MINUTES OF THE MEETING OF
THE STATE OF NEVADA ECONOMIC FORUM
October 31, 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., Tuesday, October 31, 2000, in Carson City, at the Legislative Building, Room 4100, with videoconference to the Grant Sawyer State Office Building, 555 East Washington Street, Room 4412, Las Vegas, Nevada.

ECONOMIC FORUM MEMBERS PRESENT:

Leo V. Seevers, Chairman
Cary Fisher, Vice-Chairman
Steve Greathouse – attending in Las Vegas
David J. Morgan
Ronald Zideck

ATTENDING IN CARSON CITY:

Doug Laube, WEFA
Jim Diffley, Vice-President, WEFA
Steve Hixon, Gaming Control Board
Dennis Neilander, Gaming Control Board
Bill Anderson, Economist, State Budget Division
Dan Culbert, Department of Employment, Training and Rehabilitation
Mike Clarke, Department of Employment, Training and Rehabilitation
John P. Comeaux, Director, Department of Administration
Frank Streshley, Gaming Control Board
Scott Anderson, Office of the Secretary of State
Bill Reinhardt, Office of the Secretary of State
Dan Miles, Vice-Chancellor of Finance, UCCSN
Lynne Knack, Department of Taxation
Janelle Kraft, City of Las Vegas
Bob Gagnier, State of Nevada Employees Association
Al Bellister, Nevada State Education Association
Jim Parry, Carson City School District
Linda Rexwinkel, State of Nevada Treasurer's Office
Jens Larsen, Nevada Taxpayers Association
Dave Pursell, Department of Taxation
Cy Ryan, Las Vegas Sun
Geoff Dornan, Nevada Appeal
Sean Whaley, Las Vegas Review Journal
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

ATTENDING IN LAS VEGAS:

Richard Wilkie, City of Henderson

EXHIBITS:

Exhibit A - Meeting Notice and Agenda
Exhibit B - Attendance Roster
Exhibit C - October 31, 2000, Meeting Packet
Exhibit D - Nevada Economic Outlook, by WEFA, A Primark Company.
Exhibit E - The Nevada Economy an Overview, by the Department of Employment, Training and Rehabilitation, Research & Analysis Division.
Exhibit F - State of Nevada Gaming Control Board, Fiscal Years 2001-2003 Gaming Revenue Forecasts, by the Gaming Control Board.
Exhibit G - Cumulative Exhibit of revised tables (yellow) LCB FISCAL – Table 3, LCB FISCAL – Table 4, LCB FISCAL – Table 5, by LCB Fiscal Analysis Division.
Exhibit H - Forecast Information on the Major General Fund Revenues, by the Fiscal Analysis Division, Legislative Counsel Bureau.
Exhibit I - State of Nevada Department of Administration Budget Division General Fund Revenue Forecast October 2000, by the Budget Division.

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

Chairman Leo Seevers called the meeting of the State of Nevada Economic Forum to order at 10:00 a.m., with all members present and Steve Greathouse attending via videoconference in Las Vegas.

II. APPROVAL OF THE MINUTES FROM THE SEPTEMBER 13, 2000, MEETING OF THE ECONOMIC FORUM.

The Chairman asked if the members of the Forum had reviewed the minutes from the September 13, 2000, meeting, which were printed in the Meeting Packet (Exhibit C) behind Tab II.

MR. MORGAN MOVED TO APPROVE THE SEPTEMBER 13, 2000, MEETING MINUTES AS PRINTED.

MR. FISHER SECONDED THE MOTION, WHICH WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.

III. PRESENTATION ON THE NATIONAL AND REGIONAL ECONOMY, WEFA, INC.

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Bill Anderson, Economist, State of Nevada Budget Office, stated that for the past several years the State has had a working relationship with WEFA, Inc., an outside forecasting group, to check the numbers that were generated by the State internally. At the last meeting of the Economic Forum, the members approved the continuation of that relationship to check the numbers and provide the Forum with an overview of economic trends and forecasts outside the State.

Mr. Anderson introduced Jim Diffley, Vice-President of WEFA, to present a national and regional view of the economy and provide a specific forecast regarding Nevada's gaming revenues, Percentage Fees

Collections, and Sales Tax to the Forum.

Mr. Diffley provided the Forum with a copy of the overhead projector slides used during his presentation (Exhibit D). He began with a forecast summary showing an incredible state of the economy with the Gross Domestic Product (GDP), adjusted for inflation in excess of 4% for 1998 and 1999, and an anticipated 5.3% growth rate for the GDP for 2000. He indicated, however, that recent data reveal that figure will be at 5.1%, an unsustainable growth rate. The new age economy together with a higher confidence level has left WEFA with the view that the economy can continue to grow at over 3%, slowing down only moderately.

Mr. Diffley stated that inflation was under control and oil prices during 2000 have caused an increase above 3% for the third time in a few years, but WEFA was looking for that to moderate somewhat over the next year for a 2.5% rate on long-term inflation forecasts.

Turning to unemployment rates, Mr. Diffley said that WEFA believes that the most recent evidence suggests that unemployment levels have hit the bottom and they do not expect national unemployment rates to stay below 4%.

Mr. Diffley said WEFA looked to the world economy to help moderate the balance of payment outflows seen due to the weak world economy versus a very strong United States economy. The world economy should grow at the rate of 3.85% for both 2000 and 2001, up from 2.4% in 1999. He stated that oil prices were difficult to forecast in 2000 with obvious high rates of above $30 per barrel for a good part of this year. However, WEFA believes that the price of oil will decrease slowly with an anticipated rate of $23 or lower per barrel or somewhere between the low $20's to the rate of $30 per barrel as we see now. Of course, this all depends on what happens in the Organization of Petroleum Exporting Countries (OPEC) and in consideration of the unrest in the Middle East.

WEFA also forecasts that the Federal Reserve will make one more slight increase in interest rates of 25 basis points to bring the interest rate to 6.75% by the end of the year. Due to high oil prices, Mr. Diffley reported that inflation has become a bigger issue and the Federal Reserve is expected to maintain credibility by slightly tightening interest rates.

At the same time the world economy is improving, the Japanese economy is improving as well. Mr. Diffley emphasized that for the states of California and Nevada in particular, it is important that Japan recover from the 1990 recession. In light of the robust national economy, consumer confidence reached very high levels but has now hit a plateau.

Turning to employment growth, Mr. Diffley explained that labor markets were so tight that employment was unable to grow as it has been. WEFA looks for employment growth, nationally, to moderate from the 2+% growth rate down to 1.5% or less for the next couple of years. The tight labor market has not caused an increase in wage inflation and that has been a surprise to economists for the last five years. However, with inflation rates rising due to oil price increases, prices are rising faster than wages. That implies that the consumer spending, after a few years of an increase in spending compared to disposable income, will come back in line with the rate of growth of disposable income. Therefore, consumer spending that has been greater than 5% per year, will moderate down to the rate of the economy of approximately 3.5% and that will help slow down the economy and bring the economy into a more sustainable rate of growth.

In discussing residential investments, Mr. Diffley stated that housing starts peaked earlier this year but has been declining as expected because the rate of growth in housing was exceeding that goal in demographics. Much of the excess was due to people buying vacation homes and second homes but that has now moderated somewhat. Mr. Diffley said the underlying demographic demand for construction called for approximately 1.4 million housing units per year, and that was lower than the 1.6 million housing units for the past couple of years. With the high-tech economy and the stock market correction, the NASDAQ index is falling slightly in 2000, but the incredible wealth from IPOs and stock options will not drive the market for second homes and vacation homes as much as it has in the past couple of years.

Concluding his comments on the United States economy, Mr. Diffley reiterated that the world economy remains healthy with the interest rates increasing one more time this year to 6.75% to hold off inflation, and growth remains high in 2000 at 5.3%. Inflation will increase to 3.3% in 2000, primarily due to oil prices, but fall to 2.5% in 2001.

Turning to the regional economy, Mr. Diffley presented a chart comparing the regional employment growth from September 1999 to September 2000 (Exhibit D, page 10) for the nine census regions. The Mountain Region has the highest growth in the country at over 3%, led by the State of Nevada. California is leading the Pacific Region in second place at 2.6% and the slowest growth is the "rustbelt areas" primarily constrained by tight labor markets and low labor force growth. Mr. Diffley said the United States economy is slowing in terms of employment growth in all the regions except the Mountain Region and the Pacific Region. Translating employment growth to personal income growth, Mr. Diffley stated that the Pacific Region (California) leads the country with wages at 11.5% according to the Bureau of Economic Analysis for the second quarter of 2000. In addition, the New England Region (Massachusetts) has seen high growth in the area of personal income growth, along with the Mountain Region coming in third at 7.4% for wages.

In discussing home price growth, Mr. Diffley said for the second quarter of 2000, the prices show the Mountain Region in the middle. Whereas, New England and the Pacific Region are first and second, respectively, driven by high income and high demand for new housing. Mr. Diffley directed the Forum to his handout (Exhibit D, page 12), which compares home sales prices to 1999 using the home price index of repeat sales by the Office of Federal Home Enterprise Organizations. He stated if there was a movement towards smaller or larger houses in different regions where sales are high, that impacts the measured average price. The repeat sales index holds the housing stock constant so a measurement of growth can be made. As the chart shows, the New England Region and the Pacific Region show the highest growth.

Mr. Diffley next directed his comments specifically to an overview of Nevada. He stated that after falling slightly, Nevada was once again number one in terms of job growth. The State was at 4.5% last year in employment growth with the only decline seen in the area of mining. The unemployment rate was holding steady at 4% because labor force growth is matching the job gains. On the other hand, housing starts have begun to slow with 22,200 permits issued in the State through August 2000, which is 2.4% percent below last year. As to personal income growth, Mr. Diffley said that it grew 8.2% year-over-year for 2000Q2 placing Nevada fifth among states and behind California, Massachusetts, Washington and Colorado.

Mr. Diffley said the total employment growth for Nevada for the past six years shows the State well above the growth rates for the United States, with pronounced cycles. Rates have decreased from the high rates seen in early 1999 and employment growth appears to now be stabilizing at 4.5% for the past six months. This year, WEFA projects a 4.2% employment growth for 2000 with a slow moderation to a 3.4% employment growth in Nevada for 2001 and 3.1% in 2002—leading the country in all those years. Nevada's income growth was a high 8.1% in 2000 falling with job growth in 2001 to 6.3% and moderating to 5.7% in 2002. Mr. Diffley stated that housing starts peaked in 1997 and were continuing to take an upward progression to approximately 35,000 units in 2002. Primarily the housing starts forecast is based on underlying demographic demand in the State, which appears to be very strong.

Mr. Diffley stated that the issues WEFA has been watching in the State include the major construction projects coinciding with the opening of the mega-resorts in 1999 primarily in Las Vegas. It appears that construction cycle is ending and that brings a negative aspect to construction employment with the non-residential construction activity but that should be offset by continued infrastructure needs and home construction. Mr. Diffley asserted that the mega-resorts have been successful in terms of attracting visitors and gaming spending. However, it is difficult to determine whether or not that will remain a long-term phenomenon or whether the spike that was seen in 1999-2000 is something that fades over time as the novelty wears off? He informed the Forum that in Atlantic City the construction cycle is finally up and they are changing to a more family-oriented resort setting.

Mr. Diffley asserted that non-hotel, non-casino construction was also very strong. However, Las Vegas is on the Federal Deposit Insurance Corporation's (FDIC) "watch list" arguing that in every area but hotels, there are still double-digit vacancy rates but very high construction rates taking place so that needs to be watched. The FDIC is looking at the rate of construction as a percentage of the existing stock and matching that with the vacancy rate. The current business cycle, unlike the cycle in the 1980's, have made lenders cautious and which has not allowed builders to overbuild so there is less of a concern now but the FDIC is still watching in fear of a repeat of what occurred in the 1980's.

