuend pointed out that over the past ten years sales tax increased by an average of 8.7 percent per year and state population, during that period, increased approximately 5.39 percent while non-farm employment has been almost the same at 5.57 percent per year.

Recalling the December discussion, Mr. Zuend indicated that the Budget Division used employment as an indicator while the Fiscal Division used population. Mr. Zuend pointed out it didn't appear to matter which indicator is used as to what underlies part of the taxable sales figures. The CPI between June 1988 and June 1998 rose by 3.28 percent per year. Mr. Zuend explained he uses CPI more as an indicator of wage growth than inflation in the goods sector since goods-sector inflation is not evidenced in the CPI because it is usually about 2 percentage points a year less than what the CPI measures.

Reviewing a Bureau of Research and Analysis report, Mr. Zuend said that wages in Nevada between 1988 and 1997 grew at 3.7 percent per year on average, and the most recent nine-year period shows that is approximately .50 of a percentage point higher than the inflation rate per year. Combining population and the CPI produces an annual growth rate of 8.8 percent while combining employment and CPI growth produces an annual growth rate of 9.4 percent. Mr. Zuend pointed out that taxable sales growth is usually .50 to 1 percent less than the combination of any of those indicator. Mr. Zuend noted that WEFA is currently forecasting CPI growth of 1.8 percent, 1.8 percent and 2.3 percent respectively for 1999, 2000, 2001. Mr. Zuend indicated that he would focus more on a measure of likely wage growth rather than inflation in the goods sector where in the last two years it has been about 0.5 percent per year. Recalling the State Demographer's last population forecast of 4.8 percent; 3.7 percent and 4.2 percent over the three years, Mr. Zuend indicated that employment growth is between 3.5 and 5.5 percent per year depending on the forecaster.

Mr. Zuend advised that if the ten-year relationship between taxable sales grows at some combination of the local growth indicators, the growth in taxable sales should be expected to average somewhere in the range of 5.5 percent to 7.5 percent per year over the three-year period. Addressing the ups and downs in construction, Mr. Zuend said that taxable sales growth is heavily influenced by the presence or absence of major construction projects.

Turning to page 7 of the Fiscal Division's backup information (Exhibit F) Mr. Zuend discussed the chart illustrating the annualized growth rate for the three months ending in the month shown compared to the three-month total from six months earlier (i.e., June compared to the previous December, etc.).

Addressing the box at the top of the page, Mr. Zuend alluded to the fact that the six-month growth rate around openings of the Luxor, MGM Grand and Treasure Island was in the 20 percent range. Recalling the lull in major construction approximately one year to 18 months prior to the completion of the Monte Carlo, Stratosphere and the New York--New York, the rates dropped to the 5, 6, 7 percent range. Toward the end of the construction period, growth in taxable sales were again in the middle double digits and fell about a year before the Bellagio opened to the 1, 2, 3 percent range. The period covering completion of the Bellagio showed an increase again to the double-digit range and more recently in the 8 to 9 percent range. Mr. Zuend again pointed out that construction tends to move taxable sales and is one of the major ingredients absent a recession that causes the swing from year to year in taxable sales growth.

After the opening of the Paris later in 1999 and the Aladdin in mid-2000, with no major projects on the horizon, Mr. Zuend was of the opinion that construction activity would slow toward the end of the period resulting in a slowdown in taxable sales growth.

The Fiscal Division believes the sales tax revenues will finish 1999 with a gain of 9.2 percent and the year-over-year projection with four months to go is anticipated at 9.5 percent. Mr. Zuend advised that in looking at the year-over-year information, somewhere in the 8 to 8.5 percent range is needed to reach 9.5 percent by the end of the year. Revenue growth in Fiscal Year 2000 is expected to be 6.6 percent and 4.6 percent is expected for Fiscal Year 2001 representing an average growth rate of 6.76 percent per year which translates into revenues of \$560 million in Fiscal Year 1998-99, \$597 million in Fiscal Year 1999-2000 and \$624 million in Fiscal Year 2000-01.

Mr. Zuend advised the members of the Forum that the Fiscal Division believes taxable sales are continuing to grow at monthly rates above the trend range as construction on the Venetian and the Summerlin continues. Moving to the chart on page 8 (Exhibit F), monthly growth figures through July 1999 are used which only cover five months of .63 percent per month or an annualized growth rate of about 7.8 percent, which Mr. Zuend pointed out is an average growth rate of taxable sales over the last 18 months. After July and through the end of the Fiscal Year 2000, the Fiscal Division assumes a growth rate of .47 percent per month or 5.8 percent annualized. At that point Mr. Zuend indicated that three of the major five properties under construction will be completed and fully supplied, and the finished properties will need furnishings, draperies, gaming devices, liquor, etc. which when purchased boost taxable sales. The Fiscal Division also believes the remaining construction and furnishing needs for the Paris and Aladdin and a few other small properties will provide enough activity to keep taxable sales growth at the lower end of the expected range through that period. Anticipating a drop off in major construction activity, taxable sales growth is expected to fall below the trend using a rate of .31 percent, the same rate used in the December forecast, through the end of 2001. The second table on page 8 shows that since taxable sales and sales tax are directly related, prior year taxable sales numbers are not revised because sales tax collections are on a cash basis and taxable sales are on an accrual basis. As a result, collections are always shown as being higher than taxable sales, and, in the model, it was decided to keep the numbers whole. Mr. Zuend explained there is usually a difference of about 1 percentage point on average from month to month where sales tax collections usually run about 1 percentage point higher than year to year because the prior year number is already taking into account the accrual. As a result, Mr. Zuend advised the members of the Forum that the Fiscal Division's projections are 9.2 percent for Fiscal Year 1999, 6.6 percent for Fiscal Year 2000 and 4.6 percent for Fiscal Year 2001.

