

**REPORT TO THE GOVERNOR
AND THE LEGISLATURE ON
FUTURE STATE REVENUES**

December 5, 2022

Senate Bill (S.B.) 23 (1993 Legislative Session) provided for the creation of an Economic Forum to forecast State General Fund revenues. The Forum, a panel of five representatives from the private sector with backgrounds in economics, business, and taxation, is required to adopt an official forecast of unrestricted General Fund revenues for the biennial budget cycle. A seven-member Technical Advisory Committee made up of Executive and Legislative Branch staff members as well as a representative of local government was also created in S.B. 23 to provide assistance and resources to the Forum.

The Forum must submit its forecast to the Governor and the Legislature by December 3 of each even-numbered year, and any revisions by May 1 of each odd-numbered year; however, if either of these dates falls on a weekend or a holiday, the Forum must submit its forecast no later than the second business day following these dates. The Governor must use the December forecast in developing The Executive Budget submitted to the Legislature, and the Legislature uses the May forecast in developing the legislatively approved General Fund budget during session.

This report includes the December 5, 2022, forecast of unrestricted General Fund revenues for Fiscal Years 2023, 2024, and 2025.

Methodology and Procedures

Based on the provisions of Assembly Bill 332 (2011 Legislative Session), the Forum is required to hold two additional informational meetings during each biennium to consider current economic indicators and update the status of actual General Fund revenues

compared to the most recent revenue estimates made by the Forum. These two informational meetings of the Forum were held on December 7, 2021, and June 9, 2022. These interim meetings allowed the Forum to receive regular updates on current economic conditions and the outlook for the state's economy while also tracking the actual FY 2021 and FY 2022 revenues against the Forum's May 2021 forecast. During these meetings, the Forum reviewed various economic indicators and received a series of presentations from Legislative Counsel Bureau staff and several Executive Branch agencies, including the Department of Taxation; Department of Employment, Training and Rehabilitation; and the Governor's Office of Finance.

Governor Sisolak appointed the five members of the Economic Forum in 2022 for a two-year term. These appointments include two members nominated by the leadership of the Senate and Assembly. The Forum has since held public meetings three times on October 13, 2022, November 14, 2022, and December 5, 2022, to complete its assigned responsibilities and duties regarding the approval of forecasts of unrestricted General Fund revenues for Fiscal Years 2023, 2024, and 2025.

The first meeting of the Forum on October 13, 2022, was devoted to organizing and reviewing the assigned tasks; reviewing the accuracy of forecasts prepared in December 2020 and May 2021; and determining a course of action for future meetings. The Forum also reviewed historical taxable sales and gaming market statistics and received presentations relating to Nevada's employment and unemployment outlook, the real estate market and regional economic outlook in Northern and Southern Nevada, the tourist and convention/trade show market, and the state's insurance markets.

During the November 14, 2022, meeting, the Forum received a presentation on the national, regional and Nevada economic outlook from Emily Mandel, Economist, Moody's Analytics (an economic consulting firm under contract with the state).

Additionally, at the November 14 meeting, the Budget Division of the Governor's Office of Finance (Budget Division) and the Fiscal Analysis Division of the Legislative Counsel

Bureau (Fiscal Analysis Division) provided preliminary projections and economic analysis for seven major General Fund revenues. The Department of Taxation and the Gaming Control Board also provided projections and analysis concerning the major revenues for which they are responsible to collect. In addition to the state agency information, the Forum received forecasts of gaming percentage fees and sales taxes from Moody's Analytics. The Forum also received forecasts of all non-major General Fund revenues developed by the Technical Advisory Committee for the Forum's review and consideration.

The Economic Forum reviewed the forecast information and requested that any updated forecasts and information be provided at the meeting on December 5, 2022. At that time, the Forum directed the Technical Advisory Committee to prepare forecasts for non-major revenues based on projections by individual state agencies, the Budget Division, and the Fiscal Analysis Division.

At the December 5, 2022, meeting, the Forum received revised forecasts and economic analysis from the Budget Division, Fiscal Analysis Division, Department of Taxation, Gaming Control Board, Moody's Analytics, and the Technical Advisory Committee, which were used to produce the binding forecast of all unrestricted General Fund revenue. A copy of the Economic Forum's official December 5, 2022, forecast is provided in the attached table. A final meeting of the Forum will be scheduled during the 82nd Legislative Session, on or before May 1, 2023, to make any necessary revisions to the December 5, 2022, forecast.

Economic Review

Following ten years of economic expansion following the end of the Great Recession, it was only a matter of time before the U.S. economy would experience some sort of slowdown – analysts and experts were beginning to predict that a recession would be likely at some point near the end of the last decade. The Washington Post reported in August of 2019 that nearly three-quarters of economists surveyed by the National Association of Business Economics expected a recession by late 2020 or early 2021.

What was not expected, however, was the cause of the recession that would eventually come in the first quarter of 2020. The concerns cited by the economists back in 2019, which were primarily the effects of tariffs on China imposed by the U.S. leading to a potential trade war between those two nations, would yield to the true cause – a global pandemic caused by a novel coronavirus that would be discovered in China in late 2019, but which had spread worldwide by the end of January 2020.

The resulting recession was deemed short by the National Bureau of Economic Research – the peak of the prior business cycle would occur in February of 2020, and the trough would come by April, making the two-month recession the shortest on record – but the effects were widespread and substantial. Within those two months, the national and international economy, due to travel restrictions, quarantines, and other policies affecting everyday life that would be imposed in an effort to slow the spread of the virus, would be severely affected.

Between the first and second quarters of 2020, the Bureau of Labor Statistics would report that nearly 20 million people in the U.S. would lose their jobs, and the national unemployment rate, which had been at 3.5% in January and February of that year, would skyrocket to 14.7% by April, as a result of measures taken throughout the country that would curtail the operations of certain businesses and other measures used to combat the spread of the virus.

To deal with the economic effects from the pandemic, the federal government, both under the administrations of Donald Trump and Joe Biden, would engage in several rounds of stimulus in 2020 and 2021. The first bill, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, would be approved by Congress and President Trump in March of 2020, and would provide nearly \$2 trillion in aid, including \$260 billion in increased unemployment benefits, including unemployment benefits to independent contractors who would otherwise not be eligible to claim unemployment; \$350 billion in forgivable loans to small businesses through a new Paycheck Protection Program; \$340 billion in aid to state and local governments; and \$300 billion in one-time cash payments to certain individuals and families who filed federal tax returns.

