

MINUTES OF THE MEETING OF
THE STATE OF NEVADA ECONOMIC FORUM

October 27, 1998

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 27, 1998, in Carson City, at the Legislative Building, Room 4100 and was simultaneously video broadcast to the Grant Sawyer Office Building, Room 4412 in Las Vegas.

ECONOMIC FORUM MEMBERS PRESENT:

Steve Greathouse, Chairman - Carson City

Leo V. Seevers, Vice Chairman - Carson City

Cary Fisher - Carson City

David J. Morgan - Carson City

Diane S. Radunz - Carson City

ATTENDING IN CARSON CITY:

John Adkins, Treasurer's Office

Bill Anderson, State Budget Division

Karen Baggett, Commission on Economic Development

Al Bellister, Nevada State Education Association

Steve Bremer, Administrative Office of the Courts

Dan Culbert, Department of Employment, Training and Rehabilitation

John P. Comeaux, Director, Department of Administration

Connie Davis, Fiscal Analysis Division

Brian Doran, Administrative Office of the Courts

Bob Gagnier, State of Nevada Employees Association

Gary Ghiggeri, Fiscal Analysis Division

Jan Gilbert, PLAN

Russell Guindon, Gaming Control Board

MINUTES OF THE MEETING OF

Steve Hixon, Gaming Control Board

Dean Judson, University of Nevada Reno

Lynne Knack, Department of Taxation

Jens Larsen, Nevada Taxpayers Association

Neena Laxalt, Rose/Glenn

Barbara McKenzie, City of Reno

Chris Moyle, TMSG

Bob Murdock, Department of Employment, Training and Rehabilitation

Dan Miles, Fiscal Analysis Division

Bill O'Driscoll, Review Journal

Tim Ortez, University of Nevada

Cy Ryan, Press

Brendan Riley, Press

Jere Schultz, Department of Administration

Scott Sherwood, Treasurer's Office

Norman Streeter, Carson City School District

Mark Stevens, Fiscal Analysis Division

Sean Whaley, Capitol Press Room

Ted A. Zuend, Fiscal Analysis Division.

ATTENDING IN LAS VEGAS:

Knight Allen

Rick Bennett, UNLV

Richard Derrick, Clark County School District

Marvin Leavitt, City of Las Vegas

Senator Jon Porter

Walt Rulffes, Clark County School District

Steph Tyler, Nevada Bell

Colleen Wilson-Pappa, Clark County

EXHIBITS:

Exhibit A - Meeting Notice and Agenda

Exhibit B - Attendance Roster

Exhibit C - October 27, 1998, Meeting Packet

Exhibit D - WEFA, Inc., *Nevada Economic Outlook*

Exhibit E - DETR/R&A Bureau, *The Nevada Labor Market Outlook*

Exhibit F - DETR/R&A Bureau, *Handout Concerning DETR Website*

Exhibit G - Dean Judson's *Comments on the Nevada Economy*

Exhibit H - LCB Fiscal Division 2% Sales and Gaming Percentage Fees

Exhibit I - Las Vegas Gaming Market Performance Indicators

Exhibit J - Fiscal Analysis Division Backup Information

Exhibit K - Budget Division's Backup Information

Exhibit L - WEFA handout on Sales Tax and Gaming Fees Forecasts

BECAUSE OF THEIR SIZE, THE EXHIBITS ARE NOT ATTACHED TO THESE MINUTES BUT, UPON REQUEST, MAY BE REVIEWED IN THE FISCAL ANALYSIS DIVISION OR RESEARCH DIVISION LIBRARY OF THE LEGISLATIVE COUNSEL BUREAU, CARSON CITY, NEVADA. YOU MAY CONTACT CONNIE DAVIS AT (702) 684-6821.

I. ROLL CALL

Chairman Steve Greathouse called the October 27, 1998, meeting of the State of Nevada Economic Forum to order at 10:00 a.m. The secretary called the roll, and the chairman noted all members were present.

II. APPROVAL OF THE MINUTES FROM THE AUGUST 27, 1998, MEETING OF THE ECONOMIC FORUM

MR. MORGAN MOVED TO APPROVE THE AUGUST 27, 1998, MEETING MINUTES AS PRINTED. THE MOTION WAS SECONDED BY MR. SEEVERS AND WAS UNANIMOUSLY APPROVED BY THE MEMBERS OF THE FORUM.

III. PRESENTATION ON REGIONAL ECONOMY, WEFA, INC.

Bill Anderson, Economist, State of Nevada Budget Division introduced Jim Diffley and Chris Surowiec, Presenters for WEFA, Inc.

Jim Diffley, representing WEFA, Inc.

Beginning his presentation with key macro assumptions for the U. S. Economic Forecast (Exhibit D), Mr. Diffley advised that the U. S. Economy is continuing to perform well despite widespread worries concerning world economic problems. WEFA's forecast, assumed the world economy, absent the U. S., would grow by 1.4 percent in 1998 and 2.2 percent in 1999, a substantial downturn from growth of 2.4 percent in 1997. WEFA's assumption concerning the increase in the world economy was attributed to moderation in the Asian economic crisis, even while the remainder of the world's

growth slows.

Mr. Diffley discussed WEFA's assumptions that oil prices would increase by 8 percent over the next 12 to 18 months and that the Fed would reduce interest rates again in December. Mr. Diffley indicated that the Fed had changed its "policy stance from one of worrying about inflationary pressures in the U.S. to one of recognizing the risks of recession based on what's happening outside the U.S."

WEFA's forecast summary for the U.S. was that Real GDP growth would slow from 3.9 percent in 1997 to under 2 percent by 2000; inflation would remain "tame partly due to weakness in the rest of the world causing competitive price pressures on U.S. producers" and unemployment would increase only moderately in the U.S.

Continuing, Mr. Diffley advised that the Asian crisis had reduced 1998 GDP overall growth by about 0.3 percent. He further advised that if Asia does not recover, a possibility of world recession existed with a 35 percent chance of the U. S. falling into a recession. Other forecast risks include the Asian crisis extending to Latin America and continuation of a major stock market correction exacerbated by the Asian crisis. Concerning the 35 percent chance of recession, Mr. Diffley indicated a 5 percent risk of a global recession. He said, however, that it was more likely the recession would be severe overseas but the U.S. economy would remain strong enough to be only moderately affected. Discussing the Year 2000 problem in the business-cycle forecast, Mr. Diffley indicated there would be some inventory building as firms prepare for potential Year 2000 disruption that increases growth in 1999 followed by a moderate downward trend in 2000.

Concluding his remarks on WEFA's forecast for the U. S. economy, Mr. Diffley advised the members that growth will moderate, inflation will slightly increase and Asia will stabilize. He further advised that "deceleration of growth" would be the key going into the Nevada forecast.

Concerning employment growth, Mr. Diffley indicated the U. S. Mountain region, including Nevada, continues to lead in growth over the last year through September 1998.

He said, however, that employment growth is slowing primarily in manufacturing sectors in the West and in New England due to a lack of export demand from Asia. Nevada, however, remains at the top of the list of fastest growing states, tied with Arizona at a growth rate of 4.9 percent

Chris Surowiec, representing WEFA, Inc.

Ms. Surowiec presented a sector-by-sector overview of employment in the State of Nevada including both a recent history and WEFA's projected trend through the turn of the century.

Indicating Nevada's employment growth had consistently remained the fastest of all the states throughout the 1990s, Ms. Surowiec advised that as the economy decelerates and population growth slows, Nevada would still maintain a substantial lead on the national average and had "a good to excellent chance of actually hanging on to its number one ranking." Ms. Surowiec noted deceleration in Nevada employment growth from 7.2 percent in 1996 and 5.6 percent in 1997 down to an estimated 4.2 percent for 1998 compared with U.S. wide employment increases at 2.0 percent in 1996, 2.6 percent in 1997 and down to an estimated 2.4 percent in 1998.

Looking at total employment for Nevada graphically (Exhibit D) Ms. Surowiec noted that employment surged in the middle of the decade and continues to outperform the U.S.

In a presentation on employment by sector, Ms. Surowiec, noting Nevada's services-driven economy, said that service jobs comprise 42 percent of Nevada's employment structure compared with 30 percent nationwide. Ms. Surowiec advised that one quarter of all working Nevadans are employed directly in hotel, casino and amusement services.

With another round of hotel-casino expansion underway in Las Vegas, Ms. Surowiec projected that tourism arrival and spending must increase approximately 5 percent each year to "smoothly" absorb the new capacity. While maintaining a neutral outlook, Ms. Surowiec indicated there was some question as to whether a 5 percent increase could occur.

While business and health services account for less than 30 percent of Nevada's service-sector employment, Ms. Surowiec noted jobs in that sector were currently outperforming the recreation industry in terms of job generating ability. However, Ms. Surowiec pointed out graphically that the hotel industry was the largest segment of the service-sector job breakout, with business services and health services next.

Moving from services to trade, primarily retail and eating and drinking establishments, Ms. Surowiec noted that employment in the trade sector was largely also tied to the tourism industry. Adding that Nevada's retail industry had expanded "tremendously," not only from the state's own population growth but also from spending by tourists, Ms. Surowiec indicated that trade had added an additional 30,000 jobs since the beginning of 1996. Indicating once again a question of how much capacity could be absorbed, Ms. Surowiec noted that the trade sector was in a similar position to the services sector.

Continuing, Ms. Surowiec discussed the length of time it had taken the different sectors to double the number of jobs in the last ten years. Focusing on services, Ms. Surowiec noted that construction workers jobs increased to 90,000 jobs up 100 percent from 1993 and that the major resort properties were driving much of increased construction employment. Ms. Surowiec advised, however that the horizon could be volatile and hotel expansion a gamble especially since luxury resorts that were being built would drive prices and room rates up higher than the current average room rate.

Attributing a higher level of confidence in the Las Vegas housing market to robust population increases, Ms. Surowiec at the same time expressed concern that the residential permit issuance rate currently exceeds the rate of household formations. There was also some concern that new home prices in greater Las Vegas had not been appreciating. While looking at a relatively stable home building for the Las Vegas market, Ms. Surowiec indicated commercial building was currently speculative.

Turning to the construction employment bar chart, Ms. Surowiec pointed out a decrease in construction employment noting that the State was represented by the bar and the U.S. represented by the line.

Ms. Surowiec noted that prices for new homes in Las Vegas were increasing slowly and for existing homes only moderately by perhaps 3.5 percent; however, she attributed one of Nevada's great success stories to its combination of available employment and housing.

Describing the manufacturing sector as another success story, though on a smaller scale, Ms. Surowiec pointed out that only 4.6 percent of Nevada's total workforce is employed in manufacturing enterprises compared with U.S. manufacturing employment at 15.0 percent of the total. Ms. Surowiec indicated Nevada has sold itself as a good manufacturing center because of low taxes and low business costs; however, manufacturing is still underrepresented in the State. While there should still be some room for expansion; Ms. Surowiec pointed out that in the larger macro picture, manufacturing prospects, at least for the near term, were "fairly guarded." Using a Nevada to Oregon comparison Ms. Surowiec said it demonstrated that "putting all your eggs in the high-tech basket can lead to volatility" and the need for diversification. While indicating Nevada had demonstrated some success in diversification, anecdotally Ms. Surowiec advised that there was possibly a workforce preparedness issue pointing out that the number of Nevada students completing high school and college still ranked in the bottom fourth of states.

Moving through the Finance, Insurance, Real Estate, Transportation, Communication, and Public Utilities Sectors, Ms. Surowiec indicated there was nothing remarkable as far as national trends.

Concerning Nevada's mining sector, Ms. Surowiec noted that mining, especially in the rural areas, was currently very depressed. With mining employment having peaked at 15,000 jobs prior to 1997, more than 1,000 mining jobs have been lost since early 1997 with the decline likely to continue. Further, Ms. Surowiec pointed out that in the areas where mines are suspending operations, alternative employment is not available leaving highly-paid mining employees with literally no employment.

Moving to the labor market, Ms. Surowiec advised that while job creation had kept pace with robust labor force expansion, there was a downward trend from the mid-1990s through the end of 1997.

Concerning income, Ms. Surowiec pointed out that per capita income in Nevada is currently almost on line with the U.S. and was sufficient to attract people to Nevada.

Moving to regional performance, Ms. Surowiec noted that manufacturing jobs in mountain states were expected to increase 3 percent in 1998 over 1997; however, growth is expected to slow in 1999. Ms. Surowiec advised that while the mountain region had always been one of the most dynamic performers in the U.S. economy, the world's current weak economic situation had adversely impacted rural communities throughout the region, including Nevada. Nevada's grain, timber and mineral producers have been affected by lower prices and loss of jobs. Ms. Surowiec indicated global financial uncertainties continued to remain a question and that manufacturers in general and export industries faced "guarded prospects."

In a brief overview of demographics, Ms. Surowiec advised that population growth for Nevada, even while currently decelerating, is at four times the national rate.

In summary Ms. Surowiec noted that WEFA's outlook projected strong, but gradually decelerating growth. Recalling her earlier testimony concerning the need for a 5 percent growth in tourism arrival and spending to absorb new capacity in building, Ms. Surowiec expressed some concern in the decline of tourists from the Far East pointing out that if the world financial turmoil continues, Nevada could be significantly impacted. Ms. Surowiec also indicated future structural challenges that would have to be faced included having to face the fact that gaming tax revenues would not continue growing dynamically year after year; continued development of education and workforce skills and the need for public services infrastructure to accommodate recent as well as prospective growth. It was Ms. Surowiec's opinion that additional growth in Nevada would come at a somewhat higher cost than the growth already achieved.

On behalf of the Forum, Mr. Greathouse extended his appreciation to the WEFA representatives.

IV. DISCUSSION OF PRELIMINARY ECONOMIC ASSUMPTIONS

Bill Anderson

Mr. Anderson advised members of the Forum that the next item on the agenda would be a presentation by Bob Murdock and Dan Culbert, representatives of the State of Nevada Department of Employment, Training and Rehabilitation, Bureau of Research and Analysis.

Bob Murdock, Chief of Bureau of Research and Analysis

Bob Murdock identified himself for the record and advised the members of the Forum that the Bureau of Research and Analysis employs a staff of economists who review labor market data and generate information concerning employment statistics, unemployment estimates and occupational information. Mr. Murdock further advised that his presentation would provide an overview of

Nevada's labor market during the past few years as well as a look ahead for the next several years.

Beginning with the unemployment situation Mr. Murdock provided a comparative analysis of California and Nevada advising that traditionally tourism from California had been a major stimulus to the Nevada economy. Mr. Murdock's selected unemployment rates graph illustrated that Nevada's unemployment rate is lower than the national rate. Mr. Murdock pointed out that in July 1998, Nevada's unemployment rate was 4.2 percent while California's was 5.8 percent and nationally the rate was 4.8 percent.

Reviewing long term industrial employment growth (the number of jobs provided by employers), Mr. Murdock noted a steep growth rate during the past decade continuing through the current date. Currently, Mr. Murdock indicated the state was sitting at 943,000 jobs or 34,300 jobs more than a year ago. In September, Mr. Murdock pointed out that Nevada's employment growth was 4.8 percent and had strengthened in recent months.

Pointing out an industrial employment percentage increase over time, Mr. Murdock advised that since January 1983, Nevada's increase had been much higher than the nation or California on an ongoing basis. Slowdowns in the mid-1980s and the early-1990s were evident, according to Mr. Murdock, and the slight negative period which Nevada experienced was attributed to the slowness of the California recovery. Mr. Murdock said that recent industrial employment growth had slowed almost to the level being experienced in California as well as nationally.

While the industrial employment structure is somewhat different in Nevada than the nation, Mr. Murdock advised that the "goods producing sector" (mining, construction and manufacturing) makes up 16 percent of the Nevada economy compared with 15 percent nationally.