#### Bill Anderson

Beginning with the current Fiscal Year, Mr. Anderson explained the difference in the Budget Division's May forecast relative to the December forecast.

Mr. Anderson recalled that at the December 1, 1998, meeting, the Budget Office argued that the growth rate in sales tax collections would increase because of the opening of the Bellagio and because a period of six consecutive months were being compared to the previous year when growth didn't exceed 3.7 percent. Mr. Anderson pointed out that growth has increased more than anticipated resulting in a \$5.7 million increase in the Budget Division's forecast.

Currently, Mr. Anderson advised that year-to-date growth in sales tax collections is at 9.5 percent and the Budget Division is forecasting the year will end at 8.5 percent. A turnaround was being seen at the end of the last fiscal year and with current sales tax collections compared to growth of 3.5 percent a year ago, Mr. Anderson pointed out that comparisons would be made to growth of approximately 7 percent a year ago. Considering these comparisons, the Budget Office anticipates growth will ease from its current rate of 9.5 percent year-to-date ending the year at 8.5 percent.

Moving to page 4 of the Budget Division's backup document (Exhibit G) Mr. Anderson noted that the Budget Division's forecast is reduced by about \$2 million in Fiscal Year 2000 and by about \$9.9 million in Fiscal Year 2001. The reduced forecast was attributed to the easing of the job forecast since the December presentation. Emphasizing the forecast as structurally sound, Mr. Anderson turned to the graphs on page 6 of the Budget Division document (Exhibit G), and pointed out a narrowing of the difference between the Budget Division's forecast of collections growth and job growth and also explained that the Budget Division looks at collections per job which is a stable trend.

Given Mr. Greathouse's interest, Mr. Anderson discussed the forecast differences and noted that the Fiscal Year 2001 forecasts presented by LCB and Taxation are nearly identical to the forecast presented by the Budget Division. In December, the Budget Division's Fiscal Year 2001 forecast was for \$622.3 million; almost identical to the other forecasts presented at the current meeting.

Recalling Mr. Zuend's earlier statement that there is no difference between population and job growth, Mr. Anderson disagreed and pointed out the Budget Division's analysis on page 3 of their backup document (Exhibit G) illustrates that using jobs as an indicator of sales tax collections provides the best forecast



accuracy. It was Mr. Anderson's opinion that sales tax collection growth would continue, but at a moderate pace. Indicating that once through the twelve-month cycle and comparisons to double-digit growth, it is anticipated growth will go down. Mr. Anderson explained that a month or two after the December meeting is when the comparisons were made and collections growth went up to 10 percent where it has remained. It was Mr. Anderson's opinion that trend would be reversed slightly in the out years. Mr. Anderson concluded his presentation indicating that while there has been a few good months, neither the Governor or the Budget Office is willing to increase the forecast by approximately \$20 million a year.

In response to a request from Mr. Greathouse concerning WEFA's forecast, Mr. Anderson spoke for WEFA indicating WEFA's growth rates remained the same as previously projected

Mr. Morgan indicated he was comfortable with projections of 8.7 percent growth for Fiscal Year 1999 or \$557 million, 6 percent for Fiscal Year 2000 and 5 percent for Fiscal Year 2001. In order to reach the growth rate for Fiscal Year 1999, Mr. Morgan advised that an 8.9 percent increase would be required for the remaining four months of the current fiscal year or slightly less than projections for year-to-date at 9.5 percent.

In response to Mr. Greathouse's request for calculations on a base of \$557 million for the two out years, Mr. Anderson advised that the projection for Fiscal Year 2000 is \$590.5 million and for Fiscal Year 2001 \$620.1 million.

Mr. Greathouse expressed concern in reference to sustaining a 5 percent growth rate for Fiscal Year 2001 indicating the level of private investment in southern Nevada would be completed by the start of Fiscal Year 2001.

Mr. Seevers agreed with Mr. Greathouse and supported instead a projection of 4.6 percent for Fiscal Year 2001.

Recalling Mr. Zuend's comments that population growth over the past ten years was at better than 5 percent, Mr. Morgan indicated he would have to listen to reasons for a projection of less than 5 percent. Turning to the historical data on page page 67 of the packet (Exhibit C), Mr. Morgan pointed out that in four of the last six years growth has been in the double-digit range, with a 9 percent increase in 1993 and a 4.1 percent increase in 1998. It was Mr. Morgan's opinion that a 5 percent increase was reasonably attainable.

