MINUTES OF THE MEETING OF THE
STATE OF NEVADA ECONOMIC FORUM
September 29, 2004

The meeting of the State of Nevada Economic Forum (created by Senate Bill 23, 1993) was scheduled for 9:30 a.m. on Wednesday, September 29, 2004, at the Legislative Building, 401 South Carson Street, Room 4100, Carson City, Nevada with videoconference to the Grant Sawyer State Office Building, 555 East Washington Avenue, Room 4412 Las Vegas, Nevada.

ECONOMIC FORUM MEMBERS PRESENT:

Cary Fisher
Deborah Pierce
Leo Seevers
Michael Small
William Martin

STAFF:

Mark Stevens, Assembly Fiscal Analyst, Fiscal Analysis Division
Russell Guindon, Deputy Fiscal Analyst, Fiscal Analysis Division
Bill Anderson, Economist, Executive Budget Office
Keith Norberg, Deputy Fiscal Analyst, Fiscal Analysis Division
Donna Thomas, Secretary, Fiscal Analysis Division

EXHIBITS:

Exhibit A - Meeting Notice and Agenda
Exhibit B - Attendance Report
Exhibit C - Meeting Packet
Exhibit D - Historical Information on Taxable Sales and Sales Tax Collections and Gaming Win and Percentage Fee Collections
Exhibit E - General Fund Revenue Forecasts: Methodologies and Accuracy Department of Administration, Budget and Planning Division
Exhibit F - State of Nevada Gaming Control Board - Fiscal Years 2003 and 2004 Gaming Activity
Exhibit G - Background Information for Agenda Item VI and Agenda Item VIII

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

I. Roll Call

Acting Chairman Fisher called the meeting of the State of Nevada Economic Forum to order at 9:40 a.m. The Secretary called the roll; all members were present.

II. Election of Chairperson and Vice-Chairperson

Acting Chairman Fisher opened up the nominations for Chairman.

MR. SEEVERS NOMINATED MR. SMALL FOR CHAIRMAN OF THE STATE OF NEVADA ECONOMIC FORUM.

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

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MR. SEEVERS NOMINATED MS. PIERCE FOR VICE-CHAIRPERSON OF THE STATE OF NEVADA ECONOMIC FORUM.

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

III. Approval of the May 1, 2003, Meeting Minutes

Chairman Small asked for a motion to approve the May 1, 2003, meeting minutes included in the Meeting Packet (Exhibit C).

MR. SEEVERS MOVED TO APPROVE THE MAY 1, 2003, MEETING MINUTES.

MR. FISHER SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

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IV. Presentation of the Tax Changes and New Taxes Approved by the 2003 Legislature During the 2003 Regular and Special Sessions

Russell Guindon, Deputy Fiscal Analyst, Fiscal Analysis Division welcomed the returning members and the new member Mr. William Martin, and said he was concerned that the members would not want to serve on the Committee after what transpired during the 2003 Legislative Sessions.

Mr. Guindon said that historically the purpose of the September meeting of the Economic Forum (Forum) was to review the "actual" projections with the projections of the Forum from the last cycle. He said that the tax structure of the state was changed significantly during the 2003 Regular and Special Sessions and the goal of the meeting was to spend time looking at the legislatively approved tax changes and to review what staff estimated those changes would generate in FY 2004. Also, the Forum would spend time reviewing how well the "actuals" compared to FY 2004 projections. He indicated that staff used the May 1, 2003 forecast from the Economic Forum for FY 2004 as the base forecast and the adjustments for taxes that were changed by staff of the Fiscal Analysis Division using the base forecast.

Continuing, Mr. Guindon said the Forum would establish dates for the next two meetings and at those meetings staff would present forecasts to the Forum. The purpose of this meeting was not to consider projections for the next biennium. Staff from the Gaming Control Board, Secretary of State's Office, Department of Taxation and the State Budget Office would not be providing projections at this meeting, but are available to provide comments on the tax changes and the actual collections generated by those tax changes.

Mr. Guindon directed the Committee to the Revenue Plan Fact Sheet, tab IV of the meeting packet, (Exhibit C), a summary document compiled by staff from the Fiscal Analysis and Research Divisions of the Legislative Counsel Bureau after the 20th Special Session to summarize the tax changes approved by the 2003 Legislature. He indicated that there were three primary bills that contained the tax changes; Senate Bill 2, Assembly Bill 4, and Senate Bill 8, which was the major bill.

Mr. Guindon said the following four categories of tax changes were legislatively approved during the 2003 Regular and Special Session:

- Existing taxes were increased.
- Structure of existing taxes and fees were changed.
- New taxes were created.
- Existing taxes were repealed.

Existing Taxes

Continuing, Mr. Guindon noted the taxes increased that currently existed in statute included: percentage fee tax on gaming revenue, cigarette tax, liquor tax, quarterly restricted slot machine fees and various Secretary of State fees. Also included under this category of increases was the reduction of collection allowance that taxpayers are allowed when they paid their taxes. Reducing the collection allowance to taxpayers generated additional General Fund money. He stated that although this was a lowering of rates allowed to taxpayers; it could be viewed as a rate increase for the state.

Structural Changes

Next, Mr, Guindon said structural changes were made to the business license fee. The conversion of the casino entertainment tax (CET) into what is now referred to as the live entertainment tax (LET).

New Taxes

The third category of new taxes legislatively approved was the modified business tax, which has two components; one on non-financial institutions and one with the higher rate that was attached to financial institutions. Also included in the third category were the branch bank excise fee tax and the state real property transfer tax.

Repealed Taxes

Finally, the fourth category was taxes repealed that included the business license tax which was one of the six major revenue sources that the Economic Forum produced projections for as a major revenue source.

The insurance premium tax was the only category that did have any legislatively approved changes during the 2003 Session.

Mr. Guindon commented that at the future meetings the Forum would be presented with different forecasts for the major revenue sources and would then decide upon a consensus forecast for the Governor to use to prepare his Executive Budget and the Legislature to use to develop a legislatively approved budget for the 2005-07 biennium.

Mr. Guindon directed the Committee to page 37, of the meeting packet, (Exhibit C). Referring to the chart, he said the information for FY 2004 and FY 2005, under the Economic Forum estimate for both years was the May 1, 2003 estimate that was approved by the Forum. The percent change for the Forum forecast for FY 2004 was actually the percent changed based on the Economic Forum May 1, 2003 projections for FY 2003. The next column titled 2003 Session Legislative Actions represented the estimate of the additional revenue that Fiscal staff thought would be generated by the legislatively approved change to that particular revenue source. The last column titled EF Forecast plus Legislative actions were the sum of the Economic Forum's May 1, 2003 forecast plus the legislative actions which would be the net result under the column in the table titled adjusted forecast.

Mr. Guindon went on to say that the first item on the chart under sales and use was the additional revenue listed for the states 2% sales tax and the commission that the state receives for collecting and distributing the local sales taxes. Assembly Bill 4 (20th Special Session) provided that the collection allowance provided to the taxpayers for collecting and remitting the sales tax to the state, was reduced from 1.25% to 0.5% of what their liability was each month. This change to the sales tax collection allowance was effective July 1, 2003 which meant the state would receive 12 months of the revenue from the lowering of the collection allowance in FY 2004. He noted that Fiscal staff tried to ensure the estimates were consistent with the Forum's projections and staff used the May 1, 2003 projections as the base for computing the revenue enhancements. He said using the Forum's May 1, 2003 forecast; the sales tax collection allowance was estimated to generate an additional $5,387,000 in FY 2004 and approximately $5.7 million in FY 2005 from the state 2% sales tax portion.

Continuing, Mr. Guindon said the state received a commission from collecting the local taxes and the reduction and sales tax collection allowance combined was projected to generate $103,000 extra in FY 2004 and $109,000 in FY 2005. The combined reduction of the sales tax collection allowance from lowering the taxpayer's collection allowance was expected to produce approximately $5.5 million in FY 2004 and approximately $5.8 million in additional General Fund revenue in FY 2005.

Moving to the percentage fees tax on gross gaming revenue, Senate Bill 8 (20th Special Session) increased gross gaming tax rates by 0.5% on each bracket. The rates were previously 3.0%, 4.0% and 6.25% and currently it is 3.5% of the monthly gaming revenue, up to $50,000; 4.5% of the monthly gaming revenues over $50,000 and up to $134,000 and 6.75% on revenue exceeding $134,000. The legislatively approved changes raised the rate by 0.5% but the revenue thresholds were left unchanged.

Moving forward, Mr. Guindon said the 0.5% increase in the rates was effective August 1, 2003 and the state received ten months of additional collections in FY 2004. Although it seemed the state would receive 11 months of additional collections with the August 1, 2003 effective date; the way the gaming tax worked, the business activity lagged a month in relation to the collection month. For instance to begin FY 2004, the business activity in June would generate the collections for July, so with an August 1, 2003 effective date, the business activity for June and July would be under the old tax rate. The estimate was based on what staff thought the state would collect from the tax increase for ten months of FY 2004. As reflected in the table, staff estimated the tax increase would generate approximately $40,982,000 for FY 2004 for the ten months, and approximately $51.1 million in FY 2005 for 12 months. He reiterated that the estimates of additional revenue were produced using the May 1, 2003 forecast of the Forum as the base.

Moving ahead to the next tax; the quarterly restricted slot machine fees were increased in Senate Bill 8 (20th Special Session) by 33% which meant they went from $61 to $81 per machine for the first five machines that a restricted licensee was operating with a license. The second tier of that tax went from $106 to $141 for each machine over five and up to 15 machines because restricted licensees were only allowed to operate up to 15 machines. Mr. Guindon stated that the fee increase was effective July 22, 2003 and it was estimated that the 33% increase in the quarterly restricted slot fees would generate approximately $2.3 million in FY 2004 and approximately $2.4 million in FY 2005.

Proceeding to page 39 of the meeting packet, (Exhibit C), Mr. Guindon said the casino entertainment tax (CET) was repealed in Senate Bill 8 but he viewed it more as a structure change as it exists in current statute. Senate Bill 8 (20th Special Session) made changes to the existing CET, which was now the live entertainment tax (LET). The provisions were changed for the types of establishments and the types of entertainment for licensed gaming establishments that were subject to the tax but also expanded the tax base to include non-gaming establishments. The actual evolution of the CET to the LET took place in two phases. First, the CET was modified to include establishments that previously were not subject to the 10% CET. Also, some minor changes were made to the types of entertainment subject to the CET; these changes became effective September 1, 2003 and were in effect until the end of December 2003. For four months of FY 2004, the Legislature made changes to the existing CET so that certain licensed gaming establishments, not under the provisions of the old tax, were now subject to the tax.

Mr. Guindon said the Forum's original estimate for FY 2004 was approximately $76.1 million and Fiscals estimate of what the CET would generate for the four months of FY 2004 was $4,982,000. The main structure of the change that was generating the additional money was a change to the number of seats threshold. Under the old CET, showrooms with more than 1,750 seats were exempt from the tax so that threshold was taken up to 7,500 seats for the September 2003 to December 2003 period. Mr. Guindon said some establishments over the 1,750 seats that were previously exempt now fell under the tax due to the raised threshold to 7,500 seats. He pointed out that the Caesar's Coliseum was the principle entity generating a lot of the revenue regarding Fiscal's estimates. Mr. Guindon reiterated that the CET tax changes were in effect for four months, so effective January 1, 2004 there were additional changes made to the modified CET and the tax base was expanded to include entertainment that was provided at non-gaming establishments. This tax became effective January 1, 2004, so officially the CET was repealed and the LET was effective January 1, 2004.