Reviewing Nevada's employment distribution over the past 17 years, Mr. Murdock pointed out a "tremendous increase in job growth" with jobs, for the most part, shifting to southern Nevada at the expense of the rural and Reno areas. Comparing Nevada with the national picture, Mr. Murdock discussed the large difference in the service sector (hotels, gaming and recreation) and the construction industry. Nationally, services are at 30 percent compared with 41 percent in Nevada and construction is almost double the national percentage. Employment in the trade, government and manufacturing sectors were all shown at a lesser percentage compared with the national percentage.

Concerning Nevada's industrial distribution, Mr. Murdock pointed out there had been very little change in the industrial structure during the past 17 years. While most industries kept pace with the increased growth in the hotel, gaming and recreation sector, Mr. Murdock said it would take large numbers of new jobs in the manufacturing sector, for example, to keep up with hotels, gaming and recreation. Pointing out minor changes, Mr. Murdock noted that Government had gone down slightly from 14 percent to 12 percent and construction had gone up. Looking at selected industries, Mr. Murdock noted tremendous growth in the hotel, gaming and recreation sector throughout Nevada, and while there was a slow period in the early 1990s due to the downturn in the economy, there was a rebound with moderate but constant growth rate during the past three years. The construction sector, Mr. Murdock advised had grown much faster and has been very strong.

Moving to total employment in each area, Mr. Murdock advised that growth in Reno had been slow but constant while Las Vegas grew at a faster rate making up a larger percentage of the jobs in the state.

Reviewing the Las Vegas selected industries graph, Mr. Murdock pointed out two sharp increases for the hotel, gaming and recreation and construction sectors. The increases, heavily impacting the growth of the industry, signified the opening of the Mirage and Excalibur during the 1990-91 period and the Treasure Island, Luxor and the MGM during the 1994-95 period. At the same time, a downturn in construction is seen during the last recession and then steady but strong growth driven by hotel, casino and home construction.

Selected industries for Reno indicate a different picture. The hotel, gaming and recreation sector in Reno has been relatively flat while construction, though very cyclical, has grown strongly. He noted that Reno has one of the "hottest housing markets in the country."

Mr. Murdock estimated that while there would be 930,700 jobs statewide during 1998, 619,100 or 67 percent of all jobs would be found in the Las Vegas area, while 19 percent would be found in Reno and 14 percent in the rural areas and balance of the state.

Concerning the labor force and unemployment, Mr. Murdock advised that there would be some interesting dynamics working in Las Vegas and projected an increase in labor force growth during 1999, a slowing in growth in 2000 and continued slowing in 2001. Conversely, along with the national increases, Mr. Murdock anticipated a slight but not significant increase in unemployment during the same time period.

Job growth is projected at 4.5 percent in 1998, with a strong increase to 6.6 percent in 1999 driven by major resort openings in Las Vegas and slowing to 5.5 percent in 2000 and continuing to slow to 4.8 in 2001. While job growth is projected to slow, Mr. Murdock indicated the figures are considered very positive for most areas and continue to show relatively strong growth.

Moving to the chart on job location, Mr. Murdock pointed out that with 67 percent of jobs currently in Las Vegas, the job gap between Las Vegas and the remainder of the state would widen with eight out of ten new jobs also projected to be located in Las Vegas, 13 percent in Reno and 7 percent in the balance of the state.

Addressing Nevada's occupational outlook, Mr. Murdock advised that Nevada's largest occupations are basically service driven indicating entry-level, lower skill, lower-wage positions which has implications for the taxes workers in those positions will pay.

In a discussion of Nevada occupations with the most annual openings, Mr. Murdock indicated that the largest occupations had the most number of jobs with waiters/waitresses, retail salespersons and cashiers topping the list. Concerning Nevada's fastest growing occupations for the period 1996 to 2006, Mr. Murdock noted rapid growth of computer and health-care oriented types of occupations.

Concluding his presentation, Mr. Murdock called the Forum's attention to the Bureau's handout covering the DETR website where additional information on Nevada's labor and market outlook could be found.

On behalf of the Forum, Mr. Greathouse extended his appreciation to Mr. Murdock for his presentation.

Dean H. Judson, Ph.D., State Demographer

Dean Judson identified himself for the record and referred to his handout entitled, *Comments on the Nevada Economy: The Apparent Shift in the North* (Exhibit G). Addressing his work on sub-state trends, Dr. Judson indicated there were many interesting things occurring, especially in the northwest on which his presentation would briefly focus. Concerning the South, Dr. Judson indicated that trends appear to be similar to recent history while something "clearly new was happening in the North."

Focusing on Washoe County, June 1998 over June 1997, Dr. Judson advised:

- Construction up 14.8 percent (1,400 jobs)
- Finance, Insurance and Real Estate up 6.3 percent (500 jobs)

Manufacturing up 7.5 percent (1,000 jobs)

- Service Sector as a whole down .1 percent (-100 jobs)
- Hotel, Gaming and Recreation Sector down .9 percent (-300 jobs)
- Retail, Wholesale, etc.: each up about 1 percent (about 300 jobs)

Concerning School Enrollments in Washoe, Carson and Douglas School Districts, September 1998 over September 1997, Dr. Judson advised that the following numbers were subject to slight inaccuracies since the Department of Education's final report had not yet been released.

- Washoe County School District enrollment up to 2.8 percent (1,455 children).
- Carson City School District up .8 percent (67 children) substantially less than projected.
- Douglas County School District was down .3 percent (-20 children), again substantially less than projected.

Additionally, Dr. Judson noted that the mix was different than expected:

- Washoe County School District K-6 grades, enrollment up 2.4 percent; while 9-12th grade enrollment up 4.1 percent, substantially greater than expected.
- Carson City School District K-6, enrollment down .2 percent, while 9-12th grades enrollment again up 4.0 percent.
- Douglas County School District numbers were not available; however, Dr. Judson indicated the mix was similar to that described for Washoe and Douglas counties.

Moving to the next page in his comments, Dr. Judson addressed housing growth and sales in Washoe County July 1998 over July 1997 based on reports the Demographer's Office receives from the Assessor's Office.

- Single-family detached units, up 4.5 percent (3,006 units).
- Single-family attached units, up only .4 percent (only 81 units).
- Multi-family units, up .3 percent (only 44 units in all of Washoe County).
- Mobile home units, up 3.5 percent (1,061 units).

With strong growth in single-family detached units, Dr. Judson noted that several local realtors had reported housing resales "soft," with relatively long times to sale and a corresponding drop in asking prices. Similarly, apartment owners reported a "soft" rental market with an increase in vacancies, which Dr. Judson compared to his own personal experience in selling a home and renting an apartment.

Moving to the page providing information on a new data source concerning Medicare enrollees in Washoe, Clark, Douglas and Carson City for the years 1996 over 1995, Dr. Judson advised that 1997 figures were not currently available.

- Medicare enrollees: An almost direct count of the 65 and over population with estimates of coverage at about 97 percent.
- Clark County experienced an increase of 5.9 percent from 1996 over 1995 parallel with the general population growth.

- Washoe County experienced an increase of 2.4 percent from 1996 over 1995.
- Carson City experienced an increase of 1.8 percent from 1996 over 1995.

Clarifying his use of percentages, Dr. Judson advised that while percentages were authorized for disclosure, direct numbers were not permitted for release.

Indicating the historical, economic base of northwest Nevada (hotel, gaming and recreation) was declining, Dr. Judson addressed the possibility that either manufacturing growth with a corresponding shift in the economic base is offsetting the decline; or the decline is being offset by in-migration of older families. The second possibility Dr. Judson noted was consistent with school and Medicare enrollment and the housing situation described earlier. It was Dr. Judson's opinion school enrollment evidence suggested the shift in northwestern Nevada to an economy driven by near retirement and retirement style in-migration.

Lacking a formal model, Dr. Judson provided the following "qualitative comments" concerning implications for state revenues:

- *Gaming taxes and taxable sales activity account for roughly equal amounts of General Fund revenue.*
- *If the aforementioned conclusion is correct, a continuation of growth in taxable sales should be seen due to residential construction and commercial/retail construction as a response to residential growth.*

However, Dr. Judson indicated there was no reason to expect continuation in gaming tax revenue growth in the North and that nominal declines were possible.

During a question and answer period following Dr. Judson's presentation, Mr. Greathouse asked if it was anticipated that gaming revenue would grow because of the shift in migration to northern Nevada.

Dr. Judson responded that if the level of tourism continued as it had in the past, gaming revenue growth would be expected to continue; however, current evidence in employment numbers did not suggest continued growth in the hotel, gaming and recreation sector. Dr. Judson indicated that while several projects were being discussed such as the Boomtown expansion and the overpass near the Clarion; (Atlantis); ground had not yet been broken for Sam's Town in southern Washoe County. Dr. Judson indicated that continued in-migration would generate construction activity that would in turn generate retail activity that appeared to be what is happening and what should be expected in the future.

Dr. Judson added that manufacturing growth may provide a shift into a new economic base with some dislocations in the next decade.

Having understood that Washoe County School District enrollment was down 1 percent or 500 or 600 students from what was anticipated in grades K-6, Mr. Morgan asked Dr. Judson if there were a greater number of students in the higher grades than had been anticipated.

Dr. Judson advised that what he had referred to were actual enrollment counts between 1997 and 1998, and what he believed Mr. Morgan was referring to was the difference between the 1998 count and the projection for 1998. Dr. Judson said it appeared the Washoe County School District's projection was too "bullish" for 1998 and probably for a few years into the future. He further advised that the School District based their projection on the Washoe County consensus forecast developed by the Department of Community Development which was "substantially more bullish" than what Dr. Judson had projected. For the record, Dr. Judson stated that for the past two years he had forecast a slowdown in Washoe County and Carson City.

Mr. Seevers asked Dr. Judson to revisit the topic of "soft" housing resales and whether those "soft" resales pointed to an oversupply and a slowing in future construction.

Dr. Judson attributed some of the shift seen in housing growth to low interest rates leading people to move from apartments to houses. However, Dr. Judson said it appeared there should be a slowing in construction unless northwestern Nevada maintained its attractiveness as a near-retirement and retirement destination.

On behalf of the Forum, Mr. Greathouse extended his appreciation to Dr. Judson for his presentation.

V. PRESENTATION OF COMPARATIVE SCHEDULE ON GENERAL FUND TAXES FY 1993 THROUGH FY 1999.

Dan Miles, Senate Fiscal Analyst

Mr. Miles very briefly took the Forum through the two schedules under Item 5 contained in their packet of information from the Fiscal Analysis Division (Exhibit C).

The first schedule under Tab 5 on page 43 of the packet was described as a comparative schedule illustrating Actual General Fund Revenue Collections from Fiscal Year 1993 through Fiscal year 1998, and year-to-date numbers for the Fiscal Year 1999, which compares September 1997 through September 1998, and provides a current status report.

Moving to page 44, Mr. Miles pointed out negative numbers for Liquor Tax, Cigarette Tax and Other Tobacco Tax. He explained that a year ago, the Department of Taxation accrued a 13th month of collections to line up the accrual of revenues between the State and local governments for which taxes are collected and distributed. As a result of the 13th month of collections, only two months of collections rather than three are reflected in the current year, FY 1999. The balance of the report illustrates collections for all of the other general fund revenues. Page 50 reflects the grand total collected in each year and the percentage change that occurred during that period of time.

Turning to the schedule on page 51, Mr. Miles explained this schedule as a kind of scoreboard comparing actual activity in the current biennium to the numbers forecast in April 1997 by the Economic Forum. Moving to page 58, and beginning with Fiscal Year 1997, Mr. Miles pointed out that the Forum had projected \$1,351,000,000 in round numbers and the revenue came in at \$1,352,000,000, a \$900,000 or .07 percent forecast error.

Moving over two columns to Fiscal Year 1998, Mr. Miles noted that while the numbers for Fiscal Year 1998 had been included in the schedules distributed at the Forum's meeting in August, they were not considered final. The numbers included in the current schedule are not expected to be adjusted by the State Controller and are considered final. Mr. Miles pointed out the Economic Forum forecast was \$1,436,000,000 and the actual numbers came in at \$1,412,000,000, an overforecast of \$23.5 million or 1.6 percent.

Mr. Miles advised that the forecast for Fiscal Year 1999 was \$1.5 billion and displayed against that the agency estimated numbers available at the time the schedule was constructed. Mr. Miles explained the agency estimates did not include all of the revenue sources, and thus they lacked a valid comparison.

Moving to page 82 Mr. Miles advised that the Budget Division of the Department Administration and the Fiscal Analysis Division of the Legislative Counsel Bureau forecast all revenue sources and have total preliminary forecast numbers. Looking at the box at the bottom of the schedule, Mr. Miles pointed out the Economic Forum forecast of \$1,536,000,000 for Fiscal year 1999 to which the total Fiscal Division and Budget Division preliminary forecasts are compared. Using the Fiscal Division projection, the Economic Forum's forecast will be about \$59.8 million overprojected and using the

Budget Division's forecast, about \$61 million overprojected. Mr. Miles also briefly discussed a document distributed to the Forum that illustrates current year-to-date monthly activities for sales and percentage gaming fees (Exhibit H).

VI. PRESENTATION OF PRELIMINARY FORECASTS ON MAJOR GENERAL FUND REVENUES

Bill Anderson

Mr. Anderson advised the Forum that the presenters would begin working their way through the 13 major General Fund revenues contained under Tab VI in their packets (Exhibit C). The forecasters, Mr. Anderson advised, would begin with the Gaming revenues followed by the revenues collected by the Department of Taxation that includes sales tax.

Russell Guindon, Research Analyst for the Gaming Control Board

Mr. Guindon identified himself for the record and before beginning his presentation on the forecast, briefly discussed issues affecting this particular cycle that were not present during the previous cycle. As indicated earlier by WEFA, Mr. Guindon advised that weakness in the Asian markets would have an impact on Nevada's gaming industry in general, but most likely in the "high-end play segment of the market." For the record, Mr. Guindon said that for the first eight months of calendar year 1998, the "drop" or level of the indicator on baccarat statewide was down 11.2 percent. He further advised that the win, or the revenue to the casinos from the activity on the game, was down 22.3 percent.

Beginning his presentation with the impact of foreign gaming on Nevada gaming revenue, Mr. Guindon pointed out that in the late 1980s, early 1990s, there was a significant expansion of casino-style gaming outside of the State. After the period 1990-91, expansion of casino-style gaming slowed or became non-existent as many of the gaming referendums initiated by other states failed. However, recent changes have seen those states with gaming going through an expansionary phase or maturing. Mr. Guindon further explained that some of these markets may have had low-end type of properties in terms of their "gaming good" offered to the public and now may be offering more amenities and providing a better product to their players.

Discussing states with gaming availability, Mr. Guindon began with Michigan, and told the members of the Forum that in late 1996, Michigan voters passed Proposition E that provided for three land-based casinos in the Detroit area. While the three casino's scheduled to open in 2002 wouldn't impact the current forecast, Mr. Guindon advised that the temporary casinos recently approved for operation in Michigan are also expected to have little impact on Nevada's gaming market.

The Mississippi market includes the Beau Rivage property going on line in the Gulf Coast market and expected to open sometime in the spring of 1999. It was Mr. Guindon's opinion that the Beau Rivage would follow along the lines of a Mirage-type, destination resort for tourists type of property.

The Harrah's property in Louisiana that had run into problems in the mid-1990s has now been relicensed and is expected to open in late 1999, and Mr. Guindon explained it is expected the property will also pursue the tourism, resort-type segment of the market.

While the Atlantic City market has been mature, Mr. Guindon explained that they were going through an expansionary phase with three or four companies planning to put properties on line. With the properties expected to come on line in 2001 and 2003, Mr. Guindon advised that again Nevada's current forecast cycle would not be impacted by the Atlantic City openings.

