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NEVADA ECONOMIC FORUM

Revenue Outlook: State 2% Sales and Use Tax, Gaming Percentage Fees

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BY EMILY MANDEL

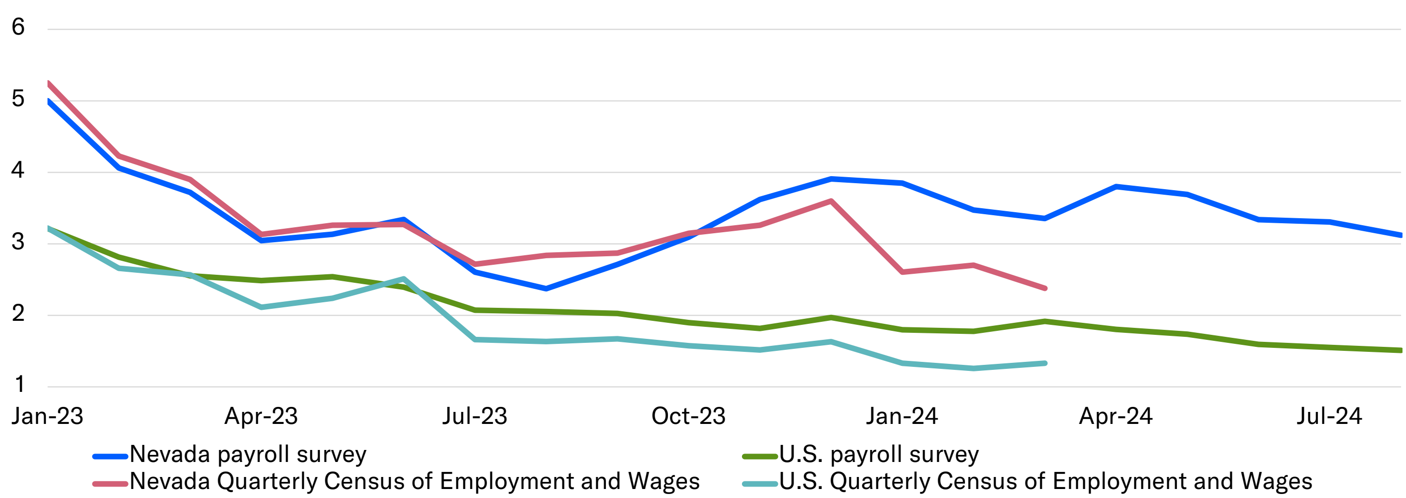
The following revenue forecasts link Nevada's general sales and use tax revenue (NRS 372) and its gaming percentage fee revenue (NRS 463) to measures of underlying economic growth. A robust labor market, expanding population, and rising visitor demand kept sales and use tax collections climbing at a rapid clip through fiscal 2024. Less restrictive lending conditions and a growing economy will support continued revenue growth over the next several years. A rapid initial rebound in gaming percentage fee collections has given way to slower growth, and gaming percentage fee collections will plateau in the current year. Longer term, low inflation and rising wages will bolster consumer confidence, driving further gains in recreation spending and placing revenues on a stronger trajectory.

REGIONAL ECONOMY

Nevada's economy remains a superior performer, but some signs of softness have emerged. Monthly job growth has been well above the regional and national rates, and year-over-year job growth is among the highest in the country. Leisure and hospitality, logistics, and construction are leading job gains. More accurate but less timely data provided by the Quarterly Census of Employment and Wages indicate, however, that blockbuster gains in manufacturing are likely to be revised away. Downward revisions through at least the first quarter of 2024 will take some shine off Nevada's recent growth, but the state likely remained a substantial step ahead of the nation (see Chart 1). The unemployment rate pressed higher during the past year, reaching 5.5% in August. With job creation

Chart 1: Nevada Will Maintain Its Lead Despite Anticipated Downward Revisions

Nevada employment, % change yr ago, NSA



Sources: BLS, Moody's Analytics

still positive, albeit slower than a year ago, gains in the labor force have driven the increase in labor market slack (see Chart 2). Meanwhile, layoffs and unemployment claims remain low, signaling the higher jobless rate poses little cause for concern.