It was Mr. Seevers' concern that the possible decline in overall construction in the gaming area and the private sector as well would impact sales tax collections on building materials.

Expressing agreement with Mr. Seevers' analysis, Mr. Anderson cited the possible decline in overall construction as the reason the Budget Division's growth rate is shown as easing downward to about 4.5 percent. Mr. Anderson pointed out that over the past several years much of the growth in sales tax collections has been driven by the high-wage construction industry. With the possibility of the construction boom coming to a close within the foreseeable future, it was Mr. Anderson's opinion that while there would be many new jobs being generated, those jobs may not be as lucrative as the construction-sector jobs and, therefore, won't provide continued increases in sales tax collections.

Mr. Seevers recalled a 3:1 growth ratio on jobs, but that the State Demographer had indicated a much lower income level with "spendable" dollars, therefore, reinforcing the more conservative view at 4.6 percent.

Mr. Zuend indicated that there hadn't been a decline in construction jobs since the recession in 1990 or 1991 even in those periods when major properties were not being constructed.

Mr. Anderson clarified that the Budget Division wasn't forecasting a decline in construction jobs only that the growth rate will ease.

While Mr. Morgan indicated the difference between 4.6 and 5 percent was small, he said that all of the information just discussed had previously been taken into consideration during the original forecast in December.

Mr. Greathouse explained his concern was with the drivers that would create a 6 percent growth in the Year 2000 “falling off,” and that the easing of job growth would create a sharper difference than the 5 percent projected by the Forum in December.

**MR. MORGAN MOVED TO PROJECT THE FISCAL YEAR 1999 FORECAST FOR SALES COLLECTIONS AT \$557 MILLION. THE MOTION WAS SECONDED BY MR. SEEVERS AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

**MR. MORGAN MOVED TO PROJECT THE FISCAL YEAR 2000 FORECAST AT \$590 MILLION OR A 6 PERCENT RATE OF GROWTH. THE MOTION WAS SECONDED BY MR. SEEVERS AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

**MR. MORGAN MOVED TO PROJECT THE FISCAL YEAR 2001 FORECAST AT \$620 MILLION OR A 5.1 PERCENT RATE OF GROWTH. THE MOTION WAS SECONDED BY MR. SEEVERS.**

Discussion ensued concerning the motion on the floor during which Mr. Fisher proposed a 4.8 percent rate of growth rather than 5.1 percent.

The Chairman indicated he would entertain a new motion.

**MR. FISHER MOVED TO PROJECT THE FISCAL YEAR 2001 FORECAST AT A GROWTH RATE OF 4.8 PERCENT OR \$618 MILLION. THE MOTION WAS SECONDED BY MR. SEEVERS AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

#### Insurance Premium Tax Collections

##### Lynne Knack

Lynne Knack, from the Department of Taxation, identified herself for the record and advised the members of the Forum that the Department’s projections for the Insurance Premium Tax were primarily based on the first two quarters of reporting in Fiscal Year 1999. Ms. Knack reminded the members that during the previous legislative session, reporting insurance premium tax was changed from an estimated basis to actual basis. Because of the difficulty some of the insurance companies were having in changing their financial record keeping to accommodate the new legislation, Ms. Knack explained that the Department used the collections for the highest quarter which was September as an average to project the final two quarters. However, because some of the insurance companies are still estimating their tax or cannot provide actual amounts in each of the quarters, collections which should have only been several hundred thousand were about \$5 million on the annual renewal on March 15. Ms. Knack further advised that based on the first quarter collections and lower collections in the second quarter as a result of allowable credits the insurance companies are permitted to deduct, the Department of Taxation’s projection for Fiscal Year 1999 is \$116,556,000 or a 5.3 percent increase. Ms. Knack reported that for the out years, the Department took an average of the population growth over four years or approximately 5.5 percent rounded to 5 percent for both years.

##### Mark Stevens

Mark Stevens, representing the Legislative Counsel Bureau, identified himself for the record. Turning to page 9 of the Fiscal Division’s backup document (Exhibit F), Mr. Stevens told the members that the annual growth for insurance premium tax averaged 7.84 percent over the last five years and 7.4 percent during the past three years. Mr. Stevens pointed out that because of the change in the collection method from an estimated to an actual basis, the growth rate for the current fiscal year wouldn’t be an “apples to apples” comparison to previous years. As an example, Mr. Stevens said that for a 7.5 percent growth rate in the current fiscal year, actual collections would be in the 3 to 3.5 percent range.

Turning to the worksheet on page 10 of the Fiscal Division’s backup document (Exhibit F), Mr. Stevens

pointed out the bolded numbers under the Fiscal Year 1997-98 column designate the period the new collection method began and when two years of growth in a single period were received (15.2 percent growth for the quarter ending March 31 and 21.4 percent growth in the quarter ending June 30). For the current Fiscal Year 1998-99, Mr. Stevens pointed out two italicized and bolded numbers in the final two quarters wherein a one-time payment was received. In the first quarter Fiscal Year 1998-99, a 20.2 percent increase is shown and in the second quarter, a 10.8 percent increase is shown. Mr. Stevens explained that the increase in the second quarter was lower because of a \$1.6 million credit taken by a number of insurance companies that lowered the collection in that particular quarter.