Addressing California's ballot question concerning Indian gaming, Mr. Guindon advised the members of the Forum that at this point in time he didn't have anything quantitative to provide. Indicating it would be best to see the election results and then try to determine the impact that approval of the referendum may have on Nevada's gaming industry, Mr. Guindon pointed out the

Forum would have an opportunity to adjust their December 1 forecast.

Addressing to what extent expansion or maturing of outside gaming markets would have on Nevada's gaming industry especially in bringing visitors to Las Vegas, Mr. Guindon pointed out that the Las Vegas Convention and Visitors Authority each year conducts a visitor profile study. The latest available study dated 1997 questions the likelihood of visiting Las Vegas given there is more gaming available outside of that market. The question on the survey asks if it would be more likely, less likely or make no difference. The response was that 56 percent of the visitors indicated no difference in their likelihood of attending the Las Vegas market while 39 percent responded they would be more likely to visit the Las Vegas market which Mr. Guindon indicated appeared contradictory. However, Mr. Guindon pointed out one of the other survey questions concerning frequency of visits among repeat visitors to the market in 1997, declined to 1.8 visits per year from 3.0, the average from 1994 to 1996. The survey question illustrated that while visitors are coming, they may not be coming as frequently as gaming becomes available closer to the market in which they reside.

Before moving to the forecast, Mr. Guindon discussed the bar charts (Exhibit I) illustrating the Las Vegas market based on Fiscal Year 1990 (June through May) through Fiscal Year 1999 year-to-date figures. Looking from left to right, Mr. Guindon pointed out the graph was illustrated by five bars which were titled: room inventory; enplaned/deplaned (passenger volume at McCarran Airport); visitor volume as reported by the Las Vegas Convention and Visitors Authority; and the final two bars which represent total win for Clark County and growth and total win for the Las Vegas Strip market. Mr. Guindon pointed out the previous expansion in Fiscal Year 1990, when the Mirage opened and between Fiscal Year 1990 and 1991, when the Excalibur opened saw a significant growth in room inventory and a corresponding growth in visitor volume as well as an increase in the enplaned/deplaned or passenger volume with a corresponding growth in win for the Las Vegas Strip market.

Moving to the next expansion, Fiscal Year 1994, which saw three mega-resorts, MGM Grand, the Luxor and the Treasure Island, come on line in the fourth quarter of 1993, Mr. Guindon noted a significant increase in room inventory with corresponding growth in passenger volume and visitor volume as well as growth in the win.

Mr. Guindon said that 1995 saw significant enplaned/deplaned visitor volume and an increase in win growth but not a significant growth in room inventory which was attributed to a carryover from the opening of the MGM Grand, the Luxor and the Treasure Island. The properties were first on line for half of Fiscal Year 1994 and half of Fiscal Year 1995.

Moving to the next expansion in Fiscal Year 1997, saw the Monte Carlo coming on line at the end of Fiscal Year 1996 and the beginning of Fiscal Year 1997, (providing 12 months); the New York/New York opening January 1997, (providing six months) and the Orleans property opening in late 1996, providing over six months and expansions at the Luxor and Circus Circus. With a significant increase in room inventory, Mr. Guindon pointed out that there appears to be a break in that there isn't any corresponding growth in visitor or passenger volume and at the same time there is no increase in win on the Las Vegas Strip which actually declined slightly in Fiscal Year 1997.

Moving into Fiscal Year 1998, Mr. Guindon noted there were no new major properties opening and indicated the significant portion of room inventory growth was being driven by property expansions at Harrah's and Caesars Palace as well as other properties coming on line outside the Strip area. Indicating a decline in passenger and visitor volume versus the previous 12-month period, Mr. Guindon noted growth in the win in Clark County as well as the Strip and said the strength in the Fiscal Year 1998 period in win growth was in the second half of the year and was driven by increases in slot win. Some of the win Mr. Guindon advised was driven by increases in mega-bucks slots activity as well as significant increases in the nickel slot win due to some new devices that had increased the play and the win in the market.

Concerning the last indicator, Fiscal Year 1999 year-to-date, Mr. Guindon advised that the first three months of activity compared to June through August Fiscal Year 1998, passenger volume is down slightly, visitor volume is flat and win on the Strip is actually up 1.5 percent.

Mr. Guindon advised the members of the Forum the Las Vegas Gaming Market Indicators chart had been provided so that they could see what had transpired during previous expansions in terms of room inventory, passenger and visitor volume and corresponding increases or decreases in the win.

Before moving on to the actual forecasts, Mr. Guindon briefly discussed the Gaming Control Board's forecasting methodology which was changed for this forecast cycle compared with the method used during the last forecast process.

Briefly, Mr. Guindon explained that the taxable gaming revenue forecast is derived from a forecast of total win and an assumption about how much of that win becomes taxable and had remained unchanged. For this forecasting period, rather than actually forecasting win per slot, Mr. Guindon explained it was decided to forecast separate components of win per slot, specifically coin-in per slot (activity side of the market) and then the hold or win percent so that the combination of the coin-in per slot and hold percentage would generate a win per slot.

To support the change in methodology, Mr. Guindon turned to the second page of Table 1: Gaming Market Statistics - Statewide (Exhibit I) which illustrates win for total as well as slots/games/tables and the coin-in on slots (activity indicator) and the drop, the win per slot, the win per game, and the coin-in per slot and the drop per game and slot win percent, the hold percentage and the number of devices put together on a fiscal year activity basis. Mr. Guindon pointed out that the tables illustrate growth as well as the actual dollar levels or unit levels depending on the particular component.

Looking at the column, Fiscal Year 1999 June through August and the section identified as Slot Coin-in, Mr. Guindon advised that the slot coin-in for that three-month period was actually up 2.9 percent. Going to the top of the chart to the section identified as Slot Win, the Fiscal Year 1999 column illustrates that the win on slots is actually up 7.6 percent, more than twice the increase in activity. Going to the second section from the bottom identified as Slot Win Percent, Mr. Guindon pointed out that the average hold on slots for the June to August period is about .23 percent above the same two-month period a year ago. Indicating this phenomenon had been happening for most of calendar 1998, Mr. Guindon attributed it to increased "mega-bucks play" and "nickel play." Explaining that quarters and dollars constitute the majority of the slot activity and win, Mr. Guindon said that increased play in nickels and nickels holding more, as their share of the market is increasing, tends to pull the average hold for all slot machines of all denominations. Mr. Guindon further explained that as significant growth is seen in mega-bucks and nickels, dollars have actually been flat or declining slightly through most of 1998, and looking at just win per slot is misleading because it indicates that the strength in win per slot is very good. Considering the underlying dynamics, Mr. Guindon indicated there could be some slowing in the coin-in per slot once the year-over-year figures are available and the mega-bucks jackpot is hit. Mr. Guindon remarked that separating win per slot into two pieces, while slightly more difficult to work with, allowed him to envision how the pieces move individually.

Turning to page 3, Table 2: Gaming Market Statistics - Las Vegas Strip, Mr. Guindon explained that this chart provided the same statistics for the Las Vegas Strip as the previous chart had provided statewide statistics and while not ignoring the remainder of the State, Mr. Guindon explained that the expansion insofar as new capacity, new devices and new rooms was occurring on the Strip.

Mr. Guindon pointed out the same phenomenon was occurring on the Strip with Slot Coin-in down slightly for the first three months of Fiscal Year 1999, and win up almost 9 percent. Turning to the sections identified as Coin-in Per Slot and Drop Per Game, there appears to be some indication that after expansions, a decline in the Coin-in Per Slot occurs. A decline occurred in Fiscal Year 1991 and

Fiscal Year 1995, while Fiscal Year 1996 was flat and Fiscal Year 1997 and Fiscal Year 1998 saw Coin-in Per Slot falling and continuing to fall slightly through the first three months of Fiscal Year 1999.

Turning to the Percentage Fee Collections chart on page 63 of the packet (Exhibit C), Mr. Guindon pointed out that the Gaming Control Board expects Percentage Fees to grow 4.1 percent in Fiscal Year 1999 from total win growth statewide of 3.5 percent.

Mr. Guindon discussed Percentage Fee Collections as representing two components, the first piece coming from Taxable Gaming Revenue Collections and the second piece from Estimated Fee Adjustment Collections. Taxable Gaming Revenue Collections, Mr. Guindon indicated were growing at 4.2 percent and the Estimated Fee Adjustment Collections at about \$2.1 million for the Fiscal Year 1999 time period.

Moving to Fiscal Year 2000, the Gaming Control Board's forecast of Percentage Fee Collections is projected at 5.1 percent from total win growth statewide of 5.5 percent with collections from Taxable Gaming Revenue growing about 4.9 percent and Estimated Fee Collections falling to about \$1.7 million. Mr. Guindon explained there was slightly higher growth in Fiscal Year 2000 because of some carryover of major properties opening in 1999. However, in Fiscal Year 2001, the Gaming Control Board forecast for collections only grew 1.6 percent from total win growth of 1.6 percent. Mr. Guindon explained that there wasn't much going on in 2001 in terms of new property assumptions with only the Aladdin property replacement expected to come on line at the end of Fiscal Year 2000. Mr. Guindon noted during previous expansions coin-in per slot appears to fall, and the Gaming Control Board's forecast assumes the coin-in per slot will fall over the forecast cycle due to the new capacity and some uncertainty about what is going to happen in 2001. After reviewing bar charts for Fiscal Years 1997 and 1998 in which the New York--New York and Monte Carlo opened, Mr. Guindon noted the growth experienced in previous expansions didn't materialize for this period. While it is anticipated that tourists visit the new properties, the visitor volume required to support the devices may not materialize which results in the Gaming Control Board's projection of 1.6 percent growth for 2001.

Mr. Fisher asked what implications were seen for negative visitor growth in Fiscal Year 1998 and Fiscal Year 1999.

Mr. Guindon replied that enplaned/deplaned volume for FY 1998 translated into declines in visitor volume and through the first three months of Fiscal Year 1999, enplaned/deplaned and visitor volume were also down. However, it was Mr. Guindon's opinion that the Bellagio, Mandalay Bay and the Venetian coming on line would stimulate the demand for the Las Vegas gaming product and visitor volume would pick up. However, Mr. Guindon advised there was a question as to whether visitors would come at a great enough level to support the capacity. According to Wall Street analysts, visitor volume would have to grow in the 11 to 15 percent range to support the capacity on line by the end of Fiscal Year 2000. Mr. Guindon indicated that while the mega-resorts would continue to do well if visitor volume declined, the smaller properties would not although the Gaming Control Board was not assuming there would be property closures. Reiterating earlier remarks, Mr. Guindon indicated there wouldn't be enough people to support the level of devices coming on line in the market resulting in the Board's forecast of 1.6 percent growth in 2001.

Responding to a question from Mr. Fischer on the length of time the novelty effect of new properties could be expected to draw visitors, Mr. Guindon, while unable to provide a quantitative answer, advised that Wall Street analysts believe that increases in demand for the new properties would be seen through the first six to nine months after opening.

Percentage Fees

Ted A. Zuend

Mr. Zuend identified himself for the record and referring to the Fiscal Division's backup document, page 1 (Exhibit G) read the following excerpt into the record. "As of the end of September, the U.S. economy has been expanding for 7.5 years. This puts the expansion only two months shy of tying the record for the longest peacetime expansion in U.S. history, which lasted from November 1982 through July 1990. And, if growth continues until January 2000, this will match the U.S. record of continuous economic growth recorded during the Vietnam War buildup of the 1960s."

While Mr. Zuend pointed out that the Fiscal Division was not projecting a U.S. economic downturn through this forecast period, he cautioned that consideration should be given to the fact that the U.S. economy had been growing and was actually stronger over the last three years than it had been during the previous four and a half. At the same time inflation has gone down and the federal budget has gone from an \$180 billion deficit three years ago to a \$70 billion surplus at the end of Fiscal Year 1998. While a downturn in the U.S. economy remained an uncertainty, Mr. Zuend reiterated that the Fiscal Division was not assuming a recession in this forecast cycle.

Moving to page 14 of the backup document (Exhibit J), Mr. Zuend reviewed the Fiscal Division's Gaming Percentage Fee forecast. Indicating that the Fiscal Division does not derive its forecast directly from slot counts, Mr. Zuend advised that indicators such as slot counts are reviewed as a check to ensure that the forecast is consistent with such data.

The Fiscal Division uses a trend analysis to review how taxable gaming revenue is likely to grow over time. Based on their tracking, Mr. Zuend pointed out that the Fiscal Division had settled on a baseline growth rate of 1.9 percent under the assumption that the market would remain stagnant in the absence of new properties. Mr. Zuend pointed out their assumption for taxable gaming revenue growth fit with the last two years of small increases since the opening of the Monte Carlo, the New York--New York and the Orleans. The amount "also approximates the likely income growth of a fixed set of gaming consumers through the forecast period" and roughly matches the rate of inflation.

While Mr. Zuend advised that the Fiscal Division believes the opening of the new properties would "grow the gaming market in Nevada," he said that based on only small measurable effects of the openings of the Monte Carlo and New York--New York, it was difficult to assume that net growth would be of the same magnitude as that generated by the openings of the Mirage and Excalibur in 1989-90 or the openings of the Luxor, Treasure Island and MGM Grand in 1993.

The Fiscal Division model tracks and forecasts taxable gaming revenue based on a three-month moving average. When a new casino opens, its impact takes three months to be fully absorbed into the base of the model. Turning to the table on page 15, Mr. Zuend pointed out that the Fiscal Division increased the baseline growth rate for the three months that each property is first open. These effects are highlighted under the column entitled "*MONTHLY % CHANGE*." After the effects of the opening of the new Aladdin property are incorporated into the model in August 2000, Mr. Zuend explained the Fiscal Division reduced the monthly growth to a monthly average reflecting the minimum growth rate (0.8 percent) experienced for the 12 months ending in June 1997. Mr. Zuend pointed out that monthly growth had improved to 2.6 percent as of August comparing the 12 months ending August with the prior 12 months. Mr. Zuend further explained that larger amounts had been added in for the impact of the Bellagio and the Venetian while lesser amounts had been included for the other three properties.

Mr. Zuend explained that the adjustments produce annual taxable gaming revenue of 5 percent in FY 1998-99, 5.3 percent in Fiscal Year 1999-2000 and 2.2 percent in Fiscal Year 2000-01. Mr. Zuend further explained that the Fiscal Division's projection does not get as low as the Gaming Control Board's, even though figures are reduced to an 0.8 percent underlying growth rate, because there is some carryover from the Aladdin and from the opening of the Paris in the prior fiscal year that affects taxable gaming in the second year.

Mr. Zuend then discussed how the percentage fee adjustment affects the revenues from taxable gaming revenue in each of the fiscal years. For the record, he pointed out an error in calculating percentage fee collections. Turning to the bottom of page 63 in the Forum's packet, Mr. Zuend said the calculation for Fiscal Year 2001 was \$515,502,000 rather than \$515,618,000.

Mr. Zuend discussed two separate effects of the Estimated Fee Adjustment that must be taken into consideration. The first effect is the internal estimated fee adjustment of the new properties coming on line during the year, and the second is the effect that the new properties have on the taxable gaming revenue of existing casinos comparing the three months at the end of the prior fiscal year to the first three months of the current year. Mr. Zuend assumed that the new properties would absorb some of the taxable gaming revenue of the existing properties. As a result, the Estimated Fee Adjustment becomes negative by \$2 million and reduces the total taxable gaming revenue in line with the Gaming Control Board's projection. While Mr. Zuend indicated the Fiscal Division was more bullish in terms of the actual taxable gaming revenue for the forecast period, the net gain in actual percentage fees collected for Fiscal Year 1999 is reduced to 3.9 percent.

