MINUTES OF THE MEETING OF THE GOVERNOR'S TASK FORCE ON TAX POLICY IN NEVADA
(ACR 1 of the 17th Special Session)

January 16, 2002

The Governor's Task Force on Tax Policy in Nevada was called to order at 9:40 a.m., on Wednesday, January 16, 2002. Chairman Guy Hobbs presided in Room 4412 of the Grant Sawyer Office Building, Las Vegas, Nevada. The meeting was video-conferenced to Room 4100 of the Legislative Building, Carson City, Nevada.

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Mr. Guy Hobbs, Chairman
Mr. Russ Fields
Ms. Eva Garcia-Mendoza
Mr. Brian Greenspun
Mr. Kenneth Lange
Dr. Luther Mack
Mr. Mike Sloan
Ms. Nancy Wong

EXHIBITS:

Exhibit A: Meeting Agenda
Exhibit B: Attendance Records
Exhibit C: A copy of letter from Guy Hobbs, Chairman, Governor's Task Force on Tax Policy in Nevada, mailed to all interested parties, soliciting comments and suggestions for changes to Nevada's tax policy
Exhibit D: *General Fund Long-Range Forecast,* State of Nevada, Department of Administration, Budget Office, William D. Anderson, Economist
Exhibit E: *General Fund Revenue Trends*, a chart presented by Bill Anderson
Exhibit F: *All States Tax Handbook,* Research Institute of America, provided by Mr. Sloan
Exhibit G: Article from the *Las Vegas Senior Press*, Nevada Seniors Coalition, L. Kenneth Mahal, President
Exhibit H: PowerPoint Presentation, Mr. Anderson
Exhibit I: *Future Economic Outlook: 2002,* PowerPoint Presentation, Dr. Schwer, Center for Business and Economic Research, University of Nevada, Las Vegas
Exhibit J: Copy of Testimony provided by Kenneth Mahal
Exhibit K: *State General Fund Revenue Forecast*, PowerPoint presentation made by Mr. Jeremy Aguero, representing the Technical Working Group
Exhibit L: *State-to-State Revenue Comparison,* PowerPoint presentation made by Mr. Jeremy Aguero
Exhibit M: *Education System Fiscal Comparison,* PowerPoint presentation made by Mr. Jeremy Aguero
Exhibit N: *Review of Historical State Expenditure Trends,* PowerPoint presentation made by Mr. Jeremy Aguero

Roll Call

Chairman Hobbs called the meeting to order. He noted that the Technical Working Group had provided the Task Force with a tremendous amount of good information and wanted to thank the group for the countless hours spent generating an enormous amount of data. Chairman Hobbs thought the Task Force would be much more effective based on the information provided and paid special tribute to Mr. Jeremy Aguero, Principal Analyst and owner of Applied Analysis, for his efforts in compiling the data.

Approval of the Minutes of the December 12, 2001, Meeting

Chairman Hobbs stated that the first order of business was the approval of the minutes of the December 12, 2001, meeting and asked if there were any comments on the minutes.

MR. SLOAN MOVED TO APPROVE THE MINUTES OF THE DECEMBER 12, 2001, MEETING.

MR. GREENSPUN SECONDED THE MOTION

Mr. Fields interjected and requested clarification of the final sentence in the third paragraph, below the *Review of the Provisions of Assembly Concurrent Resolution No. 1* heading on page 6 of the minutes. With a few changes, Mr. Fields thought the sentence would reflect what Mr. Malkiewich had said and accurately reflect the intent of the resolution. The suggestion was made to replace the word "requires" with "states that" and replace the word "through" with "is." The revised sentence would read:

> Further, the resolution states that the development of a broad-based tax structure reflective of the diversity of Nevada's economy is a desirable policy that is worthy of study.

Mr. Fields did not want the minutes to imply that the Task Force was required to develop a broad-based tax structure.

TASK FORCE MEMBERS UNANIMOUSLY APPROVED THE MINUTES WITH THE REVISION RECOMMENDED BY MR. SLOAN.

Discussion and Recommendations Regarding the Solicitation Phase of Data-Gathering Efforts

Chairman Hobbs stated that the Task Force had discussed at some length the process for soliciting information from businesses, labor organizations, local governments, and the Executive Branch of government. As a follow-up to those discussions, a letter was developed and mailed January 9, 2002, to interested parties (Exhibit C). Concurrent with the mailing of the letter, a press release was issued to the various media outlets throughout Nevada describing the data-gathering effort. A copy of the letter was also provided to the media. Mr. Hobbs understood that all of the members had read the letter prior to the mailing and said the letter explained what the Task Force was doing and used the wording of Assembly Concurrent Resolution No.1 of the 17th Special Session (ACR 1) to form the questions posed to the recipients of the letter. Numerous mailing lists were used to construct the master list for business and trade organizations. Addresses for local governments and the Executive Branch were much easier to obtain. Chairman Hobbs wanted to make certain the members were comfortable with the manner in which the letters were sent out and wondered if additional communication was needed. Undoubtedly, some entities were missed. Recipients of the letter had been encouraged to forward a copy of the letter to other organizations that might be interested in providing information. Chairman Hobbs opened the item for discussion.

In response to a question posed by Mr. Sloan, Chairman Hobbs stated he was not certain of the exact number of letters that were mailed and thought letters were still being mailed. A request would be made of the Legislative Counsel Bureau (LCB) staff to provide the number of letters that were mailed and copies of the mailing list. Chairman Hobbs added that some organizations had forwarded copies of the letter to their members and expressed the committee's appreciation. The goal of the mailing was to reach the widest possible distribution to ensure the greatest possible number of comments. In response to a question posed by Chairman Hobbs, the committee members indicated that the solicitation process, as undertaken thus far, was adequate.

Chairman Hobbs stated that agenda items IV, V, VI, and, to some extent VII, were all intended to provide the Task Force with additional background relative to the magnitude of the problem the committee might be addressing. One purpose of the Task Force was to address a structural deficit and the values ascribed to a structural deficit. The Chairman stressed the importance of understanding the cause of any sort of gap between revenues and expenditures at any point in time, whether on the revenue side or the expenditure side. Chairman Hobbs hoped the presentations of the agenda items would better define a baseline level of gap, if one should exist, between revenues and expenditures at particular points in time in the future. The baseline would obviously be developed under certain sets of assumptions, and the assumption that Chairman Hobbs thought made the most sense initially was under current conditions projected forward. There were numerous assumptions that could be made about different levels of programming and different levels of expenditures, all of which would have an impact on any funding gap that appeared in the future. Chairman Hobbs stressed the importance of determining a baseline. In future meetings, the committee could work from the baseline number to establish the overall target value of the problem as additional testimony was received about long-term care, funding for education, other revenue issues and other state budgetary issues.

PRESENTATION REGARDING THE GENERAL FUND LONG-RANGE FORECAST

Chairman Hobbs introduced Bill Anderson, Economist, State Budget Office, who was largely responsible for some of the projections that had been made and the long-range forecast prepared by the state.

Mr. Anderson expressed his appreciation for the invitation and the opportunity to appear before the Governor's Task Force on Tax Policy in Nevada. Mr. Anderson said his presentation would be a condensed version of a long-range fiscal forecast he had made approximately 18 months earlier at the Governor's Fiscal Forum (Exhibit D). Even though a great deal had happened since the forum, Mr. Anderson was quite comfortable with the general findings of the forecast—especially on the revenue side. The forecast made by the Budget Office had been off on the revenue side by about $10 million in FY 2000 and only $1 million in FY 2001. Mr. Anderson indicated he would be happy to provide the members with a document that contained all of the supporting information that went into the long-range fiscal forecast.

Mr. Anderson said he had chosen to show the committee a structural analysis that did not include total revenue numbers per se; rather numbers would be presented on a per capita basis and in real terms, adjusted for inflation. It was important for members to keep in mind that the population forecast underlying the presentation called for population growth of slightly more than 3 percent per year over the course of the next decade; down from the 5 percent realized on an annual basis during the course of the 1990's. No policy initiatives were assumed in the projections. The forecast also maintained status quo for the state's major industry—gaming and recreation.

Over the course of his presentation, Mr. Anderson said he would be arguing that Nevada's economy would continue to be relatively strong in relation to other states and regions in the nation, but it was fairly safe to say the economy would be slower than the 1990's, which would likely be reflected in future revenue collections. The question was how expenditures would be affected by a slower economy. If the slowing economy resulted in slower growth in students, in the prison populations, and other service populations, expenditures could be less. If the student, prison, and other service populations increased significantly, expenditures would also increase significantly. Mr. Anderson stressed that the impact on expenditures was a big issue that needed to be addressed by the Task Force.

In response to a question posed by Mr. Sloan, Mr. Anderson stated that education accounted for approximately 52 percent of the total state General Fund budget. The second major category was the human services category, including Medicaid, and the third category, which was approximately 10 percent of the General Fund, was in the public service area. Education, the largest part of the budget, ultimately drives the budget.

Mr. Sloan asked if there was a demographic projection as to the types of individuals who continued to move to Nevada. Periodically there were articles reporting that Nevada was one of the fastest growing retirement states in the United States. Also, Nevada continued to attract a large number of individuals seeking entry-level jobs in the residential and commercial construction and non-skilled areas. Mr. Sloan asked if Mr. Anderson saw that trend continuing to be a large driver of growth. Mr. Anderson said the expenditure side of his presentation included caseload growth, which would address Mr. Sloan's question.

Mr. Anderson, referred to a chart titled *General Fund Revenue Trends* (Exhibit E), which showed the trend in total revenues relative to the per capita revenues and the inflation-adjusted per capita revenues. The top solid line on the chart showed that total revenues over the past decade had grown by 125 percent. Because of significant growth in service populations, per capita revenues grew at a much slower rate—about 25 percent over the past decade. The per capita revenues adjusted for inflation were struggling to hold their own and, in fact, were trending down slightly. The revenue stream was not keeping pace with the growth in population as well as the increase in the costs of providing services to Nevada's citizens. The revenue base had been stretched very thin.

Mr. Anderson explained that the Budget Office used formal revenue forecasting models to make recommendations for purposes of building budgets. A packet detailing the forecasting method and accuracy of the forecasting over time had been made available to Mr. Aguero. If the committee wanted to look at that packet, Mr. Anderson said he was certain Mr. Aguero would make it available to the members. Mr. Anderson opined that the Budget Office had done a good job of forecasting non-gaming revenues but had not faired as well on the gaming side. The models were utilized to compile the revenue forecasts for the short term. Beyond a 2 ½ to 3-year period, trend analyses were used.

Ms. Garcia-Mendoza wanted to know if the data had been compiled on a percentage basis, and asked what percent of the purchases or real property values were assessed by each state against the citizens of that state. Mr. Anderson asked if Ms. Garcia-Mendoza was referring to the extent sales taxes were paid by Nevada citizens in relation to the millions of people that visited the state? Ms. Garcia-Mendoza explained that Nevada citizens paid a certain amount for sales tax; had Mr. Anderson compared the amount of sales taxes paid by Nevada citizens to what citizens of other states paid? Mr. Anderson thought that the information would be included in Mr. Aguero's presentation.

Mr. Sloan interjected and stated he had just provided members with a document titled *All States Tax Handbook* (Exhibit F), which included sales tax rates for each state.

Mr. Sloan continued and requested that Mr. Anderson answer the question he thought Ms. Garcia-Mendoza had asked. The *Price-Waterhouse/Urban Institute Study* had indicated that Nevada exported more tax burden than almost any other state in the union. One of the ways that the tax burden was exported was through sales tax on tourists, and if it was difficult to forecast gaming revenues, it would be equally as difficult to forecast sales taxes paid by tourists. Mr. Anderson said the sales tax forecasts were not broken out by tourists versus domestic and indicated the Budget Office did a good job forecasting sales tax. Errors on the sales tax revenues in normal times tended to be approximately 2 percent. Mr. Sloan agreed that if these were normal times, there would be a better chance of projecting both the sales tax and the gaming revenues. However, going forward, since no ones knows what is going to happen to gaming revenues, Mr. Sloan did not know how tourist-related sales tax revenues could be projected. Mr. Anderson explained that the Budget Office forecast sales tax revenues, in large part, based upon employment trends. The logic being that increased tourism, increased construction, etc., would require more employees.