Chart 2: Jobless Rate on Its Way Up...for the Right Reasons

Nevada labor market indicators

Sources: BLS, Moody's Analytics

Strong tourism flows will cause leisure and hospitality employment to advance ahead of the U.S. pace and that of all but a few other states. Visitor volumes to Las Vegas, Nevada's prime destination, are flirting with pre-pandemic levels and increasing. Casinos have been busy, and state gaming revenue growth in the first half of 2024 was on par with last year's rapid rate. In addition to the classic casino offerings of the Las Vegas Strip, the city has a growing roster of sporting events, conferences and concerts to draw visitors.

Hotel occupancy has remained relatively flat for the past year, about 6% below the pre-pandemic average. That stems partly from hotel openings at the end of 2023, which added thousands of rooms to the largest hotel market in the country. Recent developments will temporarily reduce the market's total room inventory. The Tropicana closed in April and the Mirage closed this summer for a three-year renovation that will culminate in a newly designed hotel. In the long term, major events and the development of more resorts and entertainment venues will maintain tourism as a robust economic driver.

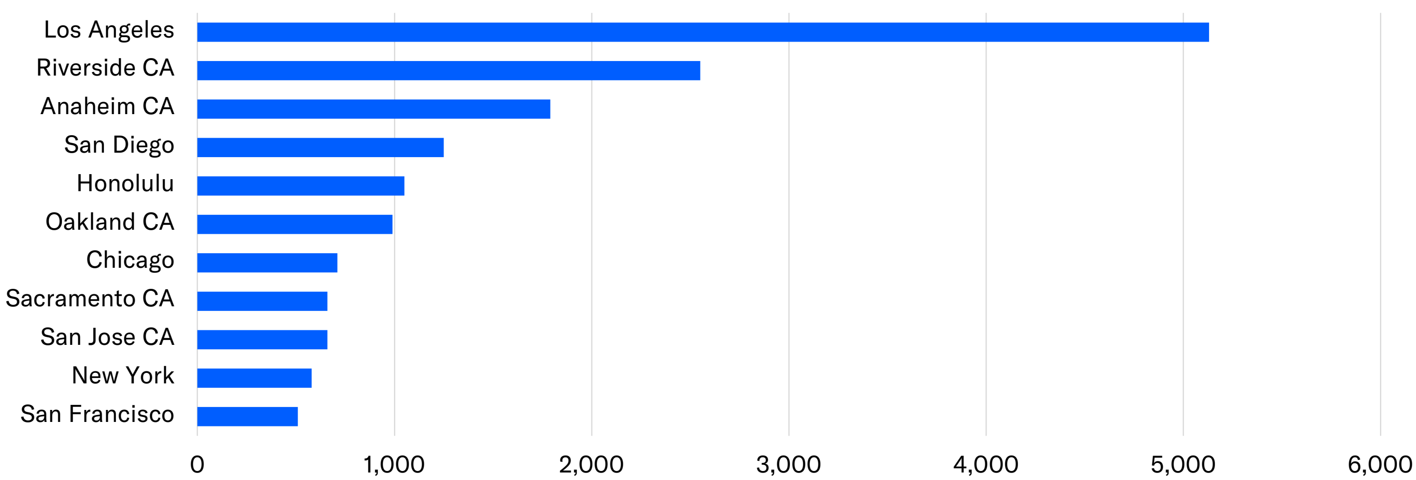
Nevada's business-friendly climate and advantageous location will support the high-tech manufacturing industry. Electric vehicle components and parts manufacturing has fueled the industry's growth in recent years as lower costs, less regulation, and proximity to California make the state attractive to producers. Reno, in particular, has emerged as a tech hub in recent years, bringing more high-wage jobs and improved industrial diversity. The next stage of Tesla's Gigafactory expansion is underway; once construction is complete, the new facility will produce semi-trucks and 4680 battery cells. Increased manufacturing will support secondary industries such as construction, logistics and mining, as well as consumer industries and housing. Reno also has the opportunity to raise its technology profile through the U.S. Tech Hubs economic development initiative, authorized by the CHIPS Act of 2022. Anchored by the University of Nevada, Reno, the Loop Tech Hub has secured a $21 million federal grant to develop a regional cluster for lithium and battery materials. As a result of these advantages and recent developments, high-tech employment will advance faster than the West and the U.S.