As to migration, the data for the past three years shows Nevada has received 162,000 entrants and the labor force continues to keep pace with employment demands. However, the mountain region has slowed from 80,000 migrants in 1993 to almost half that, 42,000 in 1999, primarily because California was the source of most migrants when that state was in a recession that lasted longer than the rest of the country. The State of California is now booming but is no longer supplying migrants eastward. Nevada has not suffered the same slow down in migration as the rest of the mountain states.

Mr. Diffley displayed a chart depicting the construction employment cycle over the past five years. The chart showed the peak in construction employment at over 20% during the construction of the mega-resorts in 1999, leveling to 10% in 2000. He said WEFA forecasts construction employment growth to continue at 5% even though the mega-resort construction is over; housing construction, infrastructure and other non-residential construction will increase. WEFA believes that the housing starts will be back up to 35,000 in a couple years.

Turning to Gaming Fees, Mr. Diffley informed the Forum that WEFA has developed an econometric model that shows, given an actual increase in Gaming Fees of 12.8% for FY 2000, that growth will decrease gradually to 5.6% in FY 2001, 4.4% in FY 2002, and 3.8% in FY 2003. Mr. Diffley explained that the forecast used the following variables:

- The number of casino hotel rooms on-line.
- Nevada's employment forecast.
- United States spending, amusement and recreation.
- California income.
- Oregon casino "dummy" industry.

In addition, there are risks that are considered in forecasting Gaming Fees:

- California tribal casinos – These will likely pose more of a threat to gaming in northern Nevada. Early data shows that the planned slots in California will be half what exist in Nevada and could be a potential risk.
- Internet gambling – This could be a big market as it catches on.

In discussing the Sales Tax forecast for Nevada, Mr. Diffley stated that WEFA used Nevada employment and construction employment in forecasting this area of revenue, in addition to the rate of growth of consumer prices. WEFA has projected a stable trend with 6.9% in FY 2001; 5.8% in FY 2002; and 5.9% in FY 2003, after growing 5.7% in FY 2000.

Mr. Diffley explained that detailed information for Nevada's economic forecast, provided by the Regional Economic Services, was included in his handout (Exhibit D).

Mr. Zideck asked whether the employment growth figure provided could be broken down by industry. Mr. Diffley said the detail provided in the last two pages of his handout (Exhibit D) included that information and was broken down by the following industries: Construction, Transportation, Manufacturing, Communications, Trades, Finance, and Service. He said he would be happy to comment on that further if anyone had a particular question.

Mr. Zideck asked whether WEFA prepared "ranges" in their forecasting process. For example, if an interest rate of 7.5% was used, how much would that change all the conclusions? In response, Mr. Diffley said he did not have that information for Nevada but WEFA does provide, at the United States macroeconomic level, a baseline scenario, a low alternative scenario and a high alternative scenario. He explained that one of the governing factors in the different scenarios might be Federal Reserve behavior—higher interest rates or lower interest rates. He suggested that such a forecast could be provided for the State of Nevada if that was requested but it was not done as a matter of course.

Mr. Fisher asked how WEFA assessed political risk. For instance, he noted that WEFA projected a moderation of oil prices. Mr. Diffley replied that oil prices were difficult to gauge due to the political risk that comes with oil prices. WEFA looks at the fundamentals of supply and demand and then assuming that OPEC is not going to be any more aggressive, they will use ranges such as $23 per barrel to the current $30 per barrel to help develop a forecast.

Mr. Fisher related that the Asian economy is concerned that if the United States has a "soft" landing, they would have a "hard" landing and he was wondering how that would impact gaming in Nevada. Mr. Diffley responded that a healthier Japanese economy was the biggest source of visitation to Nevada. If the United States has a "hard" landing that would adversely affect the Asian economy. Any slowing in the United States adversely affects the Asian economy. However, WEFA does not believe the slowing in the United States is significant enough to put the Asian economy into a hard landing.

Mr. Greathouse asked whether WEFA was making any assumptions as to the presidential election since both candidates have different economic proposals. Mr. Diffley said that WEFA has developed detailed alternative scenarios under a Bush Administration and under a Gore Administration. However, he would not be tying those scenarios to oil prices in the very near future. Rather, WEFA applies the scenarios under long-term financial programs of each administration in an attempt to categorize long term proposals of each candidate.

Mr. Greathouse said the Forum was looking at the time frame between July 1, 2001 to June 30, 2003 so he wondered whether an impact would occur during that period or whether that was too near term. Mr. Diffley said that WEFA has calculated that near term the Gore policy will have slightly higher growth but that in long term, the Bush policy will have higher growth and that is just a summary of WEFA's detailed analysis of the candidate's programs. However, that projection was contingent upon the President-elect instituting the policies to which they were committed during his campaign.

Mr. Zideck acknowledged that the presentation by WEFA was both on Nevada and National forecasts, and asked whether Mr. Diffley had comparable figures regarding California; and if so, whether those numbers could be made available to the Forum. Mr. Diffley answered that he did not have the California forecast with him but he would be happy to provide that information through staff.

Chairman Seevers thanked Mr. Diffley for his presentation and moved to the next agenda item.

IV. DISCUSSION OF PRELIMINARY ECONOMIC ASSUMPTIONS

Russell Guindon, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, announced that the Forum would be receiving a presentation similar to the presentation made at the October 1998 meeting comprising of two economists from the Bureau of Research and Analysis of the Department of Employment, Training and Rehabilitation (DETR). Mr. Guindon explained that DETR was responsible for collecting the employment numbers that WEFA and staff use to analyze employment by sector and the labor force, unemployment growth and outlook. DETR also performs projections that are used by the State to produce forecasts for different revenue sources. Mr. Guindon introduced Dan Culbert, Assistant Chief of the Bureau of Research and Analysis and explained that Mike Clark an Economist with the Bureau of Research and Analysis (Bureau) would be presenting the information to the Forum. A copy of Mr. Clark's power point presentation is attached as (Exhibit E).

Mr. Clark commented that WEFA provided a relatively optimistic forecast for Nevada and the Bureau parallels that forecast. Mr. Clark said that the unemployment rates in Nevada have run parallel with the national rate with slight fluctuations above and below the national rate. He pointed out that Nevada's unemployment rate has been far below California's unemployment rate for quite some time. During 1993, when the California rates were high, Nevada rose slightly then came back down which was a result of the tremendous flood of people moving from California to Nevada to fill the openings in many of Nevada's casinos. Then, California pulled out of the recession and the unemployment rate in California dropped dramatically. Mr. Clark stated that Nevada's total employment rate was flat during the recession period, but since 1993 there has been a strong growth rate in the area of total employment mostly due to the surge of casinos opening in Las Vegas.

Looking at industrial employment growth, Mr. Clark said that during the recession in 1992-93, Nevada trailed the rest of the nation and lost some employment during that period, while nationally industrial employment growth fell far more dramatically. California, for instance, continued to lose in the area of employment growth until 1994 when that state began to grow again. Mr. Clark related that in 1980 there was an average of 400,000 employees in the State with 55% of those jobs in the Clark County, Las Vegas area. In 1999, the State had 980,000 jobs, with 68% of those jobs located in the Las Vegas area. As for total employment, Mr. Clark indicated a slight increase is expected in the Reno area and a major increase is expected in the Las Vegas area.

Mr. Clark's next chart showed the change in the industrial mix over the past 19 years. He announced that there has been a very slight change over that period of time—services have increased by 2 percentage points and government employment has dropped by 2 percentage points. Other than that, the other categories of employment: mining, construction, manufacturing, etc., have remained flat. However, Mr. Clark pointed out that there has been a change in the mix of the service economy. At one point in time, the hotel, gaming and recreation portion of the services industry was 40% and that has now dropped to 36%. Much of that has to do with new casinos leasing out space for restaurants and are hiring outside workers to do certain tasks.

The next chart (Exhibit E) was a comparison of the industrial employment mix in Nevada to the national industrial mix in 1999. Nevada's services economy is 15% greater than the national level—reflecting the service nature of our economy. Nevada has 4% less in government employment than is seen nationwide. In addition, Nevada is below the national level in the percentage of retail trade. Mr. Clark stated that reflected the fact that Nevada has room for growth in the area of retail trade. He anticipated that the new strip malls and retail box stores coming into the state will not be going bankrupt as the State rises to the national level in retail trade. Nationally, 14% of the workers are in manufacturing, yet Nevada is at 4% and has been at 4-5 percent for the past 20 years in terms of manufacturing jobs. Nationally, in 1999, 5% of workers were involved in construction. For that same time period, Nevada was at 9% for workers in construction. The leading indicator for industrial employment in the state is construction.

Mr. Clark said that 90% of available jobs in 1999 were in the southern part of the state. In comparing construction and hotel, gaming, and recreation employment growth, Mr. Clark stated that casino growth was an important factor of growth for the entire state. In 1992 there was an increase in construction growth that was followed by a major increase in 1993-94 in the hotel, gaming and recreational casino growth. There was continued growth in construction in terms of the numbers of jobs through 1997, with a slack in the growth of hotel gaming. Then, another major growth in construction occurred in 1998 followed by an increase in the casino gaming industry one year later.

Looking at construction-to-casino employment patterns (Exhibit E, page 6), Mr. Clark indicated that construction comes along at a relatively flat level (dirt moving, major iron-planting) then there is a high increase which tapers off as last minute details of construction are completed. The next phase occurs when the casino industry begins to hire people at the end of that construction cycle to begin training so there will be an increase in the casino employment rate. During the first phase, there is no real affect on taxation in any form. During the next phase there is an increase in taxable sales with the buying of the products that will be used in the casino. Lastly, there is a slight drop-off in the rate of taxable sales. However, once the casino has opened for business then gaming taxes take affect and taxable sales increase once again with the opening of the gift shops and restaurants.

Mr. Clark pointed out that the establishment-based industrial employment projections dropped from 1999 to a growth of approximately 4.2% to 4.0% in 2001 and the Bureau forecasts an additional decrease to just above 3% in 2002. Currently, there has been a groundbreaking for a new, $250 million casino in Las Vegas. That casino will probably employ a minimum of 2,500 gaming employees. During the next couple of years, Steve Wynn will start a new casino bid with the Desert Inn. In addition, there has been much talk about the Frontier going down and being re-erected with a larger, San Francisco theme casino as well as the possibility of the Mandalay Bay Corporation doing something with their land during the next few years. Although there is a drop in employment, it should not be reflected in a similar drop in taxable sales. Mr. Clark stated that it was his belief that the State is at the beginning of the next cycle of casino construction and openings.

V. PRESENTATION OF COMPARATIVE SCHEDULE ON GENERAL FUND REVENUES: FY 1994 TO FY 2000.

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Mr. Guindon explained the materials contained in the meeting packet:

Tab V – Table 1 contains the last seven years of history for each of the General Fund Revenue accounts. He pointed out that at the far right of the table is the Year-to-Date for September 2000 compared to September 2001 and with regard to those September dates, some of the revenues may reflect July, August and September; whereas, other revenues may only reflect two months, depending on the timing of when taxes become due.

Tab V – Commencing on page 48, Table 2 provides information that was presented to the Forum at the September 13, 2000, meeting, and contains the Forum's May 1999 forecast for FY 1999 and FY 2000 and compares the two forecasts to the actual collections for those two fiscal years and additionally presents the May 1999 forecast for FY 2001. Mr. Guindon reminded the Forum that Table 2 was provided mainly as reference.