Mr. Sloan noted that Mr. Anderson had made the point that 10 or 11 mega-resorts had been constructed in the last decade and there was no way of forecasting what might happen in the short-term or long-term in terms of new mega resorts. Does the nature of employment and construction alter the formula? For example, would the construction of 1,000 new apartments, or retirement units, be different than building 1,000 new hotel rooms with a casino? Obviously 1,000 new hotel rooms and a casino would bring tourists, but Mr. Sloan did not think 1,000 new apartments or retirement units would. Mr. Anderson agreed and said that Mr. Sloan's concern was reflected in the forecasts that would be presented. The approach used by the Budget Office resulted in a revenue growth rate of roughly 4.5 percent—slightly more than half of the 8.5 percent growth rate experienced in the 1990's.

Ms. Garcia-Mendoza said she had quickly glanced at the book provided by Mr. Sloan and did not see an entry for the percentage of tax paid by gaming. Mr. Sloan said he thought Ms. Garcia-Mendoza's question had addressed the sales tax rate for each state. Ms. Garcia-Mendoza concurred, but said she also wanted to know the percentage of each category of taxes.

Chairman Hobbs interjected and noted that one of the agenda items was a state-to-state revenue comparison by contribution to total revenue by tax type. Ms. Garcia-Mendoza said the comparison was based on per capita data, and she wanted to look at the percentages. Even though information on the percent of revenues within the state had been provided at the first meeting of the Task Force, Ms. Garcia-Mendoza indicated her desire for a comparative analysis with other states.

Chairman Hobbs assured the members that even if the analysis with other states was not readily accessible for the current meeting, the data was collected and would be made available to members. Mr. Sloan said it was his understanding that there was no state in the union where gaming paid even 10 percent of the general budget.

Chairman Hobbs said one of the things the committee needed to do was be extremely clear about the type of data being requested. The composition of all public revenues within the state would include revenues beyond the state's General Fund, including local revenues, own-source and non own-source revenues. Thus far, the committee had been focused on the state's General Fund and, in that regard, the composition of the state's General Fund, as it related to gaming, would be quite different than the gaming component of local government. If local government revenues were combined with state revenues into one public revenue pot, the amount that gaming contributed to the state's General Fund through gaming tax would be greatly diminished. The Chairman thought it was just as important, if requesting tax rates, to request information about tax exemptions or any other methods of assessing a particular tax. For example, Nevada was the only state that used depreciation on improvements to real property. Collecting comparable data would be difficult. If the reports presented to the Task Force did not provide enough detail, the current database could provide additional information. Members were encouraged to let the Chairman know of any additional data requests.

Mr. Anderson began his PowerPoint point presentation (see Exhibit D) and said he would walk the committee through the four largest revenues that made up the state General Fund. Sales tax, the largest revenue, had basically held steady on a per capita basis, adjusted for inflation, over the last seven or eight years. Sales taxes increased nominally, but in inflation-adjusted or real terms, held rather steady. The forecast model was used for a two-year forecast and was trended out over the course of the forecast period keeping the level of real per capita collections constant. The end result appeared to be logical and was basically a continuation of historical trends that had been in place since the early 1990's.

Chairman Hobbs asked if the numbers had been adjusted for visitation, and Mr. Anderson responded that the numbers were strictly the General Fund revenue collections expressed on a "per Nevadan, for lack of a better term."

Mr. Anderson continued and referred to the percentage fee gaming tax, the second largest revenue. The gaming tax was levied against the monthly taxable gaming revenues of gaming establishments. General Fund gaming tax collections had hovered around $250 per capita for approximately 10 years. Mr. Anderson asked the members to notice that the end result was erosion in the per capita collections adjusted for inflation.

Mr. Sloan thought the erosion was indicative of the obvious--there was no relationship between gaming revenues and the number of people who moved into the state. On a per capita basis, sales tax might have a relationship between the number of people living in Nevada who purchased items and paid sales tax, but growth in the state might not bear a direct relationship to gaming revenues.

Mr. Anderson remarked that gaming revenues per person had remained fairly constant, which had resulted in increases in some of the service populations. Mr. Sloan explained that prior to the 1990's, between the time that the Barbary Coast Hotel and Casino was constructed and the construction of the Mirage Hotel, not one new hotel was built in Las Vegas, and Nevada still had a sustained period of population growth. Mega-casinos can help to drive growth, but other factors unrelated to gaming also drive growth. The correlation of $250 per capita might be a statistical coincidence more than a cause and effect.

Mr. Anderson stated that the Budget Office, in the development of the population forecasts, utilized the state demographer's population forecast and those numbers reduced growth by approximately 40 percent, from 5 percent to slightly over 3 percent. The entire forecast reflected a slowdown in growth in gaming and in Nevada's overall growth.

Mr. Anderson referred to the insurance premium tax, the third largest revenue, which was a 3.5 percent tax levied on insurance policies written in Nevada. That revenue stream had been holding up relatively well over time--growing on a per capita basis both in nominal and in real terms. Despite some ups and downs, that growth over time would likely continue. The fourth largest source of revenue was the business license tax—a $25 quarterly tax levied on full-time equivalent (FTE) employees. Although holding pretty steady on a per capita basis, the revenue eroded constantly in inflation-adjusted terms.

Mr. Anderson explained that when the four revenue sources were totaled and the other revenues were allowed to grow at the rate of inflation plus population growth, a General Fund revenue forecast expressed in per capita terms was generated that was fairly consistent with what had been realized over time. There was a logical progression in the per capita General Fund revenues being forecast. Mr. Anderson recognized that over the next decade or so, Nevada's revenue streams were going to struggle to keep up with population growth, as well as the increased cost of providing services to state residents.

Chairman Hobbs referred to the ten-year time series used in the projections and asked Mr. Anderson if he had also used a longer historical time series and compared that to the projections presented? Mr. Anderson said the forecasting models that were used go back as far as the early 1980's. The annual per capita numbers provided a good understanding of the underlying trends and forces. Mr. Anderson was not certain incorporating the 1980's numbers would provide useful information. Chairman Hobbs referred to the ten-year time series that yielded the various projections presented by Mr. Anderson and said he certainly did not want it to appear that this was a series of convenience that yielded a particular outcome that was desirable one way or the other. The Chairman wanted to make certain that if more years were added to the series, the meaningfulness of the projections would not change materially.

In response to a question posed by Mr. Greenspun, Mr. Anderson said the inflation rate assumption used in the projections was a 2 to 2.25 percent annual rate of increase, which was actually unfolding with the exception of the "blip" in energy, and was consistent with what had happened in the intervening 18 months. Mr. Anderson did not think the rate of inflation would be materially different than the 2 to 3 percent range.

Mr. Anderson said the end result of the forecasting exercise resulted in General Fund revenues totaling approximately $2.3 billion ten years in the future, which translated into an approximate 4.5 percent annual rate of increase. High, medium, and low long-range revenues and expenditure forecast scenarios were developed to put the presentation into a useful format. The medium range scenario reflected how revenues had actually unfolded.

Mr. Anderson stated that the largest caseload was K-12 school enrollments, which were forecast to increase from 300,000 students in FY 2000 to over 450,000 over the course of the next decade. On an average annual basis, growth was projected to be down from 5.6 percent to 4.4 percent between the 1990's and the first decade of the 2000's. The University and Community College System of Nevada (UCCSN) enrollments, the second major caseload group, were forecast to grow approximately 7 percent annually over the course of the next several years--up from about 5.3 percent. UCCSN enrollment numbers had increased significantly over the past year or so and were driven, in part, by Nevada's Millennium Scholarship Program.

Chairman Hobbs asked if the K-12 or UCCSN enrollment projections incorporated census data and demographics, or were the projections more of a trending technique? Mr. Anderson explained that the enrollment caseload forecasts were actually developed at the agency level, and the agencies had taken all of the various factors into account.

Mr. Anderson continued with his presentation and said the third major caseload group was the prison population. Growth in prison populations was expected to increase about 5.5 to 6 percent over the course of the next decade—down three quarters of a percentage point relative to growth observed during the 1990's. The Medicaid caseload was another very important and large budgetary item for the state--a 7 percent average annual growth in the Medicaid caseloads was expected over the course of the 2000's. Nevada was obviously impacted by the relatively stable levels of Medicaid caseloads resulting from the welfare reform activities undertaken throughout the nation. Although growth leveled off considerably during the latter half of the 1990's, the state was expecting significant growth in Medicaid.

Mr. Anderson referred to the chart that showed low revenues along side high expenditures and resulted in a projected $1 billion structural deficit—a scenario that would probably not materialize. The large deficit would be due to a slowdown of revenue, but continued growth in expenditures resulting from increased caseloads. Mr. Anderson thought it was more plausible that if the economy slowed, caseloads would be reduced, and the $1 billion figure would not be reached. The medium range revenue scenario, which had been quite accurate prior to the September 11th terrorist attack, appeared to be more realistic. The medium revenues and historical expenditures resulted in a structural deficit of approximately $475 million at the end of the ten-year period and was a scenario that might provide more reasonable comparisons. Mr. Anderson continued and referred to the medium revenues and medium expenditures and explained there was a gap of between $65 or $75 million at the end of the ten-year period. Even though there were some defendable scenarios where a structural deficit might not be especially pronounced, if the Task Force decided that some of the programs needed to be enhanced, the deficit would be increased.

Chairman Hobbs stressed that the enhancement area was a very important issue. One of the goals of the Task Force was to establish a baseline value that does not necessarily include enhancements, even though enhancements might be desirable. Chairman Hobbs thought it was extremely important for the members to receive input from Mr. Anderson and the other presenters as to the likelihood of medium revenues and medium expenditures versus medium revenues and historical expenditures. It was essential to target a baseline without enhancements and then consider areas of enhancement.

Mr. Anderson continued his presentation and said if there were low revenues and medium expenditures the structural deficit would be approximately $650 million. Low revenues and low expenditures would result in a $230 million deficit. Mr. Anderson felt the initial assumptions were of great importance and said the most likely scenario was the medium range revenue. He did not think the 8.5 percent average annual growth in revenues that occurred in the 1990's would be attained during the first decade of the 2000's. Chairman Hobbs agreed and noted Mr. Anderson's comment seemed to eliminate historical revenues. There needed to be additional discussions that would help sort out the medium expenditure versus historical expenditure issue which would then help the Task Force to gravitate to one end of the range or another, or at least to develop a center point within the range.

Mr. Sloan asked Mr. Anderson if there were any calculations that showed per capita contribution per new resident—not taking the total taxes paid and dividing that by the number of individuals, but those taxes paid by each new person arriving in the state. Mr. Anderson said that could be determined indirectly by looking at the per capita numbers. Mr. Sloan was not certain the per capita contribution per new resident could be determined without factoring out that a significant portion of the sales tax was paid by tourists, and a significant portion of the gaming tax was unrelated to the number of people who moved to the state. Mr. Anderson indicated that the information requested by Mr. Sloan was not currently available. The fact that the real per capita sales tax collection numbers were basically holding steady suggested that as people moved to Nevada, at least on the sales tax side, the state was receiving the revenue. Both Mr. Sloan and Mr. Anderson recalled that the *Price Waterhouse/Urban Institute Report* estimated tourists paid one-third of the sales tax received in Nevada. Mr. Sloan suggested that Mr. Anderson factor out one-third of the sales tax and rerun the projections. Transportation costs, sales tax collections on tax, and other items would have to be considered.

Mr. Greenspun recognized that 50 or 55 percent of the state budget was allocated to schools and wondered what the impact would be on the expenditure number if the medium revenue projections were close over the next ten years and the Legislature wanted, over the next few years, to take Nevada into the top ten states in terms of contributions to schools. Mr. Anderson remarked that the fiscal impact would be quite significant.

In response to a question posed by Mr. Greenspun, Mr. Anderson said that based on the directives included in ACR 1, the Task Force should be considering the possibility of enhancements in certain quality of life areas. The Task Force could be talking about the revenue side and the expenditure side with respect to achieving certain objectives.