Congress and President Trump would add \$250 billion in funding to the Paycheck Protection Program in April of 2020, and another \$284 billion would be added to the program that December, at the end of the Trump presidency and following the election of President Biden. The provisions of the Consolidated Appropriations Act, 2021, which were signed by President Trump on December 21, 2020, would additionally extend many of the unemployment programs approved under the CARES Act, as well as providing a second round of stimulus checks to certain Americans, at a total cost of approximately \$900 billion.

After Biden would take office, a third major COVID stimulus bill, the American Rescue Plan Act of 2021 (ARPA), would be approved, being signed by Biden on March 11 – the one-year anniversary of the World Health Organization's declaration of the COVID-19 pandemic. ARPA included an extension of the unemployment benefits approved in the CARES Act, which were set to expire at the end of March, until Labor Day; as well as a third round of direct economic stimulus payments to individuals. This act additionally expanded the federal child tax credit from \$2,000 per child to \$3,000 per child, making the tax credit completely refundable, and allowed half of the benefit to be sent out to eligible households in 2021 in the form of monthly payments of between \$250 and \$300 per child.

ARPA additionally provided direct aid to state and local governments, including \$350 billion to assist these governments in mitigating budget shortfalls and \$120 billion dedicated to the safe reopening of K-12 schools throughout the country.

The total cost of ARPA, at approximately \$1.9 trillion, was the last of approximately \$4.5 trillion in expenditures that the federal government would make in order to combat the COVID-19 pandemic, with approximately \$43.6 billion allocated to Nevada governments, businesses, and residents for the various purposes outlined in the federal legislation, according to Federal Funds Information for States.

Yet, despite this unprecedented spending, the pandemic would still have an astonishing effect on lives – since the first death was confirmed in Washington State at the end of February 2020, more than one million Americans have died from the COVID-19 virus, with nearly 12,000 of those deaths being Nevada residents.

In Nevada, the initial reaction to the COVID-19 pandemic would be similar to that in many other states – Governor Sisolak would declare a state of emergency on March 12, 2020, and by the end of March, not only had most non-essential businesses (including casinos) been ordered to close, Nevadans were being ordered to stay in their residences unless it was necessary to leave to receive or provide essential services or to engage in certain outdoor activities.

The state would begin to reopen in May, and the state's casinos would start to open in early June, but it was clear that the closure of businesses for several months had caused a toll on the state's budget – in July, the Legislature would be called into the first of two special sessions in order to cut the state's budget, as well as to provide additional revenue to the State General Fund for Fiscal Year 2021 by requiring that certain Governmental Services Tax revenue dedicated to the State Highway Fund instead be deposited in the State General Fund, requiring an advance payment of Net Proceeds of Minerals Tax for calendar year 2021 to be paid in FY 2021, and requiring the Department of Taxation to run a tax amnesty program for a 90-day period in FY 2021 to allow persons

with unpaid tax liabilities to pay those liabilities to the state with no penalties or interest assessed.

As Nevada moved into late 2020, there was still uncertainty regarding the effects of the virus and the pandemic, with questions regarding the chances of further outbreaks, the availability and efficacy of the various COVID-19 vaccines, and the timing and magnitude of any federal stimulus packages. These questions ultimately led to the Economic Forum projecting only modest gains in revenue for the 2021-23 biennium at their meetings in December 2020 and May 2021.

Stronger-than-expected growth in actual State General Fund revenue in the last half of Fiscal Year 2021 and all of Fiscal Year 2022 far exceeded the estimates brought forth by the Economic Forum at those meetings. However, the strong growth in General Fund collections also have come at a time of uncertainty in the national and international economy, resulting from issues such as higher-than-forecast inflation rates in 2021 and 2022; the Russian invasion of Ukraine in the spring of 2022; and continued pressures on the global supply chain that have lasted well into 2022. Additionally, many of the stimulus benefits that were available in the previous two years have expired, with no indications from Congress or the Biden administration that they will be renewed or extended.

Thus, the expectations from most analysts are that the growth that resulted in these higher collections in the prior two fiscal years are not sustainable, and that potential downside risks might lead to more moderate changes in revenue in the upcoming biennium.

During the last decade, the U.S. experienced a period of fairly stable economic growth after the Great Recession of 2007-09. Between 2010 and 2019, real gross domestic product (GDP) grew on average by 2.2% nationwide. This growth period was fueled, among other factors, by the measures the Federal Reserve took to overcome the Great Recession. It lowered the federal funds rate – the rate at which banks may borrow money from the Federal Reserve – to almost zero between 2008 and late 2015 and conducted three rounds

of quantitative easing between 2008 and 2012, expanding its balance sheet by almost \$4 trillion in securities.

Once the fallout of the Great Recession had passed, the Federal Reserve's Open Markets Committee raised the federal funds rate a total of nine times between December 2015 and December 2018. Between October 2017 and May 2019, it also reduced the Fed's balance sheet through a process of quantitative tightening, allowing billions of dollars of securities to mature without being replaced. These actions did not reverse the growth trend – real GDP growth rates were 2.2% in 2017, 2.9% in 2018, and 2.3% in 2019 – and also had the effect of holding inflation rates relatively stable, with an annual increase of 1.8% per year between 2010 and 2020.

Employment statistics and wage growth complete this picture of a decade of relative economic stability and growth. Whereas unemployment was at 9.6% in 2010 in the U.S., it continuously declined year-to-year, reaching a level of 3.7% in 2019, while labor market participation increased from 58.3% in the fourth quarter of 2010 to 61.0% in the fourth quarter of 2019. However, despite this uptick in labor market absorption and demand, inflation-adjusted real earnings, when measured as median weekly earnings, increased at an average annual rate of only 0.4%, trailing behind average annual productivity growth of 1.2%.

Nevada's economic situation in the previous decade, while following the national trend in direction, was marked by a longer and more extreme pattern of, first, bust and then boom. In the first half of the decade after the Great Recession, which hit the state disproportionately hard in comparison, Nevada experienced a period of low growth with a contracting economy in FY 2012 and an average annual growth rate of 0.4% - in comparison, the national average growth rate during the same time period was 2.1%. However, growth picked up during the second half of the decade with an increase in the state's real GDP of 4.2% in FY 2015 and an average annual growth rate of 3.1% between 2015 and 2020 (while the national average growth during that time period was 2.4%).

