

MINUTES OF THE MEETING OF
THE STATE OF NEVADA ECONOMIC FORUM
September 13, 2000 – 10:00 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 10:00 a.m., Wednesday, September 13, 2000, in Carson City, at the Legislative Building, Room 4100.

ECONOMIC FORUM MEMBERS PRESENT:

Steve Greathouse
Leo V. Seevers
Cary Fisher
David J. Morgan
Ronald Zideck

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
Frank Streshley, Gaming Control Board
Dan Miles, Vice-Chancellor of Finance, UCCSN
Bob Gagnier, State of Nevada Employees Association
Al Bellister, Nevada State Education Association
Jim Parry, Carson City School District
Mary Piercynski, Carson City School District
Ted A. Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division.
Mark Stevens, Fiscal Analyst, Fiscal Analysis Division
Gary Ghiggeri, Fiscal Analyst, Fiscal Analysis Division
Russell Guindon, Deputy Fiscal Analyst, Fiscal Analysis Division
Joi Davis, Secretary, Fiscal Analysis Division

EXHIBITS

- Exhibit A - Meeting Notice and Agenda
- Exhibit B - Attendance Roster
- Exhibit C - September 13, 2000, Meeting Packet
- Exhibit D - Department of Administration, Budget Division, General Fund Forecast
Methodologies – September 2000
- Exhibit E - State of Nevada Gaming Control Board, Fiscal Years 1999 and 2000

Gaming Activity

DUE TO SIZE, THE EXHIBITS ARE NOT ATTACHED TO THESE MINUTES, HOWEVER EXHIBITS MAY BE REVIEWED AT THE FISCAL ANALYSIS DIVISION OR RESEARCH DIVISION LIBRARY OF THE LEGISLATIVE COUNSEL BUREAU, CARSON CITY, NEVADA, UPON REQUEST.

I. ROLL CALL

Former Chairman Steve Greathouse called the meeting of the State of Nevada Economic Forum to order at 10:00 a.m., will all members present.

II. APPROVAL OF THE MINUTES FROM THE APRIL 29, 1999, MEETING OF THE ECONOMIC FORUM

MR. MORGAN MOVED TO APPROVE THE APRIL 29, 1999, MEETING MINUTES AS PRINTED. MR. SEEVERS SECONDED THE MOTION, WHICH WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.

III. ELECTION OF A CHAIRPERSON AND VICE-CHAIRPERSON

MR. MORGAN MOVED TO ELECT LEO SEEVERS AS CHAIRMAN TO THE ECONOMIC FORUM. MR. FISHER SECONDED THE MOTION, WHICH WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.

MR. MORGAN MOVED TO ELECT CARY FISHER AS VICE-CHAIRMAN TO THE ECONOMIC FORUM. MR. ZIDECK SECONDED THE MOTION, WHICH WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.

The Forum took a few minutes to rearrange seating to accommodate the new chairman and vice-chairman. Chairman Seevers thanked the Forum for the honor of serving as Chairman and moved to the next agenda item.

IV. DISCUSSION AND RECOMMENDATION REGARDING THE ECONOMIC FORUM'S USE OF A PRIVATE FORECAST SERVICE

Russell Guindon

Russell Guindon, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, stated that for the past two forecast cycles, 1996-97 and 1998-99, the Forum has utilized a private forecast service to provide forecasts of the two largest and major revenue sources: The 2 percent State Sales Tax and the Percentage Fees collections on gross gaming revenues. In the past, the State has contracted with WEFA, a national private forecast provider, to assist with forecast activities. Generally, at the October meeting of each cycle, the Economic Forum has had a presentation from WEFA regarding the United States and regional economic outlook, as well as WEFA's forecast for State Sales Tax and Percentage Fees collections.

Currently the state does not have an active contract with WEFA for this fiscal year; however, the state continues to receive WEFA's Executive Summary, a monthly document containing economic outlooks for the United States. The Forum needs to consider whether the information provided by WEFA was useful in deciding forecasts for Sales Tax and Percentage Fees collections and, if so, if they would like to continue using a private forecast service such as WEFA or an alternative forecast service provider. Mr. Guindon pointed out that it may be difficult to contract with a new forecast

service given the time between the September meeting and the October meeting. If the Forum would like to continue using a private forecast service, then they should also decide whether the October meeting should include a presentation from that forecast service regarding global and regional economic outlooks and forecasts.

Mr. Greathouse indicated that the Forum has benefited in the past from the information provided by WEFA and he would encourage the continued use of that service for the October meeting. Mr. Seevers agreed with Mr. Greathouse, adding that the independent forecasts were important to the Forum.

Mr. Morgan asked what the cost would be to the Forum or to the State for using WEFA as a private forecast service again.

Bill Anderson, Economist, State Budget Office, replied that in the past the State has paid WEFA \$20,000 annually which was paid by the agencies using the services: 25 percent by the State Budget Office, 25 percent by the Legislative Counsel Bureau, and the remaining 50 percent by the State Housing Division. Mr. Anderson indicated it would not be a problem to complete a contract with WEFA and that could be accomplished in just a couple of days.

Mr. Seevers asked whether there would be additional costs incurred by the State or the Forum to contract with WEFA. Mr. Anderson replied that the State Budget Office has budgeted for those costs.

MR. GREATHOUSE MOVED TO APPROVE A CONTRACT WITH WEFA FOR THE OCTOBER MEETING OF THE FORUM. THE MOTION WAS SECONDED BY MR. FISHER, WHICH WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.

V. OVERVIEW OF THE STATE'S FISCAL POSITION – FY 1999-2001 BIENNIUM

Ted Zuend

Ted Zuend, Deputy Fiscal Analyst, Fiscal Analysis Division, directed the Forum to Tab 5 of the meeting packet (Exhibit C) containing several charts. The first chart showed a breakdown of General Fund revenues and the relative importance of the different revenues. He pointed out that the Sales Tax was the largest revenue source, Gaming was next, then Insurance Premium Tax, Business License Tax, then Casino Entertainment Tax. A dollar breakdown was also provided on the first page of the charts under Tab 5. Mr. Zuend reminded the Forum that the information provided was based on the Forum's prior forecast. In addition, he pointed out that the footnote allows for legislative changes so when the Forum takes action there would be time for the Legislature to approve bills to implement the necessary changes and adjustments.

Turning to the next chart, Mr. Zuend said the General Fund Appropriations chart shows how revenues are spent and reflects the legislatively approved budget for the 1999-2001 biennium. Of course, Education (K-12) received the largest share of the state's General Fund (35%), then Human Services (24.4%), the UCCSN (19.4%), and Public Safety (11.6%) encompass the largest portions of the state's budget.

The next chart showed the General Fund Balance as of July 1 of each year for the years 1991-1999. On July 1, 1999, the balance in the General Fund was \$97.4 million. The calculation has not yet been made for the July 1, 2000, balance but he expected that number would be larger than 1999 since the state has surplus revenues presently.

Mr. Zuend stated that the last chart (page 46, Exhibit C) entitled *Nevada Appropriations and Authorizations* shows the total state budget broken down by the various categories of funds. He noted that the chart was adjusted because the State Industrial Insurance System (SIIS) was included in the budget when approved, but since SIIS has now become privatized, the figures for SIIS were

removed from the chart for accuracy. Continuing, Mr. Zuend pointed out that the General Fund is the largest amount of the state's budget (39.1%), Federal Funds comprise the second largest amount (23.6%) and Other Funds (23.0%), the Highway Fund is the smallest funding category at 8.3% and the Balance Forward funds are the reserve amounts and total 6.0 percent.

VI. REPORT AND DISCUSSION OF FY 1998-99 AND FY 1999-2000 REVENUE FORECASTS AND ACTUAL COLLECTIONS

Mr. Zuend indicated that for the benefit of the one new member of the Economic Forum, Mr. Ronald Zideck, a brief overview of the major taxes would be presented.

Bill Anderson said he and Mr. Zuend would be discussing about 13 of the major revenue sources to the state. He indicated that in addition for speaking on behalf of the State Budget Office, he would also be speaking on behalf of Lynne Knack from the Department of Taxation because she was unable to be at the meeting. Mr. Anderson stated he would introduce each of the non-gaming taxes then discuss first the Forum's forecast related to what transpired in FY 1999 and FY 2000, then he would address the same matter on behalf of the Department of Taxation and the State Budget Office, and Mr. Zuend would add the perspective of the Legislative Counsel Bureau, Fiscal Analysis Division.

State Sales Tax

Bill Anderson

Mr. Anderson began speaking from page 59 of the meeting packet (Exhibit C) and stated that the category of state sales tax only deals with the 2 percent portion that flows into the state's General Fund. Mr. Anderson referenced a table which included information covering the last six meetings of the Economic Forum, back to October 1996. He looked at what was forecasted by fiscal year by each of the forecasters: Budget Office, LCB, Agencies and the Forum.