Mr. Anderson continued and said while job levels nation-wide were declining, Nevada's job levels were growing. Nevada's relative strength could be an attraction for individuals who might be looking for better economic opportunities. Despite the much-publicized layoffs in the casino industry, several thousand new jobs were still being generated year-over-year, every month. Since September, job levels in Nevada had grown about 1.1 percent, down considerably from a 4 percent growth rate observed prior to September. Nationwide, job levels declined at .5 percent in aggregate terms.

Chairman Hobbs addressed the Task Force members and said it seemed fundamentally important that an initial baseline value be established of what the structural deficit might be under existing conditions forecast forward. If too many other assumptions were used, the numbers began to vibrate around the lines shown on Mr. Anderson's charts. Anything beyond the structural deficit that was built into the existing system, whether on the revenue side or the expenditure side, would be part of any additional funding gap that might exist under certain assumptions. The Task Force was currently soliciting information about recommended levels of public spending in a couple of very specific areas that would likely add to the values currently being discussed. The revenue side of the equation would also be reviewed. The Task Force was asked to look at the stability and the diversity of the existing system, so it does not truncate that dialog. Chairman Hobbs predicted there would be a great deal of informative and spirited dialog about enhancements to the programming side and enhancements to the revenue side.

Mr. Sloan said his view of the mandate was different and had reservations that the Task Force had the time or ability to address in finite detail the projected expenditure side of state government for the next decade. His sense of the engagement was that at some point in time the Legislature would need more money and would want to know where to broaden the tax base. Where are the areas the Task Force should look for new revenues, if and when new revenues are necessary? Mr. Sloan felt the calibration of the rate should be left to the circumstances. It was very helpful to have some sense as to where the members were going to have to go, but it was his view that the language taken as a whole suggested that, much as the *Price Waterhouse/Urban Institute Report* did more than a decade ago, the reliance on sales tax and gaming tax to fund government was going to have to fundamentally change.

Chairman Hobbs agreed that Mr. Sloan's interpretation was part of the charge of the Task Force. However, the existence of a structural deficit was cited in ACR 1, and part of the charge to the Task Force was to bring concepts or solutions back to the Legislature that would help address such a structural deficit. The Task Force still had to review the existing tax structure and make observations or suggestions about the stability, fairness, and uniformity of the structure.

Mr. Sloan did not have a copy of ACR 1 before him, but the minutes from the prior meeting stated that any recommended legislation must include a plan that broadened the tax base. He did not think the mission of the Task Force was as focused on forecasting expenditures. Mr. Sloan stated in his experience as a former legislator, it was fairly easy for people to support programs, but less likely for people to want to raise the revenues to pay for the programs.

Chairman Hobbs said the second to last resolve in ACR 1 reads: "That the Task Force shall develop one or more definitive proposals to carry out the state's need to provide additional revenue for state programs, to stabilize the tax base and to reduce the long-term structural deficit of the state budget. . ." Chairman Hobbs thought the amount of additional revenue that the Task Force might be suggesting had to be based on some level of understanding of what the target value or structural deficit might be. The Task Force also had to look at stabilization of the tax base, which would speak to a broadening of certain components of the existing tax system, or introduction of other components that might help broaden the existing system.

Mr. Greenspun said in every scenario presented by Mr. Anderson, there was a structural deficit of $200 million up to $1 billion. The Task Force needed to determine if there was a structural deficit, and, if so, reach agreement on the amount of the structural deficit based on current data. The Task Force needed to acknowledge and quantify the structural deficit and then determine how the tax base could be broadened.

Chairman Hobbs recognized that the Task Force was dealing with several issues that seemed simple to describe, but were not. Honing in on what the value or range might be initially was extraordinarily important. It appeared that the most likely scenarios would be medium revenues to medium expenditures and medium revenues to historical expenditures. The two scenarios seemed to be the most probable borders of the ranges that had been discussed and would be between $65 million at the low end, $475 million at the other end, with the midpoint at approximately $250 million.

Chairman Hobbs asked Mr. Jeremy Aguero to come forward and discuss the various types of ranges the Task Force was considering.

Mr. Aguero said the data the Working Group had been analyzing suggested that the gap at year ten would be relatively similar to Mr. Anderson's projection, however, their extrapolation of total revenues would be more closely associated with the lower end of the revenue estimates. Different assumptions had been used. In response to a question posed by Mr. Aguero, Mr. Anderson stated his middle estimate used a 6.5 percent growth rate per year. Mr. Aguero said the Working Group had used a lower population growth and a lower employment growth, which reduced growth as a whole. The casino development projections looked at what was planned in southern Nevada based on information provided by the Las Vegas Convention and Visitors Authority (LVCVA) and some development slowing was expected. The growth rate used by the Working Group was closer to 4.5 percent per year.

In response to a question posed by Chairman Hobbs, Mr. Aguero said the Working Group used a series of variables in order to make the revenue estimates. Historically, the per capita rate of revenue had averaged between $630 and $640 over the last ten years. The Working Group assumed that would give the level of services the state had been able to provide during that period. When the model was extrapolated out over a ten-year period, that number dropped to $609—a gap of $34 per capita at a 2.6 million population number, or about $90 million at the 2010 period. Chairman Hobbs stated that number also fell within the range Mr. Anderson had projected, and Mr. Aguero agreed.

Chairman Hobbs asked if Mr. Anderson had any comment regarding the methodology used by the Working Group. Mr. Anderson hoped the methodology gave the members some level of comfort with the numbers being discussed. The Budget Office and the Working Group had utilized two slightly different approaches, but the actual results were almost identical. Chairman Hobbs reiterated that the discussion left a range of some $65 to $475, and noted that Mr. Anderson's projections were at year 2008 and Mr. Aguero's projections were at year 2010. The midpoint of the range presented by Mr. Anderson was approximately $260 million and, if it was going to vary higher or lower, there was likelihood it would be lower. Mr. Aguero said the Working Group's range was $50 million to $150 million, depending upon the rate of inflation and stressed that was just looking at the revenue gap.

Chairman Hobbs asked the Task Force members if there was some amount of comfort with using the two different ranges, one that fits within the other, for purposes of the initial discussion of framing out what a structural deficit might be?

Mr. Lange thought the Task Force absolutely had to work with a range. Some of the variables were a "little bit skittish" given the fact that Nevada received so much revenue from exported taxes. There was also a public policy danger in targeting any one given number, whether working with $60 million or $1 billion. The Task Force needed to understand that the numbers could go either way, as could the level of expectations.

Chairman Hobbs asked Mr. Anderson and Mr. Aguero to continue to work together. Anything that would help develop confidence in both ends of the range, and actually contract that range a bit, would be extremely helpful.

Ms. Wong asked Mr. Anderson if there was any way to quantify how more likely the medium revenue, historical expenditure scenario was than the medium revenue, medium expenditure scenario. Mr. Anderson replied that it was hard to attach a number to the different scenarios, but again the fact that the medium revenue scenario was tracking so closely with what was actually unfolding gave him some confidence in the numbers. However, because of recent events, the medium to low scenario seemed to be falling into play. Chairman Hobbs asked Mr. Anderson to give additional consideration to the scenarios and understood that one additional month of actual data would not be terribly helpful. Chairman Hobbs asked if any members of the public wished to testify on the agenda item that was just discussed.

Knight Allen, private citizen, complimented Mr. Anderson on his consistency. Having attended the Governor's Fiscal Forum eighteen months ago, Mr. Allen was able to use the exact same chart from that presentation. Mr. Allen also appreciated the fact that Mr. Anderson was consistent in stating there was not a big fiscal crisis. However, "if the Legislature goes crazy then you've got a crisis." If things continue to go along the way they have been going, Nevada does not have a fiscal crisis.

Mr. Allen stated that Nevada did not export its tax base. Nevada imported its tax base—a crucial distinction—and was one of the reasons why Mr. Allen had consistently opposed a major increase in the gaming tax. Nevada had to be the low cost producer for the recreation dollar and could not increase the gaming tax up to the level paid in Louisiana or Illinois. Mr. Allen thought perhaps the gaming tax should be increased, but not by the amounts that had been recommended. The revenues generated were exported back to the farming and manufacturing states. Mr. Allen said the sales tax numbers reported by Mr. Anderson would basically protect the state government against inflation, and, on a per capita basis, would continue to generate revenues, whether population increased or decreased, because the tax was automatically inflation proof. As an example, if a person bought a pair of shoes for $20 and a week later bought another pair of shoes, and the price was increased by the inflation rate, that money would go to the state General Fund.

Mr. Allen stated that the gaming taxes would increase based on inflation, not instantaneously, but over time, which meant all of the revenue projections in Mr. Anderson's charts were off, and were off substantially.

Chairman Hobbs explained that the Task Force would be working under existing assumptions and intended to do additional work on the revenue side. If additional revenues should be considered, or if some assumptions should be modified, that would have some effect of pushing the revenue line up over time, or moving the expenditure line in a different direction. Chairman Hobbs recognized that Mr. Allen, as an analytical person, would know there had to be a beginning point.

Mr. Allen thought the panel had accepted as part of the beginning point that the gaming tax would not increase. The Task Force needed to begin with the knowledge and understanding that the gaming tax was almost inflation proof and then run the four or five projections. There would then be a base starting point—from the maximum, which had to come down, to the minimum. Chairman Hobbs said members would refer to that as a potential modified base. Mr. Aguero and Mr. Anderson had been charged to further discuss and try to narrow the assumptions. Mr. Allen again stressed that the fundamental gaming tax assumption as presented was deeply flawed, and suggested that Mr.

Anderson be asked to rerun his numbers on the assumption that the gaming tax would rise the same way the sales tax would, or maybe a shade below.

Chairman Hobbs recognized L. Kenneth Mahal, President, Nevada Seniors Coalition. Mr. Mahal said he appreciated the opportunity to speak to the Task Force. Mr. Mahal found the term structural deficit "mind-boggling" and said there seemed to be an acceptance that government, particularly education, was being run efficiently. The Task Force did not appear to be challenging whether government was being efficient with the tax dollars. A great deal of money could be saved if the education budget could be reduced. Mr. Mahal did not recall that the education system in Nevada had been revised in the 18 years he had been in Nevada. The members were cautioned by Mr. Mahal to not believe that everything was a real cost. The coalition had produced a paper (Exhibit G) during the 69th legislative session that made very conscientious suggestions on how the Clark County School District could have realized substantial savings, increased the teachers pay one-third, reduced the cost of building construction by approximately 25 percent, and reduced the time of opening the buildings.

Mr. Mahal said that Medicaid was going to continue to grow and said he would not be surprised if half of the Medicaid costs were smoking related. Mr. Mahal noted that 30 percent of Nevada's residents were smokers. When a $40 million tobacco settlement was made during the 70th legislative session, the coalition took the position with the Legislature and the Governor that some of the funds should be used to set up a supplemental medical premium insurance for those with smoking-related illnesses. The program would have been self-financing. Mr. Mahal emphasized that the tobacco settlement money had been improperly used. Prescription drugs were also a big problem for the uninsured and elderly population. Mr. Mahal suggested that 89 percent of the elderly who were not yet listed in the poor category, were going to be poor soon unless the prescription drug issue was addressed. The coalition had recommended there be an option added to the prescription drug program where a senior could buy in and pay an amount every month based on the number of prescription drugs needed. Perhaps three or four-hundred thousand people would have been willing to pay a premium every month based on how much prescription drug insurance they would like.

Presentation Regarding the Future
Economic Outlook of the State

Bill Anderson, State Budget Office, referred to his presentation (Exhibit H) and noted that Nevada's pre-September economic performance and the post-September economic performance differed considerably. The first table indicated that the economy's performance had been quite impressive. The job growth came in at 4.5 to 5.5 percent on an average annual basis in each of the past three fiscal years; the taxable sales growth came in the mid-single digits. The 9.8 percent growth rate in FY 1999 illustrated something about the relationship between expansions in the gaming industry and the revenue streams. The 9.8 percent number was generated as the first couple of mega-resorts opened in the last round of expansion and resulted in some rather significant increases in sales tax revenue collections. As the properties were built, there were significant increases as materials and supplies were purchased. In gaming win growth, the impact of the new properties was reflected in FY 1999 at 7.1 percent and in FY 2000 at 11.5 percent and slowed in FY2001 to 2.5 percent.