Unemployment after the Great Recession was at 13.8% in 2010 in Nevada, stayed at or above 10.0% in 2011 and 2012, respectively, before dropping to 8.2% in 2014 and 6.8% in 2015. During the boom period that then unfolded, the unemployment rate in Nevada decreased further to 4.0% in 2019. Real wage growth was slightly negative between 2010 and 2015 and grew modestly between 2015 to 2020 without however reaching the level of real wages pre-Great Recession.

TABLE 1: ANNUAL GROWTH IN ECONOMIC INDICATORS
CALENDAR YEARS 2016 - 2021

	2016	2017	2018	2019	2020	2021
<u>U.S.</u>						
Gross Domestic Product	2.7%	4.2%	5.4%	4.1%	-1.5%	10.7%
Real GDP	1.7%	2.2%	2.9%	2.3%	-2.8%	5.9%
Employment (Total Nonfarm)	1.8%	1.6%	1.6%	1.3%	-5.8%	2.8%
Personal Income	2.6%	4.6%	5.0%	5.1%	6.7%	7.4%
Wage Growth	2.9%	4.7%	5.0%	4.8%	1.4%	8.8%
Consumer Price Inflation	1.3%	2.1%	2.4%	1.8%	1.2%	4.7%
Fuels & Utilities	-0.5%	3.7%	1.8%	0.4%	0.5%	6.8%
Food	0.3%	0.9%	1.4%	1.9%	3.4%	3.9%
Housing Starts	6.4%	2.3%	3.5%	3.5%	8.1%	15.1%
Oil (\$ per barrel)	\$43	\$51	\$65	\$57	\$40	\$68
<u>Nevada</u>						
Gross Domestic Product	4.6%	5.8%	6.0%	7.0%	-5.3%	12.7%
Real GDP	2.7%	3.9%	3.4%	4.3%	-6.7%	8.9%
Employment (Total Nonfarm)	3.2%	3.2%	3.2%	2.8%	-10.1%	6.9%
Personal Income	3.9%	6.3%	6.6%	7.9%	6.9%	9.7%
Wage Growth	5.7%	5.3%	7.1%	5.4%	-2.7%	13.9%
Housing Starts	20.5%	9.2%	-1.8%	3.8%	3.5%	18.7%
Las Vegas Visitors	1.5%	-1.7%	-0.2%	1.0%	-55.2%	69.4%

Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Census Bureau; Nevada Department of Employment, Training and Rehabilitation; Las Vegas Convention and Visitors Authority

Both nationally and in Nevada, the period of steady growth and relative stability ended in the spring of 2020, with the unfolding of the coronavirus pandemic and a string of emergency measures, in particular shutdowns of businesses and entire industries, that were taken both nationally and in Nevada to slow down the transmission of the virus and lessen the impact on the overwhelmed healthcare system. The shutdown measures

effectively blocked the supply function of markets in many areas, in particular in the service industry.

Given the state's dependency on the tourism and gaming industry, which were shut down for entire periods and then could only re-open following strict capacity limits and other restrictions, the 2020 coronavirus pandemic-induced recession had a disproportionate impact on Nevada's economy. In calendar year 2020, the GDP of the state shrunk by 6.7%. Nationwide, unemployment jumped to 8.1%; in Nevada unemployment was at 13.5% in calendar year 2020. Monthly unemployment data illustrates how dramatic the situation was in Nevada: In August of 2019, Nevada had a historically low unemployment rate of 3.7%. Less than a year later, in April of 2020, the state reported an unemployment rate of 28.5% - the highest unemployment rate in the history of the state and in the U.S.

Nevada's economy remained highly disrupted by coronavirus-related restrictions between the spring of 2020 and early summer of 2021, when the availability of effective vaccines and vaccine rollouts throughout the spring of 2021 allowed for a gradual reopening of the economy and for visitors to return to the state's gaming destinations. In February of 2020, before the coronavirus spread through North America, the Las Vegas Convention and Visitors Authority reported more than 3.3 million visitors to the Las Vegas area; two months later, in April 2020, visitor numbers dropped to just over 100,000. Over the summer of 2020, with limited reopening of the economy and prevailing restrictions, and over the winter 2020/21, monthly visitor numbers increased, but on significantly reduced levels when compared to pre-coronavirus conditions, varying between 1 million and 1.5 million. Whereas in the years before, more than 42 million visitors came to Las Vegas per year on average, this number dropped to just over 19 million in 2020.

Unemployment remained high throughout this period, and transfer payments as a share of Nevadans' personal income temporarily increased from over 15% to over 30%, partly related to the increased unemployment support needs, and partly due to many residents receiving relief checks. But as abrupt and forceful as the coronavirus-induced recession

came upon the state, it also vanished after the rollout of vaccines and the lifting of restrictions throughout spring of 2021 and after the lifting of all restrictions in June of 2021.

Again, Nevada followed in this respect the national trend, but with a more extreme bust during the pandemic, followed by a likewise more pronounced boom period during the recovery. Real GDP growth was at 5.9% in the year coming out of the pandemic nationwide, whereas in Nevada it was 8.9%. Unemployment in the state dropped from the mentioned 28.5% in April 2020 to 8.6% in April of 2021 due to the partial, restricted reopening of the economy and further declined after the total lifting of all restrictions in June of 2021 to 5.3% by the end of 2021, and to 4.4% in September 2022. In comparison, nationwide unemployment climbed to 14.7% in April of 2020, decreased to 6.0% in April 2021, and was at 3.9% at the end of 2021 before dropping further to 3.5% in September 2022.

The bounceback of the economy, with the lifting of coronavirus restrictions, was in part fueled by federal aid and stimulus packages during and coming out of coronavirus restrictions, most notably the American Rescue Plan Act of March 2021. When coronavirus restrictions were lifted in June of 2020, demand of the American consumer for goods and services was strong on account of sustained personal income levels, partially due to the mentioned increase in transfer payments in the context of federal aid. As to Nevada's economy, the result was that Americans from all over the nation, as much as Nevadans themselves, were eager and financially able to enjoy Nevada's gaming and entertainment destinations again after time spent in isolation. Monthly visitor numbers in Las Vegas increased to 3 million and more in the second half of 2021 with a total visitor volume of above 32 million in 2021. While not reaching pre-pandemic levels, according to the Las Vegas Convention and Visitors Authority, these post-pandemic visitors came with deeper pockets than the visitors before the pandemic, meaning higher budgets for hotel rooms, dinners, shopping, sightseeing and gambling. As a result, monthly and annual gaming wins in Nevada reached historically unprecedented levels, and so did gaming and other tax revenues for the State of Nevada.