Healthcare will punch above its weight in terms of employment growth, with gains concentrated in the Las Vegas area. Expansions are underway at two Valley Health System locations, while the newly built West Henderson Hospital will open later this year and a massive medical campus in North Las Vegas is in the works. More medical professionals will be needed to staff these facilities and help meet the growing demand from the quickly growing patient pool. Strong population growth will push healthcare hiring to outpace the national and regional averages over the extended forecast.

Nevada's long-term potential hinges on maintaining this strong population growth. Fueled by robust net migration, population growth has soared ahead of the rapid western pace for decades, but gains are falling back to earth. The Silver State offers many of the same benefits as popular West Coast cities in terms of climate and accessibility at a lower price point. It will remain a popular choice for those moving west and regional residents looking for a lower tax burden (see Chart 3). The absence of a state individual income tax makes it even more attractive for retirees on fixed incomes and high earners from nearby California. Though moderating, population gains will drive demand in the housing market and consumer-dependent industries while providing the state with a valuable workforce. As labor force availability becomes a top concern among businesses, one of the top population growth rates in the country will make Nevada an attractive location for businesses.

Chart 3: Californians Flock to Las Vegas

Top metro areas for net migration into Las Vegas, 2023



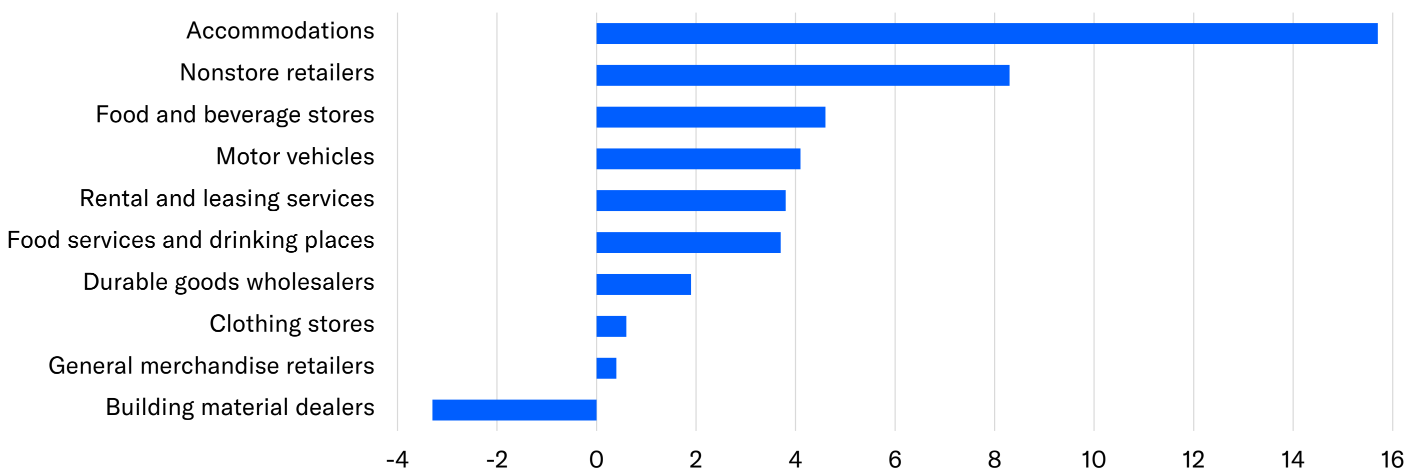
Sources: Equifax, Moody's Analytics

SALES AND USE TAXES

Forecast. Sales tax collections grew at a healthy clip in fiscal 2024, rising 4% as demand from Nevada residents and visitors remained strong. This bested the pace of inflation, indicating that consumers were purchasing a greater quantity of goods and services, rather than just paying higher prices for those purchases. Even so, fiscal 2024's pace of growth marked a slowdown from the rapid gains sustained during the previous four years. The full reopening of the economy, higher nominal prices, and consumers' release of pent-up demand sent collections soaring through fiscal 2021 and 2022, with growth subsequently cooling to a still-strong 6.7% in fiscal 2023. Tighter lending conditions and weaker pressure on goods prices contributed to cool that growth in fiscal 2024, but taxable sales data show that spending continued to climb across a range of goods and services (see Chart 4).