Mr. Stevens pointed out that while all of the forecasters estimated the annual renewal in the few hundred thousand dollar range during the December meeting, actual collections were \$5 million. The \$5 million collection was attributed to new insurance companies who paid on an annual basis, not a quarterly basis and also because some life insurance companies that couldn't pay on a quarterly basis made their payment in March.

Mr. Stevens advised the members that the Fiscal Analysis Division is projecting a 7.5 percent growth rate for insurance premium tax in the current year as well as the next two years of the biennium or \$114.4 million for Fiscal Year 1999, \$122.9 million for Fiscal Year 2000 and \$132.2 million for Fiscal Year 2001. For comparison purposes, Mr. Stevens pointed out that the Fiscal Division's projection for Fiscal Year 1999 at \$114 million is lower than the Budget Division and Department of Taxation, both in the \$116 million range. Mr. Stevens pointed out that the Fiscal Division has projected a year-over-year increase of 7.5 percent. He explained that the two quarters from December through June compared to the same period a year ago were an "apples to apples" comparison, and with one-time collections collected and with an actual business to actual business comparison, a 7-5 percent increase provides a projection of \$114.4 million. Mr. Stevens added that to reach \$116 million, quarter-to-quarter comparisons would have to be 12 percent for the remainder of the fiscal year. It was the opinion of the members of the Fiscal Division that double-digit increases would not be achieved in the final two quarters of the fiscal year, and that the only reason double-digit growth was achieved in the first two quarters was because of the change in collections from estimated to actual. Mr. Stevens concluded his comments noting the historical data on page 68 of the meeting packet (Exhibit C) illustrates that in the last six years, the growth rate in insurance premium taxes has not been below 5.4 percent on an annual basis.

#### Bill Anderson

Moving to page 16 of the Budget Division's backup document (Exhibit G), Mr. Anderson said that for the current fiscal year, the Budget Division's forecast is up approximately \$5.2 million from their December forecast. Mr. Anderson explained it had been assumed the annual payment would be in the several hundred thousand dollar range; however, the actual \$5 million collection, as previously discussed, explains the difference between the latest forecast and the December projection. Concerning the out years, Mr. Anderson discussed the Budget Division's forecast of a reduction in job and personal income growth.

Addressing the Budget Division's forecasting methodology, Mr. Anderson pointed out that while the Fiscal Division uses a 7.5 percent average growth rate, the Budget Division has associated the fluctuation of the average growth rate to changes in real personal income. He said the two dynamics causing the Budget Division's forecast to change by about \$1.3 million in Fiscal Year 2000 and decline by about \$500,000 in Fiscal Year 2001 is a projected reduction in real and personal income and an assumption of a \$2.5 million annual payment rather than \$5 million. In reference to quarterly growth rates, Mr. Anderson advised the members of Forum that the Budget Division doesn't look at quarterly growth rates since determining they cannot realistically project a forecast by looking at the detail.

**MR. MORGAN MOVED TO APPROVE THE BUDGET DIVISIONS RECOMMENDATIONS FOR A 5.5 PERCENT GROWTH OR \$116,850,000 IN FISCAL YEAR 1999; 3.8 PERCENT GROWTH OR \$121,344,000 IN FISCAL YEAR 2000 AND 4.4 PERCENT GROWTH OR \$126,659,000 IN FISCAL YEAR 2001. THE MOTION WAS SECONDED BY MR. SEEVERS AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

Business License Tax

Lynne Knack

Lynne Knack advised the members of the Forum that the Department uses employment growth information, provided by the Employment Security Division, to calculate projections for business tax. Ms. Knack reported that the original estimates of that growth have not materialized thus far in FY 1999 and that currently for just two quarters of Fiscal Year 1999, growth is at 3.03 percent. During preparation for the current fiscal year projection, Ms. Knack reported that reviewing several years of information shows that the third quarter drops off because of the winter months while the fourth quarter (April, May and June) increases extensively. As a result, Ms. Knack reported an average of those increases for several years adjusted the Department of Taxation's projections downward slightly to \$71.6 million for Fiscal Year 1999; \$75 million for Fiscal Year 2000 or a 5 percent increase, and \$78 million for Fiscal Year 2001 or a 4 percent increase.