Housing

In the decade before the coronavirus pandemic, aided by low interest rates and growth in the economy, the housing market in the U.S. stabilized after the Great Recession with median house prices for existing single-family homes steadily growing from \$165,000 in 2011 to \$234,000 in 2016, to \$272,000 in 2019. Despite this increase in home prices, the number of homes sold would remain stable – existing single-family home sales would increase from approximately 3.8 million nationwide in 2011 to 4.6 million in 2015, and would remain in a range between 4.7 million and 4.9 million per year between 2016 and 2019.

The decade also saw a rise in single-family homes being built – housing completions would increase from fewer than 600,000 in 2011 to nearly 1.1 million in 2016, reaching a level of 1.25 million by 2019. However, though the number of houses completed by the end of the decade was at its highest rate since the end of the Great Recession, the number of houses completed in 2019 has only reached the level of houses being constructed in this country in the early 1990s.

Although new homes were being constructed through the last decade at an increasing pace, concerns would begin to rise towards the end of the decade relating to a deficit in the supply of housing. This could be seen in nationwide inventories of houses in the market – in 2011, the average supply was 8.0 months, well above the conventional belief that a healthy housing market should have between five and six months' supply. For much of the decade, the average supply would sit in a range near the 5-month level, but by 2016, the average supply would decline to only 4.3 months, and it would continue to decline, dropping below 4 months in 2017 and staying near a rate of 3.9 months in 2018 and 2019.

The pandemic, in the short term, would halt the upward momentum of the housing market – between the first and second quarters of 2020, the median home price for an existing single-family home fell from \$286,800 to \$280,930. However, this trend was short-lived – by the third quarter of 2020, the median price would climb to \$306,200, with continued increases observed until the second quarter of 2022, when the median price peaked at \$400,840.

A similar trend could be seen in single-family home sales, which would have a quarter-to-quarter decline of 17.3% in the second quarter of 2020. Third quarter sales, however, would increase by 35.4%, and a strong fourth quarter would lead, based on estimates from Moody's Analytics, to 5.1 million homes being sold in 2020, a 6.6% increase in sales compared to 2020.

This increase in sales would continue into 2021 – Moody's Analytics estimates that 5.4 million existing single-family homes were sold in the U.S. in 2021, a 7.1% increase. And as a result of these increases in sales, combined with only modest increases in new home completions (approximately 1.3 million units per year in 2020 and 2021), inventory levels, already at levels deemed by many to be too low, would only continue to decline – the average supply in 2020 would drop to 3 months, and in 2021, it averaged less than 2.2 months.

By the middle of 2022, however, it was clear that the upward trend in the housing market was ending, as mortgage interest rates would begin to climb in reaction to the Federal Reserve's decision to increase the federal funds rate to curb inflation. These actions had an almost immediate impact on the housing market – according to Moody's Analytics, because of 30-year mortgage interest rates approaching 7%, the average monthly mortgage payment has increased by nearly \$800 towards the end of this year compared with the beginning of 2022. As a result, there have been significantly fewer mortgage applications (Moody's forecasts that total nationwide mortgage originations will decrease by more than 45% in 2022), significantly fewer sales (Moody's forecasts total single-family sales in the U.S. to decrease by 13.6% in 2022, to approximately 4.7 million units), and as a result, a steady decrease in prices, with the median price forecast to be approximately \$386,000 by the end of this year.

Moody's baseline U.S. forecast for November 2022 estimates that the median nationwide home price will continue to decline through the end of the upcoming biennium, reaching a low point of \$358,870 by the beginning of calendar year 2025. With

Moody's forecasting 30-year mortgage interest rates to remain above 6% through 2023 and into the first quarter of 2024, single-family home sales are still expected to remain sluggish, falling by 1.8% to 4.6 million units in 2023. However, with an anticipated decrease in interest rates in 2024 to around 5.5% by the middle of 2025, Moody's expects some recovery in home sales nationwide, with a forecast of just over 5.0 million units sold in 2024 before leveling off to approximately 4.8 million units sold in 2025.

Analysts and experts point, in part, to the pandemic itself as being an indirect cause of the runup of the housing market that began in the middle of 2020. It was not uncommon, as employers adjusted to the pandemic and allowed many employees to work remotely, that workers – no longer tethered to a physical office location – chose to relocate to more affordable parts of the country.

This was especially true in California, whose Department of Finance estimates that more than 350,000 residents moved outside of the state between April 2020 and January 2022, moving to comparatively more affordable locations such as Austin, Texas; Boise, Idaho; and Phoenix, Arizona.

TABLE 2: SELECTED U.S. HOUSING MARKET STATISTICS
CALENDAR YEARS 2016 - 2021

	2016	2017	2018	2019	2020	2021
New Housing Completions (% change)	9.9%	8.6%	3.3%	5.8%	2.1%	4.2%
Sales of New Single-Family Homes (% change)	12.0%	9.3%	0.7%	10.5%	20.4%	-6.1%
Median Existing Single-Family Home Price (% change)	5.6%	5.9%	4.8%	4.9%	9.7%	18.0%
Sales of Existing Single-Family Homes (% change)	4.3%	1.7%	-3.4%	0.2%	6.6%	7.1%
Total Mortgage Originations (% change)	20.5%	-13.8%	-4.4%	31.9%	83.6%	10.4%
Total Mortgage Loans Delinquent (% change)	-4.0%	0.9%	-0.8%	0.9%	1.4%	0.7%
Total Foreclosures Started (% change)	-21.3%	-15.9%	-4.7%	-10.9%	-70.0%	-48.1%
Supply of Existing Single-Family Homes (Months)	4.34	3.90	3.95	3.88	3.00	2.18

Sources: National Association of Realtors, Standard and Poor's, U.S. Census Bureau, Federal Reserve Board, Mortgage Bankers' Association

Another popular target for people leaving California has been to Nevada (both the Reno/Sparks and Las Vegas areas). The Nevada Department of Motor Vehicles reported

in February that more than 45,000 California driver's licenses and identification cards were surrendered in 2021, which represented more than 40% of the total that the Department received from new residents to the state last year.