Explaining the chart, Mr. Anderson pointed out that on the top section of the table for FY 1997, the figures go back to October 1996, December 1996 and May 1997. Further down on the table, figures were provided for the actual totals for FY 1997 and the forecast errors in percentage terms are listed as well. Mr. Anderson briefly explained that the chart identified two different percentage forecast errors, an *average error* and an *average absolute error*. He explained that the average absolute error does not allow pluses or minuses to cancel out each other. For instance, a positive 2 percent error and a minus 2 percent error averages out to zero. However, in absolute terms, it would be a 2 percent error, plus or minus. Mr. Anderson pointed out that positive numbers mean that actuals came in above forecast and negative numbers mean that the actuals came in below forecast.

For FY 1999, actual Sales Tax collections were about \$566 million. The Forum's forecast at the May meeting came within 1.6 percent of that number. On average, the Forum's forecast error for FY 1999 came to approximately 0.2 percent and on average absolute terms, approximately 2.3 percent.

For FY 2000, actual Sales Tax collections were about \$598 million, subject to minor revision. The Forum forecast \$590 million at the May meeting—representing a 1.4 percent error. The Forum presented two forecasts for FY 2000: One in December and one in May to which the average error was approximately 2.2 percent.

Nevada Department of Taxation – By Bill Anderson

Mr. Anderson said the Department of Taxation had a forecast error in FY 1999 at the May meeting of about 1.3 percent for Sales Tax. Averaging the six forecasts presented by the Department of Taxation for FY 1999 dating back to October 1996, the average error was approximately 1-2 percent.

In FY 2000, the actuals came in at \$592 million—a little more than 1 percent off and on average off by approximately 3 percent.

Ted Zuend

Mr. Zuend pointed out that the Legislative Counsel Bureau (LCB) had a 3.9 percent error in the Sales Tax forecast in December 1998 and 0.3 percent in May 1999. He pointed out that all the forecasts were underestimated in FY 1999, including LCB, according to the tables provided by Bill Anderson. Mr. Zuend stated that LCB does not place much focus on the October forecast since that forecast is not certified and is merely a first glance at the forecasts.

State Budget Office – By Bill Anderson

Mr. Anderson indicated he would be discussing the Sales Tax forecasts shown in the handout he provided to the Forum entitled, *State of Nevada Department of Administration Budget Division General Fund Revenue Forecast Methodologies September 2000 (Exhibit D)*. He stated that the handout was designed as was previously done by providing the Forum with three pieces of information: 1) Background on the Revenues; 2) Budget Office Forecast Methodologies; and 3) Two or three measures of forecast accuracy. He explained that at the preliminary meeting, the Forum was most interested in the accuracy of the forecasts. Mr. Anderson indicated he would spend some time explaining to two major revenue sources: Sales Tax and Percentage Fees, and then he would move rather quickly through the other revenues.

Mr. Anderson explained that the Budget Office’s methodology was a straightforward approach. For instance, Sales Tax collections are related to employment and job trends in the state. Three different sources are used for job forecasts: 1) State Department of Employment, Training and Rehabilitation; 2) WEFA; and 3) Regional Economic Models, Inc., which act as inputs to the forecasting model.

Directing the Forum to page 3 of Exhibit D, Mr. Anderson pointed out that two different series were shown—actual tax collections and model fit. The fit was derived by running the model through, estimating the relationships between collections and jobs and then fitting those relationships back in time to see how close the calculations can be made. He reminded the Forum that these were not actual forecasts but rather were considered “backcasts” because the Budget Office takes the relationships that have been identified and then estimate collections to compare to the actual collections. Although this method was not accurate for forecasting, it showed them whether or not their model was heading in the right direction.

Mr. Anderson directed the Forum to pages 4 and 5 of his handout (Exhibit D) for actual forecasting. He pointed out that the table on page 4 represented a “rolling, in-sample forecast exercise” that was updated every quarter. Looking at the top row (1995 Second Quarter) the model goes through the second quarter of 1995 and then the Budget Office forecasts for the next eight quarters, pursuant to what has actually happened to jobs during that period and that can be compared to actual collections. That process is repeated throughout each quarter to get to the second quarter of 2000.

Mr. Anderson stated that the “total” column shows the average error for the forecast in question. More importantly, the average row at the bottom of the table provided the average forecast errors by quarter. Mr. Anderson argued that the approach used by the Budget Office was fairly accurate, based upon the described methodology.

Directing the Forum to page 5 of his handout (Exhibit D), Mr. Anderson indicated that format segregated the Budget Office’s section from the detailed section provide initially. The tables also compare the forecasts of the Budget Office that were presented to the Economic Forum. For example, looking at the forecast for FY 1999, the Budget Office was off by 1.8 percent and off by 2.2 percent for FY 2000. Mr. Anderson noted that LCB did not put much credence on the October

forecast numbers; however, the Budget Office and the Executive Branch believe those numbers are important because as soon as the Forum makes their forecasts next month, the Budget Office will work closely with the Governor to put the budget together. The Governor's office and the Budget Office are interested in the accuracy of numbers so, for historical purposes, the October numbers are very useful.

Mr. Fisher asked whether the figures on page four of Exhibit D were based on actual employment data. Mr. Anderson confirmed that was correct. He added that it was not always a one-on-one relationship between jobs and Sales Tax collections because in any given quarter there may be a one and one-half percent in jobs that may result in a one percent increase in Sales Tax collections. Sometimes it was better to have a forecast that might compensate for the fact that there is not a constant one-on-one relationship between jobs and Sales Tax.

Ted Zuend

Mr. Zuend stated the LCB used a consensus analytical approach to computing Sales Tax forecasts. Several analysts will make independent estimates of expected sales tax revenue and then meet to determine a single forecast for LCB. The methodology includes long and short-term trends in Sales Tax collection and how that relates to trends in the United States and specifically the California economy and the Nevada gaming sector. LCB also reviews the important sources of sales tax revenue, including construction, eating and drinking establishments, motor vehicle sales, etc. In addition, LCB will make adjustments when necessary for certain events such as the building of a major new property because that would affect the trend.

Mr. Zuend informed the Forum that the Fiscal Division was in the process of creating a database of historical sales tax information. However, the electronic efficiency of producing sales tax data has not been optimal and there have been problems extracting data electronically. The information, once accessible, is broken down by Standard Industrial Classification Code (SIC) and will provide historical data in a format that can be used to compare when new casinos are opened and how much that impacted the overall sales tax efforts.

Mr. Zuend pointed out that when the forecasts were presented, the LCB used a form of the autoregressive moving average model and then the number the analysts agree upon is used in the model to produce numbers. Those numbers are not targeted because it was dependent on the current status. For example, if there was a 5 percent trend growth, depending on whether the state was at a high or low point in the cycle, that 5 percent trend growth will affect the numbers that are forecast for the next two years.

Insurance Premium Tax

Bill Anderson

Mr. Anderson directed the Forum to pages 63-64 of the meeting packet (Exhibit C). He stated that the Insurance Premium Tax was a 3.5 percent tax levied against net direct insurance premiums written in the state. There were other minor components but the 3.5 percent tax was the major source. The Insurance Premium Tax is collected on a quarterly basis, is due at the end of the month following a quarter and is collected on a current activity basis.

Mr. Anderson reported that in FY 1999, the Forum had a zero percent forecast error at the May 1999 meeting. There was a 2.9 percent error for the entire year—five forecasts over the course of six meetings.

In FY 2000, the Forum forecast was at \$123 million when actual collections were \$129.3 million—about a 6.6 percent error. As to the Forum's forecast and the Budget Office's forecast and probably

the LCB and the agency forecasts, Mr. Anderson asserted that there was an issue dealing with the impact of privatizing the State Industrial Insurance Systems (SIIS) and how that would affect the collection of Insurance Premium Taxes. It was evident that nobody had a good concept of that impact and it turned out that in FY 2000, there was approximately \$4.5 million in collections from industrial insurance policies once the system was privatized and the state levied taxes against those premiums. Therefore, on the old formula, the number came in at \$125 million and that number should be used when comparing forecasts.

Bill Anderson – for the Department of Taxation

Mr. Anderson stated that the Department of Taxation’s forecast error for Insurance Premium Tax was 0.3 percent in FY 1999 and 5.7 percent in FY 2000. The averages are also listed on the chart for those two fiscal years and over time for the Department of Taxation.

Ted Zuend

Mr. Zuend directed the Forum to page 55 of the meeting packet (Exhibit C). He indicated that the Fiscal Division of the Legislative Counsel Bureau (LCB) has used linear and weighted estimates of the trends of Insurance Premium Tax revenues for the past four years as a base while making adjustments for one-time tax payments or refunds that might affect the figures. Then, the LCB uses the average that produces the most appropriate growth rate relative to expected insurance market conditions which are applied to the base year revenue figures. The preliminary forecasts are then adjusted for those one-time occurrences when identified. In recent years, there has been some discussion on how the Fiscal Division has presented forecast numbers.

Mr. Zuend stated that every agency has had problems forecasting due to changes or prospective changes in the schedules. He reminded the Forum that the 1997 Legislature eliminated the “pre-payment” that would have been a one-time revenue source. At the same time, the insurance division went to a system of collections based on current premiums written. Those changes resulted in extra revenues for the State.