Tab VI – The discussion and recommendation by the Economic Forum at the September 13, 2000, meeting related to what revenues the Forum wished to receive presentations. Mr. Guindon recollected that in the past there were 13 major revenue sources but during the September 13, 2000, meeting it was determined that some of those could be moved into the minor revenue category and reviewed by the Technical Advisory Committee (TAC) to bring a consensus forecast to the Economic Forum. However, there was some uncertainty as to the recommendation from the September 13, 2000, meeting. He acknowledged that there was specific mention of the net proceeds of mines tax and interest income becoming minor revenue sources for TAC and there was additional discussion about the gaming device taxes. Mr. Guindon explained that after the meeting, the Chairman directed staff from the Budget Division and the Fiscal Division to determine which revenues could be moved from the major revenue list to the minor revenue list. That information was supplied to the TAC at their meeting on October 23, 2000, and the TAC determined that the Forum should provide further clarification on the matter so the TAC did not sign off any of the minor revenue forecasts.

Therefore, under Tab VI, Table 5 includes what has now been determined to be the six major revenue sources: (1) Sales and Use Tax; (2) Percentage Fees Tax; (3) Insurance Premium Tax; (4) Business License Tax; (5) Casino Entertainment Tax; and (6) Cigarette Tax. Mr. Guindon stated that the Forum would be hearing presentations pertaining to the forecasts of those six revenue sources.

Tab VII – Table 4 shows the seven revenues that have been removed from the major list to the minor list. Mr. Guindon stated that if any members of the Forum desired a presentation on any of the minor seven revenues: (1) Interest Income; (2) Net Proceeds of Mines Tax; (3) Liquor Tax; (4) Quarterly Fees: Non-restricted Slots; (5) Quarterly Fees: Restricted Slots; (6) Quarterly Fees: Games; and (7) Advance License

Fees, or would like to revisit how it was determined what is kept on the major list and what goes on the minor list, that discussion could be considered under Agenda Item No. 8.

VI. PRESENTATION OF PRELIMINARY FORECAST OF MAJOR GENERAL FUND REVENUES FOR FY 2001, FY 2002, AND FY 2003.

Percentage Fees Collections

Frank Streshley, Senior Gaming Analyst, Nevada State Gaming Control Board (Board), presented the Forum with a copy of the charts he would be discussing (Exhibit F).

As to the Gaming Control Board's forecast process, Mr. Streshley stated that Percentage Fee Tax was based upon each non-restricted licensee's monthly taxable revenue and the tax rates are 3% of the first $50,000 of taxable revenue, 4% of the next $84,000 and 6.25% of all revenues exceeding $134,000. The tax payment each month is actually an estimated prepayment for three months in advance. Each month there is an adjustment to that month's liability based upon what was paid three months prior and that is referred to as the Estimated Fee Adjustment.

In forecasting Percentage Fees Collections, the Board forecasts gaming win for the applicable fiscal years and, using historical trends, the Board translates that to percentage fees. Mr. Streshley said he would go through the process of forecasting gaming win and the process used by the Board for translating it to Percentage Fees Collections.

As a starting point for the forecast process, the Board produces a list of property assumptions. The list represents the outlook for the fiscal periods with respect to new property openings, expansions, renovations, and known property closures. From the property assumptions list, the number of slots, games and tables expected to come on line during the forecast period is created. Along with the historical information, the Board can then estimate the available number of units for the forecast period. In preparing the property assumption list, the Board also accumulates the number of new hotel rooms coming on line. For the current fiscal period, the Board anticipates approximately 7,000 new slot machines, 200 games and approximately 3,000 rooms. The above numbers include the openings of the Alladin and the Suncoast, and the closing of the Desert Inn.

For FY 2002, Mr. Streshley reported that the Board anticipated approximately 5,000 new slot machines, 100 new games, and 2,000 new hotel rooms. For FY 2003, the Board anticipated approximately 3,000 new slot machines, 60 new games, and 1,500 new hotel rooms. Other than the Alladin, most of the growth during this period would be coming on line in the Las Vegas locals market. The Board expects that the next large expansion on the strip will not occur until the Desert Inn replacement property is built along with other tentative plans on the northern end of the strip. It is uncertain when the Desert Inn property will be built, but probably the earliest completion date would place that opening in FY 2004.

Mr. Streshley stated that after the property assumption list was prepared, the Board forecasts gaming win, which is completed for 16 individual major markets such as the Strip, downtown Las Vegas, Reno, Laughlin, Elko, South Shore, etc. The sum of the individual market forecasts produces the estimated total gaming win for the state. A good part of the Board's analysis is spent looking at historical behavior in win for each of the markets. Based on that analysis, the Board produces growth rates for the forecast period.

For the current forecast period, Mr. Streshley advised that the Board looked at what occurred during the years following prior expansions and made adjustments to growth rates accordingly. The Board felt there were similarities between this forecast period and what occurred after prior expansions.

At the end of the current fiscal year, Clark County now makes up 80 percent of all gaming win for the state. The Strip makes up 50 percent of total statewide gaming win.

In forecasting gaming win for the separate markets, an individual forecast is prepared for slot win, game & table win for each market. Beginning with the forecast of slot win, the Board forecasts slot win by forecasting wagering activity or coin-in per slot machine and then the hold percentage is applied to the forecast of the number of slots, including any new units that might be coming on line.

Turning to the first chart in his handout (Exhibit F), Mr. Streshley stated that it was anticipated that slot win would continue to grow with a decline in the growth rate over the next three fiscal years, after growing 8.6% and 10.4% for the last two fiscal years. The projected growth rate in slot win is expected to drop to 7.7% in FY 2001, 6.1% in FY 2002, and 4.1% in FY 2003. The average growth rate for slot win over the past ten years is approximately 7.5%. Mr. Streshley indicated that part of the growth of slot win comes from the continuing popularity of nickel slots. In the last gaming revenue release in August 2000, nickel slots were up 28.3% statewide and 46.7% on the strip. For the first three months of this fiscal year, nickel slots were up 31.5%, quarters were flat, only up .07% and dollars are up 4.9%.

Mr. Streshley stated that the forecast for coin-in per slot (Exhibit F, page 2) is generated by analyzing historical trends and the Board pays particular attention to what occurred in prior years after major expansions. The Board anticipates continued growth in coin-in per slots through this year and a flat period by FY 2002-03. The increases will be 4.1% in FY 2001, 2.8% in FY 2002, and 2.3% growth in FY 2003 for coin-in per slot. The average rate of growth for coin-in per slot for the past ten years was approximately 3%.

Mr. Streshley, stated that the Slot Hold Percentage (Exhibit F, page 3) will continue to increase this year through next fiscal year with smaller increases and then flattening out in FY 2003. He said that the hold percentage is different between Clark County and the balance of the state due to the increased popularity of the nickel slots. Mr. Streshley reiterated that nickel slots comprise more of the casino floor and that trend is expected to continue into FY 2002. At the end of the last revenue release in August 2000, nickel Slot Hold Percentage was 7.24% versus quarters at 5.45% and dollars at 4.47%.

As to Game & Table Win growth (Exhibit F, page 4), Mr. Streshley informed the Forum that this forecasting methodology was identical to forecasting slot win. The Board is anticipating that game and table win will continue to grow, but the growth rates will decline during each of the next three fiscal years. After growing 4.6% in FY 1999, 13.6% in FY 2000, a drop is expected to 7.7% growth in FY 2001, 6.1% in FY 2002 and 4.1% in FY 2003. He stated that the average growth rate for Games & Tables for the last ten years was approximately 5.2% and this revenue source was a much more volatile market than slots because there are larger fluctuations in the growth rates due to the high-end play in Baccarat, 21 and Craps. In addition, special events such as major boxing matches can have a material effect on the Games & Tables win at any given month. For instance, during the DeLaHoya-Trenindad fight in September of 1999, Games & Tables were up 38.7% for the month and in November 1999 with the Holyfield-Lewis fight, games and tables were up 32.5%. For both of those months, total gaming win was up over 20% which made it difficult to forecast FY 2000 numbers. Currently, the fight schedule is at a lower level than in prior years, but that could change.

The Board believes that most of the individual games will continue to grow at the mid-to-high single-digit rate but not at the double-digit rate posted last year. For the first three months of FY 2000, game win was at 21.72% with Craps at 14.2%, Roulette up 31.3% and Baccarat was down at 13.6%.

In reviewing the next chart, Drop Per Game & Table (Exhibit F, page 5), the Board anticipates continued growth through FY 2002 with a flattening occurring in FY 2003. The Board forecasts the drop per Game & Table will grow 6.2% for FY 2001, 3.3% FY 2002 and 2.3% in FY 2003. The average rate of growth for Drop Per Game & Table for the last ten years was approximately 3%.

The next chart was the Games & Tables Hold Percentage (Exhibit F, page 6). The Board believes there will be a small decline in the next three years due primarily to the above-average hold percent in Baccarat over the past two years. Baccarat held 17.09% in FY 1999, 18.6% in FY 2000 which is above the average hold percentage for Baccarat of about 16% for the past ten years. The Board expects the hold percentage in

Baccarat will fall back in line with the average, thus bringing down the overall hold percentage slightly. No adjustments were made to the other games since they were holding with the historical average.

Mr. Streshley presented his next chart outlining Growth in Win, Taxable Gaming Revenue (TGR) and Percentage Fees Collected (Exhibit F, page 7). He reminded the Forum that total gaming win is the sum of the two forecasts: slot win, and games & table win. He stated the growth rates in FY 2001 for gaming win and TGR will both be increasing at 7.6%, for FY 2002 an increase is expected at 5.6%, and a 3.8% increase in FY 2003. The chart shows that gaming win will continue to increase but at declining growth rates, after increasing 7.1% in FY 1999, 11.5% in FY 2000. He explained that was a normal pattern for what occurred after prior expansion years. Mr. Streshley indicated that the average growth rate for gaming win over the past ten years was approximately 6.6%. For the first three months of this fiscal year, gaming win was up 9.2%.

As to Taxable Gaming Revenue (TGR), the Board makes an assumption of how much gaming win will actually become taxable revenue. Mr. Streshley reminded the Forum that the difference between gaming win and taxable revenue is credit play. Gaming win includes all wagering activity from cash, chips and wagers actually made through the issuance of credit; however wagering through credit does not become taxable until the credit is paid off, which is usually some months later and some credit goes uncollected. The ratio of TGR and gaming win averaged 96.5% over the last ten years; however, over the last three years the average has dropped down to approximately 95.5% due to the increase in wagering through credit. Last year, pit credit jumped 20.1% to almost $10 billion. The Board believes that credit play will remain at or above the FY 2000 level throughout the forecast period, which is approximately the ratio used to convert gaming win to taxable gaming revenue.

Mr. Streshley advised the Forum that the last part of the forecast process dealt with converting TGR to the amount of Percentage Fees Collections. The forecast of this component is obtained by multiplying a forecast of taxable gaming revenues by the estimated average tax rate. Last year the effective tax rate on TGR was 6.12% and this number gradually increases each year as more of the licensees' revenues exceed the third tier of $134,000 at which time the rate goes to 6.25%. The Board has increased the TGR to gaming win ratio rate only slightly over the next three years—topping out at 6.132% in FY 2003. Through the process, the final product is the Percentage Fees Collections. For FY 2001, the Board estimates the percentage fees will increase 6.2% to $594.9 million; in FY 2002, a 5.2% increase is expected to $625.8 million; and in FY 2003, a 3.8% growth is expected at $649.8 million. So far, during the first three months of FY 2001, Percentage Fees Collections are up by approximately 6%.

Moving to the last chart of his handout (Exhibit F, page 9), Mr. Streshley addressed the projections of the Estimated Fee Adjustment. Included in the percentage fee forecast is a calculation of the Estimated Fee Adjustment (EFA). In forecasting the EFA, the Board took a long look at prior years, most importantly, FY 2000 and assumed with the growth rate of percentage fees declining by almost 50% from the 12.8% recorded last year to the 6.2% recorded this year. The largest decrease occurred this year. After reporting approximately $11.4 million in estimated fee adjustments last year, the Board thought part of the adjustment would carry over to this year without an equal growth rate. After three months, the EFA is currently $-5.4 million, compared to last year at the same time when it was $-2.4 million. So, collections are down by $3 million this year due to EFA. For FY 2002, the Board estimates that the EFA will drop further to $1.1 million in collections and in FY 2003, another decrease is expected to $889,000 in EFA collections.