Mr. Anderson referred to the second overhead and said perhaps the most important thing to note about Nevada's economy was the relative performance vis-à-vis the rest of the nation. Regardless of the economic indicator chosen--population growth, income growth, job growth, etc.--chances were pretty good that Nevada was at the top. Mr. Anderson indicated he had chosen a few non-traditional indicators just to give the members a feel for how Nevada had been doing. Over the latter half of the 1990's, the gross regional product grew a good half of percentage point faster on an average annual basis than in the nation as a whole. Income levels, as measured by real disposable income, grew at a rate that was basically double the nationwide increase. The economy had grown in absolute terms, and that was also reflected in a strong relative performance compared to other states.

Mr. Sloan asked about the gross business receipts in Nevada and recalled a number of approximately $80 billion that had been provided by the Department of Taxation a year previously. About $14 billion of the $80 billion was from the tourist industry, and the balance was from the business community. Mr. Anderson said he could provide the numbers, however, he did not think Taxation collected the information since no taxes are levied on profits, income, gross receipts, etc. Mr. Anderson then noted that the Internal Revenue Service (IRS) had some comparable figures on gross business receipts across states.

Mr. Anderson continued and said the state economy went into a slowdown in March of 2001. To give the committee an overview of the recent performance of Nevada's economy, Mr. Anderson referred to pre-September 2001 and said that the national economy entered into a recession in March of 2001, however, during the March to August period, Nevada did quite well—jobs grew to 4 percent, taxable sales growth was 4.4 percent; gaming win was up 1.6 percent, and Las Vegas visitor volume was up 1.9 percent. Mr. Anderson declared that any state that managed a 4 percent job growth rate six months into a recession would be quite happy.

Mr. Sloan interjected and said job growth may or may not have some relationship to revenue receipts in Nevada. For example, there would be greater comfort out of a 4.4 percent increase in taxable sales than out of job growth. Mr. Sloan thought inflation was greater than the 1.6 percent increase in gaming revenue. Mr. Anderson verified that the 1.6 percent growth in gaming win would have been exceeded a bit by inflation, especially when energy costs were factored. However, Mr. Anderson said that the numbers, against the backdrop of a national recession, were fairly impressive. Mr. Sloan thought sometimes people tended to lose sight of the fact that when the state's share of the gaming revenue was discussed, there was no regard to the expenses incurred by the gaming industry. Mr. Sloan assured Mr. Anderson that the cost of operating gaming facilities had been impacted by increased utility costs.

Mr. Anderson moved to the post-September results and explained that data included only October and November. The jobs grew at 1.1 percent on a year-over-year basis. The impact was more significant on the taxable sales and various gaming indicators. Taxable sales growth was down about 3.4 percent, that averaged out a very weak September with a relatively stronger October, which was driven by automobile sales. Gaming was down 5.2 percent and visitor volume was down 10.9 percent. The bottom line was that Nevada's economy held up prior to September quite well; post-September deteriorated a bit. While Nevada's jobs were growing 4 percent prior to September, nationally jobs grew about 0.5 percent. Since September, nationally the jobs were down about .5 percent, but continued to grow in Nevada.

Mr. Sloan asked if there were any comparable numbers for California, Arizona, and Utah? National numbers tended to include many areas that did not have the same allure as the western states. Mr. Anderson said he could provide that information to the committee. The *Blue Chip Economic Indicators* recently published an article that ranked Arizona and California between 40 and 50 in terms of year-over-year job growth in the most recent month and Nevada was ranked at about the eighth best performance. In response to a request made by Mr. Sloan, Mr. Anderson agreed to provide the committee with a copy of the article.

Mr. Anderson said the newspapers used the revenue estimates provided by the Budget Office in reporting the impacts of September on the state's budget. Based on the state's five largest revenues, which comprised approximately 85 percent of the total base, the revenues through the end of December were down close to $30 million from the Economic Forum forecast. Mr. Anderson acknowledged that Nevada had been impacted in a budgetary sense as well as an economic sense.

Mr. Anderson referred to the future prospects for the national economy and said it was the consensus forecast that the economy would begin to grow again around mid-year of 2002. He referred to a chart that compared the recession of the early 1990's to the recession of the early 2000's and said the data reflected the overall growth in the first five quarters, beginning with the first quarter of the recession. Mr. Anderson thought that current recession would be relatively mild in historical terms.

Ms. Garcia-Mendoza asked if Mr. Anderson had taken into consideration the recession that occurred in the 1980's in the historical analysis. Mr. Anderson replied that the recession that occurred in the early 1980's was devastating and was the worst economic downturn since the depression. The recent downturn would be even milder at the national level than in the early 1980's.

Mr. Sloan referred to the recent Milken Institute report that indicated Nevada had been disproportionately hit in terms of jobs lost and jobs created. Mr. Sloan said Mr. Anderson's data tended to reject that as an anomaly. Mr. Anderson said he had not read the study and did not want to sound overly critical, but it was his understanding that the report measured potential jobs lost, not actual jobs lost. Basically what the study said was that Nevada would have had 40,000 fewer jobs as a result of the September 11th attacks.

Mr. Anderson said there was a great deal of consensus from numerous forecasting organizations that Nevada would be back at the top of the list of overall economic growth by mid-2003. Mr. Sloan said that gaming revenue in non-destination markets such as Illinois, Michigan and Atlantic City were unaffected by the events of September 11, however gaming revenues in Las Vegas were off 11 or 12 percent. In his own judgment, Mr. Sloan would be surprised if Nevada had anywhere near the economic growth from gaming in the next decade that was experienced during the past decade given the current levels of competition and the changing nature of the market.

In response to a question posed by Dr. Mack, Mr. Anderson said he would conclude his presentation by showing that by the middle of next year the consensus forecast was that Nevada would attain its standing vis-à-vis other states. Economic growth was slowing, however, Nevada's relative performance should once again be quite strong by mid-2003.

Mr. Fields interjected and said that rising energy costs had also become very burdensome to the mining industry. Mr. Fields thought the current energy problem was different than the one that occurred in the 1990's recession and asked Mr. Anderson how the energy costs were factored into his projections? Mr. Anderson indicated that the rising energy costs would be factored in to the next round of forecasting. The impact of increased energy costs began to surface prior to September, especially in the gaming-related revenues. Disposable incomes of individuals were not as high after factoring in increased utility costs.

Mr. Anderson referred to the long-term outlook for Nevada's economy and stated that the Budget Office worked with Wharton Economic Forecasting Associates (WEFA), a respected national forecasting firm, and Regional Economic Models, Inc. (REMI), used more for policy analysis purposes than forecasting.

Mr. Anderson said that the WEFA report projected that by 2003 Nevada would rank number one in the nation in gross state product growth. The job growth should return to number one by mid-2003 after being ranked 12th in the near term, and income growth should return to number one after being ranked 8th in the near term.

Mr. Sloan asked about the relationship between the relative performance numbers reported and state revenues. From a state government point of view, Nevada does not have an ideal system for participating in the prosperity that was being forecast. Mr. Anderson agreed that in the absence of a state income tax, Nevada did not necessarily get any additional "kick" on the revenue side.

Mr. Anderson said the REMI projected Nevada's growth over the next decade would be twice the national average; gross state product growth would be 15 percent greater; income growth about 25 percent greater; and population growth would be three times the national average. Mr. Anderson recognized that over the short term Nevada's economy was suffering, but once the short-term difficulties were eliminated, the consensus was that Nevada would once again lead the nation in almost every economic indicator.

Mr. Anderson said some factors that would impact Nevada over the short term were travel concerns, such as Nevada's ability to attract "high rollers," especially from abroad. There were also some impacts related to the recession--declining incomes and jobs lost nationwide and worldwide. In the early 1990's the General Fund revenues grew at about 6 percent, sales tax had only one year of negative growth, and gaming held up fairly well. Mr. Anderson thought taxable sales and gaming would be adversely impacted until visitors returned to the state. Nationally there were actually signs that the worst was over.

Dr. Mack asked if the 4 percent job growth rate mentioned earlier in the meeting included job areas in gaming, wholesale, retail, etc. Mr. Anderson explained that the growth information he reported was an aggregate number and was official information provided by the Department of Employment, Training and Rehabilitation (DETR). Mr. Anderson indicated he would provide Dr. Mack with a breakout of the various employment areas.

Mr. Sloan noted there had been reductions in staffing in a number of businesses related to tourism, not just gaming, and asked if a person who was rehired was included in the job growth calculations, and Mr. Anderson answered in the affirmative.

Chairman Hobbs recognized Dr. Keith Schwer, Director, Center for Business and Economic Research, University of Nevada, Las Vegas (UNLV).

Dr. Schwer stated his presentation would focus on the short-run and long-run economic outlook with a primary emphasis on southern Nevada. The national economy was critically important to what was going to happen in Nevada; in particular, southern Nevada. Dr. Schwer disagreed with the financial people who had forecast a relatively short recession. There were key indicators that suggested the national economy would be sluggish throughout 2002, and the recovery would not be nearly as brisk as has been suggested by national financial forecasters. High energy costs reflected market adjustments and the efforts to deal with deregulation. Energy prices were moving one way; electricity and gas prices were moving another. Basic raw material prices were going down and a sharp increase was not expected in either natural gas or oil prices for the following year.

Dr. Schwer had reviewed the Milken Institute report and disagreed with the conclusions of the report. The report did not provide information as to how the impacts were modeled. Dr. Schwer did not believe that a three-year significant drop in the gaming economy would occur. The authors of the report failed to understand the nature of Nevada's market. Assumptions had been made that Dr. Schwer did not think would materialize. In particular, Dr. Schwer did not think there would be a job loss of 40,000 over the next three years. Dr. Schwer agreed with Mr. Anderson's assessment that Nevada's economy had done better than the other states and believed Nevada would come out of the recession faster than the national economy.

Dr. Schwer began his PowerPoint point presentation (Exhibit I) and referred to the first graph detailing visitor volume. Dr. Schwer said it was critical for the Task Force to remember in their analysis that the ten-year period of economic expansion had been a very unusual period in the nation's history.

The presentation was a relative index and for March of 2001, the date identified as the peak in the national economic expansion, the value was at 1; in the months before and after March, the visitor volume declined. The indicator suggested from visitor volume that the southern Nevada expansion peaked at the same time the national economy did —March of 2001. The second indicator used to evaluate the local economy pointed to December of 2000 being the relative peak on taxable sales. A three-month moving average suggested that the peak in taxable sales collections came after March of 2001.

Dr. Schwer referred to gaming revenue and said the series was a relative index that peaked in March of 2001. The series had quite a bit of volatility around the period, suggesting that the gaming revenue actually peaked in January 2001. The employment chart indicated that September 2001 was the high peak in employment in Clark County. The series indicated that the southern Nevada economy really was doing better than the national economy. If the events of September 11th had not occurred, it was possible that southern Nevada could have survived the national downturn without a recession.

Dr. Schwer said his office maintained a forecasting project and every six months estimates were reported and a conference was held at UNLV. The estimates included in the presentation, indicated that the Research Department of UNLV had done a fairly nice job in forecasting employment growth and the number of new hotel rooms. The forecast for the housing market had not been quite as accurate. Even after the significant decline in the stock market, there had been a significant increase in public wealth holdings, in particular cash. The increase in wealth holdings explained, in part, the strength in the housing market in the face of a national decline and why, along with the zero percent financing, people were still buying autos and other consumer durables.

Dr. Schwer said UNLV also maintained an index of leading indicators that was fashioned after the national index of leading indicators. The series compared the growth and expansion of the national economy and the southern Nevada economy through the decade of the 1990's. The line showing the U. S. index of leading indicators was flat all the way to January of 1996, when there was a very robust expansion. The significant expansion in the national economy and the rise in productivity was what propelled the longest economic expansion on record. Dr. Schwer noted that the U.S. index of leading indicators turned down prior to 2001. The index gave a six-month window of what was forecast and suggested that the U. S. economy was softening. The same series for southern Nevada became flat, but there was not the downturn. The downturn occurred in southern Nevada after September 11.

