

REPORT TO THE GOVERNOR AND THE LEGISLATURE ON FUTURE STATE REVENUES

December 2, 2024

Senate Bill 23 of the 67th (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. The seven-member Technical Advisory Committee on Future State Revenues, 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 2, 2024, forecast of unrestricted General Fund revenues for Fiscal Years (FY) 2025, 2026, and 2027.

Methodology and Procedures

Based on the provisions of Assembly Bill 332 of the 76th (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 5, 2023, and June 6, 2024. 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 2023 and FY 2024 revenues against the Forum's May 2023 forecast. During these meetings, the Forum reviewed various economic indicators and received a series of presentations from Legislative Counsel Bureau staff; the Department of Taxation; and the Department of Employment, Training and Rehabilitation.

Governor Joe Lombardo appointed the five members of the Economic Forum in 2024 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 16, 2024; November 7, 2024; and December 2, 2024, to complete its assigned responsibilities and duties regarding the approval of forecasts of unrestricted General Fund revenues for FYs 2025, 2026, and 2027.

The first meeting of the Forum, held on October 16, 2024, was devoted to organizing and reviewing the assigned tasks; reviewing the accuracy of forecasts prepared in December 2022 and May 2023; and determining a course of action for future meetings, including recommending that interest income generated for the State General Fund be included as a major revenue source for consideration by the Forum at the November and December 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, the state's insurance markets, and interest income generated for the State General Fund through the Office of the State Treasurer.

During the November 7, 2024, meeting, the Forum received a presentation on the national, regional, and Nevada economic outlook from Emily Mandel, Associate Director—Senior Economist, Moody's Analytics (an economic consulting firm under contract with the state).

Additionally, at the November 7 meeting, the Budget Division of the Governor's Office of Finance and the Fiscal Analysis Division of the Legislative Counsel Bureau provided preliminary projections and economic analysis for seven major General Fund revenues. The Department of Taxation, the Gaming Control Board, and the Office of the State Treasurer also provided projections and analysis concerning the major revenues for which they 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 2, 2024. 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 2, 2024, meeting, the Forum received revised forecasts and economic analysis from the Budget Division, Fiscal Analysis Division, Department of Taxation, Gaming Control Board, Office of the State Treasurer, 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 2, 2024, forecast is provided in the attached table. A final meeting of the Forum will be scheduled during the 83rd (2025) Legislative Session, on or before May 1, 2025, to make any necessary revisions to the December 2, 2024, forecast.

FORUM

Economic Review

In 2020, the global outbreak of a novel coronavirus abruptly ended a decade of economic expansion in the United States, a period defined by low inflation, declining unemployment, and steady wage growth. The resulting recession, though brief—lasting just two months from February to April, according to the National Bureau of Economic Research—was the shortest on record but caused widespread and severe disruptions. Travel restrictions, quarantines, and other measures implemented globally to contain the virus significantly affected both national and international economies. Within this short period, economic activity ground to a halt, underscoring the pandemic's profound and immediate effects on everyday life and economic stability.

Between the first and second quarters of 2020, nearly 20 million Americans lost their jobs, pushing the unemployment rate from a low of 3.5% in February to a peak of 14.8% in April. This surge was driven by widespread measures to curb the spread of COVID-19, including business closures and operational restrictions. Swift government intervention under both the Trump and Biden administrations helped cushion the economic blow. Programs like the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA), which authorized more than \$4.5 trillion in federal expenditures between March 2020 and March 2021, provided critical stimulus and assistance during the pandemic, including direct payments to households, enhanced unemployment benefits, and business support.

Nevada's response to the COVID-19 pandemic mirrored that of many other states, with Governor Steve Sisolak declaring a state of emergency on March 12, 2020. By the end of the month, most non-essential businesses, including casinos, were ordered to close, and residents were instructed to stay home except for essential activities or outdoor exercise. Restrictions began to ease in April 2020 but were not fully lifted until June of that year. Given Nevada's heavy reliance on the tourism and gaming industries—both of which faced prolonged shutdowns and strict capacity limits upon reopening—the pandemic-induced recession hit the state's economy particularly hard.

In 2020, Nevada's economy faced severe challenges as the state's gross domestic product (GDP) contracted by 5.7%. Nationwide, unemployment rose to 8.1%, but Nevada's unemployment rate was significantly higher at 13.5% for the year. The monthly unemployment data underscores the scale of the crisis. In 2019, Nevada's unemployment rate was a historically low 4.1%. By April 2020, it had soared to 30.6%—the highest unemployment rate ever recorded in both state and U.S. history. Unemployment remained elevated throughout the year, leading to a sharp increase in transfer payments. These payments, which include unemployment benefits and federal relief checks, temporarily accounted for about 30% of Nevadans' personal income, up from about 17% before the pandemic.

The prolonged closure of businesses and capacity restrictions also took a significant toll on Nevada's state budget. On May 18, 2020, \$401.2 million was transferred from the Account to Stabilize the Operation of the State Government to the State General Fund (the entirety of the state's Rainy Day Fund at the time), which was necessary to support the state budget for the remainder of FY 2020. In July 2020, the Legislature convened the first of two special sessions to address budget shortfalls and secure additional revenue for the State General Fund for Fiscal Year 2021. Key measures included redirecting Governmental Services Tax revenue, originally allocated to the State Highway Fund, to the General Fund, requiring an advance payment of the Net Proceeds of Minerals Tax for calendar year 2021 to be paid during FY 2021, and implementing a 90-day tax amnesty program through the Department of Taxation, allowing individuals with unpaid tax liabilities to settle their debts without penalties or interest. These steps were critical to stabilizing state finances amid the economic downturn.