In closing his discussion on Percentage Fee Collections, Mr. Streshley stated he was cautiously optimistic about the continued growth of gaming win out to FY 2003. Some of that caution related to the tremendous growth that occurred over the last two years. It was obvious that the State could not maintain the rate of growth; however, forecasting has included a look at the national economy, which remains strong. Visitor volume remains strong; for the first eight months of calendar year 2000, visitor volume was up approximately 7.8%.

Mr. Streshley stated that airline passenger counts in Las Vegas for the first eight months of calendar year

2000 were up 9.9%. These visitors historically stay longer and have much larger pocketbooks than the average visitor. The global economy is strong especially in areas that impact visitation in the state the most. Specifically, for the Pacific Rim countries, Mexico, Canada, Western Europe, and Japan, Nevada has become more of a global destination. Currently, there are five weekly direct flights from Japan to Las Vegas. There are two direct flights from London to Las Vegas, and there are five scheduled weekly direct flights from Mexico each week.

Continuing, Mr. Streshley informed the Forum that hotel occupancy rates in Las Vegas have increased to the low 90% range. However, the Board is concerned that there might be a lack of hotel rooms. There have been recent announcements of additional rooms being added, but that likely would not occur until FY 2003 or later. Further, convention attendance in Las Vegas has increased over 14% for the past year. Conventioneers tend to stay longer than the average tourist and that helps the mid-week numbers, especially in the slower, winter months. Advance bookings for convention business through FY 2003 are expected to stay strong. Current year-to-date numbers for the first eight months show that convention attendance was up 9.5%.

Mr. Streshley indicated that outside the tourist and visitor's market, the Las Vegas local market is forecast to grow at a strong rate. The Board believes that such growth will range from a high single-digit to a double-digit growth rate throughout the fiscal period. He reiterated that most of the new capacity coming on line was in the Las Vegas locals market with 8,000 of the 15,000 new slots coming on line in the Las Vegas locals market.

In summary, Mr. Streshley said the gaming market was going to remain strong, but the rates will decline from the levels achieved in the last fiscal year. FY 2002 should be considered one of the best years on record. The lack of additional hotel rooms will slow down the growth rate but with all the other positive factors mentioned, Percentage Fees Collections will continue to grow in a positive direction. It should be noted that there has only been one year with growth in collections for percentage fees that has been less than 3% in the last ten years—FY 1997 at .01%. The ten-year average for growth in Percentage Fees Collections is approximately 6.7%.

Mr. Greathouse asked how the impact of California Indian Gaming was quantified by the Board in light of the differing numbers of slots actually in Indian gaming establishments (110,000 slots vs. 43,000 slots). Mr. Streshley replied that as he stated during the September 13, 2000, meeting of the Economic Forum, the Board does not have quantifiable information regarding the number of slots in Indian gaming. However, more consistent numbers have arrived recently that indicate that approximately 50,000 slots could be on-line by the end of this year. When the Board did their forecast they did not have a quantified number that could be used but they did slow down the growth rates in the areas the Board felt Indian Gaming would impact the most. The Board believes the impact of Indian Gaming will be noticed in FY 2002 and that it will affect the northern part of the state more than the southern part of the state because the major casinos that are planned for the northern part of the state have yet to be built; one is scheduled for Highway 50 outside Sacramento, California and the other one of Highway 80 outside Auburn, California. Although the number of slots in Indian Gaming has not been quantified, the growth rate in the northern part of the state was slowed down for that reason.

Russell Guindon – Fiscal Analysis Division

Russell Guindon, Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, provided the Forum with revised Tables 3, 4 and 5 and the historical handouts prepared by the Budget Division (Exhibit G, cumulative yellow sheets). The yellow sheets include revised numbers and/or errors that were noted after the meeting packet was prepared. In addition, Mr. Guindon provided the Forum with the Fiscal Division's handout entitled *Forecast Information on the Major General Revenues* (Exhibit H). He noted that the information regarding Percentage Fees began on page 4, Table 1.

Mr. Guindon stated the Fiscal Division expects Percentage Fees Collections to grow 4.4% in FY 2001 to

$585.5 million, 4% in FY 2002 to $608.5 million, and finally 3.9% growth in FY 2003 to $632.3 million, approximately. He pointed out that Mr. Streshley made the point that during the first three months of FY 2001, Percentage Fees Collections were up 5.9%. So, with the growth rate of 4.4% for the entire fiscal year, that would imply that Percentage Fees Collections will have to average about 4% over the remaining nine months of the fiscal year to be able to reach the 4.4% growth rate by the end of the year. Over the final nine months of FY 2000, Percentage Fees Collections averaged 13.3%. In fact, five of the last nine months of FY 2000, saw double-digit growth between the 11% to 28% growth range.

Mr. Guindon pointed out that soon the Board will be making its press release on the numbers for Percentage Fees Collections for October 2000, based on September's activity, and that will be going up against the growth rate of 27.5% of one year ago. He related that November 1999's collections were 13.9% and in December 1999 Percentage Fees Collections were 24.1% so it can be seen that the base growth is relatively strong.

Directing the Forum back to Table 1 (Exhibit H, page 4), Mr. Guindon stated that the Fiscal Division was expecting the Estimated Fee Adjustment (EFA) to generate approximately $3.2 million in FY 2001. Therefore, the growth that was being assumed from Taxable Gaming Revenue (TGR) component in the bottom part of Table 1 is 6%. In terms of comparing of FY 2000 to FY 2001, the EFA generated over $11.4 million net in FY 2000, which added approximately 1.5% to the total growth rate of Percentage Fees Collections. Mr. Guindon noted that when the Venetian and Paris both came on line during the 1998-99 with special licenses those properties did not pay advance fees. The impact of that generated more money into the EFA than was expected. However, a similar activity is not expected in FY 2000-01 in terms of the EFA, so the Fiscal Division calculated an EFA that was consistent with the growth in the market and the impact that new properties and the closing of properties will have on the EFA. Mr. Guindon explained that ends up being about an $8.1 million net impact in terms of revenue comparing FY 2000 to FY 2001, which ends up pulling 1.6% off the growth rate resulting in only 4.4%.

Directing the Forum to the far right column of Table 1 (Exhibit H, page 4), Mr. Guindon stated that the EFA has frequently had an impact of 1.5% to 2% in either increasing or reducing the net growth. In attempting to make the EFA forecasts consistent with growth, the Fiscal Division forecasts the EFA at $592,000 in FY 2002 which takes a half percent off the growth rate from the taxable gaming revenue and then came back up to $2.5 million in FY 2003, which adds only three tenths of a percent.

Mr. Guindon stated that the Fiscal Division forecasts slot win by using a regression equation that models the inflation adjusted as well as seasonally adjusted slot win statewide as a function of the number of devises and the slot win percent. Given that equation, the Fiscal Division is forecasting that slot win will grow 6.3% in FY 2001; 4.7% in FY 2002 and 3.6% in FY 2003.

Turning to Table 2 (Exhibit H, page 5), Mr. Guindon stated that the table contains slot win and slot win–inflation adjusted using the Consumer Price Index (CPI) as the price measure. Also, the win per slot and the win per slot– inflation adjusted, and then the average slot win percent and the average number of slot machines on a fiscal year average basis. He indicated that the Fiscal Division's forecast differed from the Gaming Control Board because as Table 2 reflects, during the last three fiscal years the average hold has increased by approximately one-tenth of a percent each of those fiscal year periods and that was a significant change in the average hold. He agreed with Mr. Streshley's comments that what was driving the change in the average hold was the change in the mix—the nickel machines that are coming on line and that the average nickel machine holds more than the quarter and dollar machines. Mr. Guindon said the nickel machine phenomenon began back in calendar year 1997 and that popularity continues to date; however, the Fiscal Division feels there will be an equilibrium with those machines, and with not too many new properties expected in the upcoming fiscal year period, the average hold on slots is expected to flatten out in FY 2001, increasing only two-tenths of a percent and be flat over the next biennium, FY 2002-03.

Looking at the win per slot, Mr. Guindon stated that the Fiscal Division is expecting growth of 3.6% in FY 2001, after growing 5.9% and 7.3% in FY 2000 and FY 1999, respectively. Growth will slow in FY 2002 and FY 2003, only growing 1% in FY 2002 and 1.7% in FY 2003. Mr. Guindon directed the Forum to the column that showed inflation adjusted win per slot where the growth rate through most of the mid-90's was declining. It was not until FY 1998 that win per slot actually recovered. He reminded the Forum that the Fiscal Division used the information provided to them by the Gaming Control Board in terms of the numbers of properties that are expected to come on line and the number of devices that will be added to the market. The Fiscal Division does not anticipate that their forecast for slot win, although lower than the others, is unreasonable.

Turning to Table 3 (Exhibit H, page 6), Mr. Guindon stated the chart shows the Fiscal Division's forecast of the games market. He agreed with the Gaming Control Board that forecasting games was more difficult than slots. Games win include reporting from Baccarat, Craps, Roulette, Twenty-One and the Sports Book so with such variety it is harder to forecast. The Fiscal Division anticipates that the games market will grow 5.5% in FY 2001 after a strong 13.6% growth rate posted in FY 2000. Thereafter, growth is expected at 4.1% in FY 2002 and only 3.7% in FY 2003. Looking at the average game win percent, Mr. Guindon pointed out that actual average win percent in FY 1999 and FY 2000 were somewhat close so the Fiscal Division believes the hold will stay within an average over those two fiscal years throughout the forecast period. Therefore, not much change in the average game win percent is expected.

Mr. Guindon explained that the Fiscal Division forecasts the gaming win and the slot win together then translates that into the percentage fees from taxable gaming with an assumption for the Estimated Fee Adjustment and that provides the forecast for collections.

Mr. Fisher asked what inflation rate was used in the inflation adjustment column. Mr. Guindon replied that he used the Consumer Price Index and WEFA and, unfortunately he could not recall what that forecast was because he used it on a quarterly basis and applied it to a fiscal year not a calendar year. He estimated that the inflation rate he used was in the 2.6 to 2.5% range for the FY 2002-03 and closer to 3% for FY 2001.

Bill Anderson – Budget Division

Bill Anderson, State of Nevada Budget Office, provided the Forum with his handout entitled *State of Nevada Department of Administration Budget Division General Fund Revenue Forecast – October 2000* (Exhibit I). Mr. Anderson stated that since the Forum has already heard many details from both the Gaming Control Board and the Fiscal Division, his remarks would be more general.

Mr. Anderson informed the Forum that his handout (Exhibit I) contained explanations of the methodologies used by the Budget Division in forecasting. In addition, the handout provides some historical accuracy data as well as commentary on particular forecasts.

With respect to Percentage Fees Collections, Mr. Anderson advised that the Budget Division's forecast was very similar to the Gaming Control Board's forecast—a 6.6% growth this year or $597 million in collections, 4.9% growth next year and then close to 4% growth in FY 2003, close to $651 million in Percentage Fees Collections. Mr. Anderson commented that the Budget Division constantly assesses how their forecast models are doing. Since the Bellagio opened in the final quarter of 1998, the model has had a tendency to underestimate collections. Therefore, the Budget Division has taken that into consideration and their new forecast reflects a slight change, relative to what the model utilized was actually forecasting.