Dr. Schwer continued and said the next series used a simulation model to give the members a view of the vulnerability of a regional economy. Three scenarios had been developed in which there was a base case of an outlook over time and, from that base case a very mild recession, a strong recession, and a worst case recession were modeled. The best case scenario was a mild downturn essentially driven by a 2.5 percent reduction in visitor volume and assumed no wider war, no major terrorist attacks, no major oil disruptions, and a quick recovery to the national and local economies. Dr. Schwer believed the second scenario would most likely occur--the mild or "blustery" recession. The second scenario made the same assumptions as the first, but foresaw a slow recovery and was founded upon a 5 percent reduction in visitor volume and the associated expenditures. The worst-case scenario was a 10 percent reduction in visitor volume and an associated reduction in expenditures and included another major terrorist attack, a new war effort, and some energy disruptions. With the first scenario, there would be a job loss in Clark County of 7,000 jobs--a 1 percent increase in the unemployment rate. The modeling, the REMI model, used annual data and therefore assumptions had to be made about the timing element in order to reach the conclusions. A slowing economy would also reduce the demand for labor, and job growth would slow, and that would also result in a reduction in demand for housing and other investment expenditures. The second scenario was based on a 5 percent reduction in visitor volume with a loss of approximately 14,000 jobs—fairly close to the actual numbers experienced after September 11. If the 14,000 were not hired back into the work force, the unemployment rate would increase by 2 percent. The third scenario would drive the unemployment rate to 10 percent and have a serious impact.

Dr. Schwer referred to "location quotients," or the percent of employment in a given industry in Clark County relative to that same percentage in the national economy. Nevada's hotel and amusement quotient was eight times the national average and would increase to 20 times the national average if the three digit Standard Industrial Classification (SIC) codes were used. Construction and transportation both exceeded the national level. Taxicabs were 32 times the national average. Because the export base drives the economy, the economic future was heavily dependent on the primary economic sectors. Generally speaking, a location quotient of greater than 1 was defined as an export industry; a location quotient of less than 1 was defined as an import industry. Dr. Schwer referred to the high-tech industry, which had been part of the great economic expansion of the 1990's, and stated Nevada had not been a high-tech economy—Nevada's location quotient for high tech was .09. Among the 51 major urban areas in the United States, Las Vegas ranked at the very bottom in employment in the high-tech industry. Austin, Texas, ranked at the very top of the list, and the national average was approximately 3 percent.

In a recent meeting with the speaker of the California Legislature, Mr. Sloan had learned that approximately 20 percent of California's state surplus was attributable to the capital gains taxes paid by high-tech stock options in California. There was a perception that California was a highly taxed state, and Mr. Sloan wondered why the state had such success in attracting high-tech industry.

Dr. Schwer emphasized that there were numerous ongoing factors that made the comparisons of the 50 states exceedingly difficult. The distances between communities and the size of a state would dictate expenditure items and reflect back into the tax system. It was important for the Task Force to look at other states and draw conclusions, but Dr. Schwer suggested there was no one perfect tax system. Each state had to weigh the expenditure programs and what the citizens would feel comfortable with in terms of the tax system. California found that state income tax became relatively unstable when capital gains declined.

Mr. Sloan reiterated that California had been successful in attracting high-tech industries even with a state income tax. At least 90 percent of the 50 states had property tax, sales tax, and an income tax. Dr. Schwer explained that California's success in attracting high-tech industries began during the decade of the 1930's when an effort was made to develop science and technology. An appropriate expenditure policy and tax policy were developed that reflected an institutional background over a long period of history. Mr. Sloan understood that quality education might attract high-tech jobs, but did not understand how attracting high-tech industries related to the tax structure of a state as depicted on one of Dr. Schwer's slides. Dr. Schwer said the combination of fiscal structure was important in the decisions made by high-tech companies. Other important components in attracting high-tech included an educated workforce, a research university, and quality of life issues--part of the milieu of important things for consideration by the Task Force.

Dr. Schwer then referred to job growth forecasts for western states, and noted that Nevada was at the top of the list. Colorado had benefited from significant economic growth due to high-tech, particularly communications, and was second to Nevada in job growth. The poor performers were Washington and Oregon.

Dr. Schwer referred to the business community surveys that were conducted and noted that southern Nevadans were more pessimistic than in the past about the expansion of the national economy, but a slightly larger percentage believed that the southern Nevada economy would continue to grow through 2002. Nevada's labor market was initially impacted due to September 11. Companies were asked if hiring additional employees was anticipated, and a large percentage responded that new hiring would occur within the next three months. In response to a question posed by Mr. Sloan, Dr. Schwer said roughly 400 firms were surveyed, and the responses were by individual firm rather than the number of jobs. Dr. Schwer displayed the survey responses for the gaming industry--a substantial percentage expected a decline in 2002 in visitor volume and gaming revenues. UNLV had used not only econometric models, or impact models, but also used leading indicators and survey results in order to derive the conclusions about the outlook. The significant drop for 2002 indicated that business people were tightening their belts and expected, in terms of the gaming industry, a substantial decline in 2002. The majority of the respondents for the construction industry believed there would be a decrease in permitting activity.

Dr. Schwer continued his presentation and noted that one out of every five firms surveyed said their business activity had been significantly impacted by the events of September 11; one out of four had not been affected, and 55 percent had been moderately impacted. Nevada would not have significant expansion in hotel rooms over the next two years. Finance people expected that gaming stocks would be adversely affected because new rooms would not be occupied, but the results showed the rooms were built and occupied. Occupancy fell off the chart after September 11. Dr. Schwer pointed out that southern Nevada was not immune to national and world events. The Task Force might want to recommend that gaming numbers be reported on an inflation-adjusted basis. The national Gross Domestic Product (GDP) numbers were adjusted for inflation, but gaming revenues were not. Because inflation had not been netted out, a number of people would make the assumption that gaming revenues were much larger than the GDP. Gaming revenue in Nevada declined in 2001.

Dr. Schwer said all of the information included in his presentation was contained in *The Economic Outlook*, a document published every six months by UNLV.

Dr. Schwer referred to local economic weaknesses: U.S. recession, no new major property openings, and concern for safety. Local economic strengths included a competitive business environment and a world-recognized destination resort. Population growth in 2000 in Clark County was in excess of 5 percent and was expected to drop significantly in the future. By 2035 the population growth percentage would be close to the national level. Dr. Schwer voiced his belief that the tax and expenditure issues should be a reflection of participatory democracy and not a select group. Dr. Schwer said there was no optimal tax system--each system had its own strengths and weaknesses. It was important for the Task Force to look at both expenditures and taxes when discussing tax policy. There had been a great deal of focus on quantity and quality and, as Chairman Hobbs had mentioned, enhancements. Competition and technological change were critical in looking to the future. Dr. Schwer concluded and projected that the short-term outlook included a recession, the mid-term outlook included a recession and a recovery, and the long-term outlook was positive, with Nevada moving toward national trends.

Chairman Hobbs thanked Dr. Schwer and said the information provided was critical as the Task Force looked at the range types.

Ms. Garcia-Mendoza said she was extremely interested in Dr. Schwer's presentation and would like to receive a copy of the publication referred to earlier, *The Economic Outlook.*

Dr. Glen Atkinson, UNR, thanked the Task Force for the invitation to present and wished the members success in their endeavor. Dr. Atkinson said he would be discussing long-range forecasts. The state General Fund was less than 40 percent of total state spending, and local government spending and revenues were intertwined with state budget policy in a very complex fashion. Anything the Task Force considered would have to take into account the non-General Fund spending for the state and any changes the members would propose that would impact local governments. The long-term question was what drives revenues and what drives spending and how revenues and expenditures would change over time? Because the future was going to be somewhat different than the past, it would not be beneficial to go very far back in history in making projections. The spending side was determined by the kinds of population; i.e., school age children, retirees, affluent retirees, Medicaid retirees, etc.

Dr. Atkinson understood that the Task Force was charged with determining what drives revenues. Taxes are comprised of three components—the tax base, the tax rate, and the tax revenue. The Task Force needed to pay significant attention to the tax base. On the expenditure side, the members should discuss the kinds of revenues and rates needed. Because of Nevada's narrow tax base, rates had to be high. Over the long run, it would be better to have a wide base and low rates. The second federal tax reform passed during the Reagan years reduced "loopholes" and broadened the base in order to reduce rates—"people respond to reduced rates." A more equitable tax system would include everyone in the base and would produce a more stable system. A chart presented by Mr. Anderson earlier in the meeting reflected General Fund revenues as a share of personal income over the decade of the 1990's and showed the revenues trended down. The tax base should be connected to the economic base, but currently Nevada's economic base and tax base were drifting apart. One factor in creating a structural deficit was a tax base that did not reflect the economic base, resulting in the need for higher rates to fund revenue needs. Nevada's revenue structure was developed for a tourist economy and worked well in the past, but in order to diversify the economy, a tax base must be developed that would capture the economic activity.

Dr. Atkinson noted that almost every state had taken on the charge given the Task Force. West Virginia was one of the first states to address the tax base, and had conducted studies that resulted in a report that referred to taxing a "weightless economy." The economy was becoming services oriented rather than commodities. Commodities are taxed under the current tax structure. As Nevada moves toward a service-based, high-tech economy, the economic base will change. For example, goods were something less than 40 percent of Nevada's Gross Domestic Product (GDP) and services were more than 60 percent of the GDP. Room taxes, gaming taxes, and the insurance premium tax were all taxes on services, and some taxes on services were earmarked to non-General Fund government programs. Dr. Atkinson pronounced that Nevada's property tax should be called a real estate tax rather than a property tax. The value of property was increasingly in actual property. Dr. Atkinson emphasized the importance of levying taxes in the most equitable and efficient way to generate needed revenues.

Dr. Atkinson voiced concern that during each legislative session almost daily a new tax was proposed. The recommended new taxes were usually proposed on such a narrow item that little additional revenue would be raised. There are really only three revenue sources that the state has: property, broadly defined; sales, broadly defined; and income. The accounting of special industry taxes, such as gaming, distorted Nevada's revenue picture. Dr. Atkinson suggested the members look at the mix of property, sales and income taxes, and then define property, sales, and income, to determine how to structure a balanced program. Dr. Atkinson acknowledged there were some constitutional and legal limitations and emphasized that a tax should not be harmful. A sales tax not only affected retailing, but also impacted businesses purchasing goods. Dr. Atkinson used as an example a northern Nevada company that had to replace their equipment every three months and, even though there was no state income tax, did not like the high sales taxes. A startup firm would love an income tax and no property tax and low sales taxes. Nevada's tax structure had been business friendly, but it had not been friendly to all businesses. The tax base should grow with the economy and be structured so that it is business friendly. Growth and stability needed to be balanced and was the reason most states had a mix of taxes--some grow with the economy and fall fast with the economy, and some do not grow as fast with the economy and do not fall as fast. To change the economic structure, the Task Force had to be aware of the effects of the revenue side of the ledger.

Chairman Hobbs asked if any members had any questions and thought Dr. Atkinson had touched on one thing that the Task Force would undoubtedly be coming back to, and that was, in the near term, to address any identified problems. Were the bases established for property and sales tax adequate or reasonable for a changing economy, particularly to certain areas of trade on the sales tax side and also on the assessment side on property tax?

Dr. Atkinson reiterated that more and more purchases were services rather than goods and noted that it might be the appropriate time to discuss broadening the sales tax base to include services. The original sales tax structure was designed during a period of a commodity economy. Dr. Atkinson then stated there were a number of property tax issues. One was the current depreciation formula included in the property tax, which resulted in varying impacts. Clark County was not affected as greatly due to its rapid growth. However, in the future, hotels that were built in the 1990's would not generate sufficient revenues because of the depreciation formula. Dr. Atkinson reflected that in the past a computer system required several rooms in a building and was classified as capital equipment. Currently, the value was in the software of the individual personal computers. Dr. Atkinson emphasized that local governments provide numerous services, some mandated by the state, and should be part of the purview of any study. In conclusion, Dr. Atkinson encouraged the Task Force to look at expanding the sales base and the property base in a meaningful way.