As Nevada entered late 2020, uncertainty about the pandemic's trajectory persisted. Questions loomed over the likelihood of additional outbreaks, the availability and effectiveness of COVID-19 vaccines, and the timing and scale of potential federal stimulus packages. These uncertainties prompted the Economic Forum to project only modest revenue growth for the 2021-23 Biennium during their meetings in December 2020 and May 2021. However, actual State General Fund revenues far exceeded these conservative projections. In the second half of FY 2021, revenues

outpaced the May 2021 forecast by \$221.4 million. The trend continued with even stronger growth in FY 2022 and FY 2023, surpassing projections by \$1.007 billion and \$1.111 billion, respectively. General Fund revenues, before the effect of any tax credits, grew by 8.6% in FY 2021 compared to the prior year, followed by a remarkable 22.0% increase in FY 2022 and a solid 6.3% gain in FY 2023.

The economic rebound came with the gradual lifting of COVID-19 restrictions and was supported by federal aid and stimulus programs, in particular ARPA, which was passed by Congress and signed by President Joe Biden in March 2021. The provisions of this act allocating \$350 billion of Coronavirus State and Local Fiscal Recovery Funds to state and local governments in the U.S., of which approximately \$2.7 billion was allocated to the State of Nevada, have allowed many state programs, which may otherwise have been funded by the State General Fund or other sources, to be funded through these federal dollars through the end of 2026.

These offsets to expenditures historically funded with General Fund dollars, along with the record collections from the State General Fund in FYs 2022 and 2023, allowed the Legislature and Governor to not only increase the maximum amount of money that may be held in the state's Rainy Day Fund during the 82nd (2023) Legislative Session, but also to fully fund this account for the first time in the state's history.

The provisions of ARPA and other federal stimulus programs approved during the pandemic had far-reaching effects beyond those on state government beginning in 2021—nationwide, real GDP increased by 6.1% in 2021; and in Nevada, it increased by 9.9%. Unemployment in Nevada also saw a dramatic improvement—after peaking at 30.6% in April 2020, it dropped to 7.6% within a year as the economy began a partial, restricted reopening, and reached 5.3% by the end of 2021 after the abolishment of all restrictions. National unemployment followed a similar trajectory, rising to 14.8% in April 2020 before falling to 6.1% by April 2021 and improving to 3.9% by the end of the year.

When coronavirus restrictions were lifted in June 2021, consumer demand for goods and services surged. Americans nationwide, along with Nevadans, were eager and, partially

due to the federal transfer payments, financially ready to return to Nevada's gaming and entertainment destinations after months of isolation. In the second half of 2021, monthly visitor numbers in Las Vegas climbed to over 3 million, culminating in total visitor volume exceeding 32 million for the year. While this figure fell short of pre-pandemic levels, the Las Vegas Convention and Visitors Authority (LVCVA) noted a significant shift: post-pandemic visitors arrived with larger budgets for hotel accommodations, dining, shopping, sightseeing, and gambling than before the pandemic. As a result, Nevada's gaming industry experienced record-breaking monthly and annual wins, driving gaming and other tax revenues for the state to unprecedented heights.

By 2022, inflation emerged as a major challenge for the U.S. economy. Strong consumer demand, fueled by the post-pandemic recovery and the significant federal stimulus from 2020 and 2021, collided with a disrupted and realigning supply side. Contributing factors included labor shortages, the restructuring of global supply chains, and energy market volatility following Russia's invasion of Ukraine in the spring of 2022. Although increases in prices would have benefits for the State General Fund beginning in FY 2022, driving up consumption-based excise tax revenues, these dynamics drove inflation to levels far exceeding forecasts. After years of low inflation, the Consumer Price Index (CPI) rose by 4.7% in 2021 after only having increased by 1.2% in the previous year and increased by another 8.0% in 2022.

Starting in March 2022, the Federal Open Market Committee implemented significant increases to the Federal Funds Rate, with a total of eleven separate rate increases totaling 525 basis points between March 2022 and July 2023. These measures aimed to reduce inflation without plunging the economy into a recession, a so-called "soft landing" scenario. When the Economic Forum convened in December 2022 and May 2023 to forecast the 2023-25 Biennium, its projections were largely consistent with the Federal Reserve's soft-landing scenario. The May 2023 forecast anticipated more robust General Fund revenue growth of 5.1% in FY 2023, with more moderate growth in FYs 2024 and 2025.

Actual collections for FY 2023 would still exceed the Economic Forum's May 2023 forecast by \$44.7 million, and despite a more moderate outlook, actual collections for FY 2024 would also exceed the May 2023 forecast by \$264.7 million. Along with significant growth in interest income generated from high interest rates and all-time high revenue collections in the state, several extraordinary events during FY 2024 significantly boosted Nevada's predominantly entertainment-driven economy. In late September 2023, the Sphere opened in Las Vegas with a U2 concert residency, drawing global attention and attracting additional visitors. November 2023 saw the city host its first Formula 1 race, generating worldwide excitement among motorsport enthusiasts. Finally, in February 2024, Las Vegas welcomed the Super Bowl, cementing its reputation as a premier destination for high-profile events.

These exceptional events had a direct effect on the State General Fund through the growth in revenues from the Non-Gaming Live Entertainment Tax, which applies to ticket sales for live entertainment events outside casinos, such as concerts, festivals, and sporting events, though it excludes games played by Nevada-based professional sports teams, such as the Las Vegas Raiders of the National Football League and the Vegas Golden Knights of the National Hockey League. Since the pandemic, revenue from this tax has surged—in FY 2022, it generated \$39.8 million, more than doubling to \$79.9 million in FY 2023 and reaching \$129.3 million in FY 2024.

While the inflation rate remained above the Federal Reserve's 2% target at 4.1% in 2023, it gradually declined throughout 2024, with year-over-year growth of 3.2% through the first half of the year. At the same time, concerns over higher unemployment rates, which have historically tended to correlate to lower inflation rates, have been largely unfounded—the U.S. unemployment rate, which was 3.6% in March 2022 (as the Federal Reserve instituted its first increase of the Federal Funds Rate to combat the growing inflation rate), would stay below 4% for more than two years, only reaching that 4% level by May 2024 and reaching a maximum of 4.3% in July.