The Budget Division forecasts on an activity month basis so the current quarter would be July, August and September. They have information through July and August and the model reflects about 7.5% growth for that activity quarter. However, there is actual data that shows an approximate 9.5% growth rate so due to the underestimating of the model, the Budget Division has brought up their forecast. Mr. Anderson said that much of the mega-resort construction was finalized with the completion of the Aladdin and the new rooms that will come on line will be in the locals market. However, the Budget Division considered in its forecast 1,000 rooms at the Stratosphere which was only half completed but construction at that site has resumed. He stated that the Budget Division is aware of the rumors regarding the Desert Inn site and that the Frontier may be imploded and replaced by a San Francisco theme property. He acknowledged that there was a long list of projects that have been approved by various planning authorities in southern Nevada and will be coming on line but there was no specific timetable for those properties.

Most importantly, Mr. Anderson said a review of the Budget Division's forecast for Percentage Fees, in a structural sense, was contained on page 15 (Exhibit I). For instance, the Budget Division looks at inflation adjusted collections on per-room night basis. A continuation of recent historical trends is seen with a slight growth in real collections per room night. The downtrend flattened out in 1998 and 1999 and that has increased somewhat and that trend is expected to continue.

Mr. Anderson said that the Budget Office came in at the higher end of the forecast range, along with the Gaming Control Board. He explained that in looking at this year, taxable gross revenue was up 8.6% and slot game win was up as well. He reminded the Forum that the Budget Office did not get involved with the Estimated Fee Adjustment but they have lumped in a $3 million Estimated Fee Adjustment to their forecast. Mr. Anderson further explained that in forecasting, consideration was given to the $650 million revenue source, the General Fund Budget of $1.5 billion each year so since the Estimated Fee Adjustment is only several million dollars, plus or minus, the Budget Office does not spend much time with it. He reminded the Forum that in the past the Budget Office completely disregarded the Estimated Fee Adjustment; however, given recent performances, they now consider it. The Budget Office was interested in percentage fees collected off of gross revenue and that was up 6.6% and win was up 9.2% through the first three months of this fiscal year, visitor volume is up 7.8% on a calendar year basis and up 7% through the June to August period.

Mr. Anderson acknowledged that Mr. Greathouse was interested in differences between forecasts and forecasting methodologies and in that regard, stated "the Budget Office does not worry about the estimated fee adjustment that much." Relative to the Fiscal Division, the Budget Office does look at things on an inflation adjusted basis with respect to forecasting gaming revenues, but looks at inflated adjusted figures on a per room collection basis. In other words, the Budget Office believes that a $5 bet at a Blackjack table five years ago is a $5 bet today. Mr. Anderson stressed that the Budget Office does not believe there is an inflation premium in the gaming tax base that is seen in the sales tax base or other economically driven tax bases.

Mr. Seevers asked Mr. Guindon whether the EFA was the major difference between the different forecasts. Mr. Guindon replied that it was his understanding, after listening to all of the presenters, that each forecast contained an EFA component of approximately $3.5 million. Thereafter, pertaining to the Fiscal Division's forecast, with the growth from taxable collections of 6% and considering the $11 million EFA from last year, about 1.6% will come off so a growth rate within the 6% range is not unreasonable. He acknowledged that a slowing down is expected in the remaining nine months of FY 2000. If all the forecasts have a $3-$3.5 million adjustments for the EFA, then the Budget Division and the Gaming Control Board must be assuming higher taxable growth than the Fiscal Division has forecast in order to generate higher net collections. The Fiscal Division believes that although the EFA may be a small revenue source, anything that moves a major revenue source by 1.5% to 2% should not be considered trivial. Also, the EFA, net, sometimes generates as much revenue as the Restricted Slot Tax and therefore should be included in forecasting.

Mr. Morgan asked what the rate of growth was for the actual figures collected for the current year of projection. Mr. Guindon asked for clarification on what was being requested. Mr. Anderson interjected that the figure Mr. Morgan was looking for was 5.9%. He added that the Budget Division focused on the fees from taxable gross revenue which are up 8.6%.

Mr. Guindon commented that at past October meetings, the Forum has "locked-in" numbers and at other October meetings, the Forum has chosen not to do so. He reminded the Forum that they could take the numbers presented under consideration and then wait until the November meeting to lock into numbers for the forecast period. Or, the Forum could enter into some preliminary forecasts regarding the current fiscal year and the next biennium. Chairman Seevers thanked Mr. Guindon for reminding the Forum on the process historically taken and asked the Forum if they would like to act on the forecast presently or await the next meeting.

Mr. Anderson interrupted that since the State's Budget is being completed presently, the more information they could obtain now the better it would be for them. However, it was ultimately the Forum's decision.

Mr. Seevers sought input from the Forum and reminded the members that outside opinions would be requested based on the action taken at the last meeting of the Forum.

Mr. Morgan said that in dealing with any of the forecasts, the Forum could either find a projection for an absolute dollar amount or as a percentage increase and the Chairman would request a motion in either instance. In addition, if the Forum revised the forecast for FY 2001, that would not change the budget but it would change some of the impacts relating to year-end balances. However, it was his opinion that it would be beneficial to make that revision to FY 2001 since the estimate by the Forum was $525 million for this year and the previous year came in at a number higher than that so a revision might be appropriate and would affect how the Forum dealt with the other two fiscal years. Chairman Seevers concurred and asked for comments from the Forum.

Mr. Greathouse agreed that the process by the Forum has been different over past cycles. It was his expectation that at today's meeting the Forum would receive each group's recommendations but that one number would not be selected until the November meeting. However, he was willing to concede to the desire of the Forum. He commented that there was a tight range between the agency, Fiscal Division, Budget Division and WEFA estimates, so it would be easy to come to an approximate number within the range provided in those forecasts yet he would prefer to wait until the November meeting to lock in a number.

Mr. Fisher said his recollection about the process taken by the Forum at the October meeting was the same as Mr. Greathouse in that he was not expecting to come up with numbers at this meeting but if it would be helpful to the budget process, perhaps the Forum could come up with a compromise number to meet staff needs. Mr. Seevers asked if the discussion was relating to the FY 2001 revision number only or all the numbers. Mr. Fisher responded that whatever staff required the Forum could provide.

Mr. Anderson reiterated that from the prospective of the Budget Office, more information would be better than what they were working with presently. In some years, the Forum has forecast the current year and put off the next two years for some revenues, mainly the small ones. In other instances, the Forum has forecast all three years and, alternatively, the Forum has in the past held off in providing any numbers until the November meeting.

Mr. Guindon stated that the Fiscal Division did not explicitly need a number from the Economic Forum in order to adjust the ending fund balance or other budgetary matters. So, it was entirely up to the Forum to determine whether or not to provide a number at the October meeting or the November meeting.

Mr. Zideck concurred with Mr. Greathouse in that he would feel more comfortable reaching a final decision in November. He mentioned that in looking at the numbers, it was interesting to note that in FY 2003 almost all the forecasts come together so it was just a question of how fast the change was going to occur. He said it would be helpful to him to hear additional information between now and the November meeting. He opined that for FY 2001, the upper numbers appear a bit high and the lower numbers are too low.

Chairman Seevers said that based on the comments from the Forum, he would seek a motion to not provide any numbers until the November meeting.

MR. ZIDECK MOVED TO DEFER A FORECAST NUMBER FROM THE ECONOMIC FORUM UNTIL THE NOVEMBER 2000 MEETING.

MR. GREATHOUSE SECONDED THE MOTION.

Mr. Morgan stressed that for budgeting purposes it would be useful for the Forum to provide staff and the Governor's Office with some indication of their forecast. He stated that although the number would not be absolute, it would be helpful to provide those responsible for putting together the State's Budget an indication of the Forum's range based on the numbers presented if at all possible. He stated he would be prepared to provide staff with a temporary number at this time.

Chairman Seevers indicated that there was a motion and asked whether Mr. Zideck would like to amend his motion. Mr. Zideck said he would be happy to amend his motion to include Mr. Morgan's suggestion. Mr. Greathouse concurred.

MR. ZIDECK RESTATED HIS MOTION BY MOVING THAT THE ECONOMIC FORUM REFRAIN FROM CONCLUDING A SPECIFIC NUMBER FOR THE PERCENTAGE FEES TAX FOR FY 2001 UNTIL THE NOVEMBER 2000 MEETING. HE FURTHER MOVED THAT THE FORUM INDICATE AN ESTIMATE PERCENTAGE NUMBER AT THE OCTOBER MEETING.

MR. GREATHOUSE CONCURRED.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

Mr. Fisher indicated he was unclear on the motion that just passed. He said it was his understanding that Mr. Morgan's suggestion was being followed by Mr. Zideck and that the Forum would be looking for a number somewhere in between the estimates that were provided, and that would put the figure at approximately 5.5% for the increase in FY 2001 as a "guidance" figure. Chairman Seevers indicated that was his understanding as well.

Mr. Morgan said his understanding of the motion and he voted accordingly, was not to provide a number at the October meeting. However, he would be willing to make a motion that a number be provided at this meeting.

MR. MORGAN MOVED THAT THE ECONOMIC FORUM'S FORECAST FOR FY 2001 FOR PERCENTAGE FEES TAXES BE $593 MILLION.

MR. FISHER SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

* * * *

MR. MORGAN MOVED THAT THE ECONOMIC FORUM FIND FOR FY 2002 PERCENTAGE FEES TAXES AT $620 MILLION, AND FOR FY 2003 PERCENTAGE FEES TAXES AT $645 MILLION.

MR. GREATHOUSE SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

Chairman Seevers thanked the Forum and indicated to staff that guidance numbers have now been provided and the Forum would be looking more strongly at the numbers next month.

Mr. Anderson reiterated that it was very helpful to the Budget Division to have a guidance number and understood that the numbers provided were subject to review at the November meeting.

Chairman Seevers suggested that the Forum take a break. The Forum recessed at 12:15 p.m., and reconvened at 12:30 p.m.

Chairman Seevers stated that during the break he recollected what the Forum has done in the past regarding providing numbers at the October and November meetings. In addition, he asserted that the Forum is taking a different course this cycle based on Mr. Greathouse's suggestion at the last meeting to ask for outside input on the numbers that were being presented at today's meeting. He asked whether it was important to give the outside reviewers a preliminary number, with the understanding that the number is subject to review at the November meeting and the final review at the May meeting.

Mr. Fisher said it was his understanding that there was much discussion about increasing the forecast that was formulated for the base year for this cycle. If the Forum were to begin with the estimates provided at this meeting, which in most cases were quite low, it might be helpful to look at the numbers, particularly for FY 2001, and revise the Forum's forecast so it can be used in discussions at the November meeting.

Mr. Morgan stressed that the purpose of making a motion to adopt a specific dollar amount was to provide guidance for staff while they go through the budget process. He said that the Forum should recognize that the final report completed by December 1, 2000, was the only set of numbers that "count" so in one month there will be up-to-date information. His calculations were based on a dollar amount rather than a percentage and his purpose was strictly to provide a dollar amount to staff rather than to do a calculation as to percentages.

Mr. Greathouse said he was comfortable providing a number at this meeting as explained by Mr. Morgan for staff in preparing the budget and additionally for the outside reviewers to provide input at the November meeting of the Forum. Mr. Zideck agreed that he had no problem providing a guidance number at this time.

Chairman Seevers agreed that providing a guidance number at this time would be helpful to the outside reviewers and the TAC.

Casino Entertainment Tax

Frank Streshley – Gaming Control Board

Mr. Streshley stated the Casino Entertainment Tax was based upon a forecast of taxable casino entertainment activity. This is a 10% tax applied to food, beverage and admission sales. The forecast of the taxable activity is based upon examination of historical patterns and the forecast also incorporates the expected increases in taxable activity due to openings of new properties and existing properties that are closing.