Turning to the table on page 55 (Exhibit C), Mr. Zuend pointed out that there was a fairly substantial error for FY 1998-99. He explained that at that time the Fiscal Division was concerned with the schedule change and the transitions in the industry occurring at that time. The Fiscal Division was more accurate in its forecast of the Insurance Premium Tax in FY 1999-2000.

Bill Anderson – Budget Office

Mr. Anderson said the Budget Office treats an insurance policy like any other good or service—more income equals more insurance policies. Likewise, prices of policies will rise along with inflation and that was considered when forecasting the Insurance Premium Tax revenue source. He stated that the Budget Office has found there is a stable relationship between insurance premium tax collections adjusted for inflation and personal income in the State. Therefore, if there is an understanding of what is occurring on the income side, a good forecast can be made. Mr. Anderson stated that in order to have confidence in the Budget Division’s forecast for Insurance Premium Tax, there must be confidence in how they forecast personal income. He directed the Forum to page 11 of the Budget Division’s handout (Exhibit D) and stated that the personal income forecasts are driven by the jobs forecasts and that results in a good forecast. On page 12, the “rolling forecast scenarios” also reflect a fairly good result when it comes to personal income. Mr. Anderson opined that Budget Office was doing a good job of forecasting what ultimately drives the collections forecast for Insurance Premium Tax.

Mr. Anderson reiterated that there is a close relationship between income and collections and that was shown on the chart on page 13 of his handout. On a rather consistent basis, it would appear that

collections tend to grow at approximately 1 percent less than personal income growth. As can be seen on page 14, an accurate forecast was made. Mr. Anderson stated that the way the Insurance Premium Tax has been levied has resulted in several changes over time so the Budget Office has recapitulated those changes in order to compare the figures historically. On page 15, the Budget Office presents forecast results on an annual basis over time. For instance, in FY 1999, the Budget Office reported a 2.7 percent average error. In FY 2000, their average error was 7.5 percent.

Mr. Anderson concluded that the Budget Office was comfortable with the methodology they used for determining Insurance Premium Tax forecasts and would be using that format during the next several meetings when forecasts were presented to the Forum.

Business License Tax

Bill Anderson

Mr. Anderson stated that information relating to the Business License Tax was located at pages 65-66 of the meeting packet (Exhibit C). He indicated that the Business License Tax was easy to understand. The Forum's forecast in this category was -0.4 percent error at the May 1999 meeting for FY 1999 and actual collections came in at \$71.7 million while the Forum came in at a little over \$72 million. In FY 2000 the Forum had a 0.4 error for Business License Tax.

Mr. Anderson stated that the Department of Taxation did a good job of forecasting in the area of Business License Tax, with just a 1 percent or below error range. On average, their forecast for FY 2000 came in below 1 percent.

Ted Zuend

Mr. Zuend stated that the Fiscal Division relied primarily on employment forecasts produced by the Bureau of Research and Analysis in the State Department of Employment Training and Rehabilitation. He explained that government employees are removed from the forecast because government employees are not taxable. Further, adjustments are made where necessary to reflect the timing of substantial hiring activities such as the opening of a major casino property resulting in 2500 new jobs.

Speaking from page 55 of the meeting packet (Exhibit C), Mr. Zuend said that for the Business License Tax forecast for FY 1998-99 the Fiscal Division miscalculated by a small margin. He reminded the Forum that at the time of that forecast, one quarter of the information needed to forecast was missing. During the out-year when there was no data available, the Fiscal Division was only 1 percent off on its forecast, which was comparable to the Budget Division and Agencies. The Economic Forum had the best forecast by maintaining its original forecast.

Bill Anderson – Budget Office

Mr. Anderson stated that the methodology used by the Budget Office involved the use of job forecasts to see what Business License Tax collections will be. There is one technical difference between the forecast made by the Budget Office and the Fiscal Division: The Budget Office utilizes total job forecasts even though public sector jobs are not part of the tax base. Directing the Forum to page 17 of his handout (Exhibit D), Mr. Anderson stated that by using the total job forecasts, he believes a consistent collections rate of \$18.90 per job is achieved, instead of the \$25 levied against the private sector so that is what the Budget Office used.

Historically, Mr. Anderson opined that the Budget Office has had a "close fit" using the above-described approach. Looking at the rolling forecast exercise at page 19, errors are noted at 1 percent or less. On page 20 of his handout, Mr. Anderson pointed out that the Budget Office been close in its forecasting of the Business License Tax. Reviewing the last six meetings, Mr. Anderson noted that at

the May 1999 meeting the Budget Office forecast was off by 1.5 percent, and for the entire year the average error was 0.8 percent. Mr. Anderson concluded that the Budget Office would be able to provide accurate forecasts in the area of Business License Tax.

Cigarette Tax

Continuing with the next non-gaming revenue, Mr. Anderson stated information on the Cigarette Tax began on page 69 of the packet (Exhibit C). He reminded the Forum that the forecasts only include the General Fund portion of the tax—a \$0.35 tax rate per pack of 20 cigarettes with \$0.10 of that amount distributed to local government so only \$0.25 goes to the General Fund.

Mr. Anderson stated that in FY 1999 the Forum forecast for Cigarette Tax was \$41.4 million and actual collections came in at \$42 million, resulting in a 1.7 percent forecast error. There was a 1.3 percent forecast error for FY 2000 with the Forum forecasting at almost \$42.8 million when the actual was \$42.2 million. Looking at the forecasts over time, the Forum was consistently within 2-3 percentage points of actual collections.

Mr. Anderson noted that the Department of Taxation had an accurate forecast in FY 1999 and were only off by 0.5 percent. The forecast error increased slightly in FY 2000 where they were off by 5 percent as of the May 1999 meeting.

Ted Zuend

Mr. Zuend stated the Fiscal Division methodology for Cigarette Tax forecast includes linear and weighted average estimates of the trends in Cigarette Tax revenue for the past four years or more. Consideration is also given to the economic outlook and tax rates in bordering states to come up with an average because if the taxes on cigarettes in California and Arizona rise, the numbers in Nevada will increase.

Turning to the chart on page 55 of Exhibit C, Mr. Zuend pointed out that the Fiscal Division's forecast came in lower than the amount of collections in FY 1998-99 but a more accurate forecast can be seen in FY 1999-2000. Mr. Zuend said that the Cigarette Tax was not a difficult tax to forecast. The Fiscal Division was more conservative in its forecast in FY 1999-2000 because of the results of the tobacco settlement which produced a huge increase in the price of cigarettes which thereafter diminished demand for the product.

Bill Anderson – Budget Office

Mr. Anderson stated that Budget Office has identified a per-package rate of \$0.24 General Fund tax collection from Cigarette Taxes. Although he indicated earlier that there was \$0.25 going to the General Fund, he recollected that the Department of Taxation has indicated that if taxes are submitted prior to the due date, there was a slight discount. Turning to page 26 of his handout (Exhibit D), Mr. Anderson said that in consideration of the discount, on average, it works out to about a \$0.24 collection rate for cigarette taxes into the General Fund. He stated that the Budget Office needed to get a handle on trends in packages sold and subject to the cigarette tax. That trend has been consistently upward since 1992 with some stabilizing over the past three to four quarters.

Mr. Anderson pointed out that on page 27 of his handout, it is evident that other factors can affect the trend. For example, in 1997 there was some "stock-piling" on the part of sellers but except for that brief period of time, the pluses and minuses average out. Other than that time frame, there appears to be a stable \$0.24 collections rate. So, when that is applied to actual packages sold, a good forecast can be made. Mr. Anderson said that page 29 of his handout shows the results of the forecasts that

were presented by the Budget Office to the Forum since October 1996 and for the most part, the range has been acceptable and in the low single digits.

Mr. Zuend

Mr. Zuend added that the reason for the \$0.24 tax rate instead of \$0.25 was because when the wholesaler placed the stamps on the cigarettes, he was allowed to retain 3 percent of the tax for the cost of doing the stamps, and that came close to the \$0.01 referred to by Mr. Anderson.

Liquor Tax

Bill Anderson

Mr. Anderson stated that the Liquor Tax rates are shown on page 75 of the meeting packet (Exhibit C). He pointed out that the rates differ between beer and liquor and the amount of alcohol in the liquor. The table shown at page 75 indicates those rates vary from \$0.09 to \$2.05.

Looking at forecasts for Liquor Tax, Mr. Anderson pointed out that results only go back as far as FY 1999 because prior to that, the Agency forecast was used but now everyone forecasts this revenue. The Forum had a 3.9 percent forecast error in FY 1999 and everyone underestimated in FY 2000 since actual collections came in at \$15.6 million. The forecast ranges for the Fiscal Division, Budget Office and the Department of Taxation was about \$14.5 million. From the perspective of the Forum, that equates to an 8.5 percent error.

Ted Zuend

The methodology used by the Fiscal Division to calculate the Liquor Tax is similar to the methodology used for the cigarette tax revenues, except linear and weighted average estimates of the trends of the Liquor Tax revenue and the four components of the Liquor Tax are used. Essentially, there are different tax rates for different types of alcohol and those are not equivalent on a per-drink basis so the Fiscal Division takes into account the shifting from hard liquor to beer or wine to see if there is a noticeable trend that may affect the figures. Also, the Fiscal Division takes into consideration when there is a new casino opening because that property has to stock all its bars and that creates a large one-time purchase of alcohol. Mr. Zuend noted that the forecast for the Fiscal Division for FY 1999-2000 was \$1 million off so apparently the new casinos purchased more liquor, which may be due to the increase in visitor volume.