Mr. Guindon briefly outlined the changes and how the LET worked, stating it was a relatively complex tax and the Department of Taxation and Gaming Control were still working out the implementation and collections of the tax in terms of who was subject to the tax and the rate that was paid. The LET tax rate and base depended on the maximum occupancy or the seats of the facility in which the live entertainment was conducted. The general structure of the LET was 5% of the admission price for live entertainment that was held in a facility with the maximum occupancy of 7,500 or more seats, with food, beverage and merchandise not included or subject to the tax. The tax remains 10% of the admission price, food, beverage and merchandise purchased in a facility with occupancy of more than 300 and up to 7,500 for live entertainment conducted in both gaming and non-gaming establishments.

Mr. Guindon stated that live entertainment was exempt from the tax if the facility was a non-gaming establishment with less than 300 seats or a gaming establishment with less than 300 seats and less than 51 slot machines, 6 games or any combination of slot machines and games within those limits. Also, live entertainment that was conducted by or entirely for the benefit of a non-profit organization was exempt from the tax.

Mr. Guindon said as noted in the table on page 39, of the meeting packet, (Exhibit C), the gaming portion of the LET was an estimate from Fiscal for the changes to the LET from January 1, 2004 to June 30, 2004 were expected to generate in terms of additional collections to the entertainment tax. It was projected to generate $8,987,000 for the six months the LET was in effect for FY 2004. Moving to FY 2005, the LET was estimated by Fiscal to generate $17,974,000 in additional General Fund revenue from gaming establishments.

The LET-non-gaming line on page 39, of the meeting packet, (Exhibit C), was the Fiscal staff projection of the LET from January 1, 2004 to June 30, 2004 expected to be generated in terms of subjecting non-gaming establishments that have live entertainment for the six month period was $27.5 million and in FY 2005 it was projected to generate approximately $57.5 million.

Moving to the liquor tax, as approved in Senate Bill 8, the tax was increased by 75% per gallon on each type of liquor which resulted in the tax on malt beverages being increased from 9 cents per gallon to 16 cents per gallon; liquor up to 14% alcohol by volume increased from 40 cents per gallon to 70 cents per gallon; liquor over 14% and up to 22% alcohol by volume increased from 75 cents to $1.30 per gallon; and liquor over 22% alcohol by volume increased from $2.05 per gallon to $3.60 per gallon. Mr. Guindon noted that 15 cents of the liquor tax on alcohol over 22% by volume went to alcohol abuse programs and 50 cents went to local governments and those distributions were not changed. Therefore, all of the net increase in the tax on alcohol over 22% went to the state. So instead of the $1.40 that went to the state General Fund, now $2.95 per gallon on liquor over 22% alcohol content goes to the General Fund. Mr. Guindon said that rather than it being a 75% increase in the rate, it is 111% increase of the portion going to the state General Fund. The increase in liquor tax was effective August 1, 2003 which implied that the state collected 11 months of additional revenue from the liquor tax increase in FY 2004. The liquor tax was also affected by a reduction in the collection allowance. The collection allowance provided to the taxpayer for collecting and remitting the liquor tax to the state was reduced from 3% down to 0.5% effective August 1, 2003. The net increase estimated for liquor tax changes was approximately $14.6 million in FY 2004 and approximately $16.4 million in FY 2005 that would be generated from increasing the liquor tax and lowering the collection allowance.

Moving to the cigarette tax, Mr. Guindon said the cigarette tax was increased by 45 cents from 35 cents to 80 cents per pack of 20 cigarettes. He noted that under the old rate, 10 cents per pack went to the local government distribution fund which was not changed. By increasing the tax from the 35 cents to 80 cents; 70 cents went to the state General Fund. This increase was effective July 22, 2003 which was the passage and approval date of Senate Bill 8. Again, the cigarette tax collection allowance was reduced from 3% to 0.5% in Assembly Bill 4, effective August 1, 2003, and the net impact was projected to generate approximately $65.8 million in FY 2004 and $72.9 million in FY 2005.

Mr. Guindon indicated that the “other tobacco” tax on the chart, $83,000 in FY 2004 and $91,000 in FY 2003 was due to lowering the collection allowance on other tobacco products. To be consistent, all the collection allowances were lowered to 0.5%. The previous collection allowance on “other tobacco” products was 2%; so lowering it from 2% to 0.5% was projected to generate the amounts shown in the table.

Moving to the business license fee, Mr. Guindon related that this tax structure was changed in Senate Bill 8. Previously, the state had a one-time business license fee of $25 that entities were required to pay to the Department of Taxation to establish their business. However, effective July 22, 2003 this amount went from a one-time $25 fee, to a $100 annual fee. An existing entity would be required to pay the $100 and an annual renewal of $100; a new establishment would have to pay the $100 and then have the obligation, as long as doing business, to pay the $100 annual business license fee thereafter. This tax was not only changed from a $25 one-time fee to $100 but also increased the number of businesses that previously did not pay the one-time $25 fee were now liable under the $100 annual fee structure. Mr. Guindon said this tax was problematic to implement and it was difficult to find businesses that had a liability under the tax, to remit the $100 business license fee. Under the approved changes to the business license fee, approximately $22.1 million was estimated to be generated in FY 2004 and $24.5 million in FY 2005.

The business license tax was repealed in Senate Bill 8 on October 1, 2003, and was replaced by the modified business tax. So, based on the October 1, 2003 effective date for repealing the business license tax, the state collected one-quarter of the business license tax in FY 2004. The May 1, 2003 estimate of the Economic Forum was $81.2 million which it was reduced by $60.9 million reflecting the three-quarters estimate of what was not anticipated to be collected for the remainder of the year. The net estimate was $20.3 million in FY 2004 for the one quarter.

Mr. Small questioned when the forecasts for the tax changes were projected. Responding, Mr. Guindon said the forecasts were done as the tax proposals were occurring throughout the special session. He explained that during the special session there were numerous proposals and considerations for the different tax rates and it was the responsibility of Fiscal staff to produce estimates for each current proposal. Fiscal staff consulted with staff from the Gaming Control Board, Department of Taxation and with members of the private sector to produce the estimates for all the different tax plans considered during the special session and the estimates show in the table in the packet.

Chairman Small asked if the estimates were done subsequent to the final meeting on May 1, 2003. Mr. Guindon said they were done after the May 2003 meeting and the Economic Forum was required by statute to produce their forecasts based on the current statute. He said there were discussions of pending tax changes at the May 1, 2003 Forum meeting. When the estimates of the tax changes were produced, Fiscal staff tried to be consistent with the May 1, 2003 estimates in terms of the net reduction or the net increase in the revenue estimates. He added that Fiscal staff was aware of some of the proposed tax changes so they set up templates or models, and as the tax rate changed, it could be added to the template to generate estimates that were consistent with the May 1, 2003 estimates.

Chairman Small assumed the function of the Economic Forum was to set the budget for the Legislature and inform them of the revenue available based on the forecasts.

Mr. Guindon stated that the Economic Forum was required to produce estimates under the current statute and because the taxes were significantly changed, the taxes the Economic Forum would have to prepare forecast for had changed. He said the December 1, 2003 revenue estimate created by the Forum, under the current statute, was used by the Governor to produce The Executive Budget for the FY 2003-05 biennium. In addition, if the Governor desired enhancements above the Economic Forum's revenue projections, he would have to produce revenue enhancements or expenditure reductions to produce The Executive Budget for presentation to the Legislature. The Governor was locked into the Economic Forum's revenue estimates he had to use to develop The Executive Budget and if he wanted to extend beyond that, he would have to come up with an enhancement plan. During the last budget cycle, the Governor's budget included recommendations for the tax changes to fund his enhanced budget. He reiterated that the May 1 estimate was required to be completed under the current statute and the Legislature was required to produce a legislatively approved budget based on these estimates. If the Legislature wanted to spend beyond the May 1 estimate, revenue enhancements would have to be legislatively approved to generate revenue to fund the enhanced budget.

Chairman Small asked if the Governor recommended any additional funding and expenses. Responding, Mr. Guindon said the Governor submitted an enhanced budget with a tax plan for additional revenues that would fund that budget being submitted to the Legislature. As the Legislature went through the different budgets, it was apparent that there was not enough revenue given the May 1, 2003 estimate to fund the budget being considered by the Legislature. He said there was discussion of new taxes or modification of existing taxes to generate the revenue to fund the legislatively approved budget.

Chairman Small questioned if it was the responsibility of the Forum to look at the projections at that point. Responding, Mr. Guindon said it was not the responsibility of the Forum.

Moving forward, Mr. Guindon said the modified business tax (MBT) was a new tax that replaced the business license tax. The MBT was approved in Senate Bill 8 and the tax base was the gross wages or payroll paid to the employees of a business, less a deduction for allowable health care expenses that were paid for the employees. He noted that the tax liability was calculated on the wages minus the health care deductions. The wages that were part of the MBT were the wages that were covered and required to be reported under Nevada's unemployment insurance statute, Chapter 612 of the Nevada Revised Statutes (NRS). These were the wages that employers paid for their employees that were required to be covered under Nevada's unemployment insurance law. The tax was effective October 1, 2003 when the business license was repealed. Mr. Guindon indicated that the MBT was actually two separate taxes: (1) one on financial institutions; and (2) one on non-financial institutions (MBT on any person who was not deemed a financial institution). The tax rate on financial institutions was 2% of that net amount; the gross wages less the allowable health care deductions. The tax on non-financial institutions was 0.7% for the three-quarters of FY 2004 (October 1, 2003 to June 30, 2004) that the tax was in effect. Then effective July 1, 2004 the rate of non-financial institutions dropped to 0.65% but the tax rate on financial institutions remained at 2%.

Continuing, Mr. Guindon said that Fiscal staff estimated the MBT on non-financial institutions would generate approximated $139.7 million in FY 2004 and $181.8 million in FY 2005. The FY 2004 amount represented an estimate of three-quarters worth of collections and FY 2005 estimate was for a full year of collections. The MBT on financial institutions was projected to generate approximately $15.5 million in FY 2004 and $21.4 million in FY 2005 for the full year.

The branch bank excise tax (BBET) was an additional tax legislatively approved that required each bank to pay an annual tax of $7,000 for each branch bank office (exempting the first branch). The BBET was paid to the state on a quarterly basis at a rate of $1,750 per quarter and was effective January 1, 2004 generating two-quarters worth of the tax in FY 2004. The BBET tax was projected to generate $1.3 million in FY 2004 and $2.6 million in FY 2005 for four-quarters.

Mr. Guindon noted that the real property transfer tax (RPTT) was an additional new tax legislatively approved in Senate Bill 8. He indicated there was a local real property transfer tax that was already statutorily in place. The state RPTT rate was $1.30 per $500 of the value on the transfer of real property effective October 1, 2003. Currently, there was a local RPTT of 65 cents per $500 of value that already existed in statute and an additional 60 cents that was imposed in Clark County with the proceeds from the 60 cents going to school districts for capital projects. Mr. Guindon said a 65 cent rate was already in place in all counties and an additional 60 cents in Clark County; a state rate of $1.30 was added resulting in the combined rate going from $2.55 per $500 of value in Clark County and $1.95 in all other counties in the state. The RPTT was collected by the County Recorder and the state portion was remitted to the state on a quarterly basis. The counties were allowed a collection allowance for collecting the tax and remitting it to the state. Counties with a population over 100,000 could withhold up to 0.2 % and counties with less than 100,000 could with hold up to 1% of taxes from the state portion. Mr. Guindon noted that the state RPTT was estimated to generate approximately $51.4 million in FY 2004 and $69.9 million in FY 2005.