Chart 4: Sales Rose Broadly in Fiscal 2024

Taxable sales, % change fiscal 2023 to 2024, top 10 categories



Sources: Nevada Department of Taxation, Moody's Analytics

The forecast calls for growth in collections to accelerate through the end of fiscal 2025, averaging 4.4% for the year. Fiscal 2026 will be slightly stronger as rising real incomes and lower interest rates help improve consumers' finances. As pandemic-era disruptions move further into the rearview, growth in collections will stabilize at levels more consistent with historical performance (see Table 1).

Table 1: November 2024 Sales and Use Tax Forecast

	Q1	Q2	Q3	Q4	Total
Fiscal 2022, $ mil	385.42	412.13	386.92	428.88	1613.34
% change yr ago	28.56	28.71	20.65	11.36	21.69
Fiscal 2023, $ mil	419.91	448.77	412.03	440.84	1721.54
% change yr ago	8.95	8.89	6.49	2.79	6.71
Fiscal 2024, $ mil	443.08	461.56	434.68	451.12	1790.43
% change yr ago	5.52	2.85	5.50	2.33	4.00
Fiscal 2025, $ mil	455.55	481.78	455.69	475.38	1868.40
% change yr ago	2.81	4.38	4.83	5.38	4.35
Fiscal 2026, $ mil	482.82	507.06	478.73	497.66	1966.27
% change yr ago	5.99	5.25	5.06	4.69	5.24
Fiscal 2027, $ mil	504.15	528.34	497.41	516.85	2046.75
% change yr ago	4.42	4.20	3.90	3.86	4.09

Sources: Nevada Legislative Counsel Bureau, Moody's Analytics

Drivers. The key state-level drivers of sales and use tax collections are Nevada personal income, unemployment, and personal consumption expenditures on durable goods; recreational spending at the national level is also included in the model. These drivers are designed to capture cyclical and structural relationships between consumers' confidence in the economy, the resources available to them, and demand generated by the tourism sector.

Personal income is set to rise at a steady rate over the forecast horizon. The labor market remains strong and wage growth continues to exceed inflation. Growth in nominal wage income will gradually decline through 2027, but it will still outpace the national average and be sufficient to lift real incomes. Meanwhile, nonwage income will continue to climb as the state's population grows. Incomes are a major determinant of consumers' ability to spend and their upward trajectory will produce a healthy outlook for Nevada sales and use tax collections.

The business cycle takes on a particularly large role in Nevada, where sales tax revenue is much more volatile than the national average. The inclusion of the unemployment rate helps to account for these rapid shifts. As unemployment rises, confidence suffers and consumers pull back on spending. If this pullback is sharp enough, a recession is the result. Such an increase is not in the cards absent a major disruption to the economy. Instead, the forecast calls for the unemployment rate to gradually decline throughout the forecast as growth in the state's labor force slows below the pace of job creation.

Durable goods expenditures directly capture spending on longer-lasting items such as vehicles, furniture, electronics and appliances. With the exception of vehicle purchases, these are areas in which spending during the pandemic likely came ahead of needs, leading to a lull in demand for new purchases. Elevated interest rates have made purchases financed on credit more expensive than just a few years ago. The drag will lessen as rates gradually fall but is likely giving some consumers pause as they contemplate big-ticket purchases. As interest rates fall, the housing market loosens up, and consumers once again find themselves in need of new items, these expenditures will pick up toward the latter years of the forecast. Vehicle dealer sales are still rebounding from supply constraints last year, but the impact of rising sales will be dampened by downward price pressures.

Price changes will provide less direct support than last year. While overall inflation has largely returned to target, disinflation has been most pronounced for goods rather than services. Lower inflation helps consumers feel more comfortable in their financial situations, but also means that higher prices will not increase nominal revenue to the same extent as previously. The rise in housing costs is also double-edged: Higher housing values will make long-time homeowners more confident in their financial situation, but recent or prospective buyers faced with higher mortgage payments will have fewer resources to spend in other areas.