Mr. Zuend stated that in checking with the Las Vegas Convention Center and Visitor's Bureau, there was an 8.9 percent increase in visitor volume last year and approximately a 7 percent increase for the first six months of this year. Since nobody anticipated that much of an increase in visitor volume, the effect on the revenue for Liquor Tax was unexpected.

Bill Anderson – Budget Office

Mr. Anderson stated the approach used by the Budget Office for Liquor Tax was outlined at page 37 of his handout and was identical to the format used for cigarette tax. Looking closely at page 38, it can be seen that growth increased in the past few quarters. Mr. Anderson said the Budget Office does not differentiate between types of alcohol (i.e., wine versus hard liquor) or the amount of alcohol in a certain type of alcohol. The Budget Office ends up with a \$0.21 per gallon collections rate. Although there is some cyclical behavior to reaching that number, over time the average is \$0.21 per gallon and that number is applied to the total number of gallons sold rather than differentiating between the types of liquor and beer sold.

Mr. Anderson indicated that on page 40 of his handout (Exhibit D), a review of the Liquor Tax

forecasts for the Budget Office have been fairly accurate, but not as good as the computations for cigarette tax. He agreed with Mr. Zuend that collections have been coming in at considerably higher rates than what was anticipated.

Net Proceeds of Mines

Mr. Anderson

Mr. Anderson stated that the Net Proceeds of Mines Tax varied between 2 percent and 5 percent. The Budget Office defers to the Department of Taxation since they have the expertise in this revenue source and it appears that the Fiscal Division is doing the same.

Mr. Anderson directed the Forum to pages 77-78 of the meeting packet (Exhibit C) and indicated that the forecast came in at a 3.6 percent error for FY 1999. At the May 1999 meeting, the Forum forecasted about \$15.4 million when the actual collection was \$14.8 million. During FY 2000, the Forum forecast \$14.5 million and the actual collection was \$14.4 million.

Ted Zuend

Mr. Zuend said the Fiscal Division reviews the numbers provided by the Department of Taxation and they accept their information on gold prices and production and the State's share of the tax rate. Mr. Zuend opined that the Net Proceeds of Mine Tax was somewhat awkward because it was predicated, to some extent, on what type of local property tax rates were levied in the counties that produced gold or other minerals. Therefore, if the tax in Eureka County went from 1.5 percent to 2 percent per year, the State's share goes down from 3.5 percent to 3 percent per year.

Continuing, Mr. Zuend indicated that the numbers are accepted as provided by the Department of Taxation and then the Fiscal Division attempts to determine how changes in the price of gold could affect the amount of net proceeds and the revenue is driven accordingly. Then, that number is compared to the number provided by the Department of Taxation. If the numbers do not vary much, the Fiscal Division will side with the Department of Taxation.

Mr. Zideck asked Mr. Anderson about the schedules provided in his handout (Exhibit D) that show the forecasts for each group, including the percentage of error, whether any records or analysis was maintained regarding the type of major errors that occur.

In response, Mr. Anderson stated that the only revenue source he believed the Budget Office owed an explanation to the Forum was the Gaming Revenue Percentage Fee Tax. He explained that he would be providing the Forum with information regarding why the Budget Office was off, and what changes have been made to assure that such an error does not occur again when the Forum discusses gaming revenues. Mr. Anderson stated the Budget Office continuously updates their analysis on a quarterly basis so they can readily see if changes are present and if the accuracy of their model was improving or getting worse. On the non-gaming revenue sources, Mr. Anderson stated that those forecast errors were in the low, single digits so they are pleased with those forecasts.

Mr. Zuend responded that the Fiscal Division has a table on projections that goes back to 1996 regarding the major revenue sources so they can look at the errors that have been made over time. He said it is uncertain whether the errors correlate to anything other than unforeseeable trends or errors like the one everyone made in Gaming Percentage Fees since in that instance nobody anticipated that visitor volume was going to increase so much. Despite the addition of 15,000 rooms on the Las Vegas Strip in 1999 and another 4,000 rooms in 2000, the visitor volume has continued to increase. In other words, before those casinos were built there was an 88 percent occupancy rate and now after all the new openings, the occupancy rate has increased to 91 percent and that was very difficult to anticipate.

Gaming Revenues

Frank Streshley

Mr. Streshley, Senior Gaming Analyst, Nevada State Gaming Control Board (Board), provided the Forum with charts (Exhibit E). He stated that the Board's forecasts were based on estimating wagering activity and the whole percentages for that activity, as well as the effects of new capacity that will be added to the base. Historical trends are used to analyze the data and develop the forecast. Slot wins, game and table wins are estimated separately.

Percentage Fees

Mr. Streshley stated that the Percentage Fees Taxes are based upon a non-restricted licensee's monthly taxable revenue. The first \$50,000 of taxable revenue is taxed at 3 percent, the next \$84,000 is taxed at 4 percent, and anything over \$134,000 is taxed at 6.25 percent.

Mr. Streshley indicated that the Percentage Fee Tax payment each month was actually an estimated pre-payment for three months in advance. Each month an adjustment is made to that month's liability based upon what was paid three months prior so either a credit or an additional payment is due each month.

Directing the Forum to his first chart (Exhibit E), Mr. Streshley stated that each month the Board reports gaming win and taxable win. He explained that the difference between gaming win and taxable win dealt with credit play in that gaming win includes all wagering activity (cash, chips & wagering activity through the issuance of credit). Wagering activity through the issuance of credit does not become taxable until it is paid off. Mr. Streshley indicated that most of his discussion to the Forum would relate to gaming win. However, before moving in that direction, he provided the Forum with some historical background on what has transpired over the past ten years and how that has affected the Board's forecast.

Mr. Streshley informed the Forum that there have been four major expansions in the gaming industry beginning with the opening of the Mirage and the Excalibur during 1990 and 1991. That expansion added approximately 7,000 rooms, 5,000 slot machines and 223 games. Gaming win in FY 1991 increased 11.1 percent. The next expansion occurred in 1994 with the opening of the MGM, the Luxor and Treasure Island, which together added approximately 10,000 rooms, 8,300 slot machines and 336 games. Gaming win that year increased 10.1 percent. The next expansion occurred in FY 1997 with the opening of the Monte Carlo, the Orleans, New York, New York, along with major expansions to the Luxor, Circus-Circus and the Rio. There were approximately 9,000 rooms, 8,000 slot machines and 300 games added in that year resulting in a flat gaming win for FY 1997 and a modest increase of .07 percent.

Mr. Streshley said the last expansion occurred in FY 1999 with the opening of the Bellagio in October 1998 and in FY 2000, the opening of the Mandalay Bay, Venetian and Paris. This expansion added approximately 13,000 rooms, 10,000 slot machines and 400 additional games. Gaming win increased 7.1 percent in FY 1999 and in FY 2000 there was an 11.5 percent increase.

Moving to the actual collections of Percentage Fees, Mr. Streshley advised that \$496.5 million was collected in FY 1999. This was .10 less than the Forum's forecast and .23 percent more than the Board's forecast. For FY 2000, Percentage Fees collected were \$560.2 million, which included an additional \$11.4 million in the estimated fee adjustment. Total Percentage Fees collected were 7.4 percent more than the Forum's forecast and 6.4 percent more than the Board's forecast. The Board had projected statewide percentage fees collections in FY 2000 would increase by 5.8 percent.

Mr. Streshley said the Board believed several factors contributed to the underestimating of the gaming activity in FY 2000. First, they underestimated the impact the new properties would have on the total market. In developing their forecast, the Board was cautious that gaming might level out because of the rate of increase seen in FY 1999 with the addition of the Bellagio. It was also difficult to predict the impact of additional capacity when adding so many new units and the Board put too much concern into what happened in FY 1997. He explained that the expansion in 1997 added a similar number of units as in FY 1999 but in 1997 it came at .07 percent. During the current expansion, the market not only absorbed the new units but also increased with those new units. Also, the Board's forecast is based upon a wagering activity per unit. In prior years, the level of wagering activity has only increased modestly with the increase in gaming win coming from additional units.

Mr. Streshley continued with his presentation by turning to the next chart (Exhibit E):

Estimated Fee Adjustments – Mr. Streshley stated that for FY 2000, the Board forecast the Estimated Fee Adjustment at approximately \$3.7 million based upon the 5.8 percent growth. However, the actual fee adjustment was \$11.4 million, which is attributable to the increased growth and higher taxable gaming win.

Slot Win Growth Rate – Mr. Streshley stated that based upon historical trends and new capacity, the Board estimated that in FY 2000 slot win would increase by 6.2 percent; however, it actually increased at 10.1 percent. He pointed out that the chart showed that this was the first double-digit increase since FY 1991. Win per slot grew at approximately 5.8 percent with a ten year average for win per slot at 2.9 percent—almost double.