Moving to page 41 of the meeting packet, (Exhibit C), Mr. Guindon said the banking license fee, escrow agent license fee and all fees under the subcategory, financial institutions were netted out in FY 2004 and FY 2005 and this change occurred in Assembly Bill 493 (2003 Session). This provided that revenues from the various fees that were collected by the Division of Financial Institutions of the Department of Business and Industry were now deposited in a separate fund and the funds collected from the fees were used to pay for the operating expenses related to the operations of the Commissioner of Financial Institutions and the Division of Financial Institutions, effective July 1, 2003. Previously, the fees were deposited into the state General Fund. Currently, the fees are no longer put in the General Fund but are deposited in a separate fund to fund the division. So instead of being a General Fund agency, they are a fee based agency and the net impact on the General Fund was null because they took the fees that they used to put in the General Fund and were appropriated to fund their operations and now these fees are put into a separate account to fund their operations.

Mr. Fisher asked if the state received any excess money or did they have to make up any shortages? Responding, Mr. Guindon stated an assessment was done at the end of the fiscal year and an estimate was made on what the fees would generate and then a legislatively approved budget was prepared based on what was estimated to be collected from the fees. He noted that if it looked like the fees were not generating enough; an assessment was completed at the end of the year on the financial institutions to balance out the budget so there was enough revenue to cover their legislatively approved budget. Mr. Guindon said it did not impose a liability on the General Fund if the projections were not generated to fund their legislatively approved budget because there was always was an assessment done at the end of the year to make sure enough revenue was generated.

Continuing, Mr. Guindon said there were changes made to the Secretary of State fees in Senate Bill 2 and Assembly Bill 4 (20th Special Session). The changes were made to the rates and structure of the fees that were collected by the Secretary of State's Office. In Senate Bill 2, almost all the fees charged by the Secretary of State were increased and the fees were already almost doubled during the 2001 Session. He said this was difficult for the Secretary of State and Fiscal staff to deal with because a change was already made during the 2001 Session and there was not enough information available to calculate the impact of those changes and then the fees were changed again during the 2003 Session.

Referring to the chart on page 41 of the meeting packet, (Exhibit C), the uniform commercial code (UCC) fees were increased effective September 1, 2003. Based on that effective date, it was estimated the UCC fee changes, for ten months in FY 2004 would generate approximately $622,000 and $778,000 for a full year in FY 2005.

Also, Mr. Guindon pointed out a major change was made to the commercial recording fees which were expected to generate approximately $10.1 million in FY 2004 effective November 1, 2003, and these changes were estimated to generate approximately $15.7 million for a full year in FY 2005.

Securities fees were also increased in Senate Bill 2 (2003 Session) and licensing fees for broker/dealers, sales representatives, investment advisors were doubled. Also, the fees based on the offering prices of securities were doubled effective September 1, 2003 and the changes were projected to generate approximately $8.1 million in FY 2004 and $8.7 million in FY 2005.

Continuing, Mr. Guindon said one final small revenue enhancement was changed in Senate Bill 428 (2003 Session) increased the licensing fees for real estate salesman, broker-salesman by $20 for the original license and $10 for the renewal license. These fee changes were effective July 1, 2003 and the increase was expected to generate approximately

$150.4 million in FY 2004 and approximately $135.8 million in FY 2005.

Moving to page 43 of the meeting packet, (Exhibit C), Mr. Guindon said the chart reflected a minor change that was made during the regular session that impacted one of the General Fund revenue sources. He informed the Forum that there were increases in the fees for issuing copies of the birth and death certificates and the fee charged for a copy of a birth certificate was increased by $2; and for a copy of a death certificate was increased by $1, effective October 1, 2003. There increases were projected to generate approximately $236,000 in FY 2004 and approximately $333,800 million in FY 2005.

Mr. Guindon said the last revenue change, page 45 of the meeting packet, (Exhibit C), was the printing repayment, Senate Bill 504 (2003 Session). He explained that the State Printing Division was transferred from the Department of Administration to the Legislative Counsel Bureau and they had a general fund appropriation for a project and was repaying the General Fund on a payment schedule. He said when the printing office became part of the Legislative Counsel Bureau; it was legislatively approved that all debt to the state would be forgiven and the repayments had to be netted out as a General Fund revenue source. Mr. Guindon said it was a relatively insignificant amount, but needed to be included as a General Fund revenue source because moving to page 47, the total General Fund under the FY 2003 Session legislative actions, all the changes based on the estimates of Fiscal were expected to generate approximately $357 million in FY 2004. He noted there was an additional General Fund revenue enhancement of approximately $6 million in FY 2004 that came from the sales tax collection allowance was lowered on the local school support tax portion and it ended up providing more money to the local school support tax collections which was part of the Distributive School Account (DSA). He said the General Fund was one of the revenue sources in the DSA and by increasing the local sales tax collections that went into the DSA, the $6 million lowered what the General Fund had to provide. It ended up being a savings to the General Fund, so combined that with $357 million from all the tax changes, plus the impact of LSST change on the DSA of the $6 million, it was estimated the tax plan changes would generate approximately $363 million in FY 2004. It was estimated to generate approximately $464.2 million in FY 2005 and then the LSST impact on the DSA in FY 2005 was estimated to approximately $6.3 million which meant combined the tax plan changes for FY 2005 were projected to generate approximately $470.5 million. He said that net for FY 2004 and FY 2005 biennium period the General Fund revenue enhancements were projected to generate approximately $833.5 million.

Mr. Martin asked for clarification on page 41 when Mr. Guindon said that the Las Vegas commercial filings and the commercial recordings should be combined and the result was the Economic Forum estimate of $44 million and now the number was $63 million. Mr. Guindon responded that for all the commercial recording revenues that the Secretary of State's Office generates off their commercial recording activities are either recorded under their Las Vegas Office or their Carson City Office. The estimate of the $10.1 million for FY 2004 and the $15.7 million for FY 2005 was the net increase that staff thought all the changes for the commercial recording fees would generate for the Secretary of State's commercial recordings, combined.

Mr. Martin questioned if the Economic Form had the power to reverse any taxes. Mr. Guindon replied they did not have the power to reverse taxes.

V. Report and Discussion of FY 2003 and FY 2004 Actual Collections Compared to Forecasts Including Adjustments for Changes to Existing Taxes and New Taxes Approved by the 2003 Legislature.

Moving to the next agenda item, Mr. Guindon referenced tab V-FY2003 of the meeting packet, (Exhibit C), and said historically the purpose of the meeting was for members of the Economic Forum to review their prior projections versus the actual. When the Forum met during the last cycle, FY 2003 was the base year for projections and they also forecasted projections for FY 2004 and FY 2005 which were the actual two years of the biennium that the Governor and the Legislature used to produce their budgets. He noted that because the state of the world had changed, he did not think the Forum needed to spend a lot of time on FY 2003. He said that in the meeting packet, under V-FY2003, there was a table that provided the six major revenue sources forecasted by the Forum. The forecast was presented by: 1) The agency that was responsible for collecting the revenue source; 2) Fiscal Division; 3) Budget Division; and 4) Global Insight for the sales tax and percentage fees on gaming revenue tax. He said the first column on the chart provided the December 2, 2002 forecast and the second column provided the May 1, 2003 forecast.

Looking at the chart, the projections for sales tax was fairly close and the Forum's forecast dollar difference was $5.6 million and the difference was calculated based on the actual minus the forecast. Mr. Guindon said if the number was positive in the dollar difference, it meant that the actual collections were higher than projected. He said the percent difference represented how close the Economic Forum was to the actual collections. Continuing with the chart on page 49 of the meeting packet, (Exhibit C), percentage fees, staff knew everything but three months and thought there would be a recovery, but because of a few bad months and the impact of the estimated fee adjustment, the Forum missed the projection by approximately $17 million. He pointed out that percentage fee tax collections were difficult to forecast.

Mr. Guindon said the insurance premium tax was under-projected by $6 million. He expressed that he was sorry to see the business license tax (BLT) go because it was a straight-forward tax to forecast and staff had a good forecast record on it. The casino entertainment tax was slightly over estimated. Mr. Guindon said that the projections for the cigarette tax from the December 2002 forecast to the May 2003 forecast were kept the same or lowered slightly because they did not think things would turn around but it ended up coming in above the projections by approximately by $2.2 million.

He noted for the six major revenues on the chart, page 49 of the meeting packet, the estimates were $3.9 million above the "actuals". Looking at the total General Fund, the estimate was missed by approximately $5.9 million or about 0.3%. Again, the forecast is generally good for the base year for which the Economic Forum prepares forecast at its May 1 forecast each cycle because there is a lot of current information available on the actual collections fiscal year-to-date.

Mr. Guindon pointed out that Tab V-FY2004, page 67 in the meeting packet was similar to the previous chart and listed the six major revenue sources that were forecasted by the Economic Forum and all the taxes that were changed during the 2003 Regular and Special Session. The December 2, 2002 forecast was in the chart to show the different forecasts for the various revenues sources and the only tax that was not changed was the insurance premium tax. As previously stated, he said Fiscal produced the estimates of the changes to be consistent with the May 1, 2003 estimate.

Moving to page 75 of the meeting packet, Mr. Guindon indicated the chart showed the Economic Forum's May 1, 2003 forecast, with adjustments for legislative actions, compared to actual collections for FY 2004. He pointed out that the actual numbers for FY 2004 were close to being final, but they were still preliminary and staff was still reconciling the 2004 actual collections with the different agencies that collected the revenues. He said the table displayed the May 1, 2003 Economic Forum estimate, the legislative actions adjustment and the combination of adding the Economic Forum's May 1, 2003 forecast for FY 2004 plus the legislative actions adjustments. Mr. Guindon pointed out that the difference column in the table reflected the actual collections minus the forecast collections, where the forecast represented the adjusted forecast. The percent difference was the dollar difference from the actual. He said that all the commission changes for the sales tax would generate approximately $5.5 million additional, so the total collections were projected to be $728.4 million under the adjusted forecast column of the table but the actual collections were $790.6 million. He said that sales tax collections were very strong in FY 2004 so the state ended up collecting approximately $62. 2 million more than projected including the legislative adjustment for the tax changes.

Mr. Guindon referenced a handout from the Fiscal Division, *Historical Information on Taxable Sales and Sales Tax Collections and Gaming Win and Percentage Fee Collections,* (Exhibit D). The table provided information on the taxable sales and sales tax collections by fiscal year and it provided some indicators of economic activity in terms of visitor volume, traffic and enplaned/deplaned. Turning to page 6 of the handout, Mr. Guindon said this page provided the taxable sales for the last six fiscal years by selected categories. He noted staff was surprised to see some double-digit growth rates for the categories in FY 2004. When the estimates were produced, he noted that Fiscal forecasted that FY 2004 taxable sales would grow approximately 5% and they missed the continued strength in the housing sector in terms of home purchases and associated consumption. He gave an example and said that home furnishing was up 15.2% after being up 10.3% in FY 2003. Mr. Guindon said the table gave an idea of the taxable sales for selected categories and it would be used again at the November meeting. He did not think much weight would be put on his projections if he had told the Committee at the May 1, 2003 meeting that he thought that taxable sales would grow almost 13%, after growing 6% the previous year. He said taxable sales grew 10.3% in FY 1999 and 6.5% in FY 2000 during a period where there were several new properties in Las Vegas. In FY 2001 the taxable sales grew 5.8%, in FY 2002 it was up 0.9% and in FY 2003 taxable sales were up 6%.