Californians moving to Nevada is not a new trend – the Department reported that nearly 72,000 licenses and ID cards had been surrendered from former California residents in 2019 and 2020. However, as Nevada's population increased over the past decade (from 2.7 million in 2010 to 3.1 million in 2020, according to the U.S. Census Bureau), the available housing stock decreased (with the average Nevada housing supply, according to the national real estate brokerage Redfin, decreasing from a high of 5.8 months in January 2015 to a low of 2.8 months in December 2019). The combination of a decreasing supply and an increasing demand would result in an increase in prices – the median home price in Nevada would climb from \$129,090 in 2011 to \$263,720 in 2017, then to \$309,440 by 2019, which was just under the pre-Recession peak of \$310,970 in 2006.

The pandemic would have a temporary impact on single-family sales in the state, with existing single-family sales during the second quarter of 2020 decreasing by 33.6% compared to the first quarter. The market would quickly recover, though, with Moody's Analytics estimating that single-family home sales in 2020 reaching 66,510 units, only 3.1% below the 68,630 units estimated for 2019. The pace of sales would only increase in 2021, with Moody's estimating 74,100 units sold that year – an 11.4% increase.

Naturally, the drastic increases in sales would further constrain the available supply – Redfin's estimate of the inventory would fall from the 3-month range at the beginning of 2020 to below 2 months by the end of 2020, and to just 1.2 months by December 2021. Likewise, the median price would also react accordingly, climbing to \$334,790 for 2020 and to a high of \$491,880 by the second quarter of 2022.

Like the rest of the nation, though, the recent increases in mortgage interest rates, coupled with the drastic increase in prices seen since the end of 2019, will also have an effect in Nevada, with Moody's forecasting the median single-family home price to fall to \$466,740

by the fourth quarter of this year. Similarly, the demand for housing is also likely to fall – Moody's estimates that existing-single family home sales for 2022 to fall by nearly 10%, with Redfin showing an available supply statewide of nearly 4.8 months as of October of this year.

Inflation

The sudden emergence of the COVID-19 pandemic led to numerous restrictions, both in the United States and worldwide, that had immediate and significant effects on the international economy beginning in the spring of 2020. Forced by government-imposed restrictions on activities and operations, businesses worldwide were forced to curtail or suspend operations, resulting in massive layoffs of employees, which also led manufacturers and shipping companies to reduce activities due to anticipated decreases in demand.

Additionally, to meet the needs of the pandemic, many manufacturers worldwide would shift their efforts into the production of personal protective equipment, such as masks, rather than other goods. A significant number of these products were manufactured in China and then shipped around the world, leaving a shortage of supply containers in China to ship other goods worldwide.

In the U.S., the Federal Reserve's Open Market Committee responded by lowering the overnight lending rate, the federal funds rate, at or near zero in efforts to keep the financial system liquid and the credit market operating and pledged to keep the monetary policy supportive of growth until the economy had recovered from the negative impacts caused by the pandemic. These actions were in line with the Fed's dual mandate to foster maximum employment and price stability, which generally has meant maintaining a target inflation rate of 2.0%.

While it was anticipated that there would be a decrease in consumer demand as a result of the pandemic, the actions by the Fed, as well as the several rounds of stimulus checks sent out throughout 2020 and 2021, would have a different effect – consumer demand

would merely shift, rather than reducing. Instead of spending money on dining out or recreational activities that had been restricted, they would instead spend money on goods such as electronics and appliances.

While these products were still being manufactured in factories worldwide, the lack of availability of shipping containers, combined with a massive increase in demand and a lack of workers available to unload and transport goods, began causing disruptions in the supply chain beginning in 2021.

These supply chain disruptions, combined with the strong consumer spending fueled by federal government transfer payments, created an imbalance that led to higher-than-expected inflation starting in the spring of 2021. Initially it was expected that these imbalances would resolve themselves in 2022, and that the inflation would thus be transitory; however, these imbalances have not yet been fully resolved. In addition, the economy has faced other headwinds from variety of factors, including high gas prices and the war in Ukraine. As a result, the inflation rate, which had increased by 4.7% in calendar year 2021 after several years of the rate being between 1.2% and 2.4%, would continue to increase at an accelerated rate, with the rate in the first half of 2022 increasing by 8.3%, the highest inflation in four decades.

The Federal Reserve has pursued a tightened monetary policy since March of this year in efforts to combat the inflation rates seen year-to-date in 2022. The Federal Reserve began raising the federal funds rate gradually in March by 25 basis points, then by a 50-point increase in May. Since then, the Federal Reserve had been more aggressive in their hikes, increasing the overnight lending rate by three consecutive hikes of 75 basis points in June, July, and September.

In November, Federal Reserve Board Chairman Jerome Powell was quoted in a news conference as saying their stance of monetary policy is 'sufficiently restrictive' to return inflation back to their 2% target over time. He added that "[r]educing inflation is likely to require a sustained period of below-trend growth and softening of labor market conditions.

Restoring price stability is essential to set the stage for achieving maximum employment and stable prices in the longer run". The Federal Reserve's interest rate increases are its main countermeasure to lower the inflation rate. Their actions are aimed at cooling down the economy by reducing the aggregate demand for goods and services.

Since peaking in June, inflation has been trending downward, though in October, the inflation rate was still at 7.7%. The increases in inflation have been somewhat broad-based, with the biggest increases in energy, housing, and food. Moody's forecasts that inflation, as measured by the Consumer Price Index, will increase by 8.1% for calendar year 2022, and to increase by 4.0% in 2023, 2.4% in 2024, and 2.2% in 2025.

Employment

According to the Bureau of Labor Statistics (BLS), there are more job openings in the U.S. labor market than unemployed persons. In their September Job Openings and Labor Turnover Survey (JOLTS), the ratio of job openings to unemployed workers shows that the labor market has 1.9 job openings per unemployed person, indicating a very tight labor market. Throughout this year, this ratio has lingered at or slightly below 2.0. In 2019, before the pandemic, the labor market was also characterized as tight, but in comparison, the ratio of available jobs to unemployed persons was at 1.2, much lower than what it has been over the last year.

The U.S. economy surpassed the pre-pandemic total employment level in August 2022, and as of October 2022, there are 804,000 more jobs than there were in February 2020. Most industry sectors have fully recovered and have more jobs now compared to pre-pandemic level, except the jobs in the mining and logging (-52,000), leisure and hospitality (-1,097,000), and the government sector (-529,000), which are still significantly below their pre-pandemic levels.