Nickel, Quarter & Dollar Win Growth Rate – Mr. Streshley indicated this chart breaks down the major components of slot win. The chart shows that the largest increase in slot win was from nickel machines with an increase of 36.3 percent in FY 2000, after increasing 37.9 percent in FY 1999. Slot win has grown an average of 15.1 percent over the last ten years. Nickel slot win now accounts for 21.8 percent of total slot win compared to 11.5 percent in 1990. The win from quarter machines only increased 1.3 percent in FY 2000 and the win from dollar machines grew only slightly higher at 4.9 percent.

Slot Count Growth Rate – This chart breaks down the nickel, dollar and quarter growth rates since 1990. Mr. Streshley stated that part of the growth seen in the nickel machines was due to licensees changing the mix of machines which was due to the popularity of multi-coin, multi-hand, and multi-line machines. He commented that he recently saw a nickel poker machine that allowed the player to play 50 poker hands per play and five coins per hand. Such a device has turned this nickel player into a dollar player.

Slot Hold Percentage – Mr. Streshley said the next chart, Slot Hold Percentage, contributed to the slot win. This has reversed the trend that was constant since the early 1990's. The change in the mix of machines has reversed a declining trend in the slot hold percentage. From the early 1990's until recently, the popularity of dollar and quarter poker machines had continually pushed down the hold percentages because those machines made up more of the casino floor. Now, however, with the change in mixed nickel machines that historically have a higher hold percentage, the trend is reversing and going higher. Mr. Streshley said it was in this area that the Board erred in its forecast because they kept the hold percentages flat without increases.

Games & Tables Win Growth Rate – This next chart shows the games and tables increase of 13.4 percent in FY 2000. Mr. Streshley stated that this was the highest growth rate observed in the last ten years with only FY 1994 being higher at 13.5 percent. The average growth rate for the last ten years for growth in games and tables was approximately 5.2 percent. The Board estimated an increase in games and tables win at 5.9 percent in FY 2000 due to the trends in the mid-90's where tables games growth was either declining or flat. The Board thought there would be some growth considering the

new properties, but did not anticipate anything near the 13 percent increase that occurred.

Games Win Growth Rate – Mr. Streshley explained that the next chart shows some of the major components of specific games. Baccarat which was down or flat since FY 1995, increased by 15.7 percent to \$585 million in FY 2000. The Board estimated an increase in Baccarat win in FY 2000 to be approximately 4.2 percent. Wins from Twenty-One increased to 9.8 percent in FY 2000 after increasing 8.1 the prior year—both of which are far above the ten-year average of 3 percent. In Craps, an increase of 17.9 percent in FY 2000 was seen, representing the strongest growth observed in the past ten years for that game, which previously had an average ten-year growth rate of 3 percent. In Roulette, a 17.3 percent increase was seen in FY 2000, also the strongest growth for that game and above its average ten-year growth rate of 9.2 percent.

Pit Credit Issues – Mr. Streshley stated that the chart shows a large increase in pit credit issues in FY 2000 after being down or flat for the past several years. This fueled the growth in Baccarat and other table gains with a 20.1 percent increase for pit credit to almost \$10 billion. From discussions with some licensees, Mr. Streshley said the jump in pit credit was due to results in economic recoveries in the Asian and Latin American markets, and new domestic players.

Mr. Streshley acknowledged that the first part of his presentation has focused on the expansion of the strip properties since the strip makes up over 50 percent of all gaming win. However, even though the other markets are smaller; combined, those markets can have a material effect on the State's growth rate, which led to under-forecasting the gaming win in FY 2000. Returning to his charts, Mr. Streshley began his presentation on the markets outside the strip area.

Laughlin Gaming Win Growth Rate – Mr. Streshley indicated that the Laughlin gaming market has been declining since the mid-1990's but has since experienced the best gaining win year on record with growth at 8.7 percent. The Board forecast the gaming market in Laughlin to be flat based upon what has occurred from FY 1995-1998.

Mr. Streshley said that the Board forecast the balance of state gaming markets, excluding Clark County, at a flat 1 percent increase for FY 2000 when the actual growth was at about 7 percent. One of the markets that made up a major component of the remainder of the state is Washoe County.

Washoe County Gaming Win Growth Rate – Washoe County had also been flat or declining since 1996 but in FY 2000 a record year was reported with a 7.9 percent increase which equaled the growth rate back in 1996 when the Silver Legacy opened. However, since that time, there have been four casinos that have closed so the Board expected the market to remain flat.

Elko County Gaming Win Growth Rate – Elko County also had a record year in gaming win with an 8.3 percent increase in the market. The Board had forecast that market to be flat due to the downturn in the mining industry. The Board thought that any gains to be made in Jackpot or Wendover would be offset by the City of Elko.

Largest Gaming Markets – Mr. Streshley said the Board also under-forecast the growth of Clark County's local market. He explained that Clark County's local market comprises North Las Vegas, Boulder Strip and the balance of counties is estimated at \$1.4 billion which makes that market the 5th largest gaming market behind the Las Vegas Strip. Atlantic City, the Chicago market, and the Mississippi River counties are some of the larger gaming markets.

Mr. Streshley stated the Board had anticipated the growth in Clark County's local market between 5 and 6 percent in FY 2000 but it came in at approximately 12 percent. In summary, Mr. Streshley indicated that the state had two strong years in gaming win growth and in percentage fees with FY 2000 being one of the best years on record. In formulating the 2000 forecast, the Board did not

anticipate that the market could absorb the new growth on the strip at the rate that it did. The Board was too cautious after what occurred in FY 1997. In addition, the Board underestimated the local market growth and did not believe it would continue at the double-digit rate but it did. As to the balance of the State, the Board thought that without any new expansion, the growth in that market would remain flat, but that was not the case.

Mr. Seevers asked about the impact of Indian Gaming to the rural counties in Nevada.

Mr. Streshley replied that the Board is unclear on the status of the affect of Indian Gaming. He has attempted to get an idea of the number of machines currently in use but even with the recent meeting wherein there was a decision made about how many machines each tribe would have, nobody can answer the question: "Are there 43,000 or 115,000 slot machines?" The best example he could provide of the effect of Indian Gaming dealt with the Laughlin market, currently growing at 8 percent, where there is quite a bit of competition with the Indian casinos.

Mr. Zideck commented that with the changes that were occurring with multi-coin machines, would the Board be tracking the win from the multi-coin machines differently than the other machines.

Mr. Streshley replied that at this point the Gaming Control Board had no intention of tracking the multi-coin machines any differently. He added that each month the Board receives much information from their licensees so changing the way those machines are computed would be an additional component for the licensees and additional tracking services for the Board.

Ted Zuend

Mr. Zuend stated the Fiscal Division approaches the Percentage Fees from Gaming revenue forecast by first obtaining a consensus in the office on the outlook of gaming through several independent estimates of the trends. In addition, the Fiscal Division considers factors such as the trends in the numbers of games and slots wins, the impact of major new properties, the influence of economic trends in California and throughout the United States, including a global view of other economic factors and political factors such as the spread of Indian Gaming in California and elsewhere, the changing economic conditions in Japan and other Pacific Rim countries, and the Wall Street performance of gaming related stocks. Additionally, the Fiscal Division considers local concerns such as water shortage, traffic problems in the Las Vegas area, the lack of gaming development in northern Nevada.

Mr. Zuend stated that the Fiscal Division has noted that there has been a gradual shift in Nevada tourism preferences away from gaming and toward other forms of recreation and entertainment. Looking at the total casino income and the share attributed to gaming, there has been a general downward trend over the years which represents that people are still visiting but purchasing other things rather than gaming.

After the Fiscal Division determines the consensus figure for Percentage Fees, that number is applied to the autoregressive moving average to ensure that the number reflects what has been occurring lately as opposed to what occurred a year ago.

Turning to page 55 of the meeting packet, Exhibit C, Mr. Zuend stated that the Fiscal Division reported somewhat on the high side for FY 1998-99 and again in FY 1999-2000 but that was the closest forecast even at 6 percent off from the actual. He reiterated that nobody forecast well that year because it nobody expected that visitor volume, which increased the occupancy rate, would be so high. However, other factors brought that number up such as the improved Japanese economy.

Bill Anderson

Mr. Anderson stated that in forecasting Percentage Fees (page 6, Exhibit D), the Budget Office utilized a capacity driven model. An underlying historical trend is identified but the bulk of the change in the model is driven by expected changes in capacity. Specifically, the Budget Office forecasts win for both slot machines and games and tables and that is summed together to obtain a total win number. The Budget Office will identify relationships between the number of available rooms and the number of slot machines and the number of games and tables. After the win forecast is made, the Budget Office looks at taxable gaming revenue and applies a historical average of that figure on a quarterly basis and then they apply the average tax rate to come up with the percentage fee.

Mr. Anderson stressed that the focus of the Budget Office was solely on percentage fees collected from gross revenue. The Budget Office does not get involved in trying to forecast the estimated fee adjustment component because they do not believe an accurate forecast can be secured on that. Prior to FY 2000, the estimated fee adjustment averaged between \$-4 million to \$6 million per year, so the Budget Office does not expend many resources in attempting to find a place for the estimated fee adjustment.