V. Report and Discussion of FY 2003 and FY 2004 Actual Collections Compared to Forecasts Including Adjustments for Changes to Existing Taxes and New Taxes Approved by the 2003 Legislature

Bill Anderson, State Budget Office

Mr. Anderson commented on the major revenue sources, and referred to the Budget Office handout, *General Fund Revenue Forecasts: Methodologies and Accuracy* (Exhibit E). He wanted to give the Committee information on how the revenues were forecasted and give an indication of how accurate or inaccurate the approaches were over time. He provided a general feel for the way the preliminary forecast was looking for the next biennium. He noted that Perry Comeaux, Director, State Budget Office asked Mr. Anderson to reiterate his request he made during the two previous revenue forecasting cycles and requested that the committee start generating their forecasts and provide preliminary numbers in November. Mr. Anderson said it would help Mr. Comeaux, the Governor and staff to get started on developing the budget a month earlier.

Mr. Anderson said that the forecast would highlight some of the issues that the Budget Office was dealing with as they tried to compile the numbers. He said looking at the underlying trends, he did not think there would be a shift but he thought in the near term, that they might be seeing some turning points or shifts with respect to how those underlying trends were going to be generating General Fund tax revenue.

Mr. Anderson said the sales tax was forecasted by utilizing econometric modeling. He the Budget Office realized there were many different forces that potentially impacted the sales tax collection; visitor volume, construction activity, consumer spending by Nevada residents, but they have settled over the years on taking a look at the sales tax in terms of the underlying job trends. He said job trends captured a lot of the other factors and as construction activity picked up, it affected the jobs, and as visitor volume picks up or goes down, that impacted jobs. The forecasting process was approached from the perspective of jobs and job forecasts prepared by the Department of Employment and Training and Rehabilitation; Global Insight; and Regional Economic Models, Inc.

The next chart, page 2 of the Budget Office handout, (Exhibit E), Mr. Anderson noted the graph showed that over time there was a good fit between the estimates of sales and what was actually collected. The chart provided a historical fit and the relationship between jobs and sales tax collected was identified. However, Mr. Anderson thought of the estimates in terms of a “backcast”, as opposed to the forecast and again the relationships were established and they were going back in time to make estimates based upon that relationship. Mr. Anderson said the forecast does not show how this approach performed, it showed how it was estimated in the past. The more forward-looking approach was summarized in the table on page 3, (Exhibit E) and the models were assessed every quarter and the information was taken from previous year and then a forecast was generated based upon what they knew and then they were compared to what actually happened. Mr. Anderson said the table on page 3 was run through the second quarter of 1995 and then they knew the job levels; so given that a forecast could be generated to compare to what actually happened. The process was repeated each quarter, subtracting a quarter on one end and adding a quarter on the other end so the next round in the exercise they went through 1995, third quarter, estimated the model and then projected it out and compared it to what was actually collected. He indicated the charts show the forecast errors that resulted from that exercise.

Moving to the bottom on the table, page 3, (Exhibit E) the model was run through the first quarter of 2004, there was only one quarter of “actuals” beyond that to compare to and that showed the result from that exercise. The total column on the table, page 3, (Exhibit E) showed the average error over the course of the eight-quarter forecasting period. The average row at the bottom showed the average errors by quarter. Mr. Anderson reiterated the table showed pluses and minuses being averaged out and looking at the results, the numbers were in the low-single digits in terms of errors but again the pluses and the minuses cancel each other. He noted the number near the bottom of the table showed results from the last two quarters and as Mr. Guindon noted earlier, they could not come to the May 1, 2003 with a straight face and tell the Forum that the state would see a 15% growth in the sales tax collections. He said he did not know of any indicator that would indicate a 15% growth in two to three years. Mr. Anderson said that more importantly and understandable with respect to the forecast accuracy, was the information presented on page 4, of the handout, (Exhibit E). He said the information on page 4 dated back to the 1990s and showed the forecast by fiscal year that was previously presented to the Forum. Also, it showed the actual results in terms of errors. He said except for the large growth in sales tax collections in 2004, the results had been fairly encouraging, approaching the mid-single digits. He noted in terms of the forecasts, the driver behind the forecasts was job growth. Job growth for 2004 was approaching 4.4% and that will ease down to just under 4% during the two years of the next biennium. Mr. Anderson said the Budget Office thought that sales tax growth will settle in the mid-single digits over the forecast period; however, in his introductory comments he mentioned there were few issues that he thought would drive the overall shape of the forecast and one dealt with sales tax collections. He said the Budget Office thought when they get into the second half of FY 2005 and started comparing back to a year-ago period, where there was month-in and month-out in excess of 16% in the sales tax collections, the Budget Office questioned how they would grow appreciably off of that. The Budget Office was looking at significant slowing; there was double-digit growth during the first half of 2004 in the forecast, but then the growth dropped sharply once they bumped up against 16% and higher year-ago growth rates.

Continuing, Mr. Anderson said the forecast, in the preliminary stages, was structurally sound. Continuing, he referenced the graph on page 6, (Exhibit E) and said the Budget Office looked at the collections per job to ensure they were not seeing anything structurally out of the ordinary but the results were consistent with historical norms. He noted on page 6, in FY 2004 there was a 15% surge in growth. He said tracking the trend on the chart, it was noted that the results in sales tax collections growth versus job growth, the results in FY 2006 and FY 2007 were where they expected given the historical trend. In a structural sense, the Budget Office was comfortable with the growth in the preliminary form and again the big issue was dealing with would happen when they bumped up against the very strong growth rates.

Chairman Small said that looking the chart on page 6, (Exhibit E), there did not seem to be a correlation between the sales tax and jobs. Mr. Anderson responded that the chart was showing there was a “big-bang-for-our-buck” in terms of sales tax collections relative to job creation. He explained there was a sales tax collection premium relative to the job growth. Looking year-in and year-out, except for the recession years in 1991 and 1992, the sales tax growth was stronger than job growth. As the state got through the boom phase, the gap started to narrow and the reason he liked to show this was that looking at FY 2005, FY 2006 and FY 2007, the premium was not there and that was consistent with the fact that the state was through the boom-phase, and Nevada will continue to grow, but he would very surprised if in the near term, the state would see five or six mega resorts under construction at the same time like in the past. This was designed to show that it was unrealistic and in more of a stable environment, the chart showed what would be expected.

Chairman Small noted that the chart on page 6 of the handout (Exhibit E) indicated that there was no real correlation between sales tax and jobs as there may be with maybe with visitor volume or with personal income. He noted his concern was that job growth was not a big correlation. The chairman questioned if the other forecast sources were using job growth in their forecast.

Responding, Mr. Guindon said he could not comment on Global Insight but he imagined they used a fairly complex structural equation when forecasting. He voiced that he ran several various alternative models or equations using different variables. Mr. Guindon said from an economist’s point of view; employment was used as a proxy and employment generated wages and wages were a component of personal income. He said he estimates the relationship between taxable sales or sales tax collections and employment and the estimated coefficient that comes out of that would pick-up the premium that comes above employment growth. He noted that the sales tax collection was normally higher than employment, so the relationship that they were trying to estimate would capture that; whether it was employment, personal income or visitors. However, he thought what was missed by using employment was not all the taxable sales in the state were generated by Nevada citizens and especially in Southern Nevada were taxable sales were generated by visitors. Mr. Guindon said the local sector pushed the growth in FY 2004 with the housing strength but he believed the visitors to Las Vegas also contributed significantly to the taxable sales growth.

Chairman Small commented that it was fine if using jobs but when he looked at the chart, the correlation differed between the jobs and sales tax.

Mr. Anderson interjected if there was not a correlation between the sales tax and jobs he did not think the Forum would see the strong fit in the chart on the Budget handout, page 2, (Exhibit E) and he doubted they would see forecast errors in the low single-digits. He said he did capture the sales tax premium and the correlation was there but it was not a one-to-one correlation.

Ms. Pierce said she agreed that a huge amount of sales for Nevada was coming from out of state. She claimed that Las Vegas was popular place to shop and many people were not spending as much on gaming as in the retail stores. She said there must be a way to come up with some projections based on retail sales on new shops. Also, she noted that a Ferrari dealership will open along with the Wynn Casino in 2005 which will contain many retail stores. Ms. Pierce believed Las Vegas was becoming more of an international shopping area and they needed to get away from just correlating against job growth in Nevada because a large amount of Nevada’s sales came from out of state.

Mr. Anderson clarified that the forecast was not indicating that all the sales activities were generated internally and by using jobs in the forecasts they were capturing other impacts. He said when there were more visitors; they were supported by more jobs. The construction of mega resort translated into construction jobs and that activity also generated additional sales tax collections for the state. By using jobs, he was not suggesting that all of the sales activities were generated internally; he was trying to capture all the various influences that are impacting the sales tax collections.

Mr. Fisher said that it looked like the sales tax was the leading indicator of job growth on the graph on page 6 of the handout, (Exhibit E) and if it was true; he said it would be interesting to see what would happen to jobs in 2005.

Mr. Anderson said he would argue that there was cyclicality to the collections and the chart would show a lot of pluses to a lot of minuses over time. He said that was exactly what they were expecting beginning the second half of 2004 and the cycle will shift once they bumped up against the relatively large year-ago comparisons. The graph was reflecting the cyclical nature of the sales tax collections.

Mr. Guindon commented the regression between employment and taxable sales was trying to capture the relationship. The coefficient in a sense would be picking up the part that was coming from visitors and if you thought about what the coefficient meant for a job in Nevada; it would probably be significantly overstating how much taxable sales that a job could generate and it was because the estimated coefficient was also trying to pick up the effect of people not working in the state or visitors to the state.

Mr. Guindon said the meeting was getting away from the intent of the agenda. He said the issue could be deferred and staff could compile the information to present for the Committee's consideration at the November meeting. Chairman Small said he appreciated Mr. Guindon keeping the meeting on track but his point in bringing up the issue was to make sure everyone was aware that were many indicators to chose from and if Mr. Anderson was using one particular indicator, he wanted to know if forecasters were using the same indicator.

Mr. Anderson interjected that the Budget Office met with the Governor last October and he was questioning the revenue forecasts for the next biennium and it is his desire to share as much information with the Forum as quickly as possible.

Mr. Guindon proceeded to page 75 of the meeting packet (Exhibit C), percentage fees-gross gaming revenue and said the rates were raised by .5% and it was estimated to collect approximately $41 million in additional revenue in FY 2004 from the tax increase and combined, it was estimated to collect approximately $639.2 million. $677 million was actually collected and it was under-projected by $37.9 million. Mr. Guindon stated that the under estimation of the tax was missed on the tax increase on the Forum's base and activity ended up being a lot stronger in FY 2004 than was anticipated.