With many analysts pointing to the Federal Reserve having achieved their goal of a soft landing, the Federal Reserve implemented two decreases to the Federal Funds Rate (by

50 basis points in September 2024 and by another 25 basis points in November). With the recent election of Donald Trump, who will become the first person to serve as U.S. President in non-consecutive terms since Grover Cleveland began his second term in office in March 1893, and the gain of control of both houses of Congress by the Republican Party in the November general elections, many of these same analysts are now eyeing the proposed policies of the incoming administration and their possible effects on the economy in 2025 and beyond, if enacted.

TABLE 1: SELECTED ECONOMIC INDICATORS - U.S. AND NEVADA
CALENDAR YEARS 2018 - 2023

	2018	2019	2020	2021	2022	2023
<u>U.S.</u>						
Gross Domestic Product (% change)	5.3%	4.3%	-0.9%	10.9%	9.8%	6.6%
Real GDP (% change)	3.0%	2.6%	-2.2%	6.1%	2.5%	2.9%
Employment (Total Nonfarm) (% change)	1.6%	1.3%	-5.8%	2.9%	4.3%	2.3%
Personal Income (% change)	5.1%	4.8%	6.8%	9.2%	3.1%	5.9%
Wages and Salaries (% change)	4.9%	4.8%	1.5%	9.0%	7.9%	5.4%
Consumer Price Index (% change)	2.4%	1.8%	1.2%	4.7%	8.0%	4.1%
Fuels & Utilities (% change)	1.8%	0.4%	0.6%	68.0%	14.5%	2.4%
Food (% change)	1.4%	1.9%	3.4%	3.9%	9.9%	5.8%
Housing Starts (% change)	3.9%	3.2%	6.9%	16.0%	-3.0%	-8.5%
Oil (\$ per barrel)	\$65	\$57	\$39	\$68	\$95	\$78
<u>Nevada</u>						
Gross Domestic Product (% change)	5.7%	7.0%	-4.5%	14.4%	12.7%	8.2%
Real GDP (% change)	3.3%	4.4%	-5.7%	9.9%	4.4%	2.6%
Employment (Total Nonfarm) (% change)	3.3%	2.8%	-9.9%	7.2%	8.3%	3.4%
Personal Income (% change)	6.9%	7.4%	6.9%	12.3%	3.7%	6.6%
Wage Growth (% change)	7.1%	5.4%	-2.5%	14.2%	13.0%	6.3%
Housing Starts (% change)	-2.2%	4.1%	3.3%	19.4%	-14.2%	-10.1%
Las Vegas Visitors (% change)	-0.2%	1.0%	-55.2%	69.4%	20.5%	5.2%

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

Housing

After the turmoil caused by the Great Recession, the U.S. housing market entered a period of stability that lasted for nearly a decade, both in terms of homes sold and home prices. By 2019, the number of existing homes sold nationwide was 4.8 million, and in the prior four years, the number of homes sold per year was within 200,000 of that total.

Though the median family home price increased by just over 23.0% during that period, from \$221,270 in 2015 to \$280,180 in 2019, the average family in the U.S. had little difficulty in affording a single-family home. By the end of 2019, the National Association of Realtors' Housing Affordability Index, which measures whether a typical family earns enough income to qualify for a mortgage, was at 166.13, indicating that on average, the U.S. median family income was 166.13% of the income necessary to qualify for a conventional mortgage with a 20% down payment.

The COVID-19 pandemic, however, caused a fundamental shift in demand for housing, due to a combination of factors, including favorable work-from-home policies offered to many employees and mortgage rates that fell below 3.0% by mid-2020. As a result, throughout 2020 and 2021, existing single-family home sales drastically increased, crossing the 5-million threshold in 2020 (the first year that had occurred since 2006) and reaching 5.4 million in 2021. The increased demand had similar effects on prices—the median home price in the U.S. exceeded \$300,000 for the first time in history by the third quarter of 2020, and by the same quarter in 2021, this price was in excess of \$350,000.

However, this rapid growth in the market was fairly short-lived. By the end of 2021, year-over-year inflation rates were reaching 7.0%, as measured by the CPI, and shortly thereafter, in an effort to reduce this rate, the Federal Open Market Committee announced the first of seven increases to the Federal Funds Rate in 2022—the first increase raised this rate from 0.25% to 0.5% on March 17, 2022, and by the time of the seventh increase on December 14, 2022, the Federal Funds Rate had reached 4.5%. Mortgage rates were quick to respond to these increases, with the 30-year fixed rate, which averaged just above 3% at the end of 2021, increasing to nearly 3.8% in the first quarter of 2022, to almost 5.25% in the second quarter, and by the end of 2022, it was at nearly 6.7%.

These drastic increases in mortgage rates significantly dampened sales in 2022, which fell by 17.2% to a total of just under 4.5 million units. Further contributing to this softening of sales was a lack of an available supply of homes. Nationwide, the housing supply, which had been at or near 4 months for the last half of the previous decade, dropped to

just over 2.5 months by the third quarter of 2020, and was at just over 2 months by the end of 2021. Though the available supply increased to just under 3.25 months by the end of 2022, this indicated a housing supply that was still lower than any point prior to the beginning of the pandemic.

Interest rates continued to increase throughout 2023, with the Federal Funds Rate increasing by 25 basis points on four different occasions between February and July. As a result, the average 30-year mortgage rate stayed above 6.0% for the first half of the year and climbed above 7% by the third quarter. As such, existing single-family home sales fell further in 2023; the 3,659,000 homes sold that year were the fewest sold since 1995.

Despite the low sales in 2022 and 2023, the decreased supply of available housing continued to fuel price increases. The median single-family home price, which was just short of \$400,000 by the second quarter of 2022, fell slightly through the rest of 2022 and into 2023, but would increase sharply afterwards, nearing \$400,000 by the end of 2023 and exceeding that amount by the first quarter of 2024. The combination of high interest rates and record-high home prices would cause another milestone—by the third quarter of 2023, the Housing Affordability Index fell below 100 for the first time, indicating that, on average, the median family income was no longer sufficient to qualify for a mortgage on a single-family home in the U.S.