Going through the same exercise for Fiscal Year 2000, Mr. Zuend indicated that with slightly more impact of the new properties in the second year, there is a 5.3 percent increase in taxable gaming revenue, however, the Estimated Fee Adjustment is still negative but moves in a positive direction from a negative \$2.05 million to a negative \$1.9 million. In the final year with a weak underlying growth rate of only 2.2 percent and the Estimated Fee Adjustment at near zero, a bigger gain results so that a 2.6 percent gain in percentage fees is realized.

Bill Anderson, Budget Division

Mr. Anderson identified himself for the record and indicated he would be referring to the Budget Division's backup document (Exhibit K) throughout his presentation. He also indicated he would briefly discuss the Budget Division's methodology and accuracy in forecasting each of the revenues and would point out the strengths and weaknesses of the Budget Division's forecasts.

Mr. Anderson advised the members of the Forum that the Budget Division uses econometric modeling to identify the underlying historical trend in gaming win and to establish the historical relationship between gaming win and the number of gaming devices. In order to generate a win forecast, Mr. Anderson explained that the Budget Division begins with assumptions on room capacity and relates those numbers to the number of gaming devices combined with underlying trends and historical patterns. The win forecast, is then used to generate a forecast of taxable gaming revenue and percentage fee collections.

The methodology used by the Budget Division allows historically generated estimates on how the model tends to perform as shown on the *Percentage Fees from Taxable Gaming Revenue* graph on page 8 of the Budget Division's backup information (Exhibit K). Also illustrated on page 8 is the graph entitled, *Mean Percent Errors – Percentage Fee Model*. Mr. Anderson pointed out the model demonstrates the forecast from the second quarter of 1995 through the first quarter of 1998 and the error relative to what actually occurred.

Turning to the forecast summary on page 9, Mr. Anderson pointed out the Budget Division's projections of 3.8 percent growth in percentage fee collections for Fiscal Year 1999, 4.5 percent in Fiscal Year 2000 (growth attributed to new properties) and 3.4 percent in Fiscal Year 2001.

In an effort to explain the Budget Division's conservative estimate, Mr. Anderson pointed out the average annual growth rate in percentage fee revenues from FY 1992 to FY 1998 is 5 percent. He further explained that while there is an increase in capacity, the State is experiencing below average gains in percentage fees. Taking into account the model's tendency to overestimate future percentage

fee collections, Mr. Anderson explained the Budget Division's forecast represented reductions of 1.25 percent, 3 percent and 5.5 percent relative to the original forecasts.

Turning to the table on page 10 of the Budget Division document, Mr. Anderson pointed out that the Budget Division is forecasting 3.8 percent growth in room nights in Fiscal Year 1999, 8.2 percent in FY 2000 and 2.3 percent in FY 2001. He explained that all gaming revenues are driven from growth in room nights, and that the forecast had also been provided to WEFA so that they could generate their own independent projections.

Describing the Budget Division's forecast as conservative, Mr. Anderson said it encompassed only the mega-resorts currently under construction and didn't incorporate the MGM expansion or other properties that are likely to be built.

Moving to the graph entitled *Real Percentage Fee Collections Per Available Room Night* on the bottom of page 11, Mr. Anderson advised that in order to provide a comfort level concerning the percentage fees and sales tax, a "structural indicator" was used to make certain nothing out of the ordinary was forecasted. Mr. Anderson indicated the graph illustrates the real or inflation adjusted percentage fees derived per room night and a continuation of a steady downward trend since 1990.

On a final point, Mr. Anderson explained that the Estimated Fee Adjustment is not a revenue projected by the Budget Division since it couldn't be reliably forecasted. Over time, he said the Estimated Fee Adjustment tended to average \$1.9 million, and the Gaming Control Board had projected about \$2.1 million. While Mr. Anderson indicated the Budget Division's forecast was probably low, he advised the Forum that the Budget Division doesn't have access to the kind of information concerning the uniqueness of a property like the Bellagio to incorporate into the Budget Office forecast.

Mr. Fischer asked Mr. Anderson to elaborate on whether the Asian crisis would have any impact on fee collections per room night.

In response, Mr. Anderson said the graph on Real Percentage Fee Collections Per Available Room Night illustrates a downtrend in those collections per room night on a fiscal year basis. Even though the Asian crisis hadn't been in progress for the entire fiscal year, Mr. Anderson indicated a continued decline in the collections per room night and pointed out that the Asian crisis is indirectly reflected in these numbers.

Mr. Fisher asked Mr. Anderson to provide additional comment on whether high-value play had been impacted by the economic crisis.

In response, Mr. Anderson explained that while some impact had been seen in baccarat activity, as mentioned earlier by Mr. Guindon, the Budget Division's forecast focuses solely on aggregate activity rather than specific games or a specific segment of the market.

At this point, Mr. Anderson advised the members of the Forum that because it was nearly time for the WEFA representatives to return to the airport for a flight, they would provide their presentation on Gaming Fees and Sales Tax.

Jim Diffley

Mr. Diffley distributed a one-page handout that provided information on Sales Tax and Gaming Fees (Exhibit L).

Taking an aggregate view of gaming fees, Mr. Diffley advised the members of the Forum that WEFA's forecast used the monthly historical pattern of percentage gaming fees as the basis for an

econometric analysis of the aggregate number. Mr. Diffley's analysis for the trend in total fees was summarized by four variables.

Beginning with hotel room nights as the first variable, Mr. Diffley indicated that using the same historical series previously discussed by Mr. Anderson and as a result of recent and upcoming new property activity, there was an increase in hotel room nights; however, by Fiscal Year 2001, Mr. Diffley projected the rate of growth in hotel rooms would slow.

The second variable Mr. Diffley discussed was Nevada Employment which, as stated in his earlier presentation, while still leading the nation would be slowing in terms of the rate of growth.

In a discussion on the third variable, U.S. spending, amusement and recreation, Mr. Diffley advised the members of the Forum that he had included information from WEFA's U.S. historical series and "in keeping with their projection of the U.S. economy having peaked and clearly slowing down, the rate of growth in spending on amusement" and tourist trips would have to decline over the near term.

Concerning last variable defined as the Oregon casino 'dummy,' Mr. Diffley advised that with the opening of the Indian casinos in early 1994 and 1995, there was a market decline in Nevada. As a result, and with the U.S. slowdown over the near term, Mr. Diffley forecast up to 4.2 percent growth in Fiscal Year 1999, slowing to 2.9 percent in Fiscal Year 2000 and down 0.4 percent in Fiscal Year 2001.

In response to a question from Mr. Greathouse on whether the impact of an expansion in California gaming had been included in WEFA's forecast, Mr. Diffley clarified that he, like the other presenters, was awaiting the results of the election on November 3 and did not include an impact concerning Question 5.

Moving to the sales tax portion of his presentation, Mr. Diffley addressed total Nevada employment growth as the key variable for sales tax, as shown in the graph in his handout entitled *Sales Tax v. Employment*. Mr. Diffley explained that if there is a slowdown in Nevada employment as predicted, it would be the result of a slowdown in sales tax growth which has been projected by WEFA at 5 percent in Fiscal Year 2000 and 4 percent in Fiscal Year 2001. Mr. Diffley added that he had similarly modeled sales tax econometrically and added a key role for the construction sector in Nevada, which explained the high growth rates in sales tax collections. Mr. Diffley concluded his presentation by indicating that WEFA's more pessimistic forecast resulted from a U.S., California and Nevada economic slowdown from the rapid growth of the last few years.

On behalf of the Forum, Mr. Greathouse extended his appreciation to the WEFA representatives for their forecast.

At this point in the meeting, a ten-minute break was taken.

The meeting was reconvened at 12:15 p.m.

Quarterly Non-restricted Slot Tax

Russell Guindon

Recalling that the Board's methodology for Quarterly Non-restricted slot tax had been described at the previous meeting of the Economic Forum, Mr. Guindon briefly explained that the first step in the forecast cycle is to create a list of properties it is assumed will come online over the biennium and the number of devices associated with the properties.

Turning to page 65 of the Forum's packet (Exhibit C), Mr. Guindon pointed out that at the end of Fiscal Year 1999, it is assumed there will be about 11,500 new slot machines on line, and about 7,570

or 66 percent will be on the Las Vegas Strip. This implies a 4.1 percent increase in the average number of slot machines available statewide at the end of Fiscal Year 1999 compared with the end of Fiscal Year 1998. Mr. Guindon advised that the Gaming Control Board is forecasting non-restricted quarterly license fee collections will grow 3.5 percent in Fiscal Year 1999.

Mr. Guindon told the members of the Forum that the Gaming Control Board is assuming another 6,620 slot machines will be coming on line by the end of Fiscal Year 2000 and about 4,700 will be on the Strip. Indicating a 3 percent increase in the average number of slot machines in use at the end of the fourth quarter of Fiscal Year 2000 compared with the same period in Fiscal Year 1999, Mr. Guindon projected a 4 percent increase in quarterly license fee collections for non-restricted slots for Fiscal Year 2000.

Adding that the Board's forecasts are made on a quarterly basis, Mr. Guindon explained that fees are due at the end of each quarter but coming on line anytime in the quarter requires a prepayment in the full amount. Taking prepayments into account, Mr. Guindon further explained results in slightly stronger growth in the collections in Fiscal Year 2000 compared with growth in slots. Revisiting Fiscal Year 1999, Mr. Guindon discussed slightly weaker growth in collections compared with growth in devices since the historical information for the first quarter of Fiscal Year 1999 and the number of licensed slots was about a half a percent below the same time period a year ago indicating there have been some slots coming off line.

Mr. Guindon advised there would only be about 800 additional slots coming on line by the end of 2001 due to new property expansions and according to the Gaming Control Board's property assumptions, none are destined for the Las Vegas Strip. The additional 800 slots will produce approximately a 1.7 percent increase in the average number of slots available statewide at the end of Fiscal Year 2001 compared with Fiscal Year 2000 which it was projected would result in collections of 0.9 percent for the Fiscal Year 2001 period.

Mr. Fisher asked Mr. Guindon to clarify whether any property closings were being projected in the estimates.

Mr. Guindon responded that while there were no closings being projected, he had analyzed the baseline growth to see what would happen excluding new properties and then went back and included the new properties. Mr. Guindon advised that he had projected the baseline number of slots falling slightly for the first three quarters of Fiscal Year 1999, and then starting to level out for the remainder of the biennium. Mr. Guindon advised that all of the growth being projected would be due entirely to the new properties.

Ted A. Zuend

In a comparison of methodologies, Mr. Zuend indicated that the Fiscal Division proceeds in much the same manner as the Gaming Control Board in the identification of new properties. Turning to page 17 of the Fiscal Division's backup document (Exhibit J), Mr. Zuend advised that in the first year of the biennium, \$706,000 in revenue is projected to be generated by the new properties with a net of some declines because of the closing of the Aladdin and the timing of an expansion of Harrah's. In the second year, the net figure is projected at +\$652,000 and in the third year +\$143,000. Mr. Zuend advised that after a comparison, the Fiscal Analysis Division accepted the Gaming Control Board's figures, and while the Gaming Control Board's projections for Fiscal Year 2000 and 2001 took into consideration most of the cutbacks in slot machines and other properties during the first year of the biennium, the Fiscal Division believed that there would be some attrition in the number of slots and other existing properties because they may not have been worth putting on line.

Concluding his remarks, Mr. Zuend advised the Forum that the Fiscal Division's forecast for quarterly non-restricted slot fees for all three years is identical to the Gaming Control Board's.

Bill Anderson

While the Budget Division projects collections from slot fees using a different methodology than the Gaming Control Board, Mr. Anderson pointed out that there wasn't a lot of difference in Budget's numbers compared with the Gaming Control Board's.

Speaking from the Budget Division handout (Exhibit K) page 33, Mr. Anderson advised the members of the Forum that the Budget Division had conducted an historical analysis that found slot license fees average about \$20.40 per license device. He further advised that by using econometric modeling to relate the number of devices to casino capacity as measured by hotel rooms, forecasts of rooms and license devices and fee collections are generated.

Turning to page 34 of the Budget Division handout (Exhibit K), Mr. Anderson discussed the Budget Division's accuracy in forecasting as illustrated by the graph entitled "Nonrestricted Slot Licenses." Noting a good historical fit with forecast errors in the 1 to 1.50 percent and less range, Mr. Anderson turned to the graph on page 35 entitled "Quarterly Nonrestricted Slot License Fees Per Device" which he pointed out illustrates that the \$20.40 relationship is consistent with little variability over time.

Concerning the accuracy of actual revenue collections as forecasted by the Budget Division, Mr. Anderson turned to the graph on page 36, entitled "Quarterly Nonrestricted Slot License Fees," which he pointed out illustrates a good fit. Noting that the schedule on the same page shows minus signs, Mr. Anderson reiterated earlier remarks that over time the model has a bias built into it that overestimates revenue. In order to provide an accurate forecast, he advised that the overestimation is taken into account by "bumping" down the average slot license fee of \$20.40 to \$20 per license

Turning to the forecast on page 37, Mr. Anderson pointed out that the forecast is driven by growth in non-restricted licenses of 2.4 percent in Fiscal Year 1999, 5.6 percent in Fiscal Year 2000 and 3.6 percent in Fiscal Year 2001.

Quarterly License Fee Collections: Games

Russell Guindon

Mr. Guindon explained that the forecast of quarterly game fees is obtained from the estimated number of game and table devices used when forecasting percentage fees.

In a review of the Gaming Control Board's forecast, Mr. Guindon indicated that at the end of Fiscal Year 1999, it is assumed there will be about 438 new games as a result of new properties or expansions at the statewide level and 381 or 87 percent are expected to be on the Las Vegas Strip. Mr. Guindon further advised that this produces a 5 percent increase in the average number of game and table devices available statewide at the end of Fiscal Year 1999 compared with the end of Fiscal Year 1998.

Turning to the table on page 66 of the meeting packet, Mr. Guindon pointed out that the Gaming Control Board expects collections to grow only 1.7 percent in Fiscal Year 1999. Concerning the difference in the 5 percent increase in games and table devices to an increase in collections of only 1.7 percent in Fiscal Year 1999, Mr. Guindon pointed out that the number of licensed games in the first quarter of Fiscal Year 1999 was 3 percent below Fiscal Year 1998 first quarter figures. Mr. Guindon added that a declining pattern in the number of licensed devices, especially in Clark County, had been seen in the Board's monthly gaming revenue report that provides information on the number of devices actually in use. Mr. Guindon further explained that in the Board's baseline growth, the number of licensed games declines throughout the Fiscal Year 1999 time period resulting in only a 1.7 percent increase in the collections while at the end of the fiscal period, a 5 percent increase in the number of new devices is expected to come on line.

Moving on to Fiscal Year 2000, Mr. Guindon assumed there would be approximately 186 additional game and table devices as a result of new properties and/or expansions, and 160 of those devices would be on the Las Vegas Strip. This produces a 3.2 percent increase in the average number of game and table units in use at the end of the fourth quarter of Fiscal Year 2000 compared with the fourth quarter of Fiscal Year 1999. Turning to the table on page 66, Mr. Guindon noted a 4.3 percent increase in collections from the quarterly tax on games in Fiscal Year 2000. The slightly higher growth in collections compared with devices was attributed to the number of payments and prepayments from the new properties.

At the end of Fiscal Year 2001, Mr. Guindon projected there would be 66 additional game and table devices with none expected to be on the Las Vegas Strip. This produces a 1.7 percent increase in the statewide game and table devices online on average compared to the end of Fiscal Year 2000 for a comparable growth rate of 1.4 percent in Fiscal Year 2001.

Ted A. Zuend

Mr. Zuend advised the members of the Forum that the Fiscal Analysis Division forecasts quarterly game fees using a methodology similar to the one used by the Gaming Control Board which is based on an estimation of individual properties and their impact.