Gaming Win and Percentage Fees Tax

Frank Streshley, Gaming Control Board

Mr. Streshley referred to the Gaming Control Board handout, *Fiscal Years 2003 and 2004 Gaming Activity*, (Exhibit F) and said the actual percentage fee collections for FY 2003 were $559.3 million; an increase of .8%. The forecast for FY 2003 was for 4% growth and collections were on target when the Forum met last, but then the last three months of the fiscal year were hurt by the Iraq war resulting in a downturn in tourism. FY 2004 actual collections were $677. 2 million; an increase of 21.2% and the forecast was for 14.4% growth and this included the percentage tax rate increase. Continuing, collections from taxable revenue in FY 2004 were $643.1 million; an increase of 13.8% and an additional $34.1 million came from the month-to-month estimated fee adjustment. Mr. Streshley indicated that the big jump in estimated fee adjustment was mostly in the first three months and the increase rates magnified the rate increase and this tied over in the estimated fee adjustment and the rest of the growth in estimated fee adjustment came from the strong growth in gaming.

Continuing with the Gaming Control Board handout, the gaming win and activity for FY 2003 and FY 2004 was forecasted to increase 3.4% in FY 2003 and 4.5% in FY 2004. He stated with the lack of new properties coming on line and the growth rate in the forecast was based upon moderate but steady economic growth against a soft period following 9-11. In FY 2003, gaming win only increased 1.2% with most of the growth in the first part of year and was then offset in the second part of the year again with the downturn in tourism with the Iraq war. In FY 2004, there was a record statewide total win of $10.1 billion, an increase of 6.3% and the average growth rate for the last ten years in gaming win was approximately 4.4%. Total win in FY 2004 increased 3.5% the first six months and the second six months there was a 9.1% increase in the monthly gaming win. Also, he noted there was sporadic growth over the two-year period which was affected by a slow down in the economic recovery with the Iraq war. Starting in January 2004, gaming win took off followed by four months of all-time record months and in that period, four of the five months posted double-digit growth. Mr. Streshley said most impressive on the growth for this time period, it is not following the opening of a new mega resort, which has been the case in the past when there were spikes up in the gaming win, usually followed the opening of a mega resort on the Strip. This was all coming from the recovery in the economy and then the resurgence in visitation to Las Vegas coupled with very strong local activity in the Las Vegas area. Mr. Streshley indicated that the state had the slowest period in four years than they had seen in several decades for new property openings and a new resort has not opened since August 2000 when the Aladdin opened. The only new property of any size that opened in the past two years was the Cannary Hotel and Casino in North Las Vegas and that opened in January 2003.

Moving to the chart in the Budget Office handout, (Exhibit F), Las Vegas Strip gaming win, Mr. Streshley said the strip made up approximately 50.4% of total gaming win in the state and most of the trends that was shown in the state-wide charts were a result of what happened on the Strip. In FY 2003, the Strip only grew 1.7% and it was forecasted to grow 5.6% and again the downturn at the end of FY 2003 was a result of the Iraq war. In FY 2004 gaming win on the strip grew 8.8% with most of that growth posted in the second half of the year when gaming win increased 13.2% compared with 4.3% in the first half of the year. Again, gaming revenues were fairly flat until January and then there was a strong demand, both from the leisure traveler and the convention business and both were tied to the national economy. There was also strong play from the premium high-end guests in the second half of FY 2004, baccarat on the Strip in the second half of the year increased 30% and again this segment was the hardest hit following 9-11 with the decline in visitation from the international travelers.

Mr. Streshley stated that even though there were not any new property openings on the Strip, there was an additional 3,000 rooms that opened during the time period with new towers at the Venetian Resort and the Mandalay Bay. The Mandalay added $1.3 million in convention space which also pushed visitation. Calendar year-to-date visitation in Las Vegas was up a strong 5.9% and more surprising with the 3,000 new rooms, occupancy rates have moved up 3.6% points to 89.4% with the room rate also going up 8.8% with an average daily room rate of $90.23.

Moving to the Las Vegas locals market gaming win on the handout, (Exhibit F), Mr. Streshley said the chart combined the gaming win for North Las Vegas, Boulder strip and the balance of Clark County and these areas have been some of the fastest growing markets in the state for the past ten years. He noted that ten years ago, these markets comprised approximately 9% of statewide gaming win and it was currently up to 18.4% with about $1.8 billion in revenue which makes it one of larger gaming markets in the country. In FY 2003, these combined markets grew approximately 3.4% and in FY 2004 it grew by 9.5% and the North Las Vegas market alone in FY 2004 grew 13.5% and again these markets continue to benefit from the strong population growth in the Las Vegas/Henderson area.

Mr. Streshley said that the other reporting areas in Clark County in FY 2004, downtown Las Vegas gaming win declined .7% with the temporary closing of the Horseshoe Club for several months and Castaways. Laughlin gaming win increased 3.5% and Mesquite continues to be strong at 5.1%. Moving outside of Clark County, which included Washoe County, South Shore in Lake Tahoe and Elko County, the northern part of the state had two challenging years and these markets combined declined 1.5% in FY 2003 and down .7% in FY 2004. Washoe County alone has declined three straight years and this year's gaming win of approximately $1.013 billion was its lowest annual total going back to FY 1998. Washoe County and South Shore continue to face increased competition from tribal gaming, specifically with Thunder Valley and Cache Creek Casino in the Sacramento area. However, these declines in gaming revenue are no where near what was predicted by some of the Wall Street analysts who had thought the revenue drop in FY 2003 would be between 15% and 20% with the expansion of California tribal gaming. Mr. Streshley noted that in his opinion the factor probably having the biggest impact on Washoe County and the Lake Tahoe area was the Northern Nevada economy or the Northern California economy which has not recovered as fast as some of the other areas. The bust in the financial markets in the bay area had a material effect on spending especially with the premium guests that came to the Lake Tahoe and Reno areas. In Washoe County there was a much larger decline in games, declining 7.7% in FY 2004 versus slots which was only down .5% in FY 2004. Mr. Streshley noted that on the positive side for the Reno/Sparks areas, the state benefited from strong growth from the locals market and this offset some of the downturn from the tourism side. Also, there was some growth in the convention and small meetings market. Elko County was also hurt from the downturn in the mining industry but now that also has been starting to slowly recover over the past year. Elko gaming win grew .4% in FY 2004 following three straight years of decline.

Mr. Streshley moved to Carson City gaming win which posted increases in 15 straight months. Gaming win increased 7.9% in FY 2004 following a 2.8% increase the prior year. This market was mostly local and was somewhat insulated from some of the factors that are facing the Reno and South Shore/Lake Tahoe.

Mr. Streshley said the next chart showed the total win, slot win and game and table wins growth rate and table win increased 1% in FY 2003 and the forecast was for 5.2%. In FY 2004 games increased 5% which matched the forecast. In total wins, games win declined 1.5% the first half of FY 2004; however, in the second half of the year it grew 11.5%. Baccarat increased 6.5% for the year, twenty-one was up 12%, craps was down 4.9%, roulette was up 4% and poker revenue jumped 32.3%. Slot win in FY 2003 grew 1.2% and the forecast was for 2.7% growth; FY 2004 slot win increased 7% and 4% growth was forecast. In FY 2004 there was strong growth in the win per unit per day increasing by 8.8% and this number was up mostly by the large number of machines pulled off the floor since FY 2002. At the end of FY 2002 there were approximately 187,000 slot machines in the non-restricted locations and currently the state was down to 178,000 machines. There was a steady reduction in the number of slot machines as properties installed a new ticket-in and ticket-out system. The win per unit per day jumped from approximately $90 a day to around $100 per day per unit.

Bill Anderson, State Budget Office

Mr. Anderson proceeded with percentage fees and said the Budget Office used a econometric modeling approach where jobs drives the sales tax forecast and visitor volume drives the percentage fee forecast. Visitor volume feeds into win and from win to taxable gaming revenue and actual tax collections off of the revenue. The driver was visitor volume. In the chart on page 8 of the Budget Office handout (Exhibit E), Analysis of Forecast Accuracy, he noted that going back in time they could generate good estimates of what the tax collections were given the historical relationships identified between visitors and win on the taxable gaming revenue. Again, it does not show how the approach worked in terms of a forward looking scenario. Moving to the chart on page 9, Mr. Anderson said the chart showed that the average forecast errors in the low to mid-single digits and they were a little higher than expected. The gaming tax was much more volatile revenue source and as Mr. Fisher pointed out in respect to sales tax, there were lots of minuses and pluses and it was one of the driving forces behind the Governor's proposal in The Executive Budget to move the tax base away from the very volatile gaming and to some extent sales tax base from which was used to derive the General Fund revenues. He said the Governor wanted the revenue base diversified.

Moving to the next two sets of charts forecasting visitors and gaming win, Mr. Anderson said the Budget Office did a fairly decent job of forecasting the visitors and win and the chart showed the past forecasts relative to what was actually collected, including FY 2004. For the most part, the Budget Office was satisfied with their performance and FY 2000 was weak and the increase was not captured in activity associated with the last round of mega resort expansions. Looking at FY 2002, the numbers were relatively high but all of those forecasts were generated in a pre 9-11 period and once the events of 9-11 unfolded, the impacts feed through to the economy and it was a whole new ballgame. He stated that the forecasts presented in FY 2003, after 9-11, were fairly accurate. In terms of the preliminary forecasts, visitor volume growth for FY 2004 was 3% and there was only one month that came in at 2.6%. Visitor volume spiked up toward the end of the year, with the opening of the new Wynn property. Mr. Anderson said as the preliminary forecast was comprised, there was not a huge impact with the opening of Wynn Las Vegas project that might have been expected. The impact was there but it was being measured against a must larger base than they had in the past. Going back to October 1998, when the Bellagio opened, and it was a first in a series of openings, the market then was 25% smaller. Now they were opening up a new property that already had the Bellagio, Mandalay Bay, Venetian, Paris Resort and Aladdin all on-line so the huge impacts were not seen, even though they were there, but they did not show up compared to the smaller market.

Continuing, Mr. Anderson said the underlying growth in the tax base was approximately 4% to 4.5% over the course of the forecast period. He said the Budget Office did not think in FY 2005, the growth in the tax base was going to necessarily feed in the similar growth in percentage fee collections. The Budget Office looked for the gaming tax collections to grow modestly even though the tax base was growing 4.5% and the unfortunate reason for that had to do with the estimated fee adjustment. Mr. Anderson referenced the graph on page 14, (Exhibit E) and said the estimated fee adjustment adjusts a property's tax payment for what was paid three months earlier. He noted if the gaming property owed a million dollars in taxes, based upon April activity, and then they go back to January and they paid $750,000 based upon January activity, they will make that million dollar payment in April but then it was adjust it up by $250,000 because they only paid $750,000 back in January. The graph showed that over the course of a year, tracking year-to-date trends, nearly every year the estimated fee adjustment ended up at plus or minus $5 million. Mr. Anderson said when talking about a several hundred million dollar revenue item, plus or minus $5 million was pennies. In FY 2004, the estimated fee adjustment was close to $35 million and the most important reason for it was during the first three months of the higher tax rates, the forecast was compared to a three-month ago period, under lower tax rates which inflated the estimated fee adjustment. Mr. Anderson said that resulted in about a $15 million windfall over that three month period in the estimated fee adjustment. It was a one-time windfall that would not reproduce itself and the rest of the estimated fee adjustment reflected the rise in gaming activity in the second half of the year.

Continuing, Mr. Anderson said looking at the first couple of months of FY 2005, the estimated fee adjustment was lower than it ever had been after two months of the fiscal year. The estimated fee adjustment would not reach the estimated $35 million this year and in fact now they were assuming it would be zero, more or less its historical average and taking the $35 million off the top, that flattened the collections relative to a year ago even though the tax base was growing. Mr. Anderson said the forecast was structurally sound, especially if looked at as win-per-visitor basis.