Ted Zuend

Turning to page 5 of the Fiscal Division's backup document (Exhibit F), Mr. Zuend advised the members of the Forum that the third and fourth quarter figures for Fiscal Year 1999 are actual numbers. Mr. Zuend reported that the Fiscal Division estimated the first quarter figure based on growth rates in non-governmental jobs information provided by the Bureau of Research and Analysis. To forecast the remaining nine quarters, Mr. Zuend said an underlying growth rate of 3.7 percent was assumed which was a low point reached when there was a lull in new casino openings. Added to those amounts was the additional employment figures estimated by the Bureau of Research and Analysis for the new properties opening in the Las Vegas area. Mr. Zuend clarified that the new jobs are added only for the first four quarters each property is opened after which the new employment becomes part of the base amount. Concluding his remarks, Mr. Zuend reported that the Fiscal Division's projections for Fiscal Year 1999 are \$71,423,000, for Fiscal Year 2000, \$75,137,000 and for Fiscal Year 2001, \$78,217,000.

Bill Anderson

Given the similarity of the forecasts, Mr. Anderson indicated the key to the projections is what would transpire for the current year. With collections up only 3 percent, Mr. Anderson advised the members of the Forum that in order to reach the 4.1 percent growth, as projected by the Budget Division, collections growth of about 5 percent would be required in the second half of the fiscal year. Mr. Anderson expressed confidence in seeing an increase and reported the Department of Employment Training and Rehabilitation's web site estimated first quarter (January to March) growth in non-agricultural jobs for this year at 5.3 percent. It was Mr. Anderson's opinion that with the 5.3 percent growth in jobs, similar collections would be attainable.

**MR. MORGAN MOVED TO STAY WITH THE FORUM'S ORIGINAL DECEMBER PROJECTIONS OF A 5.1 PERCENT INCREASE OR \$72,014,000 FOR FISCAL YEAR 1999; 5.0 PERCENT INCREASE OR \$75,601,000 FOR FISCAL YEAR 2000 AND 4.1 PERCENT INCREASE OR \$78,723,000 FOR FISCAL YEAR 2001. THE MOTION WAS SECONDED BY MR. FISHER.**

Mr. Greathouse indicated the Forum's original December projections were greater than those of the three forecasters. During further discussion, it was determined the difference to be less than 1 percent.

**AFTER CALLING FOR THE QUESTION, THE MOTION ON THE FLOOR WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

General Fund Cigarette Tax Collections

Lynne Knack

Lynne Knack discussed having contacted industry people concerning the cigarette tax projection. Since the previous meeting in December 1998, Ms. Knack said that a manufacturer's price increase has taken place with significant stockpile purchases where the revenue would have been received in December, and California increased their prices on January 1, 1999, from 37¢ per pack to 87¢ per pack. In the last several years, Ms. Knack indicated Nevada had seen a significant gain in collections when the State of Arizona increased their tax rate and, thus, expects to see a gain from California's increase. California has also increased their other

tobacco products' tax from 35 percent to 100 percent in January. Ms. Knack indicated she had learned that since the manufacturer's price increase, wholesale shipments had increased 4.3 percent in the fourth quarter of 1998 and 4.5 percent in the first quarter of 1999. Because of stockpiling and panic buying attributed to the manufacturer's price increase and California's tax increase, Ms. Knack indicated a 10 percent increase in cigarette tax is anticipated which she considered "a little overzealous." Based on information provided by industry representatives, Ms. Knack said her projection for Fiscal Year 1999 was 5 percent. The projection, however, is shown as 6.9 percent because of the change in the recording of the tax for the previous year when an additional month or 13<sup>th</sup> month was used because of the GSB 22 situation. Ms. Knack predicted collections would slow in Fiscal Year 2000, once a full year of the impact of California's tax rate increase was in effect, and lower still in Fiscal Year 2001.

#### Ted Zuend

Mr. Zuend informed the members of the Forum that while cigarette tax revenue had been bullish over the last several years averaging 4.9 percent growth, prior to that period, it was flat. In reviewing the twelve-month moving average of the collections paid, Mr. Zuend compared the twelve months at any given ending of the month to the twelve months immediately preceding that period in order to see the trend in those growth rates. At one point about two years ago, the growth rate was reaching 7 percent, and more recently it is down in the low 4 percent range. For the current year, Mr. Zuend projected an increase of 4.6 percent, but because of the manufacturer's price increase and other events related to the master settlement, the outlook for cigarette sales in the upcoming two years is seen as less bullish. The Fiscal Division's projection for Fiscal Year 2000 and Fiscal Year 2001 is 3.2 percent.

Mr. Zuend also addressed the issue of "gray market sales" in California which he indicated absorb 30 percent of the market. Mr. Zuend explained that gray market cigarettes are cigarettes meant for overseas sales but are returned to the states and resold at a lesser price. Not having seen a great surge because of the California price increase, Mr. Zuend thought perhaps gray market sales had offset the anticipated increase.

#### Bill Anderson

Addressing the Fiscal Year 1999 forecast, Mr. Anderson advised the members that a recently received additional month of data had not been factored into the forecast. Prior to the most recent data, Mr. Anderson indicated year-to-date collections had increased about 2.1 percent and the forecast being presented would have required an approximate 5.4 percent increase for the remainder of the year to reach the 5.3 increase forecast. With the most recent month showing approximately 5.9 percent growth, Mr. Anderson expressed confidence that the growth necessary to reach the current year projections was achievable. Concerning the out years, Mr. Anderson noted that the Budget Division falls in the middle of LCB and Department of Taxation projections. The Budget Division projects an approximate 4.5 percent growth rate for Fiscal Years 2000 and 2001 changing their forecast approximately \$12,000 a year relative to what was forecast in December.