The latest October jobs report shows that the seasonally adjusted U.S. unemployment rate was 3.7%, which is at the pre-pandemic level; however, that rate is higher than the 3.5%

rate seen in the prior month. In 2019, the average unemployment rate was 3.7%, spiking to an average of 8.1% in 2020 during the height of the pandemic and then falling to an average of 5.3% in 2021.

Labor market gains have been strong despite the headwinds in the national economy, but there are some signs of cooling in the labor market. According to the latest jobs report, employers hired the fewest workers in nearly two years. October's payrolls grew by 261,000 over the prior month, marking the slowest pace of monthly gains since December 2020. Through October of this year, monthly job gains have averaged 407,000 jobs compared to an average of 551,000 jobs during the same time a year ago. The pre-pandemic monthly gains in 2019 averaged 164,000 jobs. Year-over-year, October payrolls were up by 3.6%. The growth in average hourly earnings showed some easing as well in October. Throughout this year, the average hourly earnings have posted above 5.0% growth, but decelerated to 4.7% in October, potentially indicating some cooling in the labor market conditions.

Like national trends, Nevada's labor market has more job openings than job seekers. The ratio of job openings to every unemployed person shows that the labor market has 1.5 job openings per unemployed person. This ratio has remained somewhat unchanged since the end of last year.

The COVID-19 pandemic hit the Nevada labor market particularly hard because of the large concentration of leisure and hospitality jobs, a sector that was the most negatively impacted by the health emergency. Nevada did not recover from the pandemic induced job losses (-344,500) until earlier this past summer. In comparison to other recent recessions, the jobs recovery was not as fast as it was with the 2001 recession, but it has been considerably faster than with the 2007 recession.

When comparing the state's two largest metropolitan areas, the impact of the pandemic was uneven on the labor market. The speed of the recovery in total jobs in the Reno metropolitan statistical area (MSA) was faster than that of the Las Vegas MSA. The

Reno MSA recovery benefited from a more diversified economy, whereas the total employment took longer to fully recover in the Las Vegas MSA due to a larger concentration of leisure and hospitality jobs.

The employment level in the October jobs report is 22,200 jobs higher than what it was prior to the pandemic in February 2020. Most industry sectors have fully recovered and have more jobs now compared to their pre-pandemic levels, except for the mining and logging (-200), leisure and hospitality (-19,500), and government sectors (-6,300), which are still below their February 2020 levels. October payrolls grew by 7,500 over the prior month, marking a much higher pace than compared to an average monthly gain of 4,900 jobs so far this year. For comparison, the pre-pandemic monthly gains in 2019 averaged 3,400 jobs. Year-over-year, October payrolls were up by 3.9%, slightly above the 3.6% growth of the U.S., marking the 13th fastest job growth rate in the nation.

Last year, the average unemployment rate in Nevada was 7.2%, after peaking at an average of 13.5% in 2020. For comparison, the jobless rate averaged 4.0% in 2019. The most recent BLS data shows that the seasonally adjusted unemployment rate had fallen to 4.6% in October, which is still the second highest unemployment rate in the nation behind the District of Columbia. The gap between the national and Nevada unemployment rate has narrowed to 0.9%.

Consumer Spending

In the early phases of the pandemic in 2020, consumers held back on their consumption due to job losses, restrictions on services, fear of COVID-19, or other reasons. As these concerns began to recede starting in 2021, consumers have unleashed their pent-up demand for activities that were restricted in response to the health emergency.

Nonetheless, the pandemic created many unusual occurrences in the U.S. economy, including a labor shortage that has created strong wage gains that have aided spending. Consumer spending has also been buoyed by massive fiscal and monetary support

programs that were implemented in response to the pandemic, including stimulus checks, child credit expansions, enhanced unemployment benefits, delayed student loan payments, and other assistance. The Federal Reserve's low interest rate policy has supported purchases of homes and other consumer durables, such as automobiles.

According to the Bureau of Economic Analysis's estimate of the third quarter real Gross Domestic Product report, the national economic output increased at an annual rate of 2.9% in the third quarter after unexpectedly declining by 1.6% and 0.6% in the first and second quarter, respectively. Despite the surprising report on the national economic output earlier this year, the consumer spending component of the GDP, which accounts for about two-thirds of U.S. economic activity, has held up well due to the strong labor market and household finances. The movements in the other components of real GDP have been reacting to the lingering pandemic's effect on supply chains, trade balances, and other inventory issues.

Consumer spending has been very strong for the past two years. However, inflation-adjusted consumer spending has begun to slow down, increasing at an annual pace of only 1.7% in the third quarter of 2022 after increasing by 2.0% in the prior quarter. While this is still a good indicator of consumers' spending power in an economy facing high inflationary pressures, it may point to some weakening momentum in response to fading government fiscal support and the pinch consumers are feeling from rising inflation. Wages and salaries have not kept up with the rising prices, eroding consumers' purchasing power.

Prior to the pandemic, Americans spent nearly twice as much on services than on goods, but the pandemic related restrictions led people to spend more on goods, and less on services. There has, however, been a recent shift back to more spending on services, especially in travel and food services-related areas. In the latest BEA report, spending on goods declined at an annual rate of 0.2% in the third quarter of 2022, following subsequent declines of 2.6% in the second quarter and 0.1% in the first quarter. Spending on services, on the other hand, increased at an annual rate of 2.7% in the third quarter, following an increase of 4.6% in the second quarter and 2.1% in the first quarter.

October retail trade and food services sales, reported by the U.S. Census Bureau, rose by 1.3%. Over the last year, retail trade and food services sales have risen 8.3%, as opposed to a 7.7% increase in the inflation rate. This data series can be a good omen for consumer spending, and it is adjusted for seasonal variation, but not for inflation; thus, a big part of the increase over the last year is due to inflation.

For calendar year 2022, Moody's forecasts that real GDP in the U.S. will increase by 1.8%, with increases of 0.7% in calendar year 2023, 2.1% in calendar year 2024, and 2.7% in calendar year 2025. For nationwide inflation-adjusted consumer spending, Moody's forecasts increases of 2.7% in calendar year 2022, 1.9% in calendar year 2023, 2.6% in calendar year 2024, and 2.5% in calendar year 2025.