The Fiscal Division's net impact for each year in the forecasting period is \$245,675 from new properties in Fiscal Year 1999, \$309,575 in Fiscal Year 2000 and \$104,000 in Fiscal Year 2001. Indicating that the Fiscal Division differed with the Gaming Control Board's original estimates only substantially in the first year, it was Mr. Zuend's opinion that there would be some attrition in the total number of games on all existing properties mostly occurring in the first year. Having no reason to dispute the Gaming Control Board's estimates, Mr. Zuend advised that the Fiscal Division concurred with the Board's projections for all three years.

Bill Anderson

Mr. Anderson advised the members of the Forum that the Budget Division forecasts quarterly license fee collections for games by establishing a relationship between the number of licensed games and casino hotel room capacity. Mr. Anderson further advised that an historical analysis of the relationship established that fees tend to average about \$317 per device on an aggregate basis.

Turning to page 46 of the Budget Division's handout, Mr. Anderson discussed the Budget Division's ability to accurately forecast the number of game licenses as illustrated by the graph entitled Game Licenses. Going to page 47, Mr. Anderson discussed the graph illustrating the "stable consistent pattern" over time of the \$317 fee per device. The graph on page 48 illustrates the Budget Division's analysis of forecast accuracy.

Mr. Anderson explained that the Budget Division's analysis of forecast accuracy suggests a tendency to overestimate future license fee collections. As a result, Mr. Anderson advised that the historical average of \$316.70 in collections per licensed game was reduced to \$312.50 over the course of the forecast period. Turning to page 49, Mr. Anderson advised the members of the Forum that the Budget Division's projections for Quarterly License Fee Collections, while similar in terms of overall trends to the Gaming Control Board's forecast, is \$7,121,000 for Fiscal Year 1999, \$7,296,000 for Fiscal Year 2000 and \$7,441,000 for Fiscal Year 2001.

Quarterly License Fee Collections: Restricted

Russell Guindon

Mr. Guindon began his presentation on Quarterly License Fee collections (a tax for a restricted property that has 15 or fewer slot machines) with an explanation on how the Gaming Control Board forecasts the collections.

In describing the Board's methodology, Mr. Guindon explained that the Gaming Control Board projects quarterly restricted slot collections by forecasting the number of restricted slots and an estimate of the average tax rate for each of the major markets. Mr. Guindon further explained that a forecast of an average tax rate is used since the slot fee is not a flat fee but is based on a two-tier schedule.

The forecasts are conducted on a quarterly basis and take into account prepayments due from slot machines brought online during a quarter. Forecasts of slot growth for each county are based on historical growth patterns. Consideration is also given to other factors that might influence restricted slot growth, such as population growth that brings grocery stores, convenience stores and gas stations, i.e., the type of properties that typically require restricted licenses.

In putting the forecast together, Mr. Guindon indicated he looked at the counties that would be growing in terms of population and the number of devices currently in play and projected 4.6 percent growth in Fiscal Year 1999, 3.7 percent growth in Fiscal Year 2000 and 3 percent growth in Fiscal Year 2001.

Ted A. Zuend

In a brief presentation, Mr. Zuend advised the members of the Forum that the collections for restricted slots was not a revenue that the Fiscal Division spends a lot of time on.

Turning to page 64 of the meeting packet (Exhibit C), Mr. Zuend pointed out that the historical data to the left of the page illustrated the revenue had been growing at about 4 percent per year, which was viewed as being tied to the local base population and infrastructure. With the Gaming Control Board projecting 4.6 percent for Fiscal Year 1999; 3.7 percent for Fiscal Year 2000, and 3 percent for Fiscal Year 2001 (slightly under the average of 4 percent per year over the period), Mr. Zuend advised the Forum that the Fiscal Division was in agreement with the Board's projections.

Bill Anderson

Having historically accepted the Gaming Control Board's forecast, Mr. Anderson pointed out that the Budget Division developed their own methodology to forecasting in response to then Chairman Morgan's request for more variety, especially in the gaming forecasts.

Mr. Anderson said the Budget Division's historical analysis suggests a fee of about \$84 per licensed restricted slot in the state. Turning to page 51 of the Budget Division handout (Exhibit K), Mr. Anderson explained their forecast for restricted slots is related to population and employment, both proxies for growth. The reasoning being that as the state grows, there would be more restricted slots in response to that growth. Using this approach, Mr. Anderson pointed out that the graph on page 52 of the handout illustrates the Budget Division's ability to forecast within a 2 percent or less error rate. While the graph on page 53 illustrates the \$84 per licensed device is relatively stable, Mr. Anderson explained the spikes shown on the graph are a result of changes in the tax structure over the last 14 or 15 years. The graphs and table on page 54 illustrate the Budget Division's ability to accurately forecast the quarterly restricted slot license fees. Mr. Anderson pointed out that while the Budget Division was fairly accurate, the actual numbers tend to come in higher than the forecast, which he said, had been taken into account. As illustrated by the graph on page 55, Mr. Anderson discussed the 3 to 3.5 percent forecast for growth through the end of the next biennium. While indicating the forecast is below the average annual growth of about 6.1 percent, Mr. Anderson explained the growth is consistent with a slowing in the overall economy. While indicating positive gains would continue, Mr. Anderson said the gains would not be quite as significant as in the past.

At this point, Mr. Anderson explained a process used by the Budget Division that he believed would be significant not so much in forecasting collections for restricted slots but more for some of the other gaming revenues. Recalling the WEFA and Department of Employment, Training and Rehabilitation (DETR) forecasts, Mr. Anderson noted that DETR was a percentage point or two higher in terms of job growth than WEFA. Not wanting to under or overestimate, Mr. Anderson advised that the Budget Division had averaged those job forecasts together to produce a baseline forecast. In forecasting restricted licenses, Mr. Anderson told the members of the Forum the Budget Division used that average employment level and took into account the tendency of the model to underestimate and slightly "bumped up" the \$84 per licensed device in generating the forecast of 3.8 percent for Fiscal Year 1999, 3.5 percent for Fiscal Year 2000 and 2.9 percent for Fiscal Year 2001.

Advanced License Fee Collections

Russell Guindon

Turning to page 67 of the meeting packet (Exhibit C), Mr. Guindon described the Advance License Fee as a tax that is due for a new property at three times the payment due from the first full month of activity. Using the newly-opened Bellagio as an example, Mr. Guindon explained that at the end of December the Bellagio will have to pay the state three times their tax liability from November's activity. Advance license fees also includes payments from properties that are currently licensed but because of a change of business structure, under statute, are required to repay the advance license fees. Mr. Guindon clarified that almost all of the dollars in Gaming's forecast are from new properties.

Discussing the caveats in trying to forecast advance license fees, Mr. Guindon said he takes into consideration property types, whether the properties are targeted for the high-end segment of the market, the level of play, whether the casino or player wins by month, whether the property is going to be heavily involved in credit activity and the amount coming back in terms of being collected within that month. Mr. Guindon explained that credit activity is most likely when a property is targeting the high-end segment of the market.

The forecast on page 67 of the meeting packet shows the Gaming Control Board's forecast for Fiscal Year 1999 at \$7.6 million and a growth rate of almost 119 percent. Mr. Guindon indicated that the major properties generating the growth, as previously discussed, include the Bellagio, Mandalay Bay and Venetian. With the Venetian opening most likely to occur in April, Mr. Guindon explained that if they open anywhere after the first of April, their first full month of activity would be for May, but with their advance payment due in June, the collection will still fall within Fiscal Year 1999. Moving on to Fiscal Year 2000, Mr. Guindon noted a forecast of only \$2 million with the Paris property making its advance license fee payment. In Fiscal 2001, with the Aladdin property generating the payment, the forecast for Advance License fee collections is projected at \$2.7 million.

Concluding his presentation and at the same time pointing out Gaming's forecast as the most pessimistic, Mr. Guindon told the members of the Forum that while there were other smaller properties included in Gaming's property assumption list as well as properties required to repay advance license fees, the primary dollar contributions would result from the new properties.

Ted A. Zuend

Before beginning his presentation on Advance License Fees, Mr. Zuend indicated a revision was needed for LCB's Fiscal Year 2000 and 2001 projections on page 67 of the meeting packet (Exhibit C). Mr. Zuend explained that a smaller property that will come on line in Fiscal Year 2001 had incorrectly been added in the wrong fiscal year reducing Fiscal Year 2000 by \$500,000 and increasing Fiscal Year 2001 by the same amount.

Mr. Zuend discussed problems associated with estimating advance license fees because of the amounts that would not be paid in advance as a result of credit play. Using the Bellagio as an example, Mr. Zuend explained that opening in mid-October, the Bellagio would pay percentage fees on a cash basis for October and theoretically might not pay any percentage fees, if all of the play is on credit. However, Mr. Zuend noted that by November the possibility exists that some of the markers issued in October will be collected by the Bellagio.

While LCB forecasts of revenue from Advance License Fees differ from those provided by the Gaming Control Board, Mr. Zuend advised the members of the Forum that LCB believes its revenue estimate for the three major properties and several smaller casinos is consistent with the advance license fee revenues generated during Fiscal Year 1993-94 when the MGM Grand, Luxor and Treasure Island opened.

Mr. Zuend projected \$11.1 million in advance license fees in Fiscal Year 1999 and noted that in Fiscal Year 1994, the last time three major properties opened within the same fiscal year, approximately \$11.5 million in advance license fees was generated.

Concerning the projections for Fiscal Year 2000 and 2001, it was Mr. Zuend's opinion LCB's addition of \$500,000 in each year due to unanticipated changes in licensing could make up most of the difference between LCB's \$2.8 million and Gaming's \$2.0 million in Fiscal Year 2000 and Fiscal's \$3.3 million and Gaming's \$2.7 million in Fiscal Year 2001. Mr. Zuend added that the difference could also be attributed to LCB's opinion that the Aladdin and the Paris will do better than Gaming anticipates.

Mr. Zuend also pointed out the approximate \$3.6 million difference between Fiscal and Gaming in the projection for Fiscal Year 1999, and recalled the discussion on percentage fees wherein it was discussed that Gaming had a +\$2 million in estimated fee adjustment while LCB had approximately a -\$2 million, or a \$4 million difference. Mr. Zuend advised the Forum that if the Gaming Control Board's number for advance license fees is more accurate, assuming there is some agreement of how much taxable revenue has been generated, Gaming will pick up the +\$2 million in estimated fee adjustment, and if Fiscal's number is more accurate, the estimated fee adjustment would be reduced by the difference in the advance fee estimates.

As an example, the advance license fee for the Bellagio acts as a proxy to calculate the estimated fee adjustment for the next three months of operation. If the advance fee is higher then the estimated fee adjustment is lower and vice versa, all else being equal.

Bill Anderson

Speaking from page 57 of the Budget Division's handout (Exhibit K), Mr. Anderson said that in order to forecast advance license fees in an ideal environment, one needed to know the level of play for new properties in their first full month of activity as well as the level of credit activity and win ratios. Not having the ability to answer those questions, Mr. Anderson said that the Budget Division's forecast is determined by reviewing data on a more aggregate basis.

Mr. Anderson advised he had conducted an historical analysis on the total amount of advance license fees paid by mega-resorts in the recent past and how that translated into a per room night basis. The results of Mr. Anderson's analysis are illustrated by the graph on page 58. While Mr. Anderson's analysis was unable to provide the exact dollar figure of how much a resort like the Mirage paid in advance license fees, the analysis determined when the Mirage opened and the amount of advance license fees paid the following month. With the exception of the New York--New York, Mr. Anderson pointed out that over time mega-resorts average about \$26 per room night in advance license fees and that amount drives the Budget Division's forecast. He also pointed out that advance license fees from non-mega resort properties tend to average about \$3 million in inflation-adjusted terms per year as illustrated on page 59 of the Budget Division handout. Turning to page 60, Mr.

Anderson discussed the huge increase in advance license fee collections for FY 1999 as three new mega resort properties come on line and the smaller increases in 2000 and 2001 when only one property is projected to come on line in each year.

In a revenue as difficult to forecast as advance license fees, Mr. Anderson indicated he could best assist the Forum in their decision-making process by specifically breaking down the Budget Division's forecast as illustrated by the list on page 61. The list includes advance license fee assumptions from the Bellagio, the Mandalay Bay and the Venetian as well as non-mega resort properties. Adding his assumption that Gaming Industry growth is slowing, Mr. Anderson indicated only about half of the \$3 million (inflation-adjusted) from non-mega resort properties would be collected in each year. Mr. Anderson added, however, that for Fiscal Year 1999, he was forecasting \$1.35 million in Advance License Fees from non-mega resort properties. With the first three months of the fiscal year completed Mr. Anderson advised that \$500,000 in advance license fees has been collected and that is prior to the opening of any of the new mega-resort properties.

Casino Entertainment Tax

Russell Guindon

Mr. Guindon informed the members of the Forum that the Gaming Control Board's forecasting methodology for collections from casino entertainment tax is based on historical trends and more specifically baseline growth and a pattern of the most recent months' activity.

Mr. Guindon explained that new properties are viewed in terms of the type of shows they may offer and the amount of taxable casino entertainment activity they may generate. When a new property is close to opening, Mr. Guindon indicated that typically information about the entertainment being offered is available. After reviewing historical data from properties with comparable shows and making assumptions about the kind of activity that may be generated, Mr. Guindon indicated he uses comparisons to determine an average of what the property may be expected to generate over 12 months.

Using the methodology just described, Mr. Guindon projected 11.6 percent growth in Fiscal Year 1999 with the expectation that 14.8 payments would be received from the casino entertainment tax in Fiscal Year 1999 as a result of new properties.

Collections from the tax in Fiscal Year 2000 are projected to increase 13.6 percent. With two fiscal-year periods of double-digit growth, Mr. Guindon explained that the new properties in Fiscal Year 2000 add ten new payments and the new properties from Fiscal Year 1999 would generate 36 payments for a total of 48 payments in Fiscal Year 2000 or 33.2 additional payments over Fiscal Year 1999. Mr. Guindon pointed out there was very little growth in the baseline assumptions. Assuming the new properties come on line, Mr. Guindon added that there might be some deterioration in casino entertainment activity at some of the other properties.

Moving into 2001 Mr. Guindon projected growth of 3.2 percent with no new properties in 2001 that add substantial casino entertainment tax payments and the new properties from Fiscal Year 1999 and Fiscal Year 2000 generate sixty payments for a total of sixty payments in Fiscal Year 2001 or 12 additional payments over Fiscal Year 2000.

Ted A. Zuend

Mr. Zuend told the members of the Forum that the Fiscal Division does not have a model to estimate casino entertainment tax. Reviewing the historical data on page 68 of the meeting packet, Mr. Zuend noted several years of double-digit increases and then a slowing as a result of the lull in new property openings and revamping of Las Vegas shows.

While Mr. Zuend indicated he believed the Gaming Control Board's forecast to be somewhat optimistic he agreed "that at least on paper the Venetian and the Bellagio should probably put on high-end shows and generate a considerable amount of revenue." With no reason to dispute the Gaming Control Board's numbers, Mr. Zuend expressed agreement with Gaming's forecast for casino entertainment tax.

Bill Anderson

Mr. Anderson informed the members of the Forum that the Budget Office maintains a formal but simple forecasting model for casino entertainment tax. Turning to the graph on page 29 of Budget's handout (Exhibit K), Mr. Anderson discussed the relationship between collections and room nights. The Budget Division's research determined that since the early 1990s, casino entertainment tax collections tend to average about 80 cents per room night on an inflation-adjusted basis. Turning to the graph and schedule on page 30, Mr. Anderson pointed out that, over time, the Budget Division's approach tends to underestimate the level of casino entertainment tax collections. Mr. Anderson attributed the 3 to 5 percent error rate, illustrated on the schedule, to the volatility of the revenue source.

The Budget Division's forecast for casino entertainment tax is projected to increase by 4.9 percent forecast for Fiscal Year 1999; 11.2 percent for Fiscal Year 2000 and 4.9 percent in Fiscal Year 2001.