In response to Mr. Morgan's request for information comparing year-to-year growth, Ms. Knack responded that for the general fund portion, year-to-year growth stands at 2.5 percent comparing July's activity through February's activity for Fiscal Years 1999 and 1998.

Addressing the fact that the Department had projected a 5.9 percent increase in December compared to the current 6.9 percent, Mr. Morgan requested information on how that much of an increase would be achieved in the last four months of the year.

In response to Mr. Morgan's question, Ms. Knack advised that the Department's assumption was based on information received from industry representatives and the presumed positive impact California's January 1, 1999 tax increase would have on Nevada sales.

Concerning his earlier comments, relative to the most recent month of data not factored into the forecast, Mr. Anderson advised that previous to the receipt of that information, growth was at 2.1 percent year-to-date and the forecast was 5.3 percent. With an increase of 5.4 percent required to achieve the forecast and the most recent month's growth at 5.9 percent, Mr. Anderson indicated an "uptick" in cigarette tax revenue is being seen.

**MR. FISHER MOVED TO APPROVE THE LEGISLATIVE COUNSEL BUREAU'S PROJECTIONS FOR 4.6 PERCENT GROWTH FOR FISCAL YEAR 1999 OR \$41,431,000; 3.2 PERCENT GROWTH FOR FISCAL YEAR 2000 OR \$42,757,000 AND 3.2 PERCENT GROWTH FOR FISCAL YEAR 2001 OR \$44,125,000. THE MOTION WAS SECONDED BY MR. MORGAN AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FOURM.**

General Fund Liquor Tax Collections

Lynne Knack

Ms. Knack reported that the Department of Taxation did not change their revenue projections for Liquor Tax approved by the Forum at the previous meeting in December.

Ted Zuend

Mr. Zuend advised the members of the Forum that the Fiscal Division applied a growth rate of 2.4 percent, or slightly less than the average growth rate in recent years, for their projection to the 27-month period. For the final three months of the year, the Fiscal Division increased the tax collections by 2.4 percent and increased the out years to by 2.4 percent. As a result, the Fiscal Division projects 2.2 percent growth for Fiscal Year 1999 and 2.4 percent increase for Fiscal Years 2000 and 2001.

Bill Anderson

Mr. Anderson advised that the Budget Division had nothing to add since the forecasts were all very close and similar to the forecast approved at the previous meeting in December.

**MR. SEEVERS MOVED TO STAY WITH THE FORUM'S PROJECTIONS OF 1.4 PERCENT GROWTH OR \$14,122,000 FOR FISCAL YEAR 1999; 2.3 PERCENT GROWTH OR \$14,441,000 FOR FISCAL YEAR 2000 AND 2.2 PERCENT GROWTH OR \$14,760,000 FOR FISCAL YEAR 2001. THE MOTION WAS SECONDED BY MR. MORGAN AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM**

Net Proceeds of Mines

Bill Anderson

Prior to Ms. Knack's presentation, Mr. Anderson advised the members of the Forum that with respect to projections for tax collection revenues on net proceeds of mines and interest income, the expertise is in the Department of Taxation and the Treasurer's Office. Mr. Anderson deferred to the projections by representatives of their respective offices.

Lynne Knack

Ms. Knack reported the Department's projections for net proceeds of mines at slightly higher than the December figures. With returns providing a better indication for the Fiscal Year 1999 projection, Ms. Knack said that year-to-date information indicates production of the number of ounces of gold increased almost 13 percent. Although a decline is shown in the actual price of gold, it was Ms. Knack's opinion that the decrease in the price of gold and the increase in the production of the number of ounces should offset each other. Insofar as production, Ms. Knack noted that the net-to-gross ratio has increased slightly and is the reason for the slight increase of approximately \$2 million in Fiscal Year 1999. As a result of information received through the Nevada Mining Association, Ms. Knack advised that an approximate 3 percent decrease in production for each year in Fiscal Year 2000-2001 is anticipated and the price of gold is estimated to decrease to about \$286 per ounce. Concluding her comments, Ms. Knack indicated that the net-to-gross ratio as it increased in this fiscal year for these calculations was maintained.

Ted Zuend

Mr. Zuend advised the members of the Forum that the Fiscal Division reviewed the Department of Taxation's estimates and concurs that there were "some surprises" on the upside for the current year. Mr. Zuend indicated that "those surprises" would carry through for the out years unless another dramatic decline in the price of gold occurs.