In Nevada, much of the demand for consumer spending is driven by visitors, particularly those visiting Las Vegas. During the hardest hit months affected by the pandemic, Nevada's taxable sales experienced deep declines, but fared better than expected largely due to federal stimulus and how the pandemic influenced consumer spending patterns. Taxable retail sales have rebounded and have maintained a steady growth, pushing levels to all-time highs. However, some of the rebound can be attributed to the elevated inflationary environment.

In 2019, the Las Vegas Convention and Visitors' Authority reported 42.5 million visitors to Las Vegas, or more than 3.5 million per month on average, which was a 1.0% gain compared to 2018. In 2020, only about 19.0 million visitors were reported, or almost an average of 1.6 million per month. In 2021, visitor counts improved to 32.2 million, averaging about 2.7 million per month. Year-to-date through October 2022, the visitor tally is 32.3 million compared to 26.1 million during the first ten months of 2021. That marks a significant improvement, but it is still about 9.3% less than the pre-pandemic level for the same period in 2019. The number of visitors to Las Vegas is lagging pre-COVID levels largely due to the struggling midweek travel associated with conventions and trade shows because the industry is still recovering from the pandemic's effects, and although

international visitation to Las Vegas is improving, it has not yet reached its pre-pandemic level.

There are several events that will boost visitation to Las Vegas in the upcoming biennium, such as the Formula One race in November 2023 and the Super Bowl in February 2024. Another big sports event attracting that will attract visitors results from the National College Athletic Association's selection of Las Vegas to host Sweet Sixteen and Elite Eight games during the March Madness basketball tournament that will take place in 2023. Other notable projects that will draw tourism to Las Vegas are the opening of Fontainebleau mega resort-casino in the latter part of 2023 and MSG Sphere, a live entertainment center with a futuristic design, also opening its doors in 2023.

General Fund Revenue Forecast – Fiscal Years 2023, 2024, and 2025

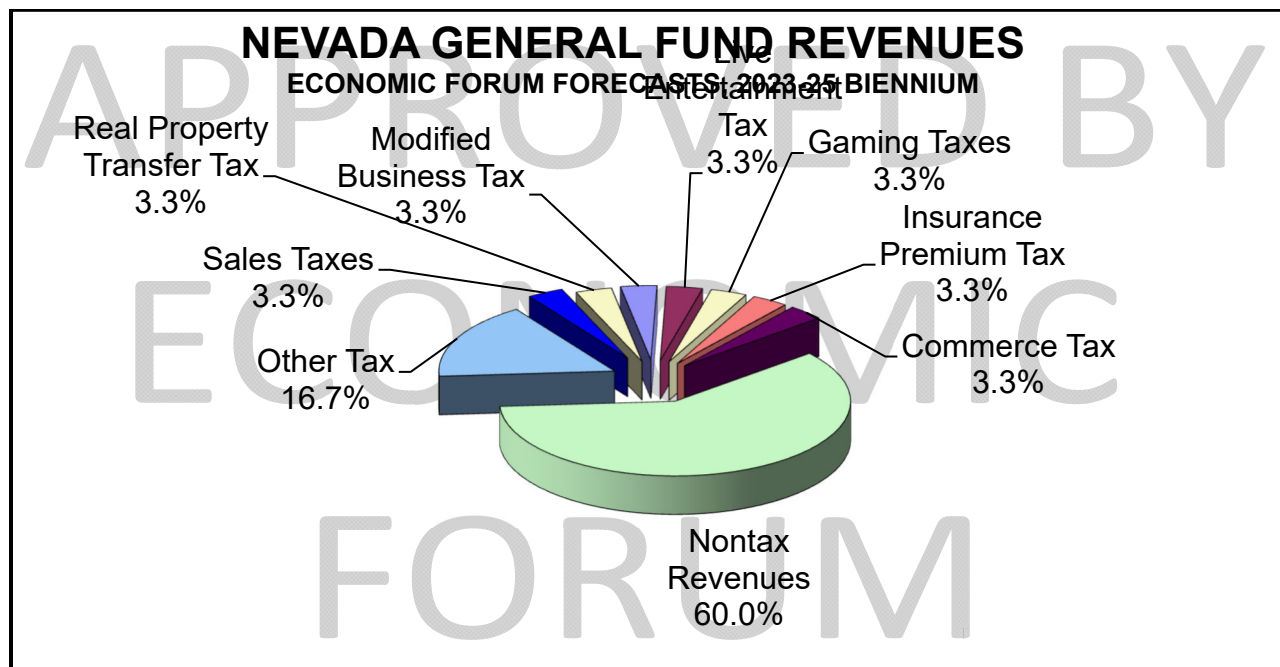
At the December 5, 2022, meeting, the Economic Forum took into consideration presentations made at the meetings on October 13, 2022, and November 14, 2022. These presentations included the Nevada employment outlook made by David Schmidt from the Nevada Department of Employment, Training and Rehabilitation and the U.S. and Nevada general economic outlook by Emily Mandel from Moody's Analytics. The Forum also took into consideration the economic outlooks used to derive the General Fund revenue forecasts made by the Budget Division, the Department of Taxation, the Gaming Control Board, Moody's Analytics, and the Fiscal Analysis Division.

(Exhibits presented to the Economic Forum at its meetings are available from the Fiscal Analysis Division upon request, or on the Legislative Counsel Bureau's website: <https://www.leg.state.nv.us/App/InterimCommittee/REL/Interim2021/Committee/1906/Overview>.)

Based on consideration of the information that was provided to the Forum at these meetings, the following forecast was approved at the December 5, 2022, meeting.

Total Nevada General Fund revenues, before the application of any tax credits approved by the Legislature, are forecast at \$x.xxx billion for FY 2024 and \$x.xxx billion for FY 2025. The 2023-2025 biennial total of \$x.xxx billion is x.x% higher/lower than the current revised estimate for FY 2023 and the actual collections for FY 2022 of \$x.xxx billion for the 2021-2023 biennium.

As you will note in the chart below, gaming taxes are forecast to provide xx.x% of all General Fund revenues during the 2023-25 biennium, an increase/a decrease from the xx.x% now estimated for the current biennium. Sales tax collections are forecast to provide xx.x% of all General Fund revenues during the 2023-25 biennium, an increase/a decrease from the xx.x% currently estimated for the 2021-23 biennium. Modified business tax collections are forecast to provide xx.x% of all General Fund revenues during the 2023-25 biennium, a decrease from the xx.x% currently estimated for the 2021-23 biennium.