Through the first half of 2024, existing home sales in the U.S. were at just under 1.8 million units, a 2.6% decrease from the same period in 2023, and mortgage interest rates remained, on average, between 6.75% and 7.0% during that period. With the Federal Open Market Committee lowering the Federal Funds Rate by 50 basis points in September (the first reduction since March 2020, following eleven consecutive increases over a period of sixteen months), Moody's Analytics forecasts that this rate will drop to 6.3% by the end of 2024, and that total sales will reach 3,659,000 units in 2024, the same number of units that were sold in 2023.

Although the median home price continues to increase in 2024, the increases are more moderate than over the past few years—in the second quarter of 2024, it was only at

\$408,000, a 2.3% increase compared to the last quarter of 2023. This, along with reductions in interest rates through the first half of the year, has helped to reverse the decreases in the Housing Affordability Index, which was at 93.00 at the end of 2023, but had increased to 96.28 as of the second quarter of 2024. While this indicates that the average American family has only 96.28% of the income necessary to afford a home mortgage on that median-priced home, it is a sign that, perhaps, the drastic declines in home affordability may be moderating and stabilizing at the national level.

TABLE 2: SELECTED U.S. HOUSING MARKET STATISTICS
CALENDAR YEARS 2018 - 2023

	2018	2019	2020	2021	2022	2023
New Housing Completions (% change)	3.3%	5.9%	2.0%	4.3%	3.6%	4.6%
Sales of New Single-Family Homes (% change)	0.7%	10.5%	20.4%	-6.1%	-16.9%	3.9%
Median Existing Single-Family Home Price (% change)	4.8%	5.0%	9.7%	18.4%	10.2%	0.6%
Sales of Existing Single-Family Homes (% change)	-3.1%	0.5%	6.3%	6.8%	-17.2%	-18.3%
Housing Affordability Index (% change)	-7.2%	9.4%	5.9%	-12.3%	-26.4%	-11.7%
Average 30-Year Fixed Mortgage Rate (%)	4.54%	3.93%	3.11%	2.96%	5.33%	6.80%
Total Mortgage Originations (% change)	-4.8%	32.7%	83.4%	9.7%	-48.9%	-36.0%
Total Mortgage Loans Delinquent (% change)	-0.8%	90.0%	1.4%	0.7%	0.3%	1.3%
Total Foreclosures Started (% change)	-4.7%	-10.9%	-70.0%	-48.1%	371.4%	-9.1%
Supply of Existing Single-Family Homes (Months)	3.96	3.89	3.03	2.18	2.63	3.08

Sources: National Association of Realtors, U.S. Census Bureau, Federal Home Loan Mortgage Corporation (Freddie Mac), Mortgage Bankers Association

In Nevada, housing supply has been a concern for much of the last decade, with the available supply of homes dropping to close to 1 month in Southern Nevada by early 2018 (from a level of nearly four months at the beginning of 2016). As a result, sales of existing single-family homes, which neared 58,000 units in 2017, decreased to 54,500 units in 2018. Though available inventory in Southern Nevada increased to above 2 months for much of 2019, it was not enough to spur additional sales, as statewide sales decreased to 51,600 total units in 2019. Because of these relative shortages in the housing supply, home prices also continued to increase during that period. The median home price, which was at just over \$280,000 at the end of 2017, crossed the \$300,000 mark by the end of 2018 and approached \$322,000 by the end of 2019.

These conditions did not immediately change as a result of the pandemic. Single-family home sales, still constrained by supply shortages that reached as low as 1.5 months in

Southern Nevada in mid-2020, continued to decrease in 2020 to 47,350 units (the lowest total since 2008). Because of these continued supply constraints, the median home price continued to climb—by the end of 2020, the price reached \$358,000, more than 11.0% higher than the end of 2021.

Though calendar year 2020 did not result in increased demand in housing in Nevada, 2021 was a different story, as sales for that year reached nearly 60,000 units for the first time since 2013. Though mortgage rates reached their historical lows at the end of 2020, rates remained in the 3% range for much of the year, encouraging buyers (at least one-third of whom came from out-of-state) to make home purchases in Nevada.

Because a significant number of these out-of-state buyers came from California and other markets with higher housing costs, the relatively lower costs of homes may have led these buyers to perceive their new homes in Nevada as being more affordable, even as the median home price increased to \$440,000 by the end of 2021. By the first quarter of 2022, though, as mortgage rates made their first big jump to 3.8% and the median home price surged to over \$470,000, Nevada's Housing Affordability Index, as estimated by Moody's Analytics, dropped below 100.00 for the first time since the fourth quarter of 2007 (the quarter in which the Great Recession officially began, according to the National Bureau of Economic Research). This metric meant that by the beginning of 2022, the average Nevada family could no longer afford a home mortgage, given average mortgage rates and home prices.

From the standpoint of affordability, 2022 and 2023 were no better in Nevada. The Housing Affordability Index continued to fall, reaching 76.00 by the end of 2022 and just above 70.00 by the end of 2023 (meaning that the average family can only afford to make just over 70.0% of the mortgage payment for a median-priced home). This decline was largely fueled by increases in mortgage rates (which continued to climb through this period, peaking at 7.3% at the end of 2023) and the median home price (which increased to \$482,000 by the third quarter of 2022 and fell to just under \$436,000 in the first quarter of 2023, before increasing again to \$469,000 by the end of the year).

Not surprisingly, single-family home sales also suffered during this period—in 2022, sales dropped by more than a third (to 39,600 units), and in 2023, they fell again by more than 30%, to 27,200 units.

For the first two quarters of 2024, existing single-family home sales, as estimated by Moody's Analytics, have increased by 6.4% compared to the same period in 2023. This can be attributed to a number of possible factors, including moderations in the growth in the median home price (which increased by only \$7,000 between the end of 2023 and the middle of 2024) and reductions in the mortgage rate (from 7.3% at the end of 2023 to just under 7% in mid-2024).