Chairman Hobbs said the committee would address agenda items VI, VII, IX and X and would then consider whether or not to go forward with item VIII or postpone the item until the next meeting.

Chairman Hobbs recognized Mr. Ken Mahal, Nevada Seniors Coalition. Mr. Mahal noted that the Chairman had indicated that real estate tax was hindered by the depreciation factor. Mr. Mahal thought that Clark County had found a way around the depreciation factor since his lot value had increased 72 percent. A number of his friends had increased lot values of 115 percent. On average, the increase was 14.5 percent. Mr. Mahal said the Task Force had not challenged any of the "whereas clauses" contained in ACR 1. As a representative of Nevada residents at the Governor's Task Force on Deregulation, Mr. Mahal had suggested that if deregulation was to be allowed for the big power users, a non-profit buyers' cooperative should be allowed for the consumers. The deregulation committee showed no interest in the proposal. Mr. Mahal maintained that people on fixed incomes were greatly affected by rising energy costs as were the gaming and mining industries.

Mr. Mahal said individuals who had died as a result of smoking-related illnesses in Nevada were costing those who paid insurance premiums between $750,000 to $1.5 million. He encouraged the Task Force to recommend to the Legislature that the use of the tobacco settlement money be reconsidered and to consider a supplemental insurance policy that would cover the people at risk from smoking. Mr. Mahal suggested a revolving fund be considered for the Millinieum Scholarships.

Mr. Mahal referred to Dr. Atkinson's comment regarding taxing services and said placing taxes on doctor bills and other services would "result in a revolution."

Chairman Hobbs interjected and reminded Mr. Mahal that the Task Force was trying to encourage and accommodate as much public comment as possible at the end of each item and that any comments needed to be specifically germane to the item just discussed.

Mr. Mahal assured the chairman his comments would be related to the last agenda item discussed and said the economic outlook and long-term implications for Nevada's fixed income taxpayers and their reality in this time of disastrous economic downturn had not been addressed. Mr. Mahal continued his testimony and read from prepared text (Exhibit J):

> There are about 400,000 people in the state living on fixed income or about 25% of the population and growing. A large percentage of this age group has been living on fixed income for 15 or more years. We do not know of any tax they are exempt from in Nevada and they pay over 45% of their tax for education costs.
>
> Those on fixed income or as we say it "the savers" have been devastated by the failed policy of the Federal Reserve where a C.D. now pays 60% less than a year ago. Think if that happened to you. No one can survive on that return and will be forced to use up their life savings. It was stated yesterday on CNNFN that 65% of single elderly women are already living in the poverty class. At the same time income is devastated, costs are on the rise from 14% to 23% and more for the likes of health insurance, prescription drugs, real estate taxes, smog tests, auto insurance, telephone, electric energy 50% and more. Keep in mind that many thousands of the WW II retirees by and large have asked very little of this state and have more than carried their fair share of the tax burden and do not need some trumped up story by a bunch of educrats that never saw a dollar they couldn't waste. We are prepared to prove that statement at a later date.
>
> We recently wrote to Economist Larry Kudlow and reminded him the story of 2001 is more than several million laid off workers because of 9-11 and that the major story not being told was about the silent 40,000,000 on fixed income who have been devastated by a failed Greenspan economic blunder. The Wall Street Journal ten days later covered the Big Squeeze alluding to the fact that the fixed income population is being devastated by that policy and interestingly enough it includes comments from the thought to be wealthy in Green Valley and the Anthem area of Las Vegas. It also covered the new debt being taken on by seniors.
>
> National economists are predicting Las Vegas will take until mid 2004 to see the labor force back to pre 9-11. And MGM Mirage and Park Place are junk bond status. Think about it. What we need in this state is the way to save a billion dollars not spend it and we will seek a signed agreement from every candidate in the fall election. Again your best action is to abandon this flawed task force.

In light of Mr. Mahal's comments, Mr. Lange suggested it would behoove the members to ask the Technical Working Group to build an accurate database relative to Nevada's senior population. Having spent the previous ten years in

Florida with a large number of seniors and having many conversations along the way, Mr. Lange found there were often outdated notions of areas like income distribution, average income, and working retirees. There needed to be some kind of understanding of the tax load on seniors living on fixed incomes, as well as those seniors whose incomes were tied to the ups and downs of the economy. The members needed an accurate picture of the impact their recommendations would have on the senior population, in addition to the working people, the children, and other demographics areas.

Mr. Sloan voiced his concern with receiving public input after each presentation due to the time constraints the Task Force was under. He noted that Mr. Lange had a good suggestion regarding the demographic considerations, but did not think the members should address the issue until a demographic report was received from the Technical Working Group. Chairman Hobbs duly noted Mr. Lange's suggestion and reminded everyone in attendance that there were eight additional items scheduled for the current agenda. He hoped to address as many items as possible while still being accommodating.

Presentation Regarding State General Fund Revenue Forecasts

Chairman Hobbs introduced Jeremy Aguero, Technical Working Group representative, to address agenda item number VI.

Mr. Aguero began his PowerPoint presentation (Exhibit K) and referred to the review and analysis of the state General Fund revenue forecasts. Since Mr. Anderson had already addressed a great deal of the information, Mr. Aguero intended to go through the presentation with as much speed as possible. The revenue forecasts included historical data from FY 1990 through FY 2001, and the projected data included FY 2002 through FY 2010. The group had extracted historical data from the general ledger of the state General Fund and from legislative appropriations reports and had created a database of state expenditures. Key steps in the analysis included the data collection process and an analysis of significant relationships, and that data was compared against population growth, employment growth, visitation growth, full-time equivalency (FTE) population adjusted to reflect visitation factors, gross domestic product, total personal incomes and average incomes, and a number of other variables. Performance trend projections were then undertaken and analysis and refinement were pending. The group had tried to establish a series of baseline projections to bring to the members to review and use as a starting point. Mr. Aguero noted that intergovernmental transfers were difficult to project and also remarked that the projections did not include the full impact of September 11. The Technical Working Group was the end user of the data presented by the economists that addressed the Task Force earlier in the meeting. The group would try to keep the members informed of the assumptions being used. Preliminary findings indicated there was a revenue gap between where the revenues had been historically on a per capita average basis, and where the revenues were expected to be. At the current level of service, the revenue gap was projected to be from $50 million to $150 million.

Chairman Hobbs asked Mr. Aguero if the revenue gap could also be described as a reduction in per capita revenue in the future on a constant purchase power basis. Mr. Aguero answered in the affirmative. There had been a question earlier about what inflation terms were being used. The group had switched all of the analysis to reflect the deflators that were used by Mr. Anderson--the GDP product deflator.

Mr. Aguero said that the key analysis variables were population, employment, unemployment, income, gross state product, and visitation and development. Additional data would be needed for refinement. The information provided for Clark County was vastly more detailed than the data that could be collected from northern Nevada communities, specifically the rural communities. The smaller size of the rural communities resulted in smaller impacts, but the group was working closely with the state to try to refine the data.

Mr. Aguero said state General Fund revenues, on an inflation adjusted basis, were expected to continue to grow, but not at a pace that would outpace inflation or population growth. The ten-year historical average was $643 per capita and the average for FY 2010 was projected to be $609 per capita—a revenue gap of $34 per capita with a population estimate of 2.6 million, which equaled a total revenue gap of approximately $90 million. The estimates would change depending on the rates of inflation and assumptions used.

Mr. Sloan asked about efficiency of scale; i.e., more people would require fewer funds to build a road. Mr. Aguero said that the only economies of scale data the Working Group had looked at dealt with education and the size of school districts. Economies of scale with regard to sizes of individual communities would be reviewed in the future. An earlier review had not been feasible due to the size of the data set—350,000. Mr. Aguero continued his presentation and referred to the per capita funding gap chart, which addressed the gap under three different inflation assumptions, and noted that inflation was lower at 2 percent and higher at 3 percent.

The revenue estimates included existing programming levels, under stabilized conditions. The estimates did not assume that the economy would take a dramatic dip, nor make an instant recovery, and did not include the program enhancements for K-12 education, Medicaid or the University System. An assumption was made that whatever it cost to currently provide education on a per pupil basis would be the cost later adjusted for inflation. Notable per capita trends included: (1) a decline of 1.6 percent per year in gaming fees as the population growth outpaced the growth in visitation and the expansion of gaming; (2) retail sales were expected to increase by .2 percent per year. Mr. Aguero thought the focus of the Task Force was to look at all revenues and sources of revenues, not merely the state General Fund.

Chairman Hobbs said the strongest inference to be drawn from the presentation, recognizing first that the analysis was for the revenue side only, was that the gap, based on the assumption that the same amount of revenue on a constant purchase power basis would purchase in the future what it currently purchased, would be between the $50 and $150 million range with a finger pointing strongly at $90 million. Mr. Aguero noted that by 2010 the fiscal year projections for total revenue, not adjusted for inflation, were $2.539 billion, slightly higher than the low numbers presented by Mr. Anderson, but slightly lower than his mid projections. Chairman Hobbs said the presentation gave added confidence to the range being discussed.

Presentation Regarding State-to-State Revenue Composition Comparisons

Mr. Aguero referred to the state-to-state revenue comparison (Exhibit L) and noted that the Task Force had requested the information at its last meeting. The Working Group had used the Census of Governments data and looked at the state level and the state and local levels combined. The slides were grouped into general categories for comparative purposes. Mr. Aguero said the federal government collected data from all 50 states and all communities around the country, and noted it was difficult to classify one tax. For example, the federal government grouped sales and gross receipts taxes, and the Working Group wanted the two taxes separated. Total revenue data was collected and then summarized and analyzed. The data included the national level, the west coast level, and state-to-state averages. There were three different criteria—per capita, per employee, and per thousand dollars of income. Per capita estimates were not adjusted for visitation.

Mr. Aguero referred to total own-source revenues, revenues generated by the tax collecting or the charging ability of a state. Items like intergovernmental transfers were extracted. Total own source revenues collected at the national level was $540 billion, $134 billion in the western states, and $3.72 billion in Nevada. Per capita averages were $1,921 at the national level, $2,178 in the western states, and Nevada ranked 30 out of the 50 states at $1,860 per capita.

Mr. Sloan noted that the own-source revenue numbers were total tax revenues collected divided by the population. Mr. Aguero agreed and said the numbers had nothing to do with the individual tax burden, but were taxes collected on a per capita basis. Mr. Aguero had been asked why Nevada was under the U.S. per capita average but over number 25, and he explained that because the number was a weighted average, some of the states with larger populations pushed the average up. Chairman Hobbs understood that if visitation was factored in, Nevada's ranking would be pushed downward. Mr. Aguero agreed and recalled that the Working Group had estimated inclusion of visitation would drop Nevada to number 25.

Mr. Aguero continued with his presentation and stated per employee averages were $4,083 in the nation, $4,856 in the western states and $3,518 in Nevada. Nevada's per employee average fell due to having one of the highest employment-to-population ratios, estimated at 53.5 percent. Across the United States, 47 percent of the population participated in the work force. Per $1,000 of income, the U.S. average was $69.52, the western states average was $78.24, and Nevada was at $66.23, placing Nevada at 19 out of the 50 states.

The Working Group had been asked to look at the western states due to their similarity to Nevada. Nevada ranked about seventh in per capita revenue out of all the western states and ranked second per employee and in per $1,000 of income in the western states. The group also looked at major revenue sources in the U.S. Mr. Aguero explained that general sales taxes included general sales and gross receipts; selective sales taxes included alcoholic beverages, amusements, insurance premium taxes, pari-mutuels, public utilities, tobacco products, and other selective sales. The western states looked very similar to the U.S., however, property taxes represented a slightly higher percent. Nevada did have a greater dependence on general sales tax, which included gross receipts.

The Working Group had looked at total taxes per capita and created a series of charts and maps for the Task Force. The data was based on a per capita basis but data could be presented on a percentage basis if the members so desired. Mr. Aguero commented that Ms. Garcia-Mendoza had requested that the group look at the individual rates. The information was available, but the group had not ranked the individual rates because the bases were all different, and the results might be misleading. After creating some of the charts, Mr. Aguero thought a better way of presenting the information might have been on a percentage basis of total bases. Mr. Aguero advised the members that he did have the table available in case there were questions.