Turning to page 7 of his handout (Exhibit D), Mr. Anderson opined that the Budget Division's prior forecasts have been pretty good for the most part. The results of the rolling in-sample forecast exercise is evident on page 8 of his handout which shows that the Budget Division has fairly low forecast errors. However, in looking at the top half of the table provided, many "minuses" can be seen. In other words, in the mid 1990's the Budget Office overestimated what was taking place in the gaming industry and actual collections came in less than the forecast. However, the bottom half of the table reflects many positive numbers that cancel out the errors made in other years. The Budget Office's forecast during FY 1998 and FY 1999 show single digit forecast errors and several minuses which show, again, the Budget Office overestimated. However, looking at FY 2000, the Budget Office did not factor in the recent expansions in Las Vegas and underestimated again.

Mr. Anderson reiterated that the Percentage Fee forecasting by the Budget Office was one area that he felt needed explanation. He reminded the Forum that the Budget Office uses a "capacity" driven model in calculating Percentage Fees. During all of the 1990's there was a decline in the per-room Percentage Fee Tax collections, adjusted for inflation. Then, in FY 1998-99, a total reversal occurred and the per-room percentage fee tax collections increased after seven to eight years of continuous decline. In fact, there was a 7.3 percent increase in the per-room percentage fee tax collections between 1998 and 2000. The Budget Office simply did not factor in the impact that the growth in capacity had on the structure of the gaming industry.

Mr. Anderson confessed that the Budget Office's forecast error on percentage fees was also the result of poor judgment on his part. He asserted that the minutes of the Economic Forum reflect that the Budget Office reduced the forecast it presented to the Forum by approximately 3 percent relative to what the model indicated. In other words, when the forecast was presented, the model most often was over-forecasting so that was taken into consideration and the model's forecast was reduced not knowing that the new capacity increases would substantially change the relationship, which resulted in a reduction of the forecast by approximately \$15 million in FY 2000.

The Budget Division has learned that there was a difference in the model used when the industry is expanding and when it holds steady. So, in the future, the Budget Division will need to take into consideration the fluctuations in capacity when concluding their forecasts. Mr. Anderson stated that as the Fiscal Division has indicated, the Budget Office has come to the conclusion that the industry was still vibrant—more so than everyone thought and that was why nobody computed the 10 percent growth in visitor volume.

Regarding the estimated fee adjustment, Mr. Anderson stated that after averaging in the \$-4 million to \$6 million range over the course of several years, last year the estimated fee adjustment came in at

\$11+ million so that, too, built in an \$11 million error in their forecast. The Budget Office has learned its lesson and in the future they will be taking into account the estimated fee adjustment on an average basis.

Device Taxes

Non-Restricted Slot Flat Fee

Mr. Streshley informed the Forum that the Board forecasts all device taxes the same by forecasting the growth in the base using historical trends. Then, new units are added once the Board knows when the new properties are scheduled to open if it is within the forecast period.

Mr. Streshley stated that a non-restricted licensee is required to pay a quarterly fee on the number of slot machines at the license location. The fee is \$20 per machine. Collections in FY 1999 were \$14.8 million; 1 percent less than the Forum's forecast and 0.7 percent less than the Board's forecast. Actual collections for FY 2000 came in at \$15.3 million so the Forum overestimated by 1.9 percent and the Board overestimated at 1.2 percent. Mr. Streshley indicated there was not much to discuss since the error rates were small.

Ted Zuend

Mr. Zuend stated the Fiscal Division used the same methodology as the Gaming Control Board by looking at the trends in the number of slots over the past four to five years and then made adjustments based on anticipated openings or closings of major properties. The Board always shares with the Fiscal Division the number of slots that are expected in casino openings. The Board gives the Fiscal Division their forecast before the meeting of the Forum so the Fiscal Division looks at that and if the figures are close, the Fiscal Division will adopt the Board's forecast. Mr. Zuend said that was not done in the last fiscal year because there was a differing view in the area of attrition. As a result, the Fiscal Division came up with a close estimate for FY 1998-99 and FY 1999-2000.

Bill Anderson

Mr. Anderson indicated that the Budget Office forecasts the number of Non-restricted Slot Fees based upon room capacity. Information on their methodology for computing Non-restricted Slot Tax begins on page 30 of Exhibit D. He opined that the Budget Office did a good job forecasting the number of slot devices. The Budget Office applies the \$20 tax on each device to the number of devices and the end result is the forecast. The forecast errors for the Budget Office have been reported at 1.5 percent and below.

Restricted Slot Flat Fees

Frank Streshley

Mr. Streshley stated that a restricted licensee is required to pay a quarterly fee based upon the number of machines they have. The fee is \$61 for each machine for 1-5 machines, and \$106 for 6-15 machines. In FY 1999 actual collections were \$6.2 million; 1.2 percent less than the Forum's forum and 0.7 percent less than the forecast of the Board. In FY 2000, collections were \$6.5 million, which was .03 percent less than the Forum's forecast, and .04 percent less than the Board's forecast. Mr. Streshley stated that the Board forecasts Restricted Slot Flat Fees with the base and any additional new capacity trends and that resulted in estimates within 200 machines of the forecasts for the number of units.

Ted Zuend

Mr. Zuend said the Restricted Slot Fees category was driven by growth and was reasonably stable over time. As the areas expand, obviously, the restricted slots go into more venues so the Fiscal Division looks at the most recent linear and weighted averages of those items and compares that to the Board's separate forecasts. If the figures are similar, again, the Fiscal Division will adopt the Board's forecast. The charts reveal that the Fiscal Division did adopt the Board's forecast in FY 1998-99 and FY 1999-2000. The errors are minor.

Bill Anderson

Mr. Anderson concurred with Mr. Zuend in that slot licenses are driven by growth. The Budget Office uses jobs forecasts as a measure of growth and then apply the average fee per license. Mr. Anderson stated that the Budget Office has a good handle on forecasting slots and that was evident by forecasts presented to the Forum in the past (Exhibit C, page 55) whereby the Budget Office were within 1 percentage point or less of the actual collections.

Games

Non-restricted Games Fees

Mr. Streshley stated the Non-restricted Games Fees were very similar to the non-restricted flat fees in that the Board estimates the base and any growth that will occur to the base all the while considering new capacity that will come on line. A non-restricted licensee is required to pay a quarterly fee based upon the number of games at that location. The fee is calculated at a graduated scale: 10 or less games or 10 or more games. One game is \$12.50 and 36 games or more requires a payment of \$20,300 plus \$25 per each game over 35.

Actual collections for FY 1999 were \$7.1 million; 0.71 percent less than both the Forum's forecast and the Board's forecast. Actual collections for FY 2000 were \$7.2 million and the Board and the Forum had the same forecast, which amount was overestimated by 1.4 percent, or \$99,000—minimal difference.

Ted Zuend

Mr. Zuend stated the Fiscal Division calculated the Non-restricted Games Fees similarly to other gaming revenue: Look at trends, add new properties as they open, compare the Board's forecast and adopt the Board's forecast if it does not vary much. However, Mr. Zuend said the games fee differed from the slot fee somewhat in that the attrition portion was more difficult to profile. For example, when a new casino opens the marginal rates are all over the board. Once 36 slots are reached, the highest marginal rate is used, then it becomes cheaper per game. At 36 games, the highest average per game fee and then it drops considerably after that so a big casino that puts in 100 games will pay a substantial fee but that was predicated on the fact that they had at least 36 games. Whereas, if they only had 25 games, the fees were only dropped by 500 for each, so the attrition rate may not matter depending on what casinos are harmed by the additional slots being put on the market by the larger casinos and that is sometimes hard to profile.

Bill Anderson

The methodology used by the Budget Office to forecast Non-restricted Games Fees begins on page 42 of Exhibit D. Mr. Anderson stated that the Budget Office relates its games forecast to expected increases in hotel capacity. On page 48 of his handout, the Budget Office over the past six annual forecasts, shows that all but one forecast have been below 1 percent.

Advance License Fees

Frank Streshley

Mr. Streshley stated that new properties are required to pay a fee equal to three times the amount of percentage fees due for the first calendar month of operations. Mr. Streshley explained that the Advance License Fee is an estimated payment for the first three months of operation of a new property. When the Board forecasts the Advance License Fees, they estimate the number of new units that all known new properties plan to have.

For FY 1999, collections for Advance License Fees were \$8.1 million. The Board and the Forum overestimated this amount by 9.5 percent. The Board erred on one property; the first full month of operations came in at about 30 percent less than what was anticipated. When that property's projections were analyzed, it was within line with what the market was currently doing but when that property opened, the win was not where it was expected.

Actual collections of Advance License Fees for FY 2000 were \$1.5 million. The Forum and the Board overestimated this amount by \$56.8 million. Similarly, this error was due to one of the larger property openings that came in with less slots than what was originally indicated to the Board and their win per unit came in at approximately 50 percent less than what was projected.