While further reductions in interest rates may help spur home sales in 2024 and beyond, continued shortages of existing housing inventory may exert further upward pressure on prices, especially as a lack of available land limits the ability of developers to build enough new homes to meet the demand. However, efforts at the state and federal level to address the affordability of housing for Nevadans, including the dedication of \$500 million of State and Local Fiscal Recovery Funds from ARPA to affordable housing in late 2022, as well as efforts from Governor Lombardo and Nevada's Congressional Delegation to make more public lands in Nevada available for development, are likely to allow Nevadans more options in housing that are within their budgets over the next several years.

Inflation Trends and Policy Responses in the U.S.

In the last two years, the U.S. has seen inflation surge to levels not seen in decades, driven primarily by supply chain disruptions, strong consumer demand, and geopolitical tensions. Initially, it was expected that these imbalances would resolve themselves in 2022 and that the inflation would thus be transitory; however, inflation proved to be persistent well beyond the end of that year.

After decades of low inflation, prices began to rise sharply in late 2021, surging in early 2022 to levels unseen since the early 1980s. By March 2022, the CPI had risen 8.5% year-over-year, peaking at 9.0% in June 2022, the highest annual increase in over

four decades. Price increases were widespread, affecting key categories like housing, energy, and food, with nearly every segment of the economy experiencing notable inflation.

In response, the Federal Reserve began to implement a series of aggressive rate hikes raising the Federal Funds Rate from near zero in early 2022 to a target range between 5.25% and 5.5% by the end of 2023. This tightening aimed to curb inflation by cooling economic activity and reducing the overall demand for goods and services.

The effects of the Federal Reserve's rate hikes continued to influence the economy in 2023. In 2023, the inflation rate stood at 4.1%, a significant decrease from the previous year's average of 8.0%. However, it remained well above the Federal Reserve's 2.0% target, which aligns with its dual mandate of promoting maximum employment and maintaining stable prices. Although inflation remained above target, it began to show signs of moderation as rising borrowing costs curbed consumer spending and business investments, marking steady progress from the previous year's highs. Although the overall inflation trend was declining, certain sectors, particularly food and services, continued to experience price pressures driven by rising wage costs. Yet the steady CPI decline through 2023 demonstrated the gradual effectiveness of the Federal Reserve's policies.

By October of this year, the CPI has fallen to 2.6% year-over-year and as inflation has eased, it has allowed the Federal Reserve to reassess its monetary policy stance. So far in 2024, the Federal Reserve has implemented two rate cuts, a 50-basis point reduction in September followed by another 25-basis point cut in November. This may be suggesting the U.S. is successfully achieving a "soft landing"—a policy outcome where inflation is controlled without triggering significant unemployment increases.

Inflation has continued its downward trend in 2024, driven by easing supply chain disruptions, stabilizing energy prices, a cooling labor market, and tighter monetary policies implemented by the Federal Reserve. However, some sectors, such as housing and healthcare, still face upward price pressures due to persistent demand and labor shortages. These dynamics highlight the complex nature of the current economic recovery.

Employment

From 2022 to 2024, the U.S. labor market displayed remarkable recovery and resilience following the disruptions of the COVID-19 pandemic. This period was characterized by tight labor conditions, sustained job growth, and evolving challenges that influenced the pace of recovery across various sectors. In 2022, the labor market rebounded strongly from the pandemic, adding millions of jobs and pushing unemployment rates to near-historic lows. This robust recovery continued into 2023 but began to moderate as the Federal Reserve's interest rate hikes cooled the economy. In 2024, the labor market showed further stabilization despite economic uncertainties. Job creation continued but at a slower pace than in the immediate post-pandemic years. As of October 2024, the national unemployment rate stood at 4.1%, remaining steady over recent months but slightly higher than the sub-4% levels observed earlier in the year. This reflects a stable, yet slightly softened labor market compared to pre-pandemic levels, which saw a 3.7% unemployment rate in 2019.

As of September 2024, the Job Openings and Labor Turnover Survey (JOLTS) reports a job openings-to-unemployed workers ratio of 1.1. This represents a significant decline from the pandemic-era highs of around 2.0 in 2022, meaning there were two job openings for every jobseeker. The drop suggests an easing of labor market pressure as the demand for workers balances more closely with the available labor supply. This shift reflects a moderation in hiring amid slower economic growth, as employers become more cautious about adding positions. While job openings remain ample, the current ratio indicates a gradual normalization compared to the tightness observed in recent years.

As of October 2024, the U.S. economy continues to surpass pre-pandemic employment levels, with total nonfarm payroll employment exceeding February 2020 figures by approximately 6.7 million jobs. This reflects significant economic recovery and widespread job creation. While most industry sectors have fully recovered and now employ more workers than before the pandemic, a few sectors remain below pre-pandemic levels. Compared to February 2020 levels, employment in mining and logging has decreased by 46,000 jobs, accommodation and food services has decreased by 65,400 jobs, and the other services sector has decreased by 15,000 jobs.

In October, employers added just 12,000 jobs nationally, influenced by hurricanes and strike activity that temporarily reduced payrolls. This stands in contrast to the average of 194,000 jobs added per month over the prior twelve months. October's job gains were up 1.4% compared to the same time last year. Year-to-date, job gains have averaged 170,000 per month. For comparison, from January to October 2023, the monthly average was 254,000 jobs. While this marks a significant drop from the elevated figures seen in 2023, it aligns more closely with pre-pandemic norms.

Since the start of the year, the U.S. job market has continued to grow across various industries, albeit at a slower pace than in previous years. The private education and health services sector has been at the forefront of job gains, fueled by increasing demand for healthcare and caregiving services, with an average of 79,000 jobs added per month. The leisure and hospitality industry has also made notable progress in its post-pandemic recovery, adding an average of 17,000 jobs per month. The retail trade sector has seen modest gains, averaging 5,000 new jobs per month. Construction employment has expanded steadily, with an average of 19,000 jobs added monthly, supported by government infrastructure investments and persistent housing demand. In contrast, manufacturing has experienced mixed results, stemming from shifting demand and supply side factors. On average, manufacturing has recorded a decline of 9,000 jobs per month so far this year.

This year, wage growth has shown moderation with average hourly earnings hovering around 4% year-over-year growth. This has marked a slight cooling compared to earlier wage surges, indicating alignment with broader economic conditions as inflation has continued to ease.