Mr. Aguero then referred to the maps included in the presentation and said that for each of the taxes, the darker the green shown on the maps represented the higher the per capita amount. Alaska and Hawaii were not shown due to limited space. Alaska was very often dark green in color due to its high per capita amount and that was why often only lighter green colors were displayed on the maps. Mr. Aguero said he would be happy to provide the committee with any information on Alaska and Hawaii.

- Total Taxes Per Capita--the minimum was $1,200 per capita; the maximum was $300 per capita.
- Property Taxes Per Capita--the minimum was zero; the maximum was $700 per capita.
- Sales and Gross Receipts Per Capita--the minimum was $200; maximum was $1800, with a midpoint of $1,000.
- Insurance Premium Taxes Per Capita--the minimum was $10; the maximum was $70.
- Amusement Taxes Per Capita-- the minimum was zero; the maximum was $360--Nevada was at the top.
- Motor Vehicles Taxes Per Capita—the minimum was $20; the maximum was $220—the western states had a higher dependence on motor vehicle taxes than several of the eastern states.
- Utilities Taxes Per Capita--the minimum was zero; the average was $60; the maximum was $120. Several of the eastern states used utility taxes to a much higher degree than the western states--Washington and Montana being the greatest in a comparative subset.
- License Fees Per Capita-- the minimum was $40; the maximum was $1,000. All types of licenses were included. Among the western states, Arizona, Utah, and Colorado had a lower dependence on license fees.
- Amusement License Fees Per Capita-- Nevada was very strong--zero the minimum; $50 the maximum.

Mr. Aguero noted that all the data were on a normal categorized level with the midpoint being the center. In the charts with asterisks a logarithm scale was created to enable members to have a better sense of other states using a particular tax, even though the tax was extremely low. In the amusement license fees per capita chart, the midpoint goes all the way down to 30 cents per capita. Mr. Sloan asked about the purpose of the amusement license fees tax, and Mr. Aguero said he would check and get back to Mr. Sloan.

- Corporation License Fees Per Capita--again a logarithm scale was created. The low-end was $40; the mid-green range was up to $167, and the darker green approximated the top at $700 per capita.
- Motor Vehicle License Fees Per Capita--the low-end was $20; the high-end was $220--This chart goes back to a normal scale.
- Motor Vehicle Operators License Fees Per Capita--the low-end at zero; the high-end being $12 per capita per year. Out of the western states, Arizona, Utah, and Colorado had less dependence.
- Individual Income Tax--In the west, Washington, Wyoming and Nevada do not have an individual income tax. California and Oregon have a relatively high income tax, and the other western states were in the middle. The low-end was zero; the high-end was $1,500 per capita per year.
- Death and Gift Tax—the minimum was zero; $110 was the maximum. Out of the western states, Wyoming relied more heavily on the Death and Gift Tax.

Mr. Aguero reminded the Task Force that the previous discussions addressed state level data only and said he would address a combination of state and local revenues, which represented a huge additional dollar set.

- Total own-source revenues—In the U.S, $1.1 trillion; the western states, $259 billion; and Nevada generated $7.8 billion per year at all levels.
- Per capita averages—U.S., $4,270; western states, $4,357; Nevada was considerably lower at $4,189.
- Per employee averages—U.S, $9,035; western states, $9,785; and Nevada was significantly lower at $7,711.
- Per $1,000 of income averages—U.S. $157.62; western states, $161.94; and Nevada, $145.82.

Mr. Aguero referred to three bar graph charts and explained that the members needed to note that the data shown on the graphs were not necessarily comparable because the state-level data was for 2000 and was produced by the Census of Government; the data produced for the combined state and local levels was 1999 data. Another fact to be considered was that the federal government tended to dramatically underestimate Nevada's population. The Working Group had used the census number provided so as not to "rebase" the entire analysis. The 1999 number was 1,809 million, which would have had to make the assumption that Nevada was growing at a 20 percent growth rate just to catch up to the census. Adjusting the numbers to Nevada's actual current population would result in Nevada being number one or two, which was totally consistent with the per employee basis where Nevada ranked number one in the lowest per employee burden out of the western states. Nevada also ranked number one in per $1,000 of income.

Mr. Aguero reviewed three pie charts that detailed major revenue sources for the U.S., the western states, and Nevada. The revenue sources for the U.S. and the western states were very similar, however, Nevada was different--having no corporate tax, no individual income tax, and license fees were less--selective sales and general sales made up the difference.

Mr. Aguero referred to numerous maps remaining in the presentation and asked if the members were interested in his reviewing each map? Chairman Hobbs thought it would be sufficient if the members had a complete set of the maps.

Mr. Aguero skipped to the end of his presentation and restated that no two states, cities or communities were exactly alike. All tax systems, although different, had advantages and disadvantages. There were significant differences between state and local revenue systems, which created some specific difficulties that members would be addressing in the future. Mr. Sloan said he had often heard that Nevada had a unique economy and way of life and supported a unique tax system, however, he did not know what was unique about having schools, prisons, and people on Medicaid. He did not think that the needs of Nevada's citizens were so much different than people in the other 49 states. Mr. Aguero said that on the demand side, Nevada was extremely similar to other states. However, on the supply side, Nevada's legalized gaming contributed significantly to the state's tax base, providing opportunities that other states might not have. Mr. Sloan agreed that Nevada was unique when gaming was legalized in 1931, but currently 40 other states had legalized gaming.

The Chairman noted that a map of Nevada with similar kinds of considerations used in Mr. Aguero's presentation would have areas that were quite green and areas quite without color because of the various local economies, i.e., Clark County versus White Pine County and Mineral County. Members of the Task Force needed to remember that the purpose of the committee was to study tax policy within the state of Nevada, obviously using the comparative information to arrive at some benchmarks. Some of the differences that existed between and among counties were quite pronounced. One of the things discussed at the last meeting was the reliance of some of the counties on centrally assessed property, net proceeds of mines, versus other types of property, or how much of a retail tax base some counties might have relative to others. Mining was another area that affected certain counties, both positively during some periods of time and also created some unique challenges during other periods of time. Mr. Aguero said the Working Group would do its best to bring the Task Force whatever data could be gleaned from what was available.

Chairman Hobbs said Item VIII would be trailed at this point, and moved to Item IX.

Mr. Fields interjected and referred to the value of all the information that Mr. Aguero and other speakers had brought forward and wondered if it was possible to have the material available on a Web site.

Chairman Hobbs said Mr. Aguero had developed a Web site for the Task Force. The Web site was originally talked about as a way of sharing information with the members as an alternative to the emailing that had been done in the past. There was a distinction between work papers that might be shared in advance of a meeting for discussion purposes and those put into the record during a public meeting. The intention was not to hide anything. The

Chairman indicated items that could be placed on the Web site would be those things that had been entered into a public meeting and suggested some type of user name and password system for other work products
.
Mr. Aguero noted that the current system was relatively basic and a password and user name system had been created that allowed the Task Force and Working Group to log on and review information. The difficulty was having the time and staff to maintain a system.

Presentation Regarding Comparative Education SpendingPatterns

Mr. Aguero stated that the Working Group had analyzed the fiscal comparison of Nevada's K-12 education system. A similar analysis would be made on the prison system, Medicare, and other systems. Mr. Aguero said the analysis of education created more questions than answers. Some of the education information distributed to the public was supported by analysis, and some was contradicted by analysis. The Working Group was looking forward to receiving additional information from the State Department of Education and other education-related groups to help in the refinement of the analysis and generate a final study for the Task Force. The current presentation was merely the beginning of a very long process and was not in any way, shape or form to be the end all, be all, of the group's comments on education.

Mr. Aguero began the PowerPoint presentation (Exhibit M) and said the question presented was how Nevada's education system compared to that of other states from a fiscal standpoint. Data was collected on 15,000 school districts using data collected annually by the U.S. Census Bureau Public Schools Data Set. The data was specific to the 1998-1999 school year. A comparative analysis was done at the national, state, county, and district level. The district-level data was extremely complex. The county data looked at 3,119 counties across the nation. Those data were then aggregated back up to the state to look at national comparisons and then a state-to-state analysis. The analyses had to be refined and were far from being final.

Income, spending, and operational data were collected for the 15,000 school districts. These data were extremely detailed, everything from total students to how many students participated in various types of programs. Education funding was relatively complex, with federal, state and local elements. The Working Group looked at state spending, total spending, per-pupil spending, and looked at national and western states rankings. Data was also reviewed from the State Budget Office, the State Department of Education, the U.S. Department of Education, Federal Consolidated Revenue Report, American Federation of Teachers, and the National Education Association.

Mr. Aguero said there were preliminary indicators that some additional analysis needed to be completed and referred to the analysis of supplemental and supporting trends.

- Economies or diseconomies of scale—Clark County School District, one of the largest school districts in the nation; Esmeralda County School District, one of the smallest school districts in the nation.
- Federal funds analysis.
- Distribution of funds among the counties
- Student-teacher ratios
- Student-administrator ratios

Those elements were used to balance and analyze data.

- State spending on education—the amounts reported as being spent on education of $18.8 million in FY 1990 and $43.1 million in FY 2001 were low. The Working Group had initially looked at the data reported for support of education in the Comprehensive Annual Financial Report (CAFR) issued each year by the State Controller's Office. In that report, education data was largely included in intergovernmental transfers. The group was currently working with the State Controller's Office to extract the education data going back through history.

- State per capita spending on education adjusted for inflation expressed in 2001 dollars increased from $19.40 in FY 1990 to $22.08 in FY 2001.
- State spending on education as a share of total state expenditures was 1.1 percent in FY 1990 and declined to 1.0 percent in FY 2001. The revenue figures represented a small part of the problem and a great deal of analysis was still needed.
- Comparative analysis—Mr. Aguero thought the comparative analysis was what the Task Force needed to review during the current meeting. Total spending on education in the United States, $45.8 billion; the western states, $9.3 billion; and Nevada, $2.3 billion annually. In an effort to make the data comparable the data had been categorized by the federal government, making the data relatively similar.
- U.S. average per-pupil spending in the United States, $7,795; the western states, $6,980; and Nevada, $7,389.

Mr. Aguero deviated from the PowerPoint presentation and noted that the average per pupil amounts had been reported at $5,000 per capita and $3,000 per capita, and there were some gaps. Based on the total expenditure data collected by the Working Group, Nevada was $406 below the national average compared to the nation as a whole, but $410 over the average compared to the western states. Nevada's current spending on education programs, including salaries for instruction and for support services, operation and maintenance of plant, etc., was approximately $1,000 under the national average. At the national level, the U.S. spent $6,579 per pupil for current expenditures, the western states spent $5,871, and Nevada spent $5,614, which Mr. Aguero guessed was the source of the $1,000 gap. Using the same data, the gap was reduced to $257 per pupil per year behind the western state's average. If capital outlay had been included, Nevada would rank number one in the nation.

- Federal funding per pupil. Mr. Aguero emphasized that expenditure data for education could not be discussed without addressing federal funding. In 1999 Nevada ranked 49th out of the 50 states in federal funding—the U.S. average was $521, the western states was $590, and Nevada received a very poor $296—49th out of the 50 states.
- Federal funding as a percentage of total—U.S., 7 percent; western states, 8 percent; Nevada, 4 percent.

Ms. Garcia-Mendoza said the numbers included in a report that was to be presented to the Task Force by the Superintendent of Public Instruction were rather different than the numbers reported by Mr. Aguero. Mr. Aguero had also noted the discrepancies in the department's report and reiterated that the Working Group and the State Department of Education staff needed to work together to develop accurate numbers. If the federal government was not classifying something correctly, the group would adjust the numbers and return to the Task Force with a revised report. Mr. Aguero emphasized that the numbers presented were preliminary numbers.