Finally, U.S.-level expenditures on recreation spending serve as a proxy for demand from Nevada's large tourism sector. Visitors to the state shop at local stores, stay in local accommodations, and eat at local restaurants—all activities that contribute to sales tax revenue. Collections will benefit from a strong performance in tourism and greater spending tied to business travel as well as entertainment such as conventions, concerts and sporting events.

GAMING PERCENTAGE FEES

Forecast. Gaming percentage fee collections have broken records in each of the past three years. The first full year of lifted restrictions on casinos and pent-up demand for tourism drove a remarkable 40% revenue increase in fiscal 2022. Progress since then has been slower. Revenue rose just 0.6% in fiscal 2023. Subsequent growth of 3.1% in fiscal 2024 left total revenue just a hair shy of $1 billion, a level it is expected to reach this year.

Near-term growth will remain uneven. Fiscal 2025 started on a low note, with first-quarter revenue contracting more than 10% relative to the same period a year earlier. This reduction was largely due to unfavorable timing effects. With August ending on a Saturday, some revenue from that weekend was recognized in the following month. Collections are lagged one month, which pushed some revenue into the second quarter. Meanwhile, baccarat continues to add volatility to collections.

Altogether, we expect gaming percentage fee collections to hold flat in fiscal 2025, rising by less than a tenth of a percent. Underlying demand remains strong, but with last year's calendar packed with events—including the Super Bowl and the inaugural Las Vegas Grand Prix—it will be difficult to top fiscal 2024's collections. Further out, growth will improve, with collections anticipated to rise 5.3% in fiscal 2026 and 4.3% in fiscal 2027 (see Table 2). As inflation remains under control and incomes continue to rise, stronger consumer confidence in their financial situations will drive increased recreation spending, including on gaming.

Table 2: November 2024 Gaming Percentage Fee Forecast

	Q1	Q2	Q3	Q4	Total
Fiscal 2022, $ mil	256.53	239.53	208.67	259.48	964.21
% change yr ago	130.67	42.03	72.29	-8.69	40.73
Fiscal 2023, $ mil	245.13	234.89	240.89	249.22	970.13
% change yr ago	-4.45	-1.94	15.44	-3.95	0.61
Fiscal 2024, $ mil	252.28	246.97	255.45	245.25	999.95
% change yr ago	2.92	5.14	6.04	-1.59	3.07
Fiscal 2025, $ mil	220.76	265.67	246.91	266.78	1000.11
% change yr ago	-12.50	7.57	-3.34	8.78	0.02
Fiscal 2026, $ mil	256.48	258.77	258.82	278.92	1053.00
% change yr ago	16.18	-2.60	4.82	4.55	5.29
Fiscal 2027, $ mil	267.43	270.07	270.06	291.03	1098.60
% change yr ago	4.27	4.37	4.34	4.34	4.33