Nevada's labor market closely reflects national trends while facing unique challenges. Last year, the average unemployment rate in Nevada was 5.1%. For comparison, the jobless rate averaged 5.2% in 2022. The latest data from the U.S. Bureau of Labor Statistics indicates that the seasonally adjusted unemployment rate rose to 5.7% in October, marking the highest rate nationwide, matched only by the District of Columbia. The gap between the national and Nevada unemployment rates has widened to

1.6 percentage points. Nevada's unemployment rate remains higher than the national average due to a combination of economic factors unique to Nevada. The accommodations and food services sector, which plays a dominant role in Nevada's economy, has faced significant challenges in achieving recovery during the post-pandemic period.

Earlier in 2024, there were 1.0 job openings per unemployed worker in Nevada, reflecting a decline from the more pronounced tightness in prior months and years but still highlighting a competitive labor market. By September 2024, this ratio was closer to 0.8, signaling further normalization as hiring slows and unemployment levels stabilize. This gradual shift aligns with broader trends across the U.S., where labor demand has moderated, and job openings have decreased in response to slowing economic growth.

Nevada's labor market has seen an uptick in participation as more people have re-entered the workforce since the pandemic. However, the overall labor participation rate remains lower than pre-pandemic levels due to several factors. Demographic shifts, including an aging population, have naturally reduced workforce engagement. Recovery challenges in industries such as hospitality, along with a skills gap between job seekers and opportunities in growing sectors, have also contributed to this decline.

While the rising labor force participation rate is a positive sign of economic activity, it temporarily raises the unemployment rate as these job seekers may not immediately find work. Additionally, Nevada's economy, heavily reliant on discretionary spending in tourism-dependent industries, remains vulnerable to fluctuations in national and global demand. This sensitivity exacerbates unemployment during periods of economic uncertainty. Efforts to diversify Nevada's economy with growth in sectors like manufacturing and professional services are underway, but the transition is gradual and limited in its ability to offset challenges in hospitality and related industries.

Nevada's job market recovery surpassed pre-pandemic levels by 133,500 jobs overall according to the U.S. Bureau of Labor Statistics' October preliminary report. Over the last 12 months, Nevada's employment growth was 1.3%, similar to the national rate of 1.4% and modest compared to previous recovery periods. All industry sectors have

surpassed pre-pandemic employment levels, except for the leisure and hospitality sector, which remains 1,100 jobs below February 2020 levels. This shortfall is primarily driven by the accommodation and food services subsector, which is still down by 8,900 jobs.

Nevada's employment growth has been slowing down from the strong gains experienced in the post-pandemic recovery. Job growth in 2024 year-to-date has averaged just 600 jobs per month, marking a sharp slowdown compared to the 4,800 jobs per month added during the same period last year. Industries such as leisure and hospitality are still grappling with the lingering effects of the pandemic, with the sector experiencing a slight decline this year, losing an average of 200 jobs per month so far this year. The construction industry has seen modest growth, adding an average of 600 jobs per month in 2024, similar to last year's average of 500 jobs per month. While the manufacturing sector has averaged only 100 jobs added per month so far this year, it still saw a strong 3.9% increase in employment in October compared to the previous year, highlighting steady growth despite the modest monthly gains. Retail employment has remained relatively stagnant since recovering from the pandemic. This sector has faced several challenges, including the growing shift toward online shopping, which reduces demand for brick-and-mortar retail stores, and the rising cost of living, which has curbed retail spending. However, wage growth in Nevada exceeds national trends. Average hourly earnings increased by 5.4% over the year in October, marking one of the largest increases so far this year.

In summary, the labor market between 2022 and 2024 demonstrated considerable recovery from pandemic-related disruptions. Both nationally and in Nevada, employment surpassed pre-pandemic levels. While the labor market shows signs of moderation, these trends suggest a stabilizing economy that may provide a foundation for more sustainable long-term growth.

Consumer Spending

Consumer spending has played a pivotal role in supporting economic growth since the U.S. emerged from the 2020–2021 COVID-19 pandemic. Accounting for over two-thirds of GDP, strength in consumer spending has at times made up for softness in other areas

of the economy. Households accumulated excess savings during the pandemic, fueled by a combination of federal fiscal stimulus (including direct financial relief to individuals) and a lack of spending opportunities due to widespread lockdowns and business closures. According to research done by the Federal Reserve Bank of San Francisco, between March 2020 and August 2021 households accumulated \$2.1 trillion in excess savings. The personal savings rate, as measured by the U.S. Bureau of Economic Analysis, peaked at 15.1% in 2020 before falling to 10.9% in 2021 and 3% in 2022. The savings rate then rose slightly and has been hovering around 5% since early 2023.

Consumer spending, adjusted for inflation, spiked 8.8% nationally in 2021 compared to the prior year as the economy recovered and Americans emerged with flush pocketbooks and pent-up demand. However, this surge in demand collided with supply chain disruptions, labor shortages, and rising energy costs, together fueling inflation to its highest levels in four decades by mid-2022. In response, the Federal Open Market Committee began aggressively raising interest rates to curb inflation, leading to a slowdown in consumer spending growth. After adjusting for inflation, real consumer spending grew just 3% in 2022 and 2.5% in 2023.

Despite challenges from high prices and elevated interest rates, American consumers remained a key driver of economic growth in 2023 and 2024. Through the first three quarters of 2024, consumer spending was the largest contributor to gains in real GDP. In the third quarter of 2024, consumer spending increased at an annualized rate of 3.7%, marking the fastest pace since early 2023. While spending on goods surged during the later stages of the pandemic, rising 11.3% in 2021 after adjusting for inflation, real spending on goods fell by 0.6% in 2022 before modestly rebounding by 1.9% in 2023. In contrast, inflation-adjusted services spending has remained more stable, growing by 5.0% in 2022 and 2.9% in 2023, reflecting sustained demand in areas like travel, dining, and entertainment.