Russell Guindon, Fiscal Analysis Division

Due to amount of time spent discussing the sales tax estimates, Mr. Guindon stated that he would defer his comments on how Fiscal forecasted visitor volume and gaming win until the November meeting to stay on track with the agenda.

He referred to table 1A of the Fiscal Division handout, (Exhibit D). The chart showed the gaming win for the fiscal years, the taxable gaming revenues and the percentage fees broken out. He pointed out the tremendous increase in productivity of slot machines that occurred in FY 2004. Slots were coming off the market, but the coin-in per slot and average hold was going up significantly and that was one of the reasons Fiscal Division missed their forecast. Fiscal thought more slots would come back on line and even though slots continued to come off line after 9-11, the slots became more productive. He noted table 2B, page 4 showed the total gaming by market by fiscal year and the percent changes year-to-year and table 2C was for the twelve months of FY 2004 and from an activity point of view, it was June through May's business activity that represented the fiscal year.

Mr. Guindon said he would be utilizing the Fiscal Division handout (Exhibit D) again at another meeting and he would defer his discussion on how the forecast from Fiscal compared to actuals.

LIVE ENTERTAINMENT TAX

Russell Guindon, Fiscal Analysis Division

Mr. Guindon pointed out the chart on page 77 of the meeting packet, (Exhibit C), showed the casino entertainment tax (CET) for two months, modified casino entertainment tax (MCET) for four months and the live entertainment tax (LET) on gaming and non-gaming establishments for six months. He noted that the Forum had projected to collect $76.1 million in FY 2004 from the CET. Including the changed CET and LET, Fiscal staff estimated there would be $14 million in additional revenue in FY 2004 for a total of $90 million in FY 2004 from the CET/LET imposed on gaming establishments. $84.9 million was actually collected in FY 2004 so the forecast was missed by $5.2 million.

Continuing, Fiscal staff thought the LET non-gaming would generate approximately $27.5 million in six months but only $4.3 million was collected and this was one tax change where Fiscal's estimate was off significantly. Mr. Guindon said that Fiscal staff had historical information on the CET. As the statutory changes were made to the tax from discussions from the Gaming Control Board on who they were going to pick-up by moving the seats threshold from 1,750 to 7,500, they could conduct an analysis on the gaming side of the LET. Once some of the issues mentioned by Mr. Streshley are accounted for, Fiscal's estimate was actually fairly close. He said on the non-gaming there was no historical information to work from and there was not a non-gaming CET or LET to work from so Fiscal used survey data that the Census Bureau put out on how much was spent by people on entertainment type activities and used that as a base. He said they took out things they knew would not be part of the tax base. Once Fiscal estimated what the gaming side was going to be, they subtracted that from the overall estimated base and figured that must be the non-gaming type of entertainment activity that could be taxed. Mr. Guindon said he was not sure if the adjustment for gaming was right in terms of what was subtracted from the overall estimated base to get the non-gaming piece and the other area they missed was when they went to the 300 seats threshold. Staff did not have the information on the entities with less than 300 seats providing entertainment that would be exempt from the base. Fiscal staff did not get the impact right in terms of adjusting down the taxable base for the venues with fewer than 300 seats. An additional factor for missing for the non-gaming piece was that entertainment had a cyclical nature to it and the summer months probably have more entertainment activity than the winter months. Fiscal tried to estimate what they thought they would collect for FY 2004 and took half of it. If there was any information available, they could have gone back and noted that the six months they were using was January through June activity. The winter months would have less entertainment type activities especially at the outdoor venues that were subject to the tax. Mr. Guindon noted that this revenue would have significantly different projections at the November meeting.

Frank Streshley, Gaming Control Board

Mr. Streshley referred to the last chart in the Gaming Control Board handout, (Exhibit F), which showed the CET now LET revenue collections for the past ten years. Actual collections in FY 2003 were $70.2 million; an increase of 8.3% and the forecast was for 9.4% growth. Actual collections in FY 2004 were $84.9 million; an increase of 20.9%. The adjusted forecast was for 28.3% growth and included the legislative adjustments. Most of the increase in the collections in FY 2004 came from the legislative changes by adding the larger venues, that prior to the changes, were not taxable. Mr. Streshley said there were approximately seven new large entertainment areas added; however, only Celine Dion and Elton John had continuous entertainment in the Caesars Showroom. The other venues were mainly special event oriented with two large events centers at the Mandalay and MGM, which both had seating access of 10,000 seats. He noted there was a big jump in pricing in the larger shows which increased the collections. He indicated that the Celine Dion show had an average ticket price of approximately $130 and several shows that were priced around the $80 range, increased to around $100 and again that pushed up the existing venues collections. Also, adding to the collections was the opening of the new production show at New York, New York which reopened their showroom that had been closed for over a year. Mr. Streshley noted that on the downside, in October 2003 the Siegfried and Roy show closed at the Mirage and the showroom remains closed with no definite plans to open a in the near future.

Mr. Streshley said that another factor reducing LET collections are casino nightclubs that were previously taxed under the CET that were limited to a disc jockey and dancing with no other type of entertainment and are not taxable under the new LET. The Gaming Control Board had estimated for FY 2004, this reduced collection by $2 million. He commented that if the Siegfried and Roy show and the changes on the nightclub revenue were added back, they were close to FY 2004 forecast.

Bill Anderson, State Budget Office

Mr. Anderson said the Budget Office was focusing their forecasting efforts on the gaming portion of the LET and the non-gaming portion had proven to be only a several million dollar revenue item. The Budget Office looked at the collections on a per-visitor basis and then given a visitor's forecast, it was simple to generate a forecast from there. Looking at page 26 of the Budget Division handout, (Exhibit E) he noted there was a trend in the tax collections per visitor and until the mid-1990s it was flat and then as the diversification of Las Vegas became more oriented toward non-gaming, including entertainment type activities, the collections per visitor increased steadily over the last seven or eight years moving up approximately 5% a year. The following chart showed how the analysis of the relationship between collections and visitors was forecasted over time and historically it had been a difficult revenue source to forecast, but looking at FY 2002 and FY 2003; they were fairly close and were hoping that the focus on visitors would help the forecast be more on the mark in the future. In terms of the forecast, the same visitors forecast was used to forecast gaming revenue and underlying growth in the tax base of approximately 8% to 9% over the course of the forecast period and there will a little higher growth in FY 2005 because there were a couple months in the beginning of the fiscal year when they were comparing back to when they were under the old lower tax structure, so the growth would be inflated. July activity results were up by 30% from year ago period because they were comparing back to a year-ago with lower taxes. He said that Budget believed that the 8% to 9% underlying growth in tax base was on the mark.

Chuck Chinnock, Department of Taxation

Mr. Chinnock provided some historical information and noted that the Task Force on Tax Policy did meet and one of the proposals the Governor originally had was the admissions and amusement tax. He said the Task Force on Tax Policy looked at national figures as far as what was being spent on admissions and amusement. During the legislative session, they started to narrow the tax base, by doing such things as excluding participatory items with respect to taxable admissions and amusement activities. At the last minute that was when the LET discussion came up. Originally, when the Department of Taxation made their estimates based upon admissions and amusement tax, they were looking at 5,000 accounts and ended up with was less than 500 accounts and approximately 300 active accounts. Mr.Chinnock said the numbers were not in for the major venues such as Thomas and Mack or Lawlor where one-time events were held. He said the Department of Taxation had worked hard to locate events that meet the statute, whether it was 300 to 7,499 seats or greater than 7500 because they wanted to ensure they were not missing anything. He noted that at the eleventh hour there was a requirement for a seating capacity of 300, so if there was a seating capacity of less than 300, then the LET was not applicable. He said they found out from the Building Code Departments, State Fire Marshal or Fire Department, who established the numbers, cost for fire exits and other public safety items geometrically start to increase at 300 seats. The seating capacity had to be less than 300 if an event did not want to incur the costs. Also, they discovered with respect to the same code implementation, it was easy to reduce that capacity and they prefer a smaller capacity and as a result that was why there was a smaller number and collection. He added that there were exemptions provided to non-profits, as an example, the Reno Rodeo was a non-profit event and there was no LET for that event. He said that was an indicator for what the state will experience in the future with statute as it exists today.

INSURANCE PREMIUM TAX

Russell Guindon, Fiscal Analysis Division

Mr. Guindon noted that the Insurance Premium Tax was the only major tax that did not change. The Insurance Premium Tax was forecasted to generate approximately $179.7 million in FY 2004 and actually collected $194.2 million which was approximately $15 million more than forecasted.

Mark Stevens, Fiscal Analysis Division

Mr. Stevens said the detailed analysis of the Insurance Premium Tax will be completed by the November meeting. The FY 2003 estimate was exceeded; the Forum projected $167.9 million and the actual came in $4 million higher. He said only three-quarters of the years activities were known when the May 2003 forecast was made; all the agencies and the Forum missed the forecast by $4 million. FY 2004 generated $194.2 million and the Forum projected $179.6 million. The state exceeded the Economic Forum's FY 2005 estimate in FY 2004. The Forum's FY 2005 estimate was $192.2 million for the current year and the state brought in $194.2 million last fiscal year. Obviously, there will need to be changes and there are a number of items that the Fiscal Division and the Department of Taxation takes into account. One involves Workers Compensation lines of insurance and there are credits that are available to that line of insurance for the assessment that was made to the Division of Industrial Relations and that complicates how much money would be brought in from that source of revenue. This component was about $3 million higher in FY 2003 than what was projected by the Fiscal Division. The forecast was much closer in FY 2004 and was only $70,000 to $80,000 off the forecast but other general activity in the insurance lines increased the collections to an 11.6% increase versus the 7% increase that was projected by the Forum.

Mr. Anderson said the Budget Office approached the forecast by assuming that an insurance product was not different from any other product a person would purchase so the Budget Office correlated that with real personal income growth in Nevada over time. He reference page 23 of the Budget Office handout, (Exhibit E) and said the chart showed the forecasting record and said the numbers always came in above forecast and year-in and year-out it generated more money that what was expected. In terms of the forecast, the Budget Office looked at real personal income growth of approximately 5.5% which was down somewhat from the historical norm but they thought it would support about 10% growth in insurance premium tax collections year-in and year-out. He asserted that it might sound like an aggressive forecast, but the Budget Office had come in at excess of 10% growth for the past five years and in five of the past seven years.

Mr. Martin interjected that the insurance premium tax really intrigued him and he did not realize it existed. He asked if the increase was due to the rise in airplane insurance and casualty insurance after 9-11. Mr. Anderson responded that in terms of their forecast for the previous few years, the impacts of 9-11 were showing up in insurance product inflation, but even before then, back to the mid 1990s, they had always struggled with trying to get a handle on the revenue. He said that insurance inflation over the last decade tended to come in higher than general overall inflation. Mr. Anderson claimed it was a long-term problem in terms of getting a handle on this revenue source and that was why they were trying to be aggressive with it.

Mr. Martin added that aircraft insurance was going down moderately and he was not sure if the whole market would adjust downward.

Mr. Guindon commented that the Insurance Premium Tax was difficult to predict because of the lack of detail available on all the different types of insurance. When the forecast is prepared, they think of the demographic component and as the population grows, people need insurance. Also, he noted there was the inflation in the premium component and given the information that they have when they do the projections, they miss a little on both the demographic component and the inflation premium that occurs in insurance premiums.