Mr. Streshley stated that the Board has difficulties forecasting the Casino Entertainment Tax due to many variables such as shows run for different durations and the price charged for shows varies. He stated that Casino Entertainment Tax collections are expected to go down during the next fiscal year and the biennium, after recording a 22.4% increase in FY 1999 and 22.2% in FY 2000. Mr. Streshley noted that the decline is due to several showrooms closing: the Desert Inn's Crystal Showroom with 650 seats and the Circus Maximus Showroom at Caesars Palace with 1200 seats which is closed due to remodeling. In addition, many of the showrooms are remaining "dark" for extended periods of time in between the large production shows that are coming through Las Vegas. These "dark" times can range from one week to several months until the next show arrives.

Turning to his forecast, Mr. Streshley stated that for FY 2001 the Board expects to see Casino Entertainment

Tax increasedby 6.1% or $62.1 million. This number includes one new property opening with a showroom—the Aladdin with 1200 seats. This property will also have a special events arena with 7,000 seats; however, that does not fall under the Casino Entertainment Tax due to a provision in the regulation that excludes areas with over 2,750 seats from Casino Entertainment Tax.

In FY 2002, the Board anticipates a 4.8% increase or $65.1 million and that does not include any new properties coming on line with new showrooms. In FY 2003, Mr. Streshley stated a 3.8% increase is expected with total collections at $67.5 million.

Mr. Morgan noted the substantial increase in what the Forum projected and the actual collections for Casino Entertainment Tax. He asked for Mr. Streshley to comment and/or explain the difference. Mr. Streshley replied that he has reviewed the large increases that have occurred in Casino Entertainment Tax not only considering the new properties that came on line but the existing properties that have added new shows. In addition, he believes some of the increase is attributable to an inflationary factor as the admission rates increase. He explained that in looking at the older properties (five years or older) an increase in sales for the Casino Entertainment Tax was seen. In response to Mr. Morgan's inquiry, Mr. Streshley stated that the Board has included the factor for casino closings.

Russell Guindon – Fiscal Division

Mr. Guindon directed the Forum to page 7 of the Fiscal Division's handout (Exhibit H). He indicated that the table on page 7 shows the historical collections for Casino Entertainment Tax for FY 1990 to FY 2000 and the Fiscal Division's forecast for FY 2001-2003. The Fiscal Division is at the top of the spectrum in terms of the growth expected by the three different forecasters. Mr. Guindon stated the Fiscal Division forecasts a 7.1% growth for FY 2001 or $62.7 million, and 5.7% in FY 2002 to $66.2 million and in FY 2003 a 4.9% growth, generating about $69.5 million.

Mr. Guindon agreed with Mr. Streshley that the Casino Entertainment Tax was a very difficult revenue source to forecast because there is not much information available to analyze. For instance, the prices being charged for shows is not available—even an average price. The only information that is available is the monthly collections. Further, the Fiscal Division is not aware of when a showroom may be vacant or the shows cycle. While 22% growth was still generated in both FY 1999 and FY 2000, and within the first two months of FY 2001 Casino Entertainment Tax was up by 9.9%, it would appear that to reach the 7.1% growth rate forecast by the Fiscal Division, Casino Entertainment Tax would have to average 6.5% over the remaining 10 months of the fiscal year and that does not appear to be out of line for the average growth seen in this revenue source.

Mr. Guindon said the underlying growth in Casino Entertainment Tax was strong and he agreed with the Board that the inflation factor in this revenue source was probably higher than the CPI series because of the incredible demand for the Las Vegas entertainment product.

Turning to page 8 (Exhibit H), Mr. Guindon pointed out a chart reflecting a 12-month moving sum of monthly collections from July 1990 to September 2000. He added that the Fiscal Division projected the Casino Entertainment Tax by looking at an inflation-adjusted 12-month moving sum to smooth out the month-to-month fluctuations. Mr. Guindon stated that one noticeable aspect of the chart on page 8 was the growth that occurred in 1994, flattening out in 1997, and then by the beginning of 1999 there was sustained growth with the opening of properties every two or three months. That chart additionally reflects that the rate of growth has since begun to slow. However, the most recent 12-month period (September 1999 to September 2000) still shows an increase of 18%.

Mr. Guindon surmised that Clark County comprised the majority of all of the Casino Entertainment Tax industry. In reviewing the previous historical fiscal year, Clark County accounted for 93% of the state's Casino Entertainment Tax collections.

Bill Anderson – Budget Division

Mr. Anderson directed the Forum to page 32 of his handout (Exhibit I). He reminded the Forum that the Budget Division looked at the collections from the Casino Entertainment Tax on a per-room basis. The graph on page 32 shows that Casino Entertainment Tax collections per room were steady through much of the 1990's and if that stability remains, the Budget Division should be able to forecast the Casino Entertainment Tax with certainty. Once the Bellagio opened in 1998, the structure of the Casino Entertainment Tax activity changed, and that was compounded with the additional mega-resort openings. Mr. Anderson directed the Forum to page 33 of his handout which showed that in the 1990's the Budget Division was able to obtain an accurate forecast but once the mega-resorts opened, things changed dramatically.

Mr. Anderson said the Budget Division was at the 4.5 to 5.5 percent forecast range. He agreed with the previous forecasters that the Casino Entertainment Tax was a difficult revenue source to forecast.

Mr. Fisher asked Mr. Anderson what dollar rate per night the Budget Division used in forecasting. In response, Mr. Anderson indicated that the Budget Division looked at the per room rate on an inflation adjusted basis. Throughout the 1990's it was approximately $.80 per room night for inflation adjusted terms. Presently, that has increased to $1.25 per room night rate. Then, that figure was increased by 2% per year so by the end of this forecast period the rate would go to about $1.30 per room night. He argued that the Casino Entertainment Tax was one area that inflation did play a role.

MR. FISHER MOVED THAT ESTIMATES BY THE FORUM OF $62 MILLION FOR FY 2001, $65 MILLION FOR FY 2002, AND $68 MILLION FOR FY 2003 BE DESIGNATED AS GUIDANCE NUMBERS FOR CASINO ENTERTAINMENT TAX COLLECTIONS.

MR. MORGAN SECONDED THE MOTION.

Mr. Morgan commented that the Gaming Control Board's revenues were the most optimistic forecasts; yet looking at the projections of 5 to 7 percent increases, one-third to one-quarter of the same rate has increased in the last two years.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

* * * * *

State Sales Tax

Lynne Knack – State Department of Taxation

Lynne Knack, Administrative Services Officer, Department of Taxation, stated that the Department of Taxation (Department) has noted that in FY 2000 compared to FY 1999 there was a significant drop off in construction because of the completion of the four major mega-resorts that opened during FY 2000 and the decline in the mining industry. Most of the strong increases in taxable sales have been related to the eating and drinking category for the mega-resorts that had individual months of sales that have not matched the 12-month period and was strongly dependent on consumer buying as it was two years ago before the mega-resorts opened.

Ms. Knack said that the 5.7% increase that was realized in FY 2000 was primarily in general merchandise areas, food stores, automobile purchases, and apparel. The Department of Taxation historically prepares a linear regression analysis and during this particular cycle the Department prepared other trend analysis with historical information. As a result, to validate their projections for the last few fiscal years, for FY 2001 the

Department's projection is approximately $635 million, for a 6.2% increase. For FY 2002, the forecast is $673 million for a 5.9% increase and for FY 2003 the projection is $710 million for a 5.6% increase.

Ted Zuend – Fiscal Analysis Division

Ted Zuend, Deputy Fiscal Analyst, Legislative Counsel Bureau, Fiscal Analysis Division directed the Forum to page 10 of the handout (Exhibit H). He commented that it was logical to tie Sales Tax growth to underlying measures such as employment or population growth and the CPI. He explained that in forecasting this revenue source he went back to FY 1988 for historical trends. This year was chosen because that was a period when the United States was growing briskly before a slow-down began resulting in a recession in 1990. Over that time, taxable sales increased about 8.8% on average. Population and employment have grown roughly 5.5% on average over that period and the CPI increased about 3.2% over that period. Clearly, the CPI is not directly related to taxable items but the Federal Government produces an index, entitled *The CPI for Commodities*, which is a long-term index for goods, less food and energy. He advised the Forum that Nevada does not tax energy as part of its sales tax and only taxes part of food as part of its sales tax at restaurants. Over the last 12 years, the CPI increased only 1.97% while wage growth in Nevada increased 3.76% within the same time period. Combining population and wage growth equals 9.4%, and combining population and CPI equals 8.8%.

Mr. Zuend said there has been an argument that there has been a shift in consumer preferences for services; however, if the shift towards services occurs because the inflation rate in services is much faster than that on goods. On average, the consumer is paying more payments for medical services and legal fees than making a purchase such as a television or good. Mr. Zuend reiterated that taxable sales growth during the 12-year period has averaged slightly above the middle of that range and almost exactly the same as the population and CPI growth.

Mr. Zuend noted that WEFA has forecast a 2.5% increase for FY 2001, 2.4% for FY 2002 and 2.7% for FY 2003. The state demographer forecasts population growth at 4.3% for FY 2001, 3.1% in FY 2002 and 3.0% in FY 2003. Fairly consistent with that is the forecast by the Research and Analysis Division with employment forecasts of 4.5% in FY 2001, 3.4% in FY 2002 and 3.4% for FY 2003. Mr. Zuend said there are ranges, based on the above numbers, in FY 2001, between 5.9% and 7.7%; for FY 2002 the range is 4.6% to 6.5% and in FY 2003 the range is 4.7% to 6.8%. The Fiscal Division has projected that Taxable Sales for all three years will fall within those ranges since there is nothing unusual occurring during this 3-year period that would greatly influence the numbers and the United States is not in a recession.

Mr. Zuend asked the Forum to turn to a chart entitled *Recent Trend and Forecast of Taxable Sales, 3-month Moving Total* (Exhibit H, page 12), and pointed out that the chart shows what has occurred in Taxable Sales for the past couple of years and what was expected through the end of the biennium. During July 1998 through April 1999, an upward slope is shown on the taxable sales graph, which coincides with the completion of the Venetian and the Mandalay Bay. After that there is a flattening through December 1999 with an upward trend beginning in January 2000. Turning to the previous table (Exhibit H, page 11), Mr. Zuend discussed the flattening out that occurred in May, comparing the three-month average of taxable sales to the three-month average of one year ago.

Discussing the annual growth rate, Mr. Zuend indicated that due to the substantial growth over the past few months, the Fiscal Division has forecast a 6.6% revenue growth for FY 2001 at $638 million, a 6.0% growth rate for FY 2002 at $677.7 million and for FY 2003, the revenue for Sales Tax collections was projected at 5.7% for $716.2 million.

Bill Anderson – Budget Division

Mr. Anderson stated that at the end of the forecast period, the Budget Division projects there will be approximately $705 million in Sales Tax collections in FY 2003, which works out to average annual growth rates in the 5-6% range. Directing the Forum to page 7 of his handout (Exhibit I), Mr. Anderson reminded the members that the Budget Division's forecast for Sales Tax collections was driven solely by job growth and the Budget Division's forecast was driven by 4.5% job growth this year and roughly 3.5% job growth in 2002 and 2003, which is similar to the forecasts that were provided to the Forum by WEFA and the Department of Employment Training & Rehabilitation at today's meeting.

From a structural basis, Mr. Anderson asked the Forum to look at the relationship between job growth and sales tax growth (page 8, Exhibit I), the Budget Division was not forecasting anything out of the ordinary. Historically, Mr. Anderson opined that there is a significantly stronger growth in sales tax rather than in jobs and that trend has continued. The bottom graph on page 8 shows Sales Tax collections per job and the Budget Division's forecast is within the pattern that has been present since the mid-1990's.

Chairman Seevers asked for comments from the Forum relating to Sales Tax Collections, if any.