The fluctuating relationship between goods and services spending has also been evident in Nevada, with spending on goods rising 3.0% in 2023 while services gained 7.6%. A slowdown in the purchasing of goods, as well as moderating inflation since the start of

FY 2024, help explain some of the deceleration in Sales and Use Tax collections in Nevada. While sales tax collections grew by a staggering 21.7% in FY 2022, growth pared back to 6.7% in FY 2023 and further moderated to 4.0% in FY 2024. Easing inflation takes some of the pressure off price growth and is thus less of a contributor to continued growth in tax collections, while still-high interest rates are a drag on durable goods spending. With the Federal Reserve signaling a possible slow-and-steady approach to monetary policy easing, taxable sales in Nevada may stabilize over the coming years.

As inflation pressures have eased, wage growth has emerged as a bright spot heading into late 2024. Nationally, wage growth has outpaced inflation each month for the last year and a half, even alongside some softening in the historically tight labor market. As this trend continues, consumers are gradually regaining purchasing power. However, this positive momentum is tempered by rising household debt and a growing rate of credit card delinquencies, which are currently at levels not seen since 2013. Mortgage rates remain elevated even as benchmark interest rates have begun receding, keeping housing costs, and pressure on household budgets, high. The Federal Reserve Bank of San Francisco estimates that households spent down all of the excess savings accumulated from the pandemic by early 2024. As households have less savings and more debt, strength in consumer spending in the coming years will likely depend on continued income growth.

Moody's Analytics expects real GDP to increase 2.7% nationally in calendar year 2024 before pulling back slightly to 2.2% growth in 2025, followed by 2.0% growth in 2026 and 2.2% growth in 2027. Real consumption expenditures are expected to follow a similar pattern—after rising by 2.7% in 2024, there is expected to be 2.6% growth in 2025 and 2.1% growth in both 2026 and 2027. Overall economic growth is expected to remain somewhat higher in Nevada than the nation, with Moody's Analytics forecasting 3.1% real GDP growth in Nevada in calendar year 2024 and 3.2% growth per year in 2025, 2026, and 2027.

In Nevada, consumer spending is supported by out-of-state visitors, particularly those visiting Southern Nevada. In 2019, the LVCVA reported 42.5 million visitors to Las Vegas, or more than 3.5 million per month on average. This figure collapsed to 19 million visitors in 2020 due to the pandemic but has been gaining ground ever since. Las Vegas surpassed 40.8 million visitors in 2023, and through October 2024 visitation is up 2.9% from last year with average monthly visitors approaching, but not yet hitting, the 3.5 million seen in 2019. While the number of visitors has not yet surpassed pre-pandemic levels, the amount visitors are spending in the state has. The LVCVA estimates \$1,261 in spending per visitor in 2023 compared to \$867 per visitor in 2019. Even after adjusting for inflation, that represents an increase in per-visitor spending of 22%.

The strong growth in tourism seen in 2023 and 2024 may prove challenging to repeat in the coming years, as 2023 was supported by the inaugural Formula 1 race in Southern Nevada while 2024 saw the Super Bowl held at Allegiant Stadium. The lack of large international events like trade shows during the pandemic has created lingering challenges for Las Vegas' convention and trade show industry, and mid-week convention attendance has not recovered to the same extent as overall visitation. The city's diversification into sports and entertainment should continue to provide a stabilizing influence, although the A's baseball team is not expected to begin playing in Southern Nevada until 2028, which is outside of the current forecast window. With fewer new events and venues on the horizon and more moderate economic growth nationally, visitation growth may normalize around pre-pandemic levels in the coming years.

General Fund Revenue Forecast—Fiscal Years 2025, 2026, and 2027

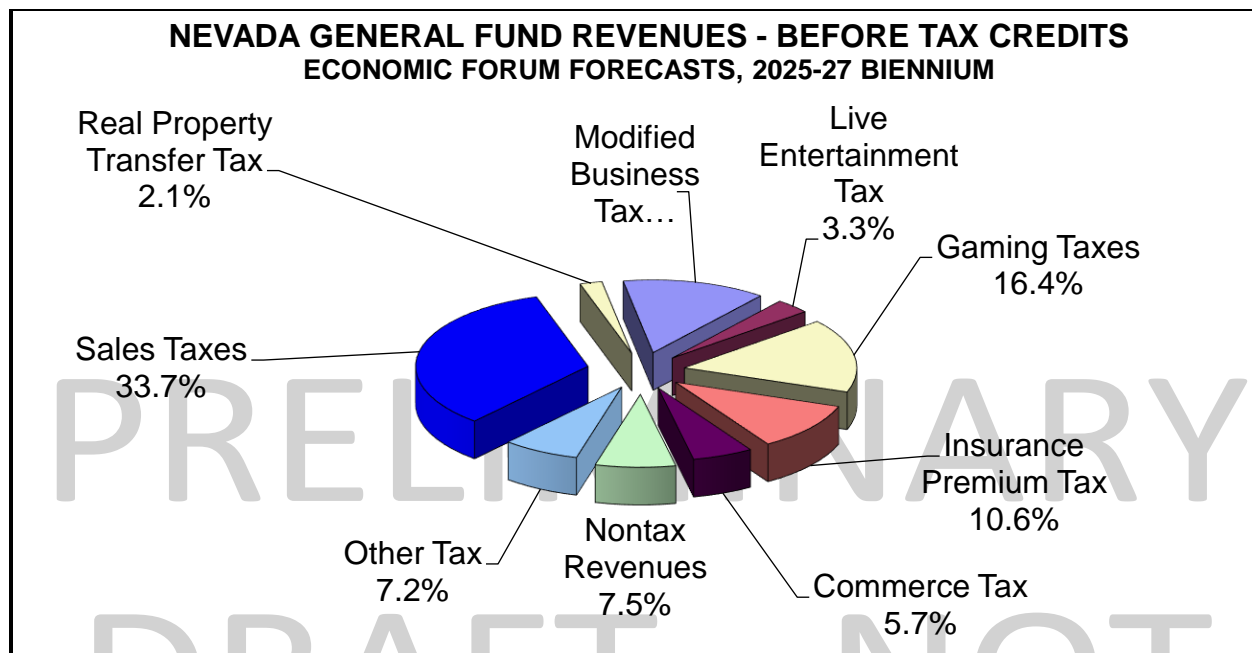
At the December 2, 2024, meeting, the Economic Forum took into consideration presentations made at the meetings on October 16, 2024, and November 7, 2024. These presentations included the Nevada employment outlook made by David Schmidt from the Department of Employment, Training and Rehabilitation and 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, the Office of the State Treasurer, 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/Interim2023/Committee/1973/Overview>.)