Reiterating earlier comments concerning the strengths and weaknesses of the Budget Division's forecasts Mr. Anderson explained that Budget's forecasts tend to underestimate and using this approach, the uniqueness of a property like the Bellagio couldn't be factored into the projection.

Sales Tax Collections

Bill Anderson

Turning to page 2 of the Budget Division's handout (Exhibit K), Mr. Anderson discussed the Budget Division's econometric modeling approach in forecasting sales tax collections. He explained that the Budget Division's use of econometric modeling identifies an underlying trend in sales and use tax collections and extrapolates the trend forward. The Budget Division's model also identifies the relationship between tax collections and employment (higher employment produces increased sales tax collections). Having considered WEFA's job forecast too low and preferring not to use DETR's higher forecast, Mr. Anderson explained that WEFA and DETR's job levels were averaged to generate the forecast.

Concerning the accuracy of the Budget Division's forecast, Mr. Anderson turned to the graph and a schedule illustrating forecast accuracy on page 3 of the Budget Division's handout. With a mix of plus and minuses illustrated on the graph, Mr. Anderson noted error rates of 5, 5 and 4 percent during the period in the mid-1990s when sales tax collections were underestimated.

Addressing the Budget Division's forecast for sales tax collections, Mr. Anderson projected 7.1 percent growth for Fiscal Year 1999 noting a 6.9 percent growth for the first two months of the year slowing to 6.7 percent in Fiscal Year 2000 and 5.9 percent in Fiscal Year 2001. Pointing out that sales tax had grown at about 10 percent, Mr. Anderson described the current forecast as conservative and reflective of the overall easing in the rate of growth in the Nevada economy. Turning to the graph on page 5 of the handout, Mr. Anderson pointed out that the forecast is driven by job growth of 5.2 percent in each of the next two years decreasing to about 4.3 percent in Fiscal Year 2001. Mr. Anderson further advised that the graph on page 5 illustrates an increase in job growth early in the forecast period as the new mega-resort properties come on line. Once the properties are on line, job growth is shown slowing to a rate of between 4 and 4.5 percent

Addressing the structural soundness of Budget's forecast, Mr. Anderson advised the members of the

Forum that the forecast is consistent with expected job trends. Turning to the graphs on page 6 of the handout, Mr. Anderson indicated the key to understanding and having confidence in the Budget Division's forecast is the comparison of job growth to sales tax growth. As illustrated by the graph at the top of page 5, sales tax growth tends to average between 3 to 3.5 percentage points higher than job growth. Providing an example, Mr. Anderson explained that on average 5 percent job growth will produce 8.5 percent sales tax growth year after year with the exception of the recession in the early 1990s although Mr. Anderson made it clear that none of the presenters were forecasting a recession.

Pointing out a "glitch" on the graph in Fiscal Year 1998, Mr. Anderson indicated there was some uncertainty as to whether the problem would continue into the future. Expressing confidence that it would not, Mr. Anderson indicated he would present evidence indicating a reversal. In an effort to provide some "structural comfort" with the forecast, Mr. Anderson advised the Forum that the Budget Division looks at sales tax collections per job in inflation-adjusted terms. And as illustrated by the graph at the bottom of the page, Mr. Anderson said that while nothing out of the ordinary was forecast, a slight decline in collections per job was projected.

Noting that the Budget Division's forecast for sales tax is consistently higher than the other forecasters, Mr. Anderson indicated it was incumbent upon him to justify the projection at 6 to 7 percent. As expressed in earlier remarks, Mr. Anderson indicated having seen signs that growth in sales tax collections relative to job growth is turning around. After having lowered to 4.1 percent, Mr. Anderson said that job growth was trending back up as shown in the forecast. A 4.5 percent growth rate was seen prior to the opening of the Bellagio, and Mr. Anderson anticipated increased growth would be seen with the opening of the property.

On the sales tax side, Mr. Anderson noted sales tax growth of 6 percent in four of the last five months driven off of job growth in the 4 to 4.5 percent range. In two of the last three months, sales tax growth was at 7 percent or more driven by job growth in the 4 to 4.5 percent range. With the Bellagio and four other mega-resorts under construction and soon to open in the next year, Mr. Anderson expressed confidence in a turnaround.

As the remainder of the fiscal year unfolds, Mr. Anderson said it was important to note that the Budget Division's research shows a period beginning the month after next when there were six consecutive months of 3.7 percent growth or less. One year ago, Mr. Anderson said that even as sales tax slowed, the two-year annual average growth rate never went below 5.5 percent and is currently at 5.9 percent, which is the most recent quarterly figures in terms of average annual growth over a two-year period. While Mr. Anderson expressed confidence in the forecast, he anticipated a slight downtick for the following month because next month's numbers would be compared to growth a year ago of about 5.6 percent. After that, the comparison is to a year ago of 3.5 percent and less growth. This six-month period will require growth of 7 percent on average to bring the two-year average rate to the historical average of 5.5 percent

With sales tax collections having grown at 5.5 percent growth over the last two years, Mr. Morgan asked Mr. Anderson to comment on how long a period had been considered in the Budget Division's forecast.

Mr. Anderson responded that looking back over the Las Vegas expansion that produced double-digit growth rate for five consecutive years, the average annual growth rate was seen in the 10 percent range. However, once the slowdown started, growth dropped to 9, 8, 7 and 5.5 percent and then started to pick up again two quarters ago with last quarter collections rising by about 5.9 percent on a two-year annual average basis. Continuing, Mr. Anderson indicated that the current quarter ending at 6.9 percent growth would translate into 5.9 percent growth on a two-year average annual basis. Comparing the 5.5 percent sales tax growth to 3.5 percent and less a year ago, Mr. Anderson reiterated that not much was need to average 7 percent over that small base.

Ted A.Zuend

Mr. Zuend referred to page 11 and 12 of the Fiscal Division backup material (Exhibit J) and prefaced his remarks by agreeing with Mr. Anderson's comments. Mr. Zuend advised that while Mr. Anderson's comments are true, the reason for caution in the Fiscal Division's figures relative to the Budget Division's figures could be demonstrated.

Turning to page 13 of the backup material (Exhibit J), Mr. Zuend discussed the graph entitled Sales Tax Forecasts by Agency and the reasons he attributed to falling short of the sales tax projections for the Fiscal Year 1998 and 1999 time period. While Mr. Zuend indicated there had been no reason to believe that sales tax would have declined to 3.2 percent growth, he advised that the Fiscal Division uses population growth as a proxy for the Budget Division's job growth figure, and that 1 or 2 percentage points for income gain that should have been realized were not, perhaps because of a slump in construction activity.

Continuing, Mr. Zuend also indicated the projections fell short because all of the forecasters intuitively overestimated the inflation component which had dropped during the last two years. Also falling short was auto sales. Mr. Zuend pointed out that after having predicted a slowdown in sales by automobile dealers in April 1997, from rates of 25 percent per year to about 10 percent, the very low rate of 3.3 percent that actually occurred in FY 1997-98 was not anticipated. It was Mr. Zuend's opinion that growth in automobile sales should return to a level that, at a minimum, would reflect statewide population growth. However, Mr. Zuend pointed out the Fiscal Division remained more conservative than the Budget Division in terms of the trend reversing itself.

Moving to the Fiscal Division's forecast on taxable sales, Mr. Zuend advised the members of the Forum that he tracks taxable sales on a three-month moving average and seasonally adjusts sales for the increase during the holidays, a slump during the winter months and better performance in warmer months.

Based on monthly tracking, Mr. Zuend advised that a low year-over-year growth in sales tax was reached in February, and since that time growth had increased to an annualized rate in excess of 8 percent. Because of the various phases of construction in progress at the different mega-resorts, Mr. Zuend indicated it had been difficult to analyze where the most sales are gained toward each phase of construction. Nevertheless, it was Mr. Zuend's opinion that because various phases of construction of the new mega-resorts in Clark County have been underway for some time, the tracking figures confirm that the slowdown in taxable sales was temporary to an underlying 3 percent range. However, Mr. Zuend considered the duration of the recent growth trend too short to use as a basis for continuing the trend into the future for any length of time. While the Economic Forum will have to determine projections on December 1, Mr. Zuend indicated the state's forecasters won't have a clear picture of the trend until the taxable sales figures received in December and January can be analyzed.

Mr. Zuend advised the members of the Forum that the Fiscal Division's projections for sales tax revenue through the upcoming biennium are based on the assumption that baseline growth in taxable sales is about 5.1 percent annually, similar to the average trend over the past several years and ties in with the average population growth of 5 percent over the same period. Adding that the Fiscal Division does not use an inflation component in taxable sales, Mr. Zuend explained that taxable sales are principally derived from goods and not from services. He said the CPI published by the Federal Government is a combination of goods and services and the components of that inflation index produced by the Bureau of Labor and Statistics include clothing and automobiles for which there is no inflation and food for which there is a small inflation component. He noted that food includes both taxable sales and non-taxable sales. Mr. Zuend noted that the Feds had also published a consumer commodities index which had only been up for the past eleven months and has been flat over the course of those eleven months as well. With no net inflation component in the goods that people

actually pay taxable sales on, Mr. Zuend indicated the Fiscal Division's admittedly conservative scenario to just baseline growth in the economy would not continue through the opening of the Aladdin in Fiscal Year 2000. He also added that construction spending should continue to support growth in taxable sales, but that it wouldn't add that much to the baseline growth rate. Discussing tourism growth as another important component of state taxable sales, Mr. Zuend indicated that with the recent sluggishness in gaming and tourism, it was difficult to predict whether the new properties could generate the increases that were evident after the openings of the Mirage and Excalibur and later the MGM Grand, Luxor and Treasure Island.

Turning to the chart on page 12, Mr. Zuend advised that because of the uncertainties surrounding the recent improvement in taxable sales growth and the effect of the new properties on tourist activity, it was determined that the average rate of growth in taxable sales would be held to its baseline level through the opening of the new Aladdin in mid-2000. At that point, Mr. Zuend indicated construction sales is seen as declining because of the absence of other major projects, thereby reducing the average growth in taxable sales to the low 3.8 percent annual rate that occurred following the opening of the New York--New York. The assumptions concerning taxable sales growth through the forecast period yield revenue increases of 6.3 percent in Fiscal Year 1999, 5.1 percent in Fiscal Year 2000 and 4.3 percent in Fiscal Year 2001.

Lynne Knack, Administrative Services Officer, Department of Taxation

Ms. Knack identified herself for the record and advised the members of the Forum that lacking sophisticated economic modeling, the Department of Taxation uses linear regression analysis to forecast sales tax collections. As a result of the Department's analysis, Ms. Knack indicated Taxation's forecast was more conservative than the others for Fiscal Year 1999 with more of a gain in Fiscal Year 2000 and Fiscal Year 2001.

Ms. Knack advised that the Department's internal analysis indicated that the double-digit gains seen for five years was basically a recovery from the recession of the early 1990s as well as construction of the mega-resorts, manufacturing sites and mining expansions during those years. While Ms. Knack indicated that construction was previously "a point in time" it has continued as "a rolling construction advantage for the revenue" and now has decreased to a point where taxable sales and the revenues were being sustained by consumer buying. Indicating that the Department of Taxation was predicting that there were some projects that would be coming up during the upcoming biennium, Ms. Knack said they would not be continuous as in previous years. Concluding her remarks, Ms. Knack summarized that the first two months of Fiscal Year 1999 saw strong gains in consumer buying with a slow increase in construction while auto sales, "which had sustained quite a bit of revenue for sales tax collections in previous fiscal years", was declining.

Bill Anderson

Mr. Anderson asked that he be permitted to speak out of order in reference to Mr. Morgan's earlier question concerning the two-year annual average growth rate for sales tax. Mr. Anderson pointed out that sales tax growth of 7.1 percent in Fiscal Year 1999 on top of the 4.1 percent growth in Fiscal Year 1998, resulted in a total growth (not compounded) of 11.2 percent over those two years or an average of 5.5 percent per year which is the lowest percent growth observed during the downturn in Fiscal Year 1998. Continuing, Mr. Anderson indicated that if the 7 percent growth rate is realized, only the minimum point of the recent slowdown with respect to the two-year annual average growth rate would be realized.

Insurance Premium Tax

Bill Anderson

Presenting the Budget Division's forecast, Mr. Anderson observed that the Insurance Premium Tax

was the third largest source of revenue behind sales tax and percentage fee collections. The members of the Forum were referred to the revenue briefing manual, provided at the August meeting, which contained a change in the collection methodology that would have resulted in a one-time only revenue that was to have begun in Fiscal Year 2000. Since the meeting in August, Mr. Anderson advised that some technical changes had been made to the Nevada Revised Statutes, and the section outlining the change in collection methodology was removed because it was placed in statute inadvertently. Mr. Anderson clarified that the forecast for Insurance Premium Tax is based upon a continuation of the current collection infrastructure or mechanism.

Mr. Anderson advised the members of the Forum that the Budget Division's research identified a trend over the course of several years that growth in real Insurance Premium Tax Collections tends to average about 2 percentage points less than the growth in personal income. Seeing cyclical behavior in insurance premium tax collections, Mr. Anderson pointed out that as the economy improves, people move to the state, secure jobs, make an income, and at some point buy insurance, and if the economy slows down, people leave, wages go down and a decline in insurance premium tax collections is seen.

Indicating the Budget Division's forecast for Insurance Premium Tax was driven by real income, Mr. Anderson turned to the graph on page 13 of the Budget Division's handout (Exhibit K), that illustrates an analysis of forecast accuracy against real Nevada personal income. Mr. Anderson informed the Forum that he had taken into account the fact that the model tends to overestimate by 1.5 to 2 percent.

Mr. Anderson turned to the forecast summary versus actual data on page 14, illustrating comparisons versus the collections in FY 1998, and on page 15 pointed out comparisons relative to an activity basis. Historically, Mr. Anderson explained that insurance premium tax collections were made based, in part, on activity in the previous calendar year. Beginning mid-year in Fiscal Year 1998, the timing of collections was changed to reflect current activity. The Budget Division forecasts reflect that change. In order to generate reliable forecasts based on comparable information, adjustments are required for previous fiscal years in which collections are not based upon current activity.

Addressing the Budget Division's ability to forecast income, Mr. Anderson said growth rates relative to actual as shown on page 14 are projected at 0.1 percent in Fiscal Year 1999, 7.8 percent in Fiscal Year 2000 and 6.6 percent in Fiscal Year 2001. Explaining the 0.1 percent projection, Mr. Anderson noted that in Fiscal Year 1998, the average annual growth rate was 14 percent because of the shift to a current basis as opposed to activity on a year-ago basis. Mr. Anderson further explained that Fiscal Year 1998 borrowed some growth from Fiscal Year 1999. Pointing to the graph again on page 14, Mr. Anderson noted the "spike" in Fiscal Year 1998 above trend, flat in Fiscal Year 1999 and going up to its historical trend in Fiscal Year 2000 and 2001.

In order to put the Insurance Premium Tax collections forecast in perspective, Mr. Anderson indicated it was appropriate to go back in time and put the historical data on an activity basis instead of paid on a year-ago basis illustrating that Budget's forecast is in line with current activity.

Ted A. Zuend

For the Forum's information, Mr. Zuend addressed past difficulty in forecasting the Insurance Premium Tax which he attributed to the volatility of insurance rates and noted that the most recent trends make the tax easier to forecast. Mr. Zuend introduced Mark Stevens, Fiscal Analyst, from the Fiscal Analysis Division who would provide the presentation on Insurance Premium Tax collections.