BUSINESS LICENSE TAX

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Russell Guindon, Fiscal Analysis Division

Mr. Guindon pointed out the chart page 77 of the meeting packet, (Exhibit C) and said the business license tax was repealed effective October 1, 2003 and the state collected $22.2 million from one quarter of revenue and it was projected to collect $20.3 million and the tax was no longer in existence.

Chuck Chinnock, Department of Taxation

Mr. Chinnock added that the business tax would not entirely disappear on the projections because of the businesses that might have escaped or did not realize they had liability and through audit, the business would have a liability for eight years. He said that businesses that were registered with the Department of Taxation had a liability that goes back three years.

Mr. Guindon said he did not think they had to produce forecasts of any revenue for the business tax but minor revenue would be seen.

CIGARETTE TAX

Russell Guindon, Fiscal Analysis Division

Mr. Guindon directed the Forum to page 77 of the meeting packet, (Exhibit C) and said the cigarette tax increase would generate approximately $65.8 million in FY 2004 and combined with the Forum's estimate, it was estimated to collect approximately $107.7 million. This estimate was very close to the actual collection in FY 2004 of $106.8 million.

Chuck Chinnock, Department of Taxation

Mr. Chinnock stated that there was a lot of discussion before the legislative session regarding the increase in cigarette tax and the Department of Taxation implemented a policy where a wholesaler or manufacturer could not purchase cigarette stamps, which was the tax they had to affix on each cigarette pack, of more than 10% of what they purchased the prior year. He said from November through when the tax was actually passed in July, they were able to purchase almost 100% of extra cigarette stamps. The Department of Taxation had expected a greater increase in the sales of cigarette stamps. He noted a couple of factors that were involved with respect to the sale of cigarettes. One was cross border sales because the state was lower in cigarette tax with respect to neighboring California and they expected to see a reduction of approximately 5% in cross-border sales as a result of that. The other issue was the impact of internet sales of cigarettes and he noted that the federal government was tightening up with respect to internet sales. He said the final impact on the cigarette tax was with illegal cigarettes and counterfeit stamps. He said the Legislature provided two investigators/compliance people that worked in the field and investigate illegal sales and better compliance was a result of the investigators.

Bill Anderson, State Budget Office

Mr. Anderson stated that the cigarette tax was straight-forward from the Budget Office's perspective and the state was yielding approximately 70 cents per pack in General Fund tax collections. Moving to page 30 of the Budget handout, (Exhibit E), the graph showed the volatility that happened in terms of taxable packages when the new tax rate structure was in place. He noted that there was a huge run-up right before the taxes were effective and then there was a very sharp fall-off immediately thereafter. The state was settling in at about 14 million packs of cigarettes a month after adjusting to the new tax structure and that what was driving the forecast. Moving to page 32, the charts indicated the historical performance, and except for FY 2002 when the effects of 9-11 were felt, the Budget Office had a fairly consistent forecasting performance. He noted that with the 70 cents per pack and 14 million packs of cigarettes sold a month that generated approximately $118 million a year in General Fund revenue collections. Currently, it was too early to assume that there was going to be any significant growth in taxable cigarette packages and the consumption was steady at the 14 million packages a month.

Mr. Guindon commented when Fiscal was doing their projections for the cigarette tax, they researched some studies that had been conducted on what happened when tax was increased on cigarettes and it was expected when the price was raised, the demand would fall. Most of the research indicated that for every 10% increase in price, there was a 4% reduction in demand. It was more difficult for Nevada because many people are visitors who are smokers. Mr. Guindon said a cap was put in place to ensure that people could not purchase a large amount of cigarettes in advance of the tax increase. Mr. Guindon thought there was some additional increase in demand or purchasing of stamps, even with the mechanism in place, and some people back-end loaded in FY 2003 because of the discussion on raising the cigarette tax. He said people were trying to buy packs to avoid the tax and that was why the forecast was over in FY 2003 and it knocked down the numbers beginning in FY 2004.

MODIFIED BUSINESS TAX

Mr. Anderson said based upon initial tax returns, collections per job appeared to be relatively stable, at just over $49 per job per quarter and it would expand because of job growth and wage inflation is factored into the forecast. He noted on page 16 of the Budget Office handout, (Exhibit E), there were very stable collections on a per job basis, especially in the last two quarters. The wage inflation was increasing at a steady and predictable rate of approximately 3% per year. In terms of the forecast, the same jobs forecast was used that drives the sales tax results and the Budget Office was looking at approximately 7% growth in the underlying tax base and factored in the fact that there will be a reduction in the tax rate this year of approximately 7% so the state will collect about $217 million in FY 2005 and then grow by approximately 7% in each year of the next biennium. He noted that the components of the modified business tax forecast were shown on the graph on page 18 of the Budget handout.

Mr. Guindon commented that Fiscal staff looked forward to working with the Department of Taxation in terms of reviewing the information details for the next meeting because based on the aggregate items that the Fiscal Office had received from the

Department of Taxation, they did very well forecasting the gross wages for FY 2004 for the three quarters based on the preliminary numbers from the Department of Taxation. The forecast was only 2% off on the gross wages for the non-financial and less than a 1% off on the financials. They did not get close on the health care expenses deductions and Fiscal had significantly over estimated what the actual health care deductions were. Mr. Guindon said it will be interesting to look at the detailed information that the Department of Taxation will be providing and they will work together to prepare some tables to review. It is not only the growth in employees and the implied growth in wages, but insurance premiums could out pace wage growth. The net of wages less insurance premiums for some of the industry grouping need to be reviewed to see what is happening to get a better handle on a new tax like the MBT. Also, within those industry groupings, the rate of insurance coverage needs to be looked at to determine what percent of the employees of the different industry groupings are provided health care by the employer.

BUSINESS LICENSE FEE

Russell Guindon, Fiscal Analysis Division

Mr. Guindon noted the business license fee was forecasted to generate approximately $22.1 million in additional revenue; but the state only collected $11.8 million resulting in the forecast being off by $10.9 million. He said when Fiscal staff looked at the statutory changes that were approved; Fiscal assumed they would be picking up everybody that filed with the Secretary of State's Office. He said that the Department of Taxation was sorting through what was done to see if they could go after everyone that filed with the Secretary of State's Office. Also, there was some timing of the implementation that Fiscal staff did not properly incorporate into their estimates in terms of when the new fee was actually effective and when the Department of Taxation could start picking up the people.

Chuck Chinnock, Department of Taxation

Mr. Chinnock stated that the $100 per business fee was one of the biggest challenges for the Department of Taxation. He said $22 million equated to 220,000 businesses which were in a database at the Secretary of State's Office. When the tax was implemented, the Department of Taxation went through the process of notifying businesses to inform them that they had a liability for the annual business license fee if they were a Nevada business. He said it was an expansion of the business license fee and formally it applied to partnerships and corporations and it did not apply to sole proprietorship. He said the law provided that if a business filed a Schedule C, E or F or filed with the Secretary of State, they had to file the $100 business license fee and have the reoccurring annual requirement. Mr. Chinnock said they went through eight to nine months of this fee notifying businesses and the database had approximately 80,000 businesses at the beginning. After approximately eight months of notifying business people that they had a potential liability, they ended up with a database of approximately 150,000. He said when it was discussed with the Legislature; their initial impression was their account loads would be doubled. The Department of Taxation realized that when they notified the business people by name, at their address, they probably were not going to receive the collections. Mr. Chinnock said the Department of Taxation had a one-way agreement with the Internal Revenue Service (IRS) and with their database, they discovered there was 250,000 businesses that filed business forms with the IRS. He said there was a provision that stated a home-based business that made less than $22,000 per year in 2004 did not have to have a business license. The Department of Taxation tried to do a match with the IRS database and was able to match approximately 40,000 businesses out of the 250,000. They were systematically going through the IRS and the Secretary of State's database and were sending out approximately 20,000 to 25,000 notices to business people that had a business license liability.

SECRETARY OF STATE FEES

Mr. Guindon directed the Forum to page 79 of the meeting packet, (Exhibit C) and said given the number of different types of fees and entities that the Secretary of State was dealing with, he was amazed how close the estimates were.

Scott Anderson, Deputy of Secretary of State for Commercial Recordings

Mr. Anderson provided information on the factors when they had to deal with trying to forecast revenues and filing volumes. He said prior to 9-11, and the approximately 20 months after 9-11, the state had experienced double-digit increases in filing volumes which in turn showed significant increases in revenue. Post 9-11 and up until approximately June/July 2003 the increases were basically flat. The Secretary of State's Office had the same basic volumes of new entity filings as in the prior years and they were finding that many entities were not renewing their corporation filing annual list. Along with the decreases, there were also fee changes, virtually doubling of all fees in the 2001 Session and in the 2003 Session, the Legislature approved an increase which basically changed the entire structure of the annual list fees for a corporation and it was based on a flat $85 and now there were charging up to $11,100 for a large corporation. He expressed that it was very problematic to estimate the revenues but said they had done a good job considering the factors. He noted there were a number of factors that affected them and when the economy went flat, so did the Secretary of State's Office filings and people were less willing to start a business. When the economy was good, their office's business was good. He said the Secretary of State's Office competes with 49 other states for the business so they had to make sure that Nevada stays business friendly and competitive with other states and if they do that and the economy stays good, they should expect some significant increases. Since July 2003, the Secretary of State experienced between 20% to 24% increase in the filling of new business entities and while they do not see a revenue increase because they actually decreased the initial filing fee and when they file their annual list, increases will be seen. He said when they were before the Legislative committees, during the regular and special session; they felt they would be able to get their hands on this for about 12 to 18 months after the fee increases went to into effect. He state that the Secretary of State's Office worked well with Mr. Guindon and the other agencies to provide reasonable numbers.

Mr. Guindon added that the Secretary of State's Office had become a relatively large revenue source for the state and the Secretary of State's Office and the business license fees were intertwined. When they forecast the Secretary's of State's fees on what they think might be the filing activity; they consider what it might mean for the business license fee. He noted that when there are increased fees, many people tend to avoid the tax and there was front-end loading and in spite of that, the changes in the activity were close to the revenue estimates.

VI. <u>Discussion and Recommendations Regarding the Economic Forum's Use of a Private Forecast Service</u>

VIII. <u>Instructions to Technical Advisory Group</u>

Chairman Small said that agenda item VI dealt with the use of a private forecast service and a private forecast service had been used in the past. He said they were in the process of asking a private service to look at the percentage fees and sales tax which were the primary sources of revenue.

Mr. Guindon referenced the handout, *Background Information for Agenda Item VI – Discussion and Recommendations Regarding the Economic Forum's Use of a Private Forecast Service*, (Exhibit G), and stated that at the beginning of each forecast cycle the Forum has to decide on whether they want a private forecast service to provide forecasts each cycle and what revenue sources they want forecasts provided on at their meetings. The members would listen to different forecasters present their forecasts and then the Forum would make a consensus on what the forecast would be. He said the current list was at the top of the handout. Mr. Guindon noted that at the previous cycle of the Economic Forum, a decision was made to have a private forecast service, which was Global Insight, produce forecasts of sales tax and percentage fees and present them to the Economic Forum for their consideration. He noted they were listed on the tables for Global Insight's forecast for sales tax and percentage fees. Mr. Guindon noted the Forum needed to make a decision whether they wanted to continue to have Global Insight provide the forecast to the Forum for consideration of the sales tax and percentage fees. After that decision was made, Mr. Guindon requested the Forum move to agenda item VIII, which were the instructions to the Technical Advisory Committee (TAC). He noted at the bottom of the handout, there was a list of potential taxes or fees that the Forum could consider and add to the list of major revenues. He said with the business license tax and the casino entertainment tax gone from the major revenue, some of the potential taxes or fees could be added to the list. The Forum would be presented forecasts and make a decision on a consensus forecast for the major revenue sources. The forecast for all the other General Fund revenue sources, referred to as minor revenue sources, would be directed to the TAC, which was a statutory group that provided technical support to the Forum. He said that all other revenue sources would then be forecast by the TAC. He said the Forum needed to make a decision on whether they wanted Global Insight to continue to provide forecasts to the Forum and which revenue sources the Forum wanted to consider as a major revenue source. He said there has been some conversation with Global Insight but he was unsure if they would be able to prepare forecast for additional revenue sources. There was a current contract and it may involve expanding the contract and thus expanding the cost of the contract.