Based on consideration of the information that was provided to the Forum at these meetings, the following forecast was approved at the December 2, 2024, 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 2026 and \$x.xxx billion for FY 2027. The 2025-27 biennial total of \$xx.xxx billion is x.x% higher than the current revised estimate for FY 2025 and the actual collections for FY 2024 of \$xx.xxx billion for the 2023-25 Biennium.

As you will note in the chart below, gaming taxes are forecast to provide xx.x% of all General Fund revenues during the 2025-27 Biennium before the application of tax credits, 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 2025-27 Biennium before the application of tax credits, an increase/a decrease from the xx.x% currently estimated for the 2023-25 Biennium. Modified Business Tax collections are forecast to provide xx.x% of all General Fund revenues during the 2025-27 Biennium before the application of tax credits, an increase/a decrease from the xx.x% currently estimated for the 2023-25 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 2025, a x.x% increase/decrease from FY 2024 levels. Sales taxes are expected to increase by x.x% in FY 2026 and increase by x.x% in FY 2027. These forecasts result in projected total sales tax receipts of \$x.xxx billion during the 2025-27 Biennium.

Gaming Percentage Fee Tax

Total gaming percentage fee tax revenues are forecast to reach \$xxx.x million in FY 2025, a decrease of x.x% from actual FY 2024 collections. From this base, the tax is estimated to increase by x.x% in FY 2026 and increase by x.x% in FY 2027 to yield revenues of \$x.xxx billion for the General Fund during the 2025-27 Biennium.

Modified Business Tax

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 2025, an increase of x.x% from actual FY 2024 collections. Modified Business Tax collections are estimated to increase by x.x% in FY 2026 and increase by x.x% in FY 2027, which results in total revenues of \$x.xxx billion for the General Fund during the 2025-27 Biennium.

Collections for the Modified Business Tax are additionally estimated to be reduced by \$x.x million in FY 2025, \$x.x million in FY 2026, and \$x.x million in FY 2027, 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 \$x.x million in FY 2025, an increase of x.x% from actual FY 2024 collections. From this base, the tax is estimated to increase by x.x% in FY 2026 and increase by x.x% in FY 2027 to yield revenues of \$x.xxx billion for the General Fund during the 2025-27 Biennium.

Live Entertainment Tax

Total Live Entertainment Tax revenues from gaming and nongaming establishments are forecast to reach \$xxx.x million in FY 2025, an increase/a decrease of x.x% from actual FY 2024 collections. From this base, the tax is estimated to increase/decrease by x.x% in FY 2026 and increase/decrease by x.x% in FY 2027 to yield revenues of \$xxx.x million for the General Fund during the 2025-27 Biennium.

Real Property Transfer Tax

Total Real Property Transfer Tax revenues are forecast to reach \$xxx.x million in FY 2025, an increase of x.x% from actual FY 2024 collections. From this base, the tax is estimated to increase by x.x% in FY 2026 and increase by x.x% in FY 2027 to yield revenues of \$xxx.x million for the General Fund during the 2025-27 Biennium.

Commerce Tax

Total Commerce Tax revenues are forecast to reach \$xxx.x million in FY 2025, an increase of x.x% from actual FY 2024 collections. From this base, the tax is estimated to increase by x.x% in FY 2026 and increase by x.x% in FY 2027 to yield revenues of \$xxx.x million for the General Fund during the 2025-27 Biennium.

As approved by the Legislature during the 78th (2015) Legislative Session, taxpayers who have a Commerce Tax liability in a preceding fiscal year are entitled to take a credit of up to 50% of that liability against the Modified Business Tax in the current fiscal year. Based on the actual FY 2024 Commerce Tax collections of \$343.1 million, actual and projected revenue based on FY 2024 taxable activity but not collected until FY 2025, and historical usage of these credits against the Modified Business Tax, the Commerce Tax Credit is estimated at \$xx.x million in FY 2025.

The Commerce Tax Credit is estimated to be \$xx.x million in FY 2026 and \$xx.x million in FY 2027, which yields total Commerce Tax Credits of \$xxx.x million taken against the Modified Business Tax during the 2025-27 Biennium.

Interest Income—Treasurer

Total revenue generated from interest income is forecast to reach \$xxx.x million in FY 2025, an increase/decrease of x.x% from actual FY 2024 collections. From this base, this revenue is estimated to increase/decrease by x.x% in FY 2026 and increase/decrease by x.x% in FY 2027 to yield revenues of \$xxx.x million for the General Fund during the 2025-27 Biennium.

Tax Credit Programs

Total credits from all other tax credit programs authorized by the Legislature are forecast to reduce General Fund revenues by \$51.0 million in FY 2025, by \$72.3 million in FY 2026, and by \$83.2 million in FY 2027. The total forecast of \$155.5 million in tax credits for the 2025-27 Biennium results in a reduction in General Fund revenue of \$66.2 million compared to the \$89.3 million in tax credits estimated for the

2023-25 Biennium, based on the actual credits taken in FY 2024 and the revised estimates for FY 2025.

Total General Fund Revenues

Total Nevada General Fund revenues, after the application of all tax credits, are forecast at \$x.xxx billion for FY 2026 and \$x.xxx billion for FY 2025. The 2025-27 biennial total of \$xx.xxx billion is x.x% higher than the current revised estimate for FY 2025 and the actual collections for FY 2024 of \$xx.xxx billion for the 2023-25 Biennium, after the application of all tax credits. This results in an estimated \$xxx.x million increase in total General Fund revenues between the 2023-25 Biennium and the 2025-27 Biennium.

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