Mr. Morgan noted that Lynn Knack from the Department of Taxation indicated the current projection for Sales Tax Collections was 6.1% so he applied 6% across the board and therefore would propose the following motion:

MR. MORGAN MOVED THAT THE FORUM PROJECT SALES TAX REVENUES FOR FY 2001 TO BE $634 MILLION, FOR FY 2002, $672 MILLION, AND FOR FY 2003, $709 MILLION.

MR. ZIDECK SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

* * * * *

Insurance Premium Tax

Lynne Knack – Department of Taxation

Ms. Knack stated that for the Department of Taxation (Department), and likely for the Budget Division and the Fiscal Division, the Insurance Premium Tax has been difficult to project this cycle because during almost every legislative session there has been changes in the laws that change the base or reporting cycle. Even though there was a 10.6% increase for FY 2000, included in the $129 million collected was approximately $4.5 million that was received from the premiums on industrial insurance. She stated that Senate Bill 37 (1999 Legislature) created the premiums on industrial insurance and the Department is attempting to project how much of the $4.5 million will continue through the biennium. SB 37 (1999) placed an offset to the payment of the Insurance Premium Tax for industrial insurance. She explained that The Division of Industrial Relations (DIR) bills the insurance companies for an assessment based on client claims, and the Department is still trying to work out the details of the numbers but they have found that most of the insurance companies did not receive notice of their DIR assessment to take it as a credit against the Insurance Premium Tax.

Ms. Knack advised the Forum that two years ago there was testimony from representatives of DIR that the assessment would be considered "revenue neutral." During the first year after this legislation, the Department has realized some revenue only because of the timing of the assessments that can be taken as credit against the Insurance Premium Tax.

Since the Department was uncomfortable projecting future gains from industrial insurance until more accurate data was available, they adjusted the base of $129 million by the $4.5 collected during FY 2000. Instead of a 10.6% increase, the adjustment made by the Department brings their forecast for Insurance Premium Tax to a 6.7% increase. Ms. Knack stated that the amounts received are "all over the board" so the Department took an average figure from all the increases. She reiterated that the computation was adjusted due to changes in the law in 1999 that adjusted the base of the tax. Therefore, an average of the increases over time was used, along with an adjustment for FY 2000 by removing the $4.5 million received by industrial insurance, to determine a forecast. The Department's projections for Insurance Premium Tax collections in FY 2001 is approximately $132 million which represents a 2.3% increase, for FY 2002 a 6% increase is projected and a 5.6% for FY 2003.

Asking for clarification, Mr. Morgan inquired of Ms. Knack if the $4.5 million which the Department did not believe was revenue was included in the FY 2000 actual figure of $129,328,000 and then the $4.5 was removed when the Department did forecasts for FY 2001 to consider the offset that is made in the current year. He asked whether there was any revenue loss as a result of those actions. In response, Ms. Knack indicated there was no revenue loss because the insurance companies are only allowed a credit for their DIR assessment up to the amount of Insurance Premium Tax that they would have owed. Elaborating further, Ms. Knack said that of the $4.5 million that was received, the Department has been able to determine that there is approximately $3.9 million that the insurance companies could have taken as credit but they did not. So, for FY 2000, with the information they received to date, the Department has determined that approximately $600,000 of the $4.5 million would have been legitimately due for premium tax on industrial insurance. However, as the companies progress with their business and they begin to have worker's compensation claims against them, the DIR assessment would increase and they would owe the Department of Taxation less tax. Unfortunately, the timing of DIR for the assessments differs with the timing of the Department as far as the payment of the premium tax and the DIR does a "true-up" whereby they reduce the original DIR assessment and then the Department is required to do the same. For instance, if DIR took too much credit then the Department would have to bill and vice verse. The "true-up" will not be occurring until January or February 2001 and the Department was not sure whether the DIR will be able to have an accurate idea of the outcome of that process until after the Forum's April meeting.

Mark Stevens – Fiscal Analysis Division

Mark Stevens, Assembly Fiscal Analyst, Legislative Counsel Bureau, Fiscal Analysis Division, indicated that the Fiscal Division's forecast regarding Insurance Premium Tax began on page 14 of the handout (Exhibit H). He explained the methodology used by the Fiscal Division was to project growth in the Insurance Premium Tax taking into account one-time actions that would not reoccur. As was indicated by the Department of Taxation, there have been many changes in the way the tax is collected and then there is the workers compensation issue that affected FY 2000 so it is difficult to determine a true growth rate for this particular tax over time. Therefore, the Fiscal Division has made adjustments to the last three fiscal years: For FY 1997-98 the adjusted rate is 9.8% and 5.9% in FY 1998-99 and for FY 1999-2000, a 6.8% was the adjusted rate. Mr. Stevens explained that computing the adjusted rates equals a three-year average growth rate of 7.5%, or for a two-year average, the rate would be 6.35%.

Further, Mr. Stevens explained that the Fiscal Division removed the workers compensation premiums, the $4.5 million that was generated during FY 2000 since it will not reoccur to that level in the future, and projected a 7% growth rate in each year of the biennium. Mr. Stevens said he has reviewed the information that was provided to him from the Department of Taxation regarding premium tax receipts due to workers compensation insurance. Based on that review, it appears there will be some money that comes through for new companies but the total amount of that sum is unknown. However, an estimated figure of $500,000 was placed in each year of the biennium for the worker's compensation factor. The Fiscal Division will be taking a look at the next quarter's information in a few weeks to gain additional information and, if necessary, make adjustments to that $500,000 figure at that time.

Mr. Stevens recognized that although the Department did not include a dollar amount for the industrial insurance factor, the Fiscal Division decided to include $500,000 for each year of the biennium. Based on the billings that have come in from the previous two quarters, it appeared there was $600,000 to $700,000 of tax that could not be credited back by DIR. The last quarter was approximately $150,000 so the Fiscal Division will be looking at the next quarter to see what was generated and then the $500,000 will need to be adjusted.

Turning to page 15 of the handout, Mr. Stevens added that the chart shows the $4.5 million that was generated in FY 2000 and the Fiscal Division has projected a 7% growth rate except for the worker's compensation lines of insurance bringing the Fiscal Division's projections to $133,877,000 which would be a 3.5% growth rate this year, and a 7% growth rate for each year of the biennium for $143,187,000 in FY 2002 and $154,148,000 in FY 2003.

Bill Anderson – Budget Division

Mr. Anderson stated the methodology for forecasting Insurance Premium Tax by the Budget Division was to relate the tax to real personal income trends in the State. The Budget Division forecasts a 7.5% growth in real income in FY 2001, down to 6.6% in FY 2002 and 5.5% in FY 2003.

Mr. Anderson related that although he did not disagree with what was discussed by Lynn Knack of the Department of Taxation or Mark Stevens of the Fiscal Division, his only job was to justify the Budget Division's forecast. He conceded that the Forum was entitled to an explanation since the Budget Division was slightly above the other forecasters.

Mr. Anderson pointed out that on page 21 of his handout (Exhibit I), the Budget Division has been providing the Forum with forecasts for Insurance Premium Tax since October 1996. Of those 15 annual forecasts, 14 have come in below actual collections. Prefacing his next comment with an apology to the Fiscal Division and the Department of Taxation, he noted that the other forecasters have also come in below actual collections for that same timeframe which means everyone is underestimating. The Budget Division has not added a dollar figure into their forecast for the industrial insurance component but the forecast allows for a positive number for that factor if needed.

Chairman Seevers asked if any member was ready to suggest a "guidance" number for the Insurance Premium Tax.

MR. FISHER MOVED TO SET A GUIDANCE NUMBER FOR THE INSURANCE PREMIUM TAX OF $133 MILLION FOR FY 2001, $142 MILLION FOR FY 2002, AND $151 MILLION FOR FY 2003.

MR. MORGAN SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

Mr. Stevens pointed out that the first quarter collections for the Insurance Premium Tax will be received by the time the Forum next meets on November 30, 2000, and that should provide assistance to the Forum.

Business License Tax

Lynne Knack - Department of Taxation

Ms. Knack stated the Department historically consults with the Division of Employment Security on predictions of employment growth. Ms. Knack reminded the Forum that the Business License Tax has been in effect since FY 1992 so there is only eight years of historical data. She explained that the actual revenue percentage increase during this time was one-half to one percent higher than employment growth. Although the Department is unsure why that has been the historical trend, they will continue to review it.

Ms. Knack said the Division of Employment Security has projected employment growth of about a 4.5% increase, 3.4% and 3.4% increases for FY 2001, FY 2002 and FY 2003, respectively. The Department's projections, based on linear regression and forecast analysis is slightly higher with $79.5 million for a 4.8% increase in FY 2001, $83 million for a 4.5% increase in FY 2002, and $86.8 million for a 4.4% increase in FY 2003.

Ted Zuend – Fiscal Analysis Division

Mr. Zuend stated that the Fiscal Division does not use a great deal of analysis to forecast the Business License Tax and in the past, has relied on the employment forecast produced by the Bureau of Research and Analysis of the Department of Employment and Training. When he began this forecast, he only had calendar year forecasts of employment growth and has since received the quarterly data so by the November 30th meeting of the Forum, the numbers will change slightly upward.

Mr. Zuend indicated that he has reviewed the same information that was provided to the Department of Taxation and as Ms. Knack stated, the Business License Tax has only been in effect for eight fiscal years and much of that does not provide a good series because in FY 1992-93 the tax was applied differently. Then, in 1994 there was a change to the current base that resulted in a collective tax increase so that number was not worthwhile.

Acknowledging Ms. Knack's presentation, Mr. Zuend said the major difference between the Bureau's employment count and the tax base is that the former is purely a head count by place of work, while the latter is prorated based on the hours worked by part-time employees. The tax is equivalent to a headcount for full-time employees. Over the last five years, the data indicate that taxes have increased at a slightly faster rate than employment growth. This suggests that either the average hours of work of part-time employees has increased, or that employees working full-time have been increasing faster than the actual number of employees working part-time. These possibilities are consistent with the tight labor market that Nevada has been experiencing. It becomes difficult for employers in the State to attract enough workers so employers are likely utilizing their existing employees more. In the numbers reported by WEFA and the Bureau of Research and Analysis, there is a lag in employment growth. Mr. Zuend stated that he did not expect to see this sort of "tightening" in the labor market through the end of the biennium.

Mr. Zuend said the Fiscal Division forecasts $79.2 million for FY 2001 and $82 million for FY 2002 and for FY 2003, approximately $84.6 but these figures might be revised somewhat upwards over the next biennium with the largest revision in FY 2003. Mr. Zuend reiterated that the Fiscal Division has not made the adjustment to their forecast as has the Department of Taxation; however, they may make necessary adjustments after the first quarter data is received by the November 30, 2000, meeting of the Forum.

Bill Anderson

Mr. Anderson said there was not much difference in the Budget Division's forecast for the Business License Tax—approximately $200,000 difference in FY 2001 and about $1 million difference in both FY 2002 and FY 2003. He stated that the forecast of Business License Tax by the Budget Division was driven solely by the job forecasts, which is at 4.5% growth for FY 2001 and slightly less than 3.5% growth in the biennium.

**MR. ZIDECK MOVED TO SET A GUIDANCE NUMBER FOR THE BUSINESS LICENSE TAX OF $79 MILLION FOR FY 2001,
$82 MILLION FOR FY 2002, AND $85 MILLION FOR FY 2003.**

MR. FISHER SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

Cigarette Tax

Lynne Knack

Ms. Knack said the Department of Taxation (Department) over the last few economic forums, has projected a percentage of increase for the Cigarette Tax based on the fact that all of the surrounding states to Nevada have increased their Cigarette Tax rates and that resulted in a "flow-through" from those states into Nevada, except in FY 2000 where the revenue only grew at .2% which was surprising given that the State of California had increased their tax by $.50 per package. Ms. Knack informed the Forum that nationally, the consumption rate is down by 6.5%, but in Nevada, perhaps due to population growth and the 24-hour aspect of the State, there is an increase in cigarette consumption. Comparing 1998 to 1999, there was a 1.5% increase in consumption even though the Cigarette Tax base did not reflect that increase for FY 2000.