More detailed information on specific revenues in addition to gaming, sales, and modified business taxes is available in the accompanying table.

Sales Tax

Sales tax collections are forecast to reach \$x.xxx billion in FY 2023, a x.x% increase/decrease from FY 2022 levels. Sales taxes are expected to increase/decrease by x.x% in FY 2024 and increase/decrease by x.x% in FY 2025. These forecasts result in projected total sales tax receipts of \$x.xxx billion during the 2023-25 biennium.

Gaming Percentage Fee Tax

Total gaming percentage fee tax revenues are forecast to reach \$xxx.x million in FY 2023, an increase/a decrease of xx.x% from actual FY 2022 collections. From this base, the tax is estimated to increase/decrease by xx.x% in FY 2024 and increase/decrease by xx.x% in FY 2025 to yield revenues of \$x.xxx billion for the General Fund during the 2023-25 biennium.

Modified Business Tax

In FY 2023, the modified business tax rate for financial institutions and mining companies is 1.853% on all taxable wages (gross wages less eligible health care expenses) per quarter. For all other businesses, the rate is zero on the first \$50,000 of taxable wages per quarter, and 1.378% on all taxable wages in excess of \$50,000 per quarter.

Pursuant to NRS 360.203, if the combined revenue from the commerce tax, modified business tax, and branch bank excise tax in an even-numbered fiscal year is more than 104.0% of the Economic Forum's May 1 forecast for that fiscal year, then the Department of Taxation must reduce the rates for the modified business tax in the proportion that the actual amount collected from each tax for that fiscal year bears to the total combined amount collected from both taxes for that fiscal year. The rate change becomes effective on July 1 of the first fiscal year of the biennium following the determination of the rate change.

Because the actual collections for the commerce tax, modified business tax, and branch bank excise tax in FY 2022 were more than 104.0% of the Economic Forum's May 1, 2019, forecasts for these revenues, adjusted for legislative actions and court decisions, the Department of Taxation determined that the rates for the modified business tax should be

permanently reduced to 1.554% for financial institutions and mining companies, and 1.17% for all other businesses, effective at the beginning of FY 2024 (July 1, 2023).

Total modified business tax revenues, before the effect of the credit that may be taken against this tax by persons who pay the commerce tax, are forecast to reach \$xxx.x million in FY 2023, an increase/a decrease of x.x% from actual FY 2022 collections. Due to the reduction in tax rates that will take effect on July 1, 2023, modified business taxes are estimated to decrease by x.x% in FY 2024. Collections for this tax are estimated to increase by x.x% in FY 2025, which results in total revenues of \$x.xxx billion for the General Fund during the 2023-25 biennium.

Collections for the modified business tax are additionally estimated to be reduced by \$xx.x million in FY 2023, \$xx.x million in FY 2024, and \$xx.x million in FY 2025, as a result of the commerce tax credit allowed against the modified business tax. The commerce tax credit is discussed in greater detail in the Commerce Tax subsection below.

Insurance Premium Tax

Total insurance premium tax revenues are forecast to reach \$xxx.x million in FY 2023, an increase/a decrease of x.x% from actual FY 2022 collections. From this base, the tax is estimated to increase/decrease by x.x% in FY 2024 and increase/decrease by x.x% in FY 2025 to yield revenues of \$x.xxx billion for the General Fund during the 2023-25 biennium.

Live Entertainment Tax

Total live entertainment tax revenues from gaming and nongaming establishments are forecast to reach \$xxx.x million in FY 2023, an increase/a decrease of x.x% from actual FY 2022 collections. From this base, the tax is estimated to increase/decrease by x.x% in FY 2022 and increase/decrease by x.x% in FY 2025 to yield revenues of \$xxx.x million for the General Fund during the 2023-25 biennium.

Real Property Transfer Tax

Total real property transfer tax revenues are forecast to reach \$xxx.x million in FY 2023, a decrease of x.x% from actual FY 2022 collections. From this base, the tax is estimated to increase/decrease by x.x% in FY 2024 and increase/decrease by x.x% in FY 2025 to yield revenues of \$xxx.x million for the General Fund during the 2023-25 biennium.

Commerce Tax

Total commerce tax revenues are forecast to reach \$xxx.x million in FY 2023, an increase/a decrease of x.x% from actual FY 2022 collections. From this base, the tax is estimated to increase/decrease by x.x% in FY 2024 and increase/decrease by x.x% in FY 2025 to yield revenues of \$xxx.x million for the General Fund during the 2023-25 biennium.

As approved by the Legislature during the 2015 Session, taxpayers who have a commerce tax liability in a preceding fiscal year are entitled to take a credit of up to 50.0% of that liability against the modified business tax in the current fiscal year. Based on the actual FY 2022 commerce tax collections of \$281.9 million, actual and projected revenue based on FY 2022 taxable activity but not collected until FY 2023, and historical usage of these credits against the modified business tax, the commerce tax credit is estimated at \$xx.x million in FY 2023.

The commerce tax credit is estimated to be \$xx.x million in FY 2024 and \$xx.x million in FY 2025, which yields total commerce tax credits of \$xx.x million taken against the modified business tax during the 2023-25 biennium.

Tax Credit Programs

Total credits from all other tax credit programs authorized by the Legislature are forecast to reduce General Fund revenues by \$xx.x million in FY 2023, \$xx.x million in FY 2024, and \$xx.x million in FY 2025. The total forecast of \$xx.x million in tax credits for the 2023-25 biennium results in a reduction in General Fund revenue of \$xx.x million compared to the \$xx.x million in tax credits estimated for the 2021-23 biennium, based on the actual credits taken in FY 2022 and the revised estimates for FY 2023.

Total General Fund Revenues

Total Nevada General Fund revenues, after the application of all tax credits, are forecast at \$x.xxx billion for FY 2024 and \$x.xxx billion for FY 2025. The 2023-2025 biennial total of \$x.xxx billion is x.x% higher than the current revised estimate for FY 2023 and the actual collections for FY 2023 of \$x.xxx billion for the 2021-2023 biennium, after the application of all tax credits. This results in an estimated \$xxx.x million increase/decrease in total General Fund revenues between the 2021-2023 biennium and the 2023-2025 biennium.

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