Mark Stevens

Mr. Stevens identified himself for the record and indicated his presentation on Insurance Premium tax began on page 20 of the Fiscal Division backup document (Exhibit J). Mr. Stevens told the members

of the Forum that the Fiscal Analysis Division's revenue estimate for the insurance premium tax is projected in each year of the biennium taking into account S.B. 246 approved during 1997 Legislative Session. Senate Bill 246 changed the collection of the Insurance Premium Tax from an estimated to an actual basis. Prior to approval of S.B. 246, the tax was based on an estimate from the prior calendar year. Currently, the tax is based on actual experience and the collection is due one month after each quarter.

Mr. Stevens' presentation on growth over the past five years pointed out that the one-time \$3.2 million collection received in 1995-96 was removed to show a 7 percent growth rate for that fiscal year. While the actual growth rate for Fiscal Year 1998 was 13.8 percent, Mr. Stevens indicated the projection was changed to 9.8 percent after estimating the impact of S.B. 246 that changed collections from an estimated to an actual basis. Mr. Stevens advised that the annual growth rate for the insurance premium tax averaged 7.84 percent over the past five years and during the past three years, the average annual increase for the insurance premium was 7.4 percent.

Mr. Stevens further advised that the Fiscal Division had taken into account the change from an estimated to an actual basis for collections, as noted in the paragraph at the bottom of page 20.

Turning to page 21, Mr. Stevens referenced the schedule illustrating the revenue estimate based on quarterly collections on actual business. In the Fiscal Year 1997-98 column, Mr. Stevens pointed out that the change in the way tax receipts are collected begins to have an impact. In the quarter ending March 31, a 15.2 percent increase is seen and in the quarter ending June 30, a 21.4 percent increase is seen which Mr. Stevens attributed to a comparison of the previous two years with almost double the growth rate seen during that period of time. Moving to Fiscal Year 1998-99, Mr. Stevens explained that averaging the final two quarters of Fiscal Year 1997-98 produces an 18.5 percent growth rate on an average basis that is used for the first two quarters of Fiscal Year 1998-99 with a 7.5 percent growth rate in the third and fourth quarters. Mr. Stevens also pointed out that the annual renewal projection has gone from \$12 million in 1998 to an estimated \$200,000 in FY 1999, as a result of payments being made on a quarterly basis rather than annually with the exception that insurers who pay less than \$2,000 in tax will continue to pay on an annual basis.

Concluding his remarks, Mr. Stevens advised the members of the Forum that the Fiscal Division's projections for insurance premium tax are: \$111.4 million in Fiscal Year 1999, a .6 percent growth rate; a 7.5 percent growth rate in each year of the biennium which is between a three and a five-year average, for \$119.8 million in Fiscal Year 2000 and \$128.8 million in Fiscal Year 2001.

Lynne Knack

Ms. Knack advised the members of the Forum that Department of Taxation independently recalculated the base because of the change in the methodology in the collection of the tax from an estimated to an actual basis. Indicating that the Budget Office and Department of Taxation's adjusted base figures were close, Ms. Knack stated that the Department of Taxation was in agreement with the Budget Division's projections.

Bill Anderson

Addressing the change in the structure of state industrial, Mr. Anderson indicated that discussions have been taking place in the Budget Division concerning the potential for some additional insurance premium tax revenue. Mr. Anderson explained that the workers' compensation market is becoming a public/private market as opposed to a public market with some implications concerning revenue collections. Mr. Anderson indicated that any "hard impacts" identified by the Budget Division could be addressed at the December 1 meeting.

Mark Stevens

Mr. Stevens advised the members of the Forum that the Fiscal Analysis Division had recently reviewed the issue and were not at this time taking into account the workers compensation market. Explaining that the change in structure directs the insurance premium tax derived from the workers' compensation line of insurance to the unfunded liability within the SIIS system (*now EICN*), Mr. Stevens said that at this point in time, existing law would not impact the insurance premium tax numbers. However, Mr. Stevens indicated that the Fiscal Division would be happy to review the results of the Budget Division's research.

Mr. Morgan questioned whether insurance premium tax was driven by Nevada personal income.

In response to Mr. Morgan's question, Mr. Anderson indicated the Budget Division's analysis suggests that year after year, insurance premium tax grows at roughly 2 percentage points below the growth in real income.

Mr. Morgan asked Mr. Anderson to provide the source of the data used to measure Nevada personal income.

Mr. Anderson advised that the data on personal income is publicly available for every state and county through the Bureau of Economic Analysis of the U. S. Department of Commerce.

Business License Tax

Bill Anderson

Turning to page 17 of the Budget Office document (Exhibit K), Mr. Anderson indicated that the Budget Division's historical analysis of the relationship between business license tax collections and the level of Nevada non-farm employment establishes a consistent relationship between collections and job levels. Specifically, Mr. Anderson stated that collections tend to average about \$18.90 per job. Businesses in Nevada are required to pay a quarterly fee of \$25 per equivalent full-time employee. However, with exceptions and exemptions from the \$25 fee, Mr. Anderson stated that in the aggregate, collections tend average \$18.90 per job.

Mr. Anderson noted that the graph on page 18 shows that the relationship between non-farm jobs and collections is consistent over time and the graph and table on page 19 provides a look at the accuracy of the forecast with consistently negative errors of 1 percent. Pointing out that 1 percent forecast errors suggest an overestimation of 1 percent, Mr. Anderson advised the members of the Forum the 1 percent overestimation is factored into Budget's forecast.

Mr. Anderson advised the members of the Forum that projections are for collections growth of 5.1 percent for Fiscal Year 1999, 5.0 percent for Fiscal Year 2000 and 4.1 percent for Fiscal Year 2001. Adding that the forecast is driven by job growth projections of 5.2 percent in Fiscal Year 1999, 5.2 percent in Fiscal Year 2000 and 4.3 percent in Fiscal Year 2001, Mr. Anderson explained the growth rates represent an average of the DETR and WEFA forecasts. Concluding his remarks, Mr. Anderson noted the forecast is consistent with a decline in the overall pace of growth in the Nevada economy.

Ted A. Zuend

Turning to page 18 of the Fiscal Division's backup document (Exhibit J), Mr. Zuend advised the members of the Forum that the Bureau of Research and Analysis (DETR) had provided the Fiscal Division with quarterly forecasts of total employment. Mr. Zuend noted that while total employment forecasts include the private and public sectors, the tax only applies to the private sector.

Also noted was the fact that DETR's quarterly averages are produced using an internally generated

model, and Mr. Zuend indicated that DETR's historical series reflects a 10 percent growth in total employment in the calendar year following the opening of major properties in 1993. Mr. Zuend expected that the new mega-properties would also add to the job base even though they may not add to the gaming base.

Concerning the current job count, Mr. Zuend indicated that the Fiscal Division is as optimistic as the Bureau of Research and Analysis is and have basically proxied their number for the increase in business license tax which Mr. Zuend pointed out was basically a head tax at \$25 per full-time equivalent employee per quarter.

While Mr. Zuend indicated the Fiscal Division would revisit the business license tax over the next month to determine if there were disputes with it, he projected a 5.9 percent growth in Fiscal Year 1999, 6.2 percent growth in Fiscal Year 2000 and 5.1 percent growth in Fiscal Year 2001.

Lynne Knack

Ms. Knack reported that the Department of Taxation used the same information on quarterly forecasts of total employment from DETR and explained that in Taxation's forecast the numbers were reduced slightly and rounded. The Department of Taxation projected a 5.5 percent increase for Fiscal Year 1999; 6.0 percent for Fiscal Year 2000 and 5.0 percent for Fiscal Year 2001.

Cigarette Tax

Bill Anderson

Turning to page 22 of the Budget Division handout (Exhibit K), Mr. Anderson's presentation began with an historical analysis of the tax that indicated the general fund portion of the tax averages 24 cents per pack. Moving to the graph on page 23, Mr. Anderson noted a predictable trend in the number of taxable cigarette packages averaged out through a four-quarter basis. With one exception of about a year ago, the graph on page 24 illustrated a consistent relationship between collections and taxable packages of around 24 cents per package. Concerning the analysis of forecast accuracy illustrated by the graph on page 25, Mr. Anderson noted a good fit to the level of actual collections with the application of 24 cents per package over time.

Addressing the actual forecast, Mr. Anderson indicated the Budget Division is projecting growth in the neighborhood of 5 to 5.5 percent over the course of the next three years driven by growth of 4.9 percent in the level of taxable cigarette packages which is the annual average growth rate over the past four quarters.

Ted A. Zuend

Mr. Zuend indicated that cigarette tax revenue had grown on average at 4.9 percent per year over the last four years approximating population and tourism growth over the same period. Prior to that, Mr. Zuend pointed out there was virtually no gain in cigarette taxes for several years due in part to the last tax increase in 1989. In contrast, Mr. Zuend discussed a large tax increase in Arizona that appeared to make cigarettes sold in Nevada more competitive. Mr. Zuend also indicated that the marginal propensity to quit smoking had diminished somewhat over time.

While there are many factors affecting the numbers, Mr. Zuend pointed out that the Fiscal Division's projections for cigarette tax were not much different than Budget's numbers. After adjusting for the additional accrual month in Fiscal Year 1997-98, Mr. Zuend indicated the Department of Taxation is forecasting that cigarette taxes will grow by 4.0 percent per year through the upcoming biennium. Mr. Zuend expressed his agreement with the reasonableness

of the Department's forecasts.

In providing the projections, Mr. Zuend attributed the 5.9 percent increase in Fiscal Year 1999 to the accrual month in Fiscal Year 1997-98. The 4.0 percent increase for Fiscal Year 2000 and Fiscal Year 2001 was the same as the Department of Taxation's 4.0 percent increase for each year.

Lynne Knack

In developing the forecast for cigarette tax, Ms. Knack indicated the Department of Taxation compares per capita consumption nationally with the State of Nevada per capita consumption. Results of the comparison show that consumer use of tobacco products is slowing both on the national and state level. However, Ms. Knack attributed the growth trend to the increase in Nevada's population and tourist trade. Ms. Knack also attributed some of the increased consumption to consumers coming across border states to purchase tobacco products in Nevada. Ms. Knack indicated that since the last meeting of the Economic Forum, four other states increased their tax to exceed Nevada's 35 cents per package. Utah's rate increased 94 percent, and a 17 percent decrease has been seen in their tax collections.

Concluding her remarks, Ms. Knack said the Department of Taxation compared the reasonableness of the results of their regression analysis with activity over time and adjusted the base for the additional accrual month in Fiscal Year 1997-98 for a 5.9 percent increase in Fiscal Year 1999, and a 4 percent increase in both Fiscal Year 2000 and Fiscal Year 2001.

Liquor Tax

Bill Anderson

Addressing the Budget Division's forecast, Mr. Anderson turned to page 39 of the backup document (Exhibit K) and identified the fact that over time collections tend to average about 21 cents per gallon on an aggregate basis. Turning to the graph illustrating an analysis of taxable gallons trends on page 40, Mr. Anderson indicated a very predictable trend in the level of taxable gallons. The graph illustrating analysis of the relationship between taxable gallons and collections on page 41 shows that the 21 cents per gallon figure is consistent with the slight downtrend having been taken into consideration. Mr. Anderson explained that beer, the low-tax beverage, is accounting for a greater share of the total liquor market so the average tax yield per gallon is declining by 0.2 cent per year on average. By applying the 21 cents per gallon figure over time, as illustrated by the analysis of forecast accuracy on page 42, Mr. Anderson noted a good fit.

The Budget Division's projections for liquor tax included 1.5 percent increase for Fiscal Year 1999, 2.5 percent increase for Fiscal Year 2000 and 2.4 percent growth in Fiscal Year 2001. Concluding his remarks, Mr. Anderson pointed out that in generating the forecast for liquor tax, the Budget Division took into account the reduction in the average tax yield per taxable gallon by about 0.2 cent.

Ted A. Zuend

Mr. Zuend described liquor tax as a diminishing piece of the revenue base, and discussed various key indicators used in developing the forecast. Mr. Zuend said "after ignoring the additional accrual month in Fiscal Year 1997-98, liquor taxes grew by an average 3.1 percent over the last five years ranging from 1.9 to 4.8 percent."

Mr. Zuend indicated that liquor tax revenue had not kept pace with population and tourism growth because of a shift from hard liquor to beer and wine. Mr. Zuend explained that in

Nevada beer and wine are taxed at lower per drink rates than hard liquor. As a result and as indicated in earlier remarks, Mr. Zuend said the average tax yield per taxable gallon is diminished by about 0.2 percent resulting in an underlying forecast of 3 percent per year. While Mr. Zuend indicated the forecast of average growth of 3 percent is reasonable, he said that growth rates vary from year to year with the opening of major gaming resorts because of one-time stock buildups to ensure bars and restaurants have enough liquor products. Adding that the buildup creates a surge in revenue, Mr. Zuend indicated the stock buildup was taken into account in projecting a 4 percent increase for Fiscal Year 1999 that was adjusted to 3 percent as a result of the accrual. Concluding his remarks, Mr. Zuend said that revenue growth in Fiscal Year 2000 is projected to fall below the trend to 2.5 percent because the number of new properties is reduced by almost half and the above trend is also reduced by half. In Fiscal Year 2001, a 2.5 percent increase is projected which returns revenues to the trend line.

Lynne Knack

Ms. Knack reported that the Department of Taxation used regression analysis for each of the four components of liquor tax coming close to the same results as the Budget Division and LCB. Ms. Knack pointed out that the Department's regression analysis showed that the percentage of increase is higher for beer and wine beverages and less for hard liquor. The Department of Taxation projected 1.4 percent growth for Fiscal Year 1999, 2.3 percent growth for Fiscal Year 2000 and 2.2 percent growth for Fiscal Year 2001.

Net Proceeds of Mines and Treasurer's Income

Bill Anderson

Mr. Anderson advised the members of the Forum that the Budget Division could not provide proof of the accuracy of their forecasts for net proceeds of mines or Treasurer's interest income and, therefore, deferred to the Department of Taxation for projections on net proceeds of mines and the Treasurer's Office for projections on interest income revenue.

Net Proceeds of Mines

Lynne Knack

On a historical basis, Ms. Knack said the Department of Taxation saw an increase in the net proceeds of mine tax from 1993 through 1995. A decrease in the tax was attributed to a shift from surface mining to the more expensive process of underground mining. Ms. Knack explained the mines were able to claim a higher percentage of their expenses against their gross proceeds and currently the net to gross ratio in estimating gross proceeds and net proceeds has stayed the same for the last two fiscal years.

Ms. Knack advised that the estimate of the extraction of the production of the number of ounces of gold into the future was the key to fiscal year 1998 revenues. While the Department of Taxation usually surveys the largest mining companies in the state, Ms. Knack indicated that for this forecasting period, the Department requested that the Nevada Mining Association provide figures which were then compared to the information that the mining companies are statutorily required to provide in April of each year.

Discussing the basis for the projections, Ms. Knack reported that the information received in April from the mining companies was compared with the information requested five months later from the Nevada Mining Association, and the numbers from the two sources were close. While the Department of Taxation was projecting an increase in mining production levels, Ms. Knack said that the key to declining revenues is the price of gold and the Department had inaccurately assumed and provided information that the price of gold wouldn't continue to

drop. The Department had originally projected the price of gold at \$365 per ounce while it came in at \$327 per ounce, an 11.6 percent decrease and from the prior year actual, the price of gold decreased almost 16 percent. Ms. Knack added that while an increase in the level of production had been seen and the price of gold had dropped, the Nevada Mining Association is predicting that the price of gold may remain around \$300 per ounce for Fiscal Year 1999 and is projecting a further decline for Fiscal Year 2000 and Fiscal Year 2001 to \$290 per ounce.

Ted A. Zuend

Mr. Zuend expressed agreement with the Department of Taxation's estimate. Having had occasion to speak with and query a member of the Nevada Mining Association about increased production in the face of sharply declining gold prices, Mr. Zuend was advised that increased production was attributed to new mine openings.