The Department used linear regression and trend analysis to determine their forecast, resulting in approximately a 3% per year increase. Currently, for FY 2001, the increase is at 2.8% but that was only with two months of information. The Department projects for FY 2001 a 3.3% increase for almost $44 million, for FY 2002 $45 million with a 3.2% increase, and $46 million for 3.1% increase in FY 2003.

Russell Guindon

Mr. Guindon pointed out a table prepared by the Fiscal Analysis Division on page 16 of his handout (Exhibit H), which shows the Cigarette Tax collections on a fiscal year basis from FY 1991 to FY 2000. He agreed with Ms. Knack at the surprise that FY 2000 was so flat (0.2%) when previous years showed much higher growth rates (4-5%).

In determining a forecast for Cigarette Tax, Mr. Guindon explained that the Fiscal Division estimates a regression relationship between the cigarette collections and the state population. Mr. Guindon recognized the danger of placing any state revenue on a per capita basis because most of the state's revenues are not solely based on resident population, but are also based on non-resident visitors that consume things subject to state tax. However, when estimating the regression relationship between the actual collections and the population, the calculation assumes that the coefficient will reflect the resident as well as the non-resident portion and it will overstate how much tax was being produced by each resident.

Looking at FY 2000 and the number of cigarettes sold divided by the total population, every person would have to consume about 4.5 cigarettes per day. Obviously the smokers are picking up the cigarettes that are not being smoked by non-smokers and by assuming the forecast on a per capita basis, it is being overstated per resident. Using the estimated relationship, the Fiscal Division is projecting the Cigarette Tax will be at 2.4% in FY 2001 based on the 3.4% increase in population estimated by the state demographer. Cigarette Tax collections are expected at 2.1% growth in FY 2002 and 2% growth in FY 2003. Historically, the Cigarette Tax per capita has been decreasing and will continue to decrease through this year and the next biennium.

Bill Anderson

Mr. Anderson stated that the Budget Division's forecast for Cigarette Tax was driven by a 3.5% growth in the number of taxable packages of cigarettes. He noted that the Budget Division's forecast was almost identical to that of the Department of Taxation. He added that the year-to-date numbers, even though only for two months, do shed some light on the Cigarette Tax forecast. For this fiscal year, 2.9% annual growth was seen and a 2.8% growth was seen in the first two months of last fiscal year so that puts the current forecast within the realm of possibility.

MR. MORGAN MOVED THAT THE FORUM DESIGNATE AS A GUIDANCE NUMBER FOR CIGARETTE TAX FOR FY 2002, $45 MILLION, AND FOR FY 2003, $46 MILLION.

Mr. Guindon said he did not hear a number for FY 2001. Mr. Morgan said he did not provide one.

MR. FISHER SECONDED THE MOTION.

Mr. Greathouse asked whether there was a number for FY 2001. Mr. Morgan said he did not provide a number for FY 2001, which would leave it unchanged from what the Forum had already done.

Chairman Seevers clarified that the motion before the Forum would be to change the current out-years (FY 2002 and FY 2003) and leaving the FY 2001 forecast at $44,125,000. Mr. Morgan said that what correct.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

VII. PRESENTATION OF PRELIMINARY FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2001; FY 2002; AND FY 2003.

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Mr. Guindon stated that staff was looking for direction from the Economic Forum. He reminded the members that at the September 13, 2000, meeting of the Forum, there was a decision to move some of the major revenue sources to the minor revenue list and have those minor revenues addressed by the Technical Advisory Committee (TAC). He pointed out that revised Tables 4 and 3 (Exhibit G) were provided to the Forum members and contained the seven revenues that have been determined “minor” revenues.

Mr. Guindon said the Forum needed to decide whether they wanted a presentation on the minor revenue sources and decide on a guidance number. Or, the Forum could accept the agency estimates at this point for all the minor revenues.

Chairman Seevers advised the Forum that the motion taken at the last meeting regarding the minor revenue sources was unclear. Mr. Guindon interjected that the net proceeds of income and interest income were exclusively mentioned to be included in the minor revenue list. However, prior to that, there had been discussion regarding some of the device taxes and others, yet those were not formally included in the motion so he discussed it with Chairman Seevers who asked staff to get together and determine the major revenues and move the others into the minor category.

Chairman Seevers asked the Forum to comment on the list of minor revenues as presented, and additionally, if the Forum was interested in receiving any presentations on the minor revenues today.

Mr. Greathouse said his recollection of the discussion on minor revenue sources during the September 2000 meeting was that the Forum was hopeful that the TAC could come to an agreed number and absent that occurring, the Forum would step in to provide a number. He concluded that it was his understanding that the seven revenue sources presented as minor revenues were to be considered by TAC. He asked Mr. Guindon whether the TAC made an attempt to reach an “agreed-upon” number for the minor revenue sources.

Mr. Guindon replied that at the October 23, 2000, meeting of the TAC, there was such uncertainty of what revenues were major and what were minor, the TAC did not decide on a number for the minor revenue sources. Rather, the TAC wanted the Forum to decide which revenues were major and minor and then the TAC would produce forecasts accordingly.

Mr. Anderson said that during the TAC meeting, staff was instructed to review the presumed “minor” revenues and come up with a “consensus” forecast and it was his understanding that staff would be doing that at the direction of the Forum, some time around November 13-14, 2000.

Chairman Seevers asked if the Forum wished to direct the TAC to add the revenues presented in Table 4 to their list of minor revenues to consider.

MR. GREATHOUSE MOVED THAT THE TAC ATTEMPT TO REACH A CONSENSUS NUMBER ON THE SEVEN MINOR REVENUE SOURCES LISTED IN TABLE 3 (EXHIBIT G). IF SUCH CONSENSUS NUMBER CANNOT BE REACHED, THEN THE FORUM WOULD CONSIDER THAT PARTICULAR REVENUE SOURCE ALONG WITH THE SIX MAJOR REVENUE SOURCES THE FORUM CONSIDERS ON NOVEMBER 30, 2000.

MR. FISHER SECONDED THE MOTION.

Mr. Morgan said it was his understanding of the motion that the TAC was being requested to agree on a number for the seven minor revenue sources, but if the agency, Fiscal Division, and the Budget Division was unable to agree then it would be brought to the Forum for a decision. Mr. Greathouse and Mr. Fisher, as proponents of the Motion, agreed with Mr. Morgan's interpretation of the motion.

Mr. Guindon asked whether the Forum whether the Forum still wanted the seven minor revenue forecasts broken down into a separate table such as the one provided under Table 4 (cumulative Exhibit G), or whether the seven minor forecasts could be included in Table 3 (cumulative Exhibit G). In response, Mr. Zideck indicated he would like to see the seven minor revenue sources be documented in a separate chart as it was easier to follow. He also inquired whether the Forum would still be able to have a presentation on any of the minor revenue sources if they so desired. Mr. Guindon stated that was absolutely correct and the Forum could request a presentation or explanation on any of the projections from the minor revenue list at any time.

Chairman Seevers brought the motion back to the floor for a vote.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

Mr. Morgan asked whether the Forum should consider using the agency's figures in Table 4 for the minor revenue sources as guidance numbers for planning purposes.

MR. MORGAN MOVED THAT THE AGENCY FIGURES IN TABLE 4 REGARDING THE MINOR REVENUES BE USED FOR AS GUIDANCE NUMBERS.

Mr. Guindon asked if the motion included all the minor revenue sources, including those not contained in Table 4 but contained in Table 3.

Mr. Morgan replied that could be included in his motion but he was going to do that as a separate motion.

Chairman Seevers advised that the motion on the floor included not only the minor revenue sources identified in Table 4 but also those listed in Table 3 and asked for a second to the motion.

MR. ZIDECK SECONDED THE MOTION.

Mr. Fisher asked that the motion be repeated.

THE MOTION CARRIED UNANIMOUSLY BY THOSE PRESENT.

* * * *

VIII. INSTRUCTIONS TO THE TECHNICAL ADVISORY COMMITTEE

Mr. Guindon directed the Forum to Tab 8 of the meeting packet (Exhibit C), and stated that based on a request from the September 2000 meeting to have outside participants review the forecasts and provide written testimony at the November 2000 meeting, the Budget Division and the Fiscal Division compiled a list of participants to be contacted. He indicated that the 12 participants listed have been contacted and have agreed to participate. However, if the Forum had additional names to consider that could be accomplished as well. A letter has been prepared and signed by the Chairman of the Forum that will be sent to these participants along with the material from the October 2000 meeting and they will be asked to respond to staff on or before November 15, 2000 at which time that information will be provided to the Forum prior to the November 30, 2000 meeting.

Chairman Seevers asked for a date to have the names of any additional participants to staff. Mr. Guindon answered that staff would need to know from the Forum as to the 12 participants listed and then packets can be mailed to those persons today. Other names could be added; however, as the November 15th deadline draws near it will be difficult to get a response before the next meeting of the Forum.

Mr. Zideck asked whether the outside reviewers would be attending the November meeting or whether the Forum would have an opportunity to receive comments from the outside reviewers prior to the November meeting. In response, Mr. Guindon indicated that it was intended that the deadline of November 15th would allow staff to provide the Forum with the participants' written comments and the participants have been invited to attend the today's meeting or perhaps listen over the Internet. Mr. Guindon recollected that it was the desire of the Forum to have the comments from the outside reviewers in writing. However, if the information can be provided to the Forum in a timely manner and a member of the Forum would like a particular participant present at the meeting, the Chairman could be contacted with that information and then staff could be advised to have that person available in person or by speakerphone.

Chairman Seevers recollected that the Forum determined that the meeting in November would be far too long if every participant gave a presentation on their comments. However, if there were any major differences, then an outside reviewer could be invited to attend the meeting to comment.

Chairman Seevers noted that the Forum has come up with guidance numbers in several different areas and asked how quickly the Forum would be receiving a recap of those numbers. Mr. Guindon stated he would be able to reproduce the tables using the Forum's "guidance" numbers and get them to the Forum as soon as possible.

Chairman Seevers asked whether there were any additional instructions to the TAC at this time. Mr. Fisher asked what the TAC was planning to do with the guidance numbers provided for FY 2001 and whether those numbers would be substituted for the Economic Forum's prior estimate in order to provide more consistency in the percentage change numbers. Chairman Seevers said once the numbers were compiled and percentages were calculated he anticipated that was what the Forum and the TAC would be receiving. Mr. Guindon said he would be putting in the Economic Forum's numbers for the six major revenues and the minor revenues using the agency numbers and then he anticipates placing a header on the top of the sheets indicating the numbers were the Economic Forum's preliminary forecast prepared at the October 2000 meeting to make it clear that the forecast was preliminary in nature. Further, those tables would be included in the meeting packet for the November 2000 meeting.

Mr. Guindon asked whether the 12 names of prospective outside reviewers listed under Tab VIII were acceptable to the Forum. Chairman Seevers indicated that on behalf of the Forum the 12 names of participants were acceptable.

IX. PUBLIC TESTIMONY

Mr. Fisher asked if the November 2000 meeting could begin at 9:30 a.m., rather than 10:00 a.m., since that meeting, historically was quite long. The Forum concurred.

There was no public testimony.

X. ADJOURNMENT

Chairman Seevers thanked the TAC and everyone making presentations before the Forum today.

There being nothing further to come before the Forum, the meeting adjourned at 2:10 p.m.

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Joi Davis, Secretary to the State of
Nevada Economic Forum

APPROVED BY:

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