Ted Zuend

Looking at the schedule of what properties are expected to open, the Fiscal Division forecasts similarly to the Board. However, the Fiscal Division fared better in forecasting FY 1998-99 than the Board or the Forum. In FY 1999-2000, the numbers were lower because there were not as many property openings. Although the Paris did open during this fiscal year, Mr. Zuend reminded the Forum that the Paris' Advance License Fees were "waived" because they were on another license so instead of their payment falling under the Advance License Fees it went into the Percentage Fee total as an estimated fee adjustment because for the first three months of operation, the Paris had to pay double for what they earned that month. He noted that all the forecasts were adjusted for that incident by the May 1999 forecast.

Mr. Zuend stated that Fiscal Division adds to its forecast methodology for Advance License Fees the license changes that occur that are not anticipated where a property changes hands and the new owner has to repay Advance License Fees. So, the Fiscal Division will add anywhere from \$500,000 to \$750,000 to the number from the separate property openings.

Bill Anderson

Mr. Anderson stated that as to the Advance License Fees and the Casino Entertainment Tax, the Budget Office would argue that their forecast is a "glorified, educated guess." There was not much science that went into forecasting the Advance License Fees compared to all the other revenue forecasts.

Mr. Anderson said the methodology included looking at the experience of previous mega-resort properties. Page 57 of the Budget Office's handout shows that Advance License Fee payments are reviewed per room night. Except for a couple properties, those fees tend to fall in a narrow range (\$20-\$30) so that historical average is applied to any future mega-resort opening. In addition, the Budget Office will consider collections not related to mega resort openings.

Given the uniqueness of the tax base, the forecast error in May 1999 which was 15 percent for FY 2000 and an 11 percent error for FY 1999, the Budget Office, feels those errors are not bad. Mr. Anderson noted that there are 62 percent errors shown on the table for October and December 1998. He explained that those errors occurred when the Budget Office assumed that the Paris and the Venetian would be subject to an Advance License Fee payment.

Casino Entertainment Tax

Frank Streshley

The Casino Entertainment Tax applies to all non-restricted licensees licensed for more than 50 slot machines or more than five tables games, or a combination thereof. The tax rate is 10 percent of all amounts paid for food, refreshment, merchandise or admissions while an area that is in taxable entertainment status such as a showroom, cabaret, bar, etc.

Mr. Streshley stated that when the Board forecasts Casino Entertainment Tax, the base is calculated by historical trends and then the new capacity that will be added is analyzed. Through discussions with those properties, the Board computes the number of showrooms and bars that will be added and the type of entertainment that will be offered at that property.

Actual collections for FY 1999 were \$47.9 million, which was 5.9 percent more than the Forum's forecast and 5.2 percent more than the Board's forecast. For FY 2000, collections were \$58.5 million and the Forum underestimated that amount by 15.5 percent and the Board had a forecast error of 12.4 percent.

Mr. Streshley announced that Casino Entertainment Tax was one of the most difficult taxes to forecast because charges for admission, beverage and food are not consistent from year-to-year, nor is the entertainment offered which constantly changes, along with the prices for admission and the duration for the shows offered, which all add to the difficulty in forecasting.

Ted Zuend

In a normal year, the Fiscal Division will simply look at the trends in the revenue base over time. In other years, the Fiscal Division relies on the Board's estimates. Mr. Zuend said he had an inclination that the figures would be stronger than what was forecast for FY 2000 and that was mentioned in the minutes. He thought FY 2000 would be a strong year because of the number of months that the new showrooms would be operating during that year. Mr. Zuend stated that the error in the area of Casino Entertainment Tax was compounded because the base year was so underestimated in the beginning.

Bill Anderson

The methodology used by the Budget Office for forecasting Casino Entertainment Tax differed from the methods used by the Fiscal Division and the Board. The Budget Office used a capacity model thinking that as more hotels come on line, there will be more expenditures on entertainment related activities. Mr. Anderson directed the Forum to page 22 of his handout (Exhibit D) that showed until the mid-1990's there was a stable relationship between Casino Entertainment Taxes and capacity. Inflation adjusted collections on a per-room night basis tended to fluctuate within an acceptable range. Mr. Anderson opined that with the capacity model, the Budget Office had a "good fit" until FY 1999 when the new expansions threw off the model.

Mr. Anderson acknowledged that the forecast showed plenty double-digit errors for the Budget Office in the area of Casino Entertainment Tax and for the most part that was attributable to the change in the relationship of capacity. As the Budget Office forecasts for the next several weeks they will be making decisions on what the relationship to capacity is in the area of Casino Entertainment Tax.

Mr. Seevers indicated that the presentations regarding Gaming Taxes were concluded and the Forum would now discuss the final revenue source: Interest Income.

Interest Income

Mr. Anderson stated that the Budget Office relies upon the expertise of the State Treasurer's Office for Interest Income forecasts.

John Atkins

John Atkins, Chief Deputy Treasurer, State Treasurer's Office, directed the Forum to the information provided by the Fiscal Division on pages 71-72 of Exhibit C. He stated that the Treasurer's Office calculated the Interest Income forecast based on two varying factors: 1) The average quarterly funds available for investment based on an 8-quarter rolling average modified due to information known as to the receipt of funds within that quarter; and 2) The FED funds interest rate provided by WEFA which is slightly modified based upon the performance lag and the varying days to maturity with respect to the portfolio.

Mr. Atkins said he had not seen the numbers for FY 1999 and FY 2000 before today and he was surprised to learn that the forecast was off by 15 points from the actual collections. He indicated that the figures needed to be corrected because the actual interest earned was shown as \$19,639,778 for FY 2000 and he believes that figure was off by approximately \$2 million and should actually be \$17,639,778. He said the \$19 million figure was actual interest earned but did not consider the \$500,000 that came out of the interest earned each quarter. Mr. Atkins said that with that correction, the Fiscal Division comes within 1 percent of the forecast and the Treasurer's Office comes within approximately 3 percent of the forecast.

Ted Zuend

Mr. Zuend said the \$19 million figure came from the Controller's Report but that did not matter much. He explained that the reason the Fiscal Division underestimated the Interest Income Tax for that year was because he thought since the other revenues were coming in better, there should be larger balances than anticipated, using the balanced budget approach it would mean that since there is a surplus of revenue, more can be invested.

The Fiscal Division estimates similarly to the Treasurer's Office by estimating the average amount of state money available for investment and the outlook for the percent of interest likely to be earned on those investments through the forecast period. He stated that the Fiscal Division did not tie the estimates to federal funds as did the Treasurer's Office, nor has the Fiscal Division adopted the moving average approach although perhaps that should be considered.

Mr. Zuend reported that the Fiscal Division came in low for FY 1999 compared to the Treasurer's Office and a little more accurate in FY 2000 if the correction were to be made to the \$19 million figure.

VII. INSTRUCTIONS TO THE TECHNICAL ADVISORY COMMITTEE.

Mr. Zuend pointed out that the Forum received presentations on 13 major revenue sources but there are many more revenue sources within the budget. Currently, the Fiscal Division, in conjunction with the Budget Office, will be sending out a document to all agencies requesting them to provide their revenue estimates. When those figures come in, a review of those estimates is made by the Fiscal Division and the Budget Office, separately, to make sure that the numbers provided by the agencies are consistent with historical trends, rate increases, etc. If there are discrepancies, the agencies are contacted to resolve the difference. At that point, the Budget Office and the Fiscal Division get together to resolve issues and come up with a final number to be presented to the Forum.

Mr. Zuend said the numbers in total did not compute to a large amount of revenue and therefore did not

have a major impact on the overall forecast. Traditionally, the Technical Advisory Committee (TAC) is used to approve the final number of those other revenues and bring those numbers to the Forum for approval. He stated that did not need to occur in October and could be approved at the November meeting as well. Mr. Zuend said the above process has been adopted by the Economic Forum in the past and the Forum needed to determine if that process should continue at this time.

Chairman Seevers asked if the Budget Office had any comments on the process used.

Mr. Anderson, speaking on behalf of John P. Comeaux, the Chairman of the TAC, stated that the Budget Office was comfortable with the past process.

Chairman Seevers stated that the process used for reporting the additional revenues has worked quite well in the past and asked for other comments from Forum members. Mr. Greathouse agreed that the past process was fine. Chairman Seevers instructed the Fiscal Division and the Budget Office to proceed with the past process as explained by Mr. Zuend as it applied to the additional revenues reported by state agencies and the use of the TAC.

Mr. Zuend suggested that since the Budget Office did not do a separate forecast for Net Proceeds of Mines or Interest Income, he would not have a problem adding those two revenue sources to the "agreed to" list before bringing forecasts to the Forum. That would include the Budget Office and the Fiscal Division getting together with the Department of Taxation on the Net Proceeds of Mines and getting together with the Treasurer's Office to agree to a number for Interest Income, instead of having two numbers. However, if there was a major difference that would come before the Forum.