**MR. SEEVERS MOVED TO APPROVE THE DEPARTMENT OF TAXATION'S PROJECTIONS FOR GROWTH OF -2.2 PERCENT OR \$15,372,000 FOR FISCAL YEAR 1999; GROWTH OF -5.6 PERCENT OR \$14,513,000 FOR FISCAL YEAR 2000 AND GROWTH OF -3.0 PERCENT OR \$14,072,000 FOR FISCAL YEAR 2001. THE MOTION WAS SECONDED BY MR. MORGAN AND UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

Interest Income

Mark Stevens

Mr. Stevens, identified himself for the record and advised the members of the Forum that the Fiscal Analysis Division's revenue projections for interest income are on page 11 of Fiscal's backup document (Exhibit F).

With three-quarters of the revenue in for the current fiscal year, Mr. Stevens pointed out that the "investable" balance dropped from \$321 million to \$314 million from the second to the third quarter. Mr. Stevens reported that the Treasurer's Office believes the data may not be completely accurate as a result of converting to a new accounting system. However, \$4.4 million in interest income is reported as accurate. The Fiscal Division has projected an average "investable" balance over the fiscal year of \$371.5 million with an average interest rate of 5.8 percent, which would result in \$21,547,000 of interest income for Fiscal Year 1999. In each year of the biennium, the Fiscal Division has projected \$378.5 million in "investable" balance, the same figure used in December. Reporting that the average interest rate has increased slightly, Mr. Stevens said the Fiscal Division reviewed WEFA's projections for the 90-day T-Bill rate and increased them by .75 percent in each year of the biennium. An additional change is as a result of S.B. 218 from the 1997 Session that provides \$2 million in interest income to be placed in the Disaster Relief Fund, and, therefore, a \$2 million reduction has been made in for the Fiscal Division's projection. The Fiscal Division's projections for interest income is \$17,682,000 for Fiscal Year 2000 and \$18,061,000 for Fiscal Year 2001.

John E. Adkins

Mr. Adkins, Chief Deputy State Treasurer identified himself for the record and distributed a document detailing the Treasurer's Office revenue projection for the 2000-2001 biennium (Exhibit J).

Mr. Adkins reported the only change in the Treasurer's projections relative to their previous projection in December is for Fiscal Year 1999. As commented on earlier by Mr. Stevens, Mr. Adkins reported that the "investable" balance of \$314 million for the third quarter is not accurate. Mr. Adkins added that the asset bases for Fiscal Year 2000-2001 would remain at those higher levels rather than at the lower levels. Mr. Adkins indicated the possibility that the "investable" balance is an anomaly because it was reported by the Controller that the cash balance in the general fund was low after payments had been made. Addressing the projections for the two out years, Mr. Adkins reported no changes and that the projection for Fiscal Year 2000 would remain at \$17,056,000 and the projection for Fiscal Year 2001 would remain at \$17,625,000.

Mr. Fisher expressed surprise at seeing a drop in the interest rate rather than a projection for an increase.

Mr. Adkins explained that the Treasurer's Office uses the "Fed Funds interest rate" which has been at 5 percent and is projected to remain at 5 percent during Fiscal Year 2001. Continuing, Mr. Adkins indicated that the Fed Funds interest rate differs from the 30-day Treasury bill, and while the T-bill interest rate may go up slightly, it would still be less than the 5 percent used by the Treasurer's Office. Mr. Adkins pointed out that the Treasurer's Office uses the Fed Funds rate as a base from which is calculated the lag in revenues received by quarter and into which is factored the 60, 90 or 120 days maturities of their portfolio.

**MR. SEEVERS MOVED TO APPROVE THE TREASURER'S PROJECTIONS OF \$22,708,000 OR -14.9 PERCENT FOR FISCAL YEAR 1999; \$17,056,000 OR -24.9 PERCENT FOR FISCAL YEAR 2000 AND \$17,625,000 OR 3.3 PERCENT FOR FISCAL YEAR 2001. MR. MORGAN SECONDED THE MOTION.**

During discussion on the motion, Mr. Seevers expressed concern that the Treasurer's projections appeared too conservative.

**THE MOTION ON THE FLOOR WAS UNANIMOUSLY APPROVED.**

The Chairman turned the floor over to Mr. Miles for a report on the small revenue sources.

Dan Miles

Mr. Miles identified himself for the record and reported that the forecasters contacted state agencies that report revenue sources to determine whether any of them wanted to change their forecasts. Representatives who wanted to change their forecasts responded and the analysts from both the Budget Division and the Fiscal Division met to review the projections. For the most part, Mr. Miles reported that the projections are the actual forecasts of the collecting agencies or forecasts approved by the members of the Forum during the December meeting.

Mr. Miles reported that the small revenues for Fiscal Year 1998 totaled \$72.1 million or about 5.1 percent of the total general fund actual collection. Concerning two revenue sources that do not appear on the list, Mr. Miles pointed out that two counties now have an additional optional .25 percent sales tax from which the state receives 1 percent of the collection of administrative charge. The administrative charge will decrease to .50 percent effective July 1 unless other legislation is approved. Mr. Miles advised the members of the Forum it is intended that the administrative charges be included on the first page of the yellow sheets listed under Sales and Use Tax (the last item, the State Share (local option taxes). Based on the Forum's December projections, approximately \$150,000 for the current year and \$325,000 for Fiscal Year 2000 and \$346,000 in Fiscal Year 2001 in additional funds would be collected by the state.