Ms. Pierce suggested dropping the business license tax and the casino entertainment tax and picking up the modified business tax, live entertainment tax and the real property transfer tax as a major revenue source and all the other revenue sources would be left in the minor category.

Chairman Small said the Ms. Pierce suggested that in addition to the major revenues already forecasted, the live entertainment tax, modified business tax and the real property transfer tax would be added as a major revenue source. Mr. Seevers agreed with adding the modified business tax, live entertainment tax and the real property transfer tax as a major revenue source.

Mr. Guindon commented the revenue in the minor revenue category does not mean that the Forum could not question how they came up with the forecast at future meetings.

Ms. Pierce said she wanted to add the real property transfer tax as a major revenue source because it was comparable to what was collected in 2004. There was $88,000,000 in real property transfer tax and the live entertainment tax was $89,000,000, so she believed it was comparable with the live entertainment tax as far as revenue to the state.

Mr. Seevers concurred with Ms. Pierce and said the percentage of those were significant.

Mr. Martin added that the state had just gone through a very volatile, high sales period in Las Vegas, in real estate, and it may be flattening from 20,000 houses on the market a year ago to 15,000 today, so that source may not be potentially as large over the next 12 months as it was the last 12 twelve months.

Chairman Small noted that Mr. Martin suggested adding the real property transfer tax now and then review it a later time if it becomes less significant.

MS. PIERCE MADE A MOTION TO DROP THE BUSINESS LICENSE AND CASINO ENTERTAINMENT TAX FROM THE MAJOR REVENUE CATEGORY AND ADDING THE LIVE ENTERTAINMENT TAX, MODIFIED BUSINESS TAX AND THE REAL PROPERTY TRANSFER TAX AS MAJOR TAX THAT THE FORUM WOULD INDIVIDUALLY REVIEW.

MR. SEEVER SECONDED THE MOTION. THE MOTION PASSED UNANIMOUSLY.

Chairman Small said the second item with respect to the above motion dealt with the private forecast service provider who was either contracted or planning to be contracted to look at the sales and percentage fee tax.

Mr. Guindon responded that Global Insight was under contract with the state to prepare forecasts for the states 2% sales tax and the percentage fee tax. He said as part of the contract, Global Insight provided economic and demographic forecasts for the state of Nevada and they conduct long-range projections of twenty years and short-term projections for five years. Also, Global Insight used indicators such as personal income and employment in their forecast and Fiscal staff utilized information from Global Insight when they present projections for the Forum to consider.

Mr. Anderson said he recently spoke with Global Insight and they were prepared to continue providing the forecast and were interested in forecasting additional revenue at the request of the Forum. Mr. Anderson said adjustments would have to be made to the contract and Global Insight was currently being paid approximately $21,000 per year.

Mr. Seevers asked if Global Insight provided forecasts on all of the different incomes. Mr. Guindon said that historically, Global Insight had always provided sales tax and percentage fees under contract to the state. He noted as part of the contract, the state received forecasts on the personal income of the state, state employment by industry and components of personal income and various entities used the forecast in their decision making. In terms of General Fund revenues sources, they were under contract to provide forecasts for the state sales tax and gaming percentage fees tax. Mr. Guindon pointed out that if the Forum wanted the live entertainment tax, modified entertainment tax and real property transfer tax forecasted by Global Insight, staff could contact them and attempt to put it in place and have the contract amended. He said that the contract was currently shared between the Fiscal Analysis Division and the Budget Office.

Chairman Small expressed that did not think it was necessary to have Global Insight forecast additional revenue and he said they were receiving good estimates from several other sources. Mr. Seevers said he agreed with the chairman.

Mr. Fisher recalled that with the forecasts, they provided a general overview of the economy and the prospects for the economy and he was interested in seeing that again. He commented that the first year he was on the Economic Forum there was obvious disagreement between the forecasters on what the numbers should be and he found that comforting. The last couple of cycles, the difficulties were worked out before coming to the meeting and the Forum was relying on Global Insight which was also giving staff the same numbers and he was interested to see what other sources could be used for the information to have a diversity of opinion.

MR. FISHER MADE A MOTION THAT THE FORUM CONTINUE TO HAVE GLOBAL INSIGHT PROVIDE FORECASTS OF SALES TAX PERCENTAGE FEE FOR THE NEXT ECONOMIC FORUM CYCLE THROUGH MAY 2005.

MR. SEEVERS SECONDED THE MOTION. THE MOTION PASSED UNANIMOUSLY.

VII. <u>Discussion and Recommendations Regarding Outside Reviewer's</u> <u>Voluntarily Providing Information to the Economic Forum</u>

Chairman Small said the last time the Forum met they received letters, some of which were solicited from individuals and independent businesses that had interest in the Economic Forecast. The letters provided some input to the Forum. He said this agenda item was to see if the Forum was interested in receiving similar type of input from outside sources.

Mr. Guindon said that previously, the Forum had the idea of contacting outside sources. He said that they contacted outside reviewers, several economists' from the university system and the research centers at the universities, private consultants that conducted economic analysis and applied analysis and well as contacting people from the private sector to see if they were willing to provide their comments. He said whatever response was received was provided to the Forum in the packet. He noted the purpose of the agenda item, was to see if the Forum would like to continue that, and if so, a motion was needed to direct staff to contact these people to provide input to the Forum.

Chairman Small noted that there was also interest from the Forum on the effect of the Native American Indian gaming in California.

Mr. Fisher said he was in favor of outside reviewers voluntarily providing information and he thought there was good response to the December meeting but it fizzled out in the main meeting. He found it reassuring to have other opinions on the economy from outside the Forum.

Mr. Seevers said it was always good to reach out to the community and other entities within the community for their input and different viewpoints.

Chairman Small questioned who contacted all the entities for the information. Mr. Guindon responded that he and Bill Anderson contacted the entities and the members of the Forum were polled for a list of potential people and then they were contacted. He said the fallout of interest during December to May was probably due to the legislative session in May. Given the knowledge of potential increases in certain taxes, people who responded before the May meeting may not have wanted to respond for the May meeting given the political climate that existed with regards to revenue and tax issues.

Mr. Fisher recalled that the outside reviewers included a gaming analyst, economist for the universities and forecasters for the banks and gaming properties.

Mr. Guindon proposed that if any members of the Forum knew somebody that they would like to have staff contact with regards to providing information to inform himself or Bill Anderson and they would contact them. They will also review the previous list of names. Chairman Small said it was beneficial and the Forum would move forward for a motion.

Ms. Pierce commented that she was sure some counterparts in California had done some projections on gaming revenue and taxes especially given their situation with the new taxes they were proposing. She asked if staff could provide that information to the Forum.

Mr. Guindon responded that staff would attempt to obtain the information and information was provided on out of state gaming in a previous meeting packet. He said it was difficult to get information because the tribes do not have to report their revenues the way a licensee in Nevada is required or most other private licensee had to report to a regulatory and taxing authority.

Mr. Guindon noted that under agenda item VIII, the Forum needed to make a motion to have the TAC produce the minor set of forecasts that would be brought forward to the Forum meeting at the next meeting. Also, at prior meetings an individual from Global Insight would give a presentation on the national, regional and state economy and if the Forum wanted that relationship to continue, staff would contact Global Insight to have them come to the next meeting. Projections on employment by industry were also presented to the Forum by Bob Murdock or someone from the Research and Analysis Division, Department of Employment and Training. He said that was important and useful with regards to the business license tax but he thought there would be still be some benefit since there was still was a tax based on wages and employees generate wages.

MR. SEEVERS MADE A MOTION TO ALLOW THE TECHNICAL ADVISORY COMMITTEE TO DEAL WITH THE MINOR INCOME REVENUES.

MS. PIERCE SECONDED THE MOTION. THE MOTION PASSED UNANIMOUSLY.

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MR. FISHER MADE A MOTION TO HAVE GLOBAL INSIGHT MAKE A PRESENTATION TO THE FORUM AT THE NOVEMBER MEETING.

MR. SEEVERS SECONDED THE MOTION. THE MOTION PASSED UNANIMOUSLY.

IX. Schedule of Future Committee Meetings

Chairman Small asked if there was a recommended date for the next two meetings. Mr. Guindon indicated that generally the second meeting was always the end of October, but the new taxes in terms of the timing of the release of the information effected the date. It was his understanding that the Department of Taxation will process the taxable sales roll approximately October 22nd, so therefore staff could process the information obtained from the Department of Taxation early in the week of October 25th to allow for proper analysis and allow the TAC to meet prior to the meeting.

Mr. Seevers indicated that he was unavailable on November 3rd, 4th and 5th. The Forum discussed possible meeting dates. Mr. Guindon said he would rather not have the meeting on November 8th of 9th because the statutory obligation of December 1st and it was not much time between the cycles, but if that was the only time the members of the Forum could be present, he would entertain the possibility of the next meeting the second week of November.

Chairman Small asked if there was a problem having the meeting on November 9th or was it just a matter of members' schedules. Responding, Mr. Guindon said historically a forecast was produced late October, which the Governor used in preparation of The Executive Budget. The following meeting was held on or before December 1st. Because of the timing of the release of the data, it would be difficult to meet the end of October.

Chairman Small said the likely dates for the next meeting would then be November 1st or November 9th. Mr. Anderson interjected that he had spoken with Global Insight about possibly coming to a November 3rd or 4th meeting so hopefully they would be available.

Mr. Seevers said given the timing of all the information needed, he suggested a meeting on November 1st or 2nd. Mr. Guindon said November 1st of 2nd would work for staff. Chairman Small asked if any members had a conflict for a November 2, 2004 meeting. The Forum members agreed to the November 2, 2004 for the "November" meeting.

Chairman Small thanked staff for their hard work and said they did a great job and the Forum appreciated the time staff spent preparing for the meeting.

Mr. Guindon asked if the Forum would like the November 2, 2004 meeting to be held at 9:30 a.m. Chairman Small suggested the meeting was held at 9:00 a.m. because the meeting would be longer due to the new revenues. The forum agreed to conduct the meeting at 9:00 a.m. on November 2, 2004.

Lastly, Mr. Guindon said the Forum needed to set the December meeting and he suggested December 1st since it was the statutory deadline. Chairman Small asked if any members had a conflict with the December 1st meeting date. The Forum members agreed to the December 1, 2004 meeting date at 9:00 a.m. in Carson City.

Chairman Small made a request that the airline reservations be done individually so the members could obtain their boarding passes.

X. Public Testimony

There being no public testimony, the Forum adjourned at 1:34 p.m.

SUBMITTED BY,

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Donna Thomas, Committee Secretary

APPROVED BY:

Michael Small, Chairman