Sources: Nevada Legislative Counsel Bureau, Moody's Analytics

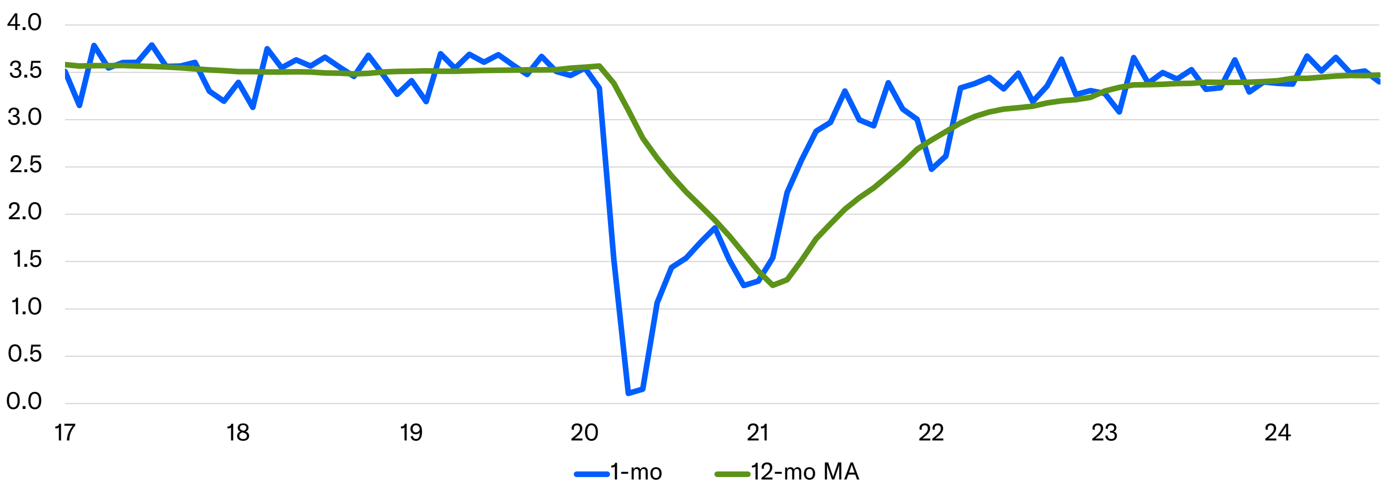
Drivers. Gaming percentage fees tend to have a high correlation with national and global economic trends in contrast to sales taxes, which are highly dependent on local consumer spending. Gaming percentage fees are also more sensitive to the business cycle. To capture these dependencies, the model for gaming percentage fees includes Nevada disposable income and visits to Las Vegas, which are modeled based on national recreational service spending.

Growth in disposable personal income has cooled, both in Nevada and nationally after rising rapidly through 2021. These earlier income gains substantially increased household savings, giving consumers additional resources to devote to leisure travel. Remaining savings appear to be increasingly concentrated at the high end of the income distribution, but those households tend to spend the most on a per capita basis. Likewise, rapid gains in housing values and equity prices have left high-income households significantly better off. With inflation once again under control, even-smaller income gains will go further in supporting household finances across the income distribution.

Las Vegas area hotels are humming. Visitor volumes will gradually increase, but there are a few rough spots. While total visitor numbers are approaching pre-pandemic levels, conference traffic and international visitor volumes have not fully recovered (see Chart 5). Hotel occupancy rates have steadied at around 85%, which is slightly below the pre-pandemic average. The city's hotel capacity will not increase significantly until the Mirage reopens as the Hard Rock in 2027, so the spare capacity will allow visitor numbers to keep growing in the interim. Room rates are rising, showing underlying demand.

Chart 5: Las Vegas Visitor Counts Nearly Recovered

Las Vegas visitor volume, mil



Sources: Las Vegas Convention & Visitors Authority, Moody's Analytics

Domestic travel has been the main driver of Nevada's tourism recovery, but international visitation will continue to improve. Enplanement data from Harry Reid International Airport show progress on this front, with international enplanements up 12% year to date through August, with particularly large increases in passengers from Latin America and Asia. However, economic weakness overseas remains a headwind, delaying further progress beyond this fiscal year. International visitors spend more on average than their domestic counterparts and help to fill hotels midweek, so this is an important demographic for gaming revenue.

Outside of the economic impacts, several structural issues will play a part in the forecast. Sports betting has rapidly expanded across the country, though the loss of monopoly power has not slowed Nevada's broader gaming industry. Sports betting revenue is not rising nearly as rapidly in Nevada as elsewhere but remains substantially above its 2018 level from before it was legalized outside the state. Revenue from sports betting pales in comparison to gaming fee revenue from other types of gambling, so this development is unlikely to be a game-changer. Las Vegas has also been relatively successful in addressing the changing gambling and entertainment landscape by diversifying beyond its traditional gaming image and branding itself more as a comprehensive vacation destination that appeals to a wider range of visitors. As a result, live entertainment and sales and use taxes will grow at the expense of gaming percentage fees.

ABOUT THE AUTHOR

Emily Mandel is an associate director and senior economist at Moody's Analytics where she leads public sector revenue forecasting projects and produces research around public finance as well as state and local government fiscal policy. In this capacity she works closely with a number of governments in an advisory role. In addition, Emily is responsible for covering the economies of Vermont and New Mexico and regularly produces regional macroeconomic forecasts and written analysis. Emily received a master's degree in international and development economics from Yale University and holds a bachelor's degree in economics and international studies from Dickinson College.

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