Recalling that Mr. Miles had indicated the total of all the minor revenues in the original projection for the current fiscal year is \$72 million; Mr. Morgan requested the dollar total including the changes.

Mr. Miles responded that the dollar total as projected by the Fiscal and Budget Division staff for Fiscal Year 1999 dropped to \$71.7 million or under a 5 percent change. The total dollar amount projected for Fiscal Year 2000 is \$78.3 million and for Fiscal Year 2001 is \$82.6 million.

Mr. Morgan questioned whether any of the revenue sources were large enough to warrant reviewing specifically or whether there were any changes in the underlying assumptions in arriving at the estimated revenue.

Turning to page 5 of the yellow sheets (Exhibit D), Mr. Miles pointed out that the revenue for short-term car lease is a 6 percent tax. At the December meeting, the Economic Forum forecast the revenue for short-term car lease at 8 percent growth for Fiscal Year 1999, Fiscal Year 2000 and Fiscal Year 2001. Noting that short-term car lease tax is a calendar year tax and comes in after the end of the calendar year, Mr. Miles pointed out that the agency estimate for Fiscal Year 1999 was \$7,959,000 or 2.4 percent growth which has been reflected as an actual in Fiscal Year 1999, and a growth rate of 2.5 percent per year is projected for the next two years. The Budget Division and Fiscal Division met and determined that the original growth rate of 8 percent was more realistic. Mr. Miles explained that air traffic at McCarran Airport in Las Vegas drives the car lease tax and in calendar year 1998, air traffic was off several percent from the year before, and as a result, there was a low growth rate. Since December, Mr. Miles reported that air traffic at McCarran specifically has rebounded averaging about 8.5 percent for the last four months. While the original forecast of 8 percent growth appears realistic; Mr. Miles advised it is recommended dropping growth to about 6 percent in Fiscal Year 2001 taking into consideration the question of whether repeat customers are going to travel to Las Vegas in as great a numbers as in the past.

In response to an additional question from Mr. Morgan, Mr. Miles clarified that actual collections in Fiscal Year 1998 were \$72.5 million and the revised recommendation for Fiscal Year 1999 is currently \$71.7 million. It was Mr. Miles opinion that the current forecast was slightly lower than the Forum had forecast at the previous meeting in December.

Mr. Miles reminded the members of the Forum that in Fiscal Year 1998, GSB 22, which was discussed earlier by Lynne Knack, provided a 13<sup>th</sup> month for cigarette and liquor taxes and other tobacco taxes which would



have made the 1998 collections slightly higher than normally expected.

**MR. SEEVERS MOVED TO APPROVE THE RECOMMENDATIONS FOR THE MINOR REVENUE SOURCES, AS PRESENTED BY MR. MILES, IN THE AMOUNT OF \$71.7 MILLION FOR FISCAL YEAR 1999; \$78.3 MILLION FOR FISCAL YEAR 2000 AND \$82.6 MILLION FOR FISCAL YEAR 2001. THE MOTION WAS SECONDED BY MS. RADUNZ.**

During discussion on the motion, Mr. Morgan asked Mr. Miles whether the recommendations for the minor revenue sources were up or down from the Forum's forecast in December.

Mr. Miles responded that the projections were probably slightly below the December figures. Several other minor revenue sources with lower projections were discussed by Mr. Miles who reported child support enforcement revenue is being recorded by the Budget Office this year as a reversion rather than a revenue item. However, child support enforcement is shown as a revenue in the two out years. Mr. Miles also discussed some one-time collections, such as certain fines that occurred in Fiscal Year 1998 that are not being projected to continue because they were of a one-time nature.

**THE MOTION ON THE FLOOR WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.**

At 2:20 p.m., the Chairman announced that the meeting of the Forum would be in recess until 2:35 p.m. while staff prepared the final report for the May 1999 General Fund Revenue Estimates.

**\*IV. APPROVAL OF MAY 1, 1999, REVENUE FORECAST REPORT**

The Chairman reconvened the meeting at 2:35 p.m. and announced that the members of the Forum had reviewed the numbers on the final report (Exhibit K) and all were in agreement that the projections were correct.

Concerning the draft report, Mr. Miles advised that the first page would be redrafted to show the Forum's projections.

Mr. Greathouse advised Mr. Miles there was a suggestion by the members of the Forum to change the paragraph in the report that discusses increases and expand it by several sentences to include the total dollar amount of the revenue being projected.

**VI. PUBLIC COMMENT**

There was no public comment.

**VII. ADJOURNMENT**

The Chairman extended his appreciation to the members of the Forum for their work as well as to the staff and the agencies who participated in the process.

There being no further business before the State of Nevada Economic Forum, the meeting was adjourned at 3:05 p.m.

Respectfully submitted,

Connie Davis, Secretary  
Fiscal Analysis Division

Approved

\_\_\_\_\_  
Steve Greathouse, Chairman  
The State of Nevada Economic Forum

\_\_\_\_\_  
Date