Mr. Zuend indicated that possibly other revenues could be considered in the same fashion, such as the Restricted Slot Fee and the Game Fee. The Forum did not have to decide on it now but the Fiscal Division and the Budget Office could provide separate forecasts for the October meeting and then decide after that point. He opined that the Forum should concentrate on the larger revenues from taxes such as Sales Tax, Gaming Percentage Fees, the Casino Entertainment Tax, and Insurance Premiums. He stressed that when reviewing the smaller revenue forecasts for the last session (the FY 2000 estimate), without any information, the combined total difference was \$600,000 between the high and low forecasts and the total error was between \$2 million and \$1.4 million in the forecasts. Mr. Zuend said it was his opinion that the Forum's time would be better spent further reviewing the large revenue tax sources such as Sales and Gaming. He acknowledged that Mr. Anderson objected to this suggestion when he made it last time but the Fiscal Division would be willing to concede on the two revenue sources that the Budget Office did not forecast now, but the Fiscal Division would like to forego forecasting a few of the other small revenue sources that are very predictable and the error rates have not been substantial.

Mr. Anderson said the Budget Office continued to generate their own gaming-related forecasts and they would continue to do so and present those forecasts to the Forum as quickly as possible. He agreed with Mr. Zuend that the bulk of the discussion should be on the major taxes. He noted, however, that it did not take much time for the Forum to go over the smaller tax revenues, especially when the differences were minor.

As to Net Proceeds of Mines and Interest Income, Mr. Anderson stated that his approach was "if I can't forecast something, I'll tell you." He cannot say that he would be able to forecast those numbers any better than the State Department of Taxation or the State Treasurer.

Mr. Seevers opened the discussion to members on what to do with the two revenue sources, Net Proceeds of Mines and Interest Income.

Mr. Greathouse agreed that the process would be better served if those numbers came to the Forum as one number, respectively.

Mr. Fisher agreed that when the Forum spent time on a tax revenue that was such a small portion of the budget, it would not be adjusted enough to make a significant difference so if the Budget Office and the Fiscal Division was not in dispute, the forecast could come in as one number.

Mr. Zuend acknowledged that as to the other smaller revenues, the Fiscal Division would still forecast those revenues but would bring the forecast to the TAC or negotiate among each other and then produce one number to the TAC rather than have the Forum referee that process. He reiterated that some of those numbers were so small, such as the \$6 million revenue source for restricted slots, and the percentage differences on those forecasts were only about 1 percent.

Mr. Greathouse suggested that there be a discussion with the TAC prior the Forum's October meeting regarding the smaller, specific revenue sources. If an agreement cannot be reached, the Forum will hear the differences. Chairman Seevers agreed.

Chairman Seevers agreed to instruct the TAC to work on the Interest Income and the Net Proceeds of Mines as part of the minor taxes, and the Forum will discuss how to handle smaller gaming taxes at the October meeting.

Mr. Greathouse commented that the Forum has been well-served by the hard work of the Fiscal Division, the Budget Office, the Department of Taxation, the Gaming Control Board and the Agencies, and the Forum would be hearing the product of that work in October for the next biennium. However, he would suggest one change from what has been done in the past and that is after the October forecasts are completed, the Forum would solicit opinions from the private sector as to the October numbers to assist the Forum in making decisions in November when the final report was due to the Legislature.

Mr. Greathouse elaborated that the private sector opinions would be voluntary and the major banks and universities with economic staff could be contacted. He mentioned that there were six to eight gaming analysts that follow the gaming industry closely and perhaps their projections relative to revenue could be utilized. He indicated that the information provided by these private sector businesses could give the Forum some direction on where the forecasts should be. He concluded that by the time the Forum makes its predications at the end of November, this would assist in providing them with as much input as possible for an accurate forecast and the process that goes into making the estimates.

Chairman Seevers asked for comments from staff regarding Mr. Greathouse's suggestion.

Mr. Anderson opined that the inclusion of private sector input would fit in well with the gaming taxes. In fact, as a follow-up to the Governor's Fiscal Forum during the summer of 2000, he had discussions with Rick Darnold at Boyd Gaming and Glen Christenson at the Station and obtained feedback on the forecasts brought forth at the Fiscal Forum. Mr. Anderson stated that Mr. Darnold and Mr. Christenson were open to discussing the matter and they were happy to review the gaming portion of the handout provided at the Fiscal Forum. Mr. Anderson opined that Mr. Greathouse's suggestion could easily be managed in the area of gaming, but he was not so sure about the other revenue categories.

Mr. Greathouse clarified that he was thinking about getting input from the banks and universities for the area of sales tax and not the other taxes. In addition, he was thinking about using the Wall Street gaming analysts who make specific outlooks on gaming in Nevada over the next couple years.

Mr. Zuend asked whether Mr. Greathouse anticipated that the independent estimates would be used, along with the methodology used in arriving at those estimates, then the private sector would be surveyed for comments. Mr. Greathouse replied that it was his thought that between now and the end of October 2000, staff would find out which folks would like to help the process. Then, when the

numbers are produced in October, those folks would receive a package after the October meeting of the Forum asking for their written or verbal expression in time for the November meeting.

Mr. Anderson commented that logistics might prohibit the private sector folks from attending the Forum's meeting. He suggested that materials on the preliminary results from the October meeting of the Forum could be sent by mail and they could then provide a 1-2 page commentary that could be placed in the record and distributed to the Forum at the November meeting. He reiterated that the people he met with from gaming were more than willing to meet with him again.

Mr. Zuend said if the suggestion to include private sector input was adopted by the Forum, then in addition to Gaming Tax, Sales Tax should definitely be included. He pointed out that the meeting could be video-conferenced to Las Vegas and then those private sector individuals could contribute in that fashion at the October meeting and/or the November meeting.

Mr. Anderson said he thought the private input could occur between the October meeting and the November meeting, given some preliminary forecasts established by the Forum and the individual forecasts from LCB and the Budget Office.

Mr. Zuend said that the Forum has done forecasts in the October in the past but the most recent cycle did not include a forecast in October, but rather that was presented in November and May. Mr. Anderson countered that such was true with respect to Gaming but the individual forecasts are always prepared and could be provided to the persons that volunteer to review the material.

Chairman Seevers asked if it was reasonable to solicit the input from the private sector then if major differences to the forecasts were noted in their commentary that those people could be invited to attend the November meeting. Otherwise, their input could be provided in written form for the sake of time. The Forum agreed.

For clarification, Mr. Zuend asked if the Forum was directing staff to submit comments from the private sector for the November meeting. Chairman Seevers replied that the Forum would make forecasts in October and then at the November meeting, the private sector commentaries could be provided in either a written format or oral format, depending on whether or not the comments were substantial.

Mr. Fisher agreed that the private sector input was a good idea in that the Forum recognized that those folks would not be doing the "number-crunching" but they would be provided opinions on future trends. Chairman Seevers concurred that it was a valid idea to solicit comments from the private sector to see how it correlates with the activities undertaken by the Forum.

Russell Guindon, Fiscal Analysis Division, commented that it might work best in light of the limited time available, if the Economic Forum members provided staff with the names of people they recommend to solicit comments and provide input. Then, the Fiscal Division and the Budget Office can obtain a list of people that can be contacted prior to the meeting to see whether they would be interested or able to provide input to the Forum. He reminded the Forum that the turnaround time between the October and November meeting is extremely swift and people will need to make plans to testify and/or provide written comment. He asked the members to provide staff with the names of people to contact in the gaming, banking and university industry.

Chairman Seevers directed the members of the Forum to contact Russell Guindon at the Fiscal Division with the names of people in the private sector that can be contacted to see if they would be interested in assisting the Forum by providing comment and input on the forecasts.

Mr. Anderson reiterated that he would be relating the instructions to the TAC to Perry Comeaux, Chairperson of the Technical Advisory Committee.

VIII. SELECT DATES FOR OCTOBER AND NOVEMBER MEETINGS

Mr. Zuend stated that the ideal time for the October meeting was after the tax roll in October and November late in the month since that provides an extra month of data for the current fiscal year. Of course, in November there is a problem with the Thanksgiving holiday.

Chairman Seevers asked how late in the month was being suggested, whether after October 23rd was late enough. Mr. Guindon stated that in discussing the matter with the Budget Office, staff was considering October 30th or November 1st as the next meeting date because the tax roll would not be available until October 21st and that information needed to be put into the models to produce forecasts. Then time was needed to put a meeting packet together, get it mailed and allow enough time for public posting of the meeting.

The Forum noted that October 27th was a holiday. Mr. Guindon agreed that the earliest time available would be October 30, 2000. The Forum agreed to set the next meeting for October 31, 2000 and, after some discussion, set the November meeting for November 30, 2000. Chairman Seevers noted that he would be out of the country from November 24 to December 4, 2000, so the Vice-Chairman would have to run the meeting.

Turning to the May 2001 meeting date, Mr. Morgan pointed out that May 1, 2000, was a Tuesday. Chairman Seevers noted that the final report of the Forum was due by May 1, 2001 so perhaps the meeting should be set the last week of April 2001. The Forum set their final meeting for May 1, 2001.

IX. PUBLIC TESTIMONY

Chairman Seevers opened the meeting for public comment. Seeing none, he moved to the next agenda item.

X. ADJOURNMENT

Chairman Seevers asked Mr. Ronald Zideck, the newest member of the Forum, if he had any comments to add. Chairman Seevers additionally thanked all the presenters for a fine job.

The Forum adjourned at 12:45 p.m.

Joi Davis, Secretary

APPROVED BY:

LEO V. SEEVERS, Chairman to the
State of Nevada Economic Forum