Mr. Zuend expressed some dismay concerning the continued low price of gold as an indicator that worldwide economic stagnation would continue through Fiscal Year 2000 without much pickup providing "a great harbinger for the U.S. economy as well." While Mr. Zuend advised that he had no reason to disagree with the Nevada Mining Association on the price of gold at this point in time, he added there was some potential for this revenue through the biennium if the price of gold strengthened.

Treasurer's Interest Income

Mark Stevens

Turning to page 22 of the Fiscal Division's backup document (Exhibit J), Mr. Stevens informed the members of the Forum the Fiscal Division tries to project the amount available for investment by the Treasurer's Office and the average interest rate earned during each year of the biennium.

Mr. Stevens reported that the average balance available for investment in the fourth quarter of Fiscal Year 1997-98 was \$386.4 million. In the first quarter of Fiscal Year 1998-99 ending September 30, 1998, the investable balance was "relatively unchanged" with \$386 million as the average balance available for investment. The Fiscal Division is projecting that the State General Fund balance will decrease slightly during the remainder of Fiscal Year 1999 as a result of revenue collections not reaching anticipated levels. It is anticipated that a minimal level of 5 percent of General Fund appropriations, which is statutorily required on June 30, 1999, will continue throughout the upcoming biennium. Therefore, Mr. Stevens said the Fiscal Division is projecting the General Fund will decrease during the remainder of Fiscal Year 1998-99 resulting in an average investable balance of \$382.3 million during the current fiscal year and \$378.5 million in each year of the 1999-2001 biennium. Mr. Stevens advised that the Fiscal Division's projection compared with the Treasurer's Office projection of \$384 million in FY 1998-99, increasing to \$401.3 million in Fiscal Year 1999-2000 and decreasing to \$392.5 million in Fiscal Year 2000-2001.

Concerning the projection of the average interest rate, Mr. Stevens reported that the Treasurer's Office typically earns at least 1 percent more than the ninety-day T-Bill rate to which the Fiscal Division gauges their interest rate projection. While this was the case in Fiscal Year 1997-98, the WEFA forecast utilized by the Fiscal Division to estimate the ninety-day T-Bill rate was too optimistic. Therefore, Mr. Stevens indicated interest income collections were below projections in Fiscal Year 1997-98. To compensate for this, the Fiscal Division increased the ninety-day T-Bill rate as projected by WEFA through the year 2000 by 1 percent this fiscal year and reduced it to 0.75 percent in each year of the upcoming biennium. Mr. Stevens added that the Fiscal Division projects an average interest rate of 5.80 percent in Fiscal Year 1999, 5.70 percent in Fiscal Year 2000 and 5.75 percent in Fiscal Year 2001 which compares to the

Treasurer's Office projection of 5.88 percent in Fiscal Year 1999, 5.13 percent in Fiscal Year 2000 and 4.75 percent in Fiscal Year 2001.

Concerning Senate Bill 218 (1997), Mr. Stevens advised that beginning July 1, 1999, one-half of the interest earned on the Rainy Day Fund (currently \$128.9 million) not to exceed \$500,000 per quarter must be transferred to the Disaster Relief Fund. The Fiscal Division has projected interest income based on the full average balance and assumes that \$2 million in interest income will be transferred to the Disaster Relief Fund in Fiscal Years 2000 and 2001.

Moving to discussion on the latest revenue update for the last quarter ending September 30, 1998, Mr. Stevens reported that interest income reflects earnings of \$6.1 million in the first quarter. The average investable balance was \$386 million at an average interest rate of 6.33 percent.

On page 23, Mr. Stevens pointed out three years of actual information illustrating the actual interest that was earned by the Treasurer, the average balance invested, the average interest rate earned by the Treasurer and the three-month T-Bill rate that was in effect during each of those quarters. On the same page, Mr. Stevens pointed out the current fiscal year, first quarter actual figures and the estimates for average balance that the Fiscal Division has made in each of the next three quarters and the estimates for the average balance.

John Adkins, Deputy Treasurer for the Nevada State Treasurer's Office

Mr. Adkins identified himself for the record and advised the members of the Forum that the Treasurer's Office uses the federal funds rate rather than the T-Bill rate to forecast the investable fund balance. Mr. Adkins explained that the federal funds rate has been a more reliable figure and is the basis for the Treasurer's Office projections. While the Treasurer's Office uses WEFA's forecast with respect to the federal funds rate, Mr. Adkins indicated that WEFA's latest information indicates a 5 percent federal funds rate until the Year 2005 which he indicated appeared illogical from the Treasurer's Office point of view.

Having discounted WEFA's information concerning the federal funds rate, Mr. Adkins said the Treasurer's Office believes the interest rate will go down in Fiscal Years 1999 and 2000 between 25 and 55 basis points. However, Mr. Adkins pointed out that some economists believe the basis points will go down between 75 to 100 points which is considered extreme and was not taken into consideration by the Treasurer's Office. Using the reduction of 25 to 50 basis points, Mr. Adkins said brought interest rate earnings yields down to about 5.13 percent in Fiscal Year 2000 and 4.75 percent in Fiscal Year 2001.

Mr. Adkins indicated the possibility of the 75 to 100 basis point drop being a factor that required further review and thought perhaps additional information might be available for the December 1 meeting. Mr. Adkins said that a 75 to 100 point drop would significantly affect the Treasurer's Office projections.

Concerning Senate Bill 218, discussed earlier by Mr. Stevens, Mr. Adkins explained that the Treasurer's Office did not consider Senate Bill 218 in their projections as they believed the interest earned on the Rainy Day Fund remained in the General Fund. Mr. Adkins pointed out that the Treasurer's projection was more conservative than the Fiscal Division's which he said, had traditionally been the case.

The Treasurer's Office calculation of the average investable balance uses a "rolling eight-quarter balance" adjusted by known variances which includes the debt service forecast of the principal and interest paid for debt service and adjusted by quarters. While Mr. Adkins indicated the calculation could be rounded off to an annual basis, it was determined that there is enough influence with the expenditures affecting quarters and the rates used in the different

quarters that the Forum should be aware of. Mr. Adkins believed the Treasurer's Office projections are a moderately conservative estimate

Turning to page 23 of the Fiscal Division backup document (Exhibit J) Mr. Morgan asked Mr. Stevens to explain the meaning of the term, GF Rev per 7.0 as listed under the first and second year.

Mr. Stevens responded that GF Rev per 7.0 was the actual amount deposited to the General Fund and as illustrated in both Fiscal Years 1996 and 1997, a variance occurred. Mr. Stevens indicated that the base data that was used overprojected interest income. After discussing the issue with the Treasurer, adjustments were made to the figures in order to eliminate the variance.

Mr. Morgan pointed out that the formulas for the T-Bill rate in Fiscal Years 1995-96 and 1997-98 appeared to be copied from the first year since the quarters were all less than the average

Mr. Stevens acknowledged the error and indicated the difference between the Treasurer's Office and Fiscal Division projections was not dramatic. Mr. Stevens advised the members of the Forum their "call" would be to project whether the interest rate would go down a percent or remain at the current rate for the next two and a half years.

*VII. PRESENTATION OF PRELIMINARY FORECASTS ON MINOR GENERAL FUND REVENUES:

Dan Miles

Turning to page 75 in the meeting packet (Exhibit C), Mr. Miles presented the preliminary forecasts on the minor general revenue and began with a brief background presentation.

Mr. Miles advised the members of the Forum that there were about 150 minor revenues collected by the state and placed in the General Fund. He explained that at the end of each fiscal year, the Budget Division and the Fiscal Division jointly send a letter to the collecting state agencies requesting that they first reconcile the numbers recorded by the Controller for that fiscal year and then project the current and two out years. The information is collected and examined by staff from both the Budget Division and the Fiscal Division. When the agency forecasts are unclear or questionable, the agency in question is requested to reforecast, reconsider or provide reasons for the numbers produced. A list of all of the revenues going into the General Fund including the major revenues are listed on page 75 of the meeting packet.

After conferring with the agencies, staff from the Budget Division and Fiscal Division go through the revenues by line item to determine if agreement can be reached with the agency recommendation or on an alternate number, which Mr. Miles indicated had been accomplished. The consensus of the Budget Division and the Fiscal Division is displayed under the columns labeled Fiscal Estimate and Budget Estimate.

Mr. Miles went through each of the pages pointing out which of the revenues fall into the Minor General Fund category. Taxes included in the listing by category are:

Property and Mining: *Net Proceeds Penalty and Centrally Assessed Penalties.*

Sales and Use: (Mr. Miles noted that none of the sales tax is included under minor general fund revenue because administrative charges are a function of the sales tax itself. Once a forecast for sales tax is determined, staff will automatically compute those administrative numbers.

Gaming: *Pari-mutuel Tax, Racing Fees, Gaming Penalties, Slot Machine Route Operator, Gaming*

Information Systems, Equipment and Manufacturing License, Race Wire License and Annual Fees on Games.

Insurance Taxes: *Insurance Retaliatory Tax*

Other Tobacco Tax; HEEC (Higher Education Capital Construction Tax transfer \$5 million—statutorily, Business License Fee

Beginning on Page 77, under the Licenses Category for minor revenues, Mr. Miles specifically discussed *Las Vegas Commercial Filings and Commercial Recordings* that are collected by the Secretary of State based on their business activity. Mr. Miles pointed out that the Secretary of State's office had projected 20 percent growth in each of the forecast years. Staff from the Secretary of State believe 20 percent growth is achievable. Total licenses are listed on page 78, and Mr. Miles pointed out the Fiscal Division and Budget Division estimates are the same for each fiscal year.

Page 79 lists the **Fees and Fines** category, and the Fiscal Division and Budget Division were in agreement on all revenues. For the Forum's information, Mr. Miles noted that the largest revenue listed under Fees and Fines is the short-term rental car tax currently assessed on rented cars.

Page 80 lists the **Charges for Services** category. Mr. Miles was inclined to remove the category and fold the revenue into the Miscellaneous category and indicated he would discuss the idea with Mr. Comeaux. Mr. Miles noted for the Forum's information that while there had been a number of other revenues under the category of Charges for Services *Child Support Enforcement* payments to the General Fund was the only revenue remaining.

Page 81 lists **Use of Money and Property** category. The revenue collected under this category is primarily repayments to the General Fund for loans made for capital projects in past years. The Fiscal Division and Budget Division were in agreement on all minor revenues under this category.

Page 82 lists the **Other Revenue** category under which all revenues listed on page 82 are minor revenue sources for the General Fund. Mr. Miles said that total revenue in the minor category is approximately \$82 million in Fiscal Year 1999, or about 5.5 percent of the total forecast; \$88 million in Fiscal Year 2000, or about 5.7 percent of the total forecast and \$95 million in Fiscal Year 2001. Concluding his comments, Mr. Miles indicated that the minor general fund revenue was less than 6 percent of the total general fund. He also noted that the minor revenues were a possible action item listed on the agenda for approval by the Forum at the October meeting or the item could be deferred to the December 1 meeting.

Mr. Greathouse deferred the vote on the minor revenues to the December 1, 1998, meeting.

Mr. Miles noted, for the record, that the agency estimate for Athletic Commission fees has historically been \$1 million. The Budget Division and the Fiscal Division looked at seven-year averages which have been \$1.8 million or above and have differed with the agency and estimated the revenue at \$1.5 million

***VIII. DIRECTIONS TO THE TECHNICAL ADVISORY COMMITTEE ON FUTURE STATE REVENUES**

In response to Mr. Greathouse's request for comments from the members of the Forum, Mr. Morgan asked that the Technical Advisory Committee be aware of and give consideration to the impact of California's Proposition 5 in Nevada. Mr. Morgan also requested that the Committee provide information on whether the timing would affect revenues in the next biennium if the ballot question is approved.

Mr. Greathouse agreed and indicated the Forum would need to address Proposition 5 in discussing

the gaming percentage fees at the December 1 meeting. Mr. Greathouse asked to hear a position from each of the reporting groups as to what effect, if any, has been built into the gaming revenues.

John P. Comeaux, Chairman of the Technical Advisory Committee

Mr. Comeaux identified himself for the record and advised the Chairman that the Forum would have a lot of work to accomplish at its December 1 meeting and that the forecasters would be prepared to speak to the Question 5 ballot issue, should it be approved by California voters. Mr. Comeaux suggested that testimony by the forecasters be limited at the December 1 meeting to new issues and that the forecasters be prepared to discuss and answer any questions the members of the Forum might have.

Mr. Greathouse agreed with Mr. Comeaux's suggestion and also indicated that while there was a lot of visibility to each of the forecaster's rationale related to their estimates, discussion could be limited to why one number is different than another and pinpointing the differences and reasons for the differences.

Mr. Greathouse suggested that in terms of availability of material, it was helpful to receive the meeting material in advance. With a scheduled meeting date of December 1, the Thanksgiving holiday and the fact that the members of the Forum would like to receive the most up-to-date numbers available for the estimates, Mr. Greathouse requested information on the date material for the meeting could be mailed to the Forum.

Mr. Stevens proposed providing a packet similar to the October meeting packet in advance of the meeting with additional backup documents from the Budget Division and Fiscal Division to be distributed at the meeting.

Mr. Comeaux suggested that the Fiscal Division and the Budget Division could provide all of the numbers with the exception of sales tax well in advance of the meeting.

Mr. Greathouse indicated it was his understanding that other than minor changes, because of the additional month of information, the data presented at the October meeting should be fairly consistent with the presentations on December 1.

Mr. Comeaux agreed and indicated he would be surprised if there were many changes.

Mr. Seevers suggested that any changes be highlighted to draw to the Forum's attention.

Mr. Anderson advised the Forum that if the sales tax numbers were "rolled" over the weekend of November 20, and were received by November 23 or November 24, the material could perhaps be mailed by Federal Express on November 26 or 27. If not, Mr. Anderson indicated that all of the revenue information with the exception of sales tax could be mailed in advance of the meeting.

Mr. Greathouse suggested that if the information could be mailed on November 23 or 24, special delivery mail could be received over the weekend and that even Monday, November 30 would be helpful.

Mr. Morgan expressed his appreciation to Mr. Anderson and to Mr. Comeaux for their time and effort in following the Forum's directions to where possible independently develop projections.

Mr. Greathouse agreed with Mr. Morgan and acknowledged that a lot of "good well-thought out information" had been heard. Speaking on behalf of the Forum, Mr. Greathouse extended his thanks to all the participants for their contributions.

IX. PUBLIC COMMENT

Mr. Knight Allen, a private citizen, identified himself for the record and in a few brief comments advised the members of the Forum of his concern with "the way the numbers drive and dominate" the forecasting process.

It was Mr. Allen's opinion that using historical data to project numbers into the future is an "exercise in futility" as proven by the Forum's projections for the past biennium.

As an alternative, Mr. Allen suggested that the Forum's decisions should be based on the outlook seen in each member's business or industry based on his or her knowledge, experience and business acumen and "not projection of numbers."

Concluding his remarks, Mr. Allen said that "Nevada would be much better served if the budget numbers presented to the Governor and Legislature are based predominately on each member's best personal subjective judgment influenced only minimally by stacks of numbers and financial formulas."

On behalf of the Forum, Mr. Greathouse extended his thanks to Mr. Allen. Commenting on the complexity of the forecasting process as well as the number of factors that require consideration, Mr. Greathouse again extended his appreciation to all of the participants in their assistance to the Forum. Mr. Greathouse agreed that at the end of the process, the Forum's best judgment is used in looking at differences between different points of view and processes to reach the estimates.

X. ADJOURNMENT

**MR. MORGAN MOVED TO ADJOURN THE MEETING AT 2:45 P.M.
THE MOTION WAS SECONDED BY MR. SEEVERS AND
UNANIMOUSLY APPROVED.**

Respectfully submitted,

Connie Davis, Secretary

Fiscal Analysis Division

Approved

Steve Greathouse, Chairman

The State of Nevada Economic Forum

Date