Mr. Sloan requested an explanation of Nevada's poor performance in terms of receiving federal funds. Mr. Aguero said the Working Group had the same concerns. Mr. Sloan did not think there could be a formula that would give Nevada less, but Mr. Aguero said it was possible if Nevada's population was being underestimated. The 1990 census had underestimated Nevada's population by 34,000, and by 1997, that gap had jumped to 183,000. Nevada also received less because the per capita income was expressed at a higher level than the national average. The federal government established the per capita by dividing total business receipts by the population. Because low population numbers were used, Nevada had a higher than average per capita amount. Mr. Aguero felt the federal funding issue could not be narrowed to any one problem and emphasized that much more analysis was needed. The fact there was less of a federal presence in Nevada also tended to bring fewer federal dollars.

Chairman Hobbs asked if the impact of the new census was taken into account by the trending analysis reviewed earlier in the meeting. Mr. Aguero responded in the negative and stated the question was excellent. Because much of the analyses were done at the status quo, and intergovernmental transfers at the General Fund level were extracted from the analysis, federal dollars coming into the system were not necessarily reflected. Mr. Aguero doubted that additional federal dollars were reflected in the projections made either by Mr. Anderson or the Working Group. Chairman Hobbs commented that not reflecting those in the projections would be on the revenue side of the projections and more than likely, an understatement.

Mr. Aguero said in FY 1990 Nevada was undercounted by 34,000, that number jumped to 111,000 in 1994, and by

1997 it jumped to 183,000 causing a compounding growth problem. If the census projections reported by the federal government were compared to those that Mr. Hardcastle of the State Demographer's Office was currently reporting, Nevada had also been undercounted in FY 2000 by 48,099, which meant the exact same problem would occur ten years from today. Chairman Hobbs said he did not want to necessarily restate the obvious, but a census problem could be a very significant point in addressing portions of the gap. Mr. Aguero said he could not draw a conclusion until the analysis was completed.

Ms. Garcia-Mendoza referred to the western state percentage of federal funding (8 percent) as a percentage of total and wondered if perhaps California skewed the number. Mr. Aguero said he did not currently have the answer but would take a look at the data and report back to the Task Force.

Mr. Aguero referred to a slide that contained a map that illustrated the share of education funding coming from state, local and federal sources in all the surrounding states. California appeared to receive a higher share of federal funding than the other western states, however, Arizona, Montana, Wyoming, and New Mexico, all seemed to have quite significant numbers. Chairman Hobbs said it appeared other western states were similar to California. However, Nevada appeared to receive less federal funding than any of the surrounding states.

Mr. Aguero said he would provide the members with a one page summary table that ranked Nevada out of the 50 states and showed the gap and its magnitude in each case. Several additional steps had been discussed and those needed to be completed in the analysis. There were diseconomies of scale in the small school districts, but there also seemed to be some diseconomies of scale in very large districts, so it is a parabola, it is weighted to the right, but it is a parabola and should be analyzed. The interplay of education funding had the potential to create a double impact and would be very important to review later. The General Fund allocation to K-12 education was based on additional needs after local and federal sources were included in the calculation. The local contribution to education declines if retail sales and use taxes decline, which then means that the General Fund portion becomes increased with less available dollars. There is a double impact that needed to be refined.

Mr. Lange thought the Working Group was on the right track and thought there were two other federal funding areas to explore; the means testing used to compare to other states—the population group eligible for federal programs on the basis of income. Whether a student was eligible for free or reduced lunch was often a criterion for federal funding. The other area to explore was the grant possibilities and the ability to access those grants vis-à-vis sufficient resources already in the mix. Mr. Aguero acknowledged that many of the grants had seed dollar requirements. Mr. Lange used as an example the fact that Clark County School District had purchased a new telephone system in anticipation of a one-for-one dollar match from the E-rate program. Mr. Aguero stated the Working Group would be happy to look at the two additional areas.

Knight Allen, private citizen, said he was very pleased that the Task Force recognized the federal funding problem. The system was horrendously tilted toward the five fastest growing states--Nevada, Arizona, Colorado, Utah, and Idaho. Mr. Allen thought that Senator Ensign and Senator Reid of Nevada had added something into the education bill, recently signed by President Bush that would change the formula to help fast growing states. The Task Force or Working Group needed to determine if the change survived the process, and, if it did, how Nevada would be affected.

Mr. Allen was concerned that the Nevada Legislature had been unduly criticized for under funding education. As reported by the Nevada Reno Gazette Journal in September of 1999, when federal funding was removed and the United States Census Bureau's spending patterns for the states were reviewed, Nevada ranked somewhere between 5th and 15th in per capita spending per child. Mr. Allen contended that the Nevada Legislature was not short-changing the children of Nevada. Mr. Allen did not want the Task Force to recommend tax increases to make up for a per pupil shortfall of $1,000.

Chairman Hobbs interjected and said the Task Force was not recommending tax increases but was currently trying to identify numbers and statistics that would provide a better understanding of the direction the members needed to take.

Ken Record, private citizen residing in Las Vegas, stated he had served as a school board member in another state and commended the members and Working Group for taking steps to find real deficiencies, potential earnings, and potential income, etc. In 1980 in California, it took a committee of school board members, largely from business backgrounds, two years to find a formula to compare school district funding and budgets. Mr. Record had contacted

Senator Ensign's local office and was told that the growth protection issue had been addressed in the new education bill. Mr. Record seconded Mr. Allen's suggestion that the Task Force obtain a copy of the legislation and run the numbers as soon as possible based on that legislation.

Presentation Regarding Historical State General Fund Spending

Mr. Aguero continued his PowerPoint presentation (Exhibit N) and said that the Working Group was not yet looking heavily into expenditures, but was focusing a great deal of time reviewing and projecting revenues. The process included historical data from FY 1990 through FY 2001 and projected data from FY 2002 through FY 2010.

Historical expenditure data was collected from the Comprehensive Annual Financial Reports (CAFR) and the state appropriations reports. The reports did not match and had to be reviewed in two different ways. The preliminary projection data was provided by the State Budget Office, which included the projections used by Mr. Anderson in his analysis. Inflation-adjusted General Fund expenditures compounded annual growth rate was 4.9 percent. By comparison, population growth was 5.2 percent and General Fund revenue growth was 5.3 percent.

General Fund expenditures over time increased from just under $800 million to just over $1.6 billion—somewhere between 30 and 40 percent of the total expenditures for the state as a whole. The inflation-adjusted expenditures also increased, which reflected the fact that Nevada's population had grown. The per capita expenditures had remained relatively stable over time, as had the inflation-adjusted expenditures.

Mr. Aguero continued his presentation and referred to total state revenues that had grown at a compounded annual growth of 5.7 percent. Operating expenditure growth was 5.8 percent. By comparison, the population growth was 5.2 percent, total state revenue growth had been 6.1 percent and state own-source revenue growth had been only 4.7 percent. Total state expenditures had also grown over time--$1.75 billion in 1990 and $4.1 billion in 2001. Total state expenditures had remained relatively stable at $1,520 per capita per year.

Mr. Aguero stated that analysis was pending on the revenue distribution because of the categorization realignment. Categories in the appropriations report had changed, some categories no longer existed, i.e., business and industry. The group was working to bring those categories back in alignment to provide ten years of General Fund appropriations expenditures. Health and social services programs were the biggest trend in state revenues and represented 48 percent of all operating expenditures—35 percent of total expenditures. Health and social services programs per capita expenditures had increased 40 percent since 1990 and total growth was 11 percent.

Mr. Aguero referred to the percent of change in per capita funding and said recreation and resource development had received 30 percent fewer dollars and health and social services had received 40 percent more dollars. The amount shown in percent change in per capita funding for education was not indicative of what Nevada spent on education and asked the members to extract that data.

In closing, Mr. Aguero stressed that it was much too early to draw any conclusions as far as expenditures, but wanted the members to know that the Working Group was collecting a great deal of information, both at the total level and the General Fund appropriations level. One trend that had to be considered was the preliminary expenditure estimates provided by the Budget Office, which seemed very high. The Budget Office had projected growth at the same population level at a compounded annual rate much in excess of total revenues.

Mr. Lange asked Mr. Aguero to go back to the previous slide and explain the support shown for education. Mr. Aguero said the education and support bar shown on the chart was from the CAFR line item and wanted the members to totally ignore the bar. In the CAFR report, education was included in the intergovernmental transfer category and the problem was going to be extracting the education numbers. The group would have to meet with the Controller's staff to resolve the problem. Mr. Lange asked if the members should go back to some of the earlier information that had been provided where dollar amounts for education were detailed? Mr. Aguero agreed and noted that the bar for education on the percent change in the per capita funding chart showed education and support had increased approximately one percent, which represented about $43 million of almost $1 billion provided to education each year. The conclusion drawn by Mr. Lange was that, on a per capita basis, Nevada had spent approximately the same amount for education over the last ten years—there had been very little increase. Mr. Aguero said he would hate to draw that conclusion, but the conclusion could be made that education and support, the 5 percent of the total education budget that represented, had remained relatively the same.

Presentation and Discussion Regarding the Preparation of a Working Model

Mr. Aguero stated that the Working Group was currently working on two distinct models. The first model would be an econometric model that would project both revenues and expenses and would allow the committee to make changes to assumptions, funding levels, levels of population growth, dependency on tourism, etc. The model would look essentially like a profit and loss statement for the state and would allow members to make different assumptions and see the impact. In addition to the base of revenue sources, there would be a series of additional revenue sources that would be included. Members would be able to see how changes in bases and rates would make differences.

Mr. Hobbs explained that the members would use the model when discussing alterations to the revenue or expenditure side to achieve a solution, and the model would provide an instant answer as to the outcome.

Mr. Aguero addressed the second model, which looked at case studies and how certain taxes impacted certain groups of individuals. The group had taken income data from regional sources, adjusted the data to reflect cost of living and salaries in Nevada, and then reallocated those costs. The group was going to try to review receipts generated by businesses, but obtaining an income statement for an average manufacturing firm was not something that would be relatively easy. However, there were some sources and the Working Group would provide the best possible estimates. The whole idea was to generate a baseline.

Chairman Hobbs asked if there were other comments from the Task Force and again thanked Mr. Aguero and other members of the Working Group.

Discussion and Possible Action Regarding Presentations for Future Meetings

Chairman Hobbs said one of things the members very much wanted to see on the next agenda was the issue of problem identification as the members described it under the assumptions. Refining the value would be extraordinarily helpful to establish the initial foundation. A great deal of other data had been requested during the meeting and the chairman assumed some of that could be shared as it was produced. Other agenda items would begin to deal with education and education-related items.

Public Comment

Mr. Allen said both Dr. Atkinson and Dr. Schwer had indicated that there was no such thing as a good or a bad tax system and no such thing as a good or bad tax. Mr. Allen disagreed and voiced his concern that the Task Force would propose massive tax increases. A bad tax was any tax rooted in coercion and compulsion, and a good tax was any tax rooted in choice. A good tax was the tax rooted in the free economic choice of a free person and was the key to a good taxation system and would draw a diversified economy if presented properly.

In response to a question posed by Chairman Hobbs, Mr. Allen said he respected everyone on the Task Force but was not too comfortable with the process. Mr. Allen was not happy with the underlying assumptions of ACR 1 and was fairly certain of the direction the Task Force was going. Mr. Sloan thought that Mr. Allen perceived a good tax as one he did not pay and a bad tax as one he paid, but that appeared to be a genuine American phenomenon, probably more pronounced in Nevada than many other places. Mr. Allen stated he willingly paid taxes as a citizen based on wants and desires, and that was the system that had given Nevada wealth and prosperity. The Task Force was encouraged to not walk away from the current tax system.

Scheduling of Future Meeting Dates

The date for the next meeting was left open until Chairman Hobbs consulted with the Technical Working Group. The Task Force would be notified of the next meeting date as soon as possible.

Mr. Fields carried an invitation to the Task Force to conduct one of the future meetings in Elko, Nevada. Chairman Hobbs stated a couple of meetings would also be held in Carson City, and members would be polled prior to scheduling those meetings.

Adjournment

Chairman Hobbs adjourned the meeting at 3:39 p.m.

Respectfully Submitted:,

____
Linda J. Smith
Secretary

Approved by:

____
Mr. Guy Hobbs, Chairman

____
Date

Copies of the exhibits mentioned in these minutes are on file in the Research Library of the Legislative Counsel Bureau, Carson City, Nevada. You may contact the library at 775-684-6827.