

MINUTES OF THE NOVEMBER 7, 2024,  
MEETING OF THE  
ECONOMIC FORUM

The meeting of the Economic Forum (created by Senate Bill 23 of the 67<sup>th</sup> [1993] Legislature) was called to order by Chair Linda Rosenthal at 9:24 a.m. on Thursday, November 7, 2024, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 335 of the State of Nevada Building, 700 East Warm Springs Road, Las Vegas, Nevada.

**ECONOMIC FORUM MEMBERS PRESENT:**

Linda Rosenthal, Chair  
Jennifer Lewis, Vice Chair  
Michael Crome  
Brian Gordon  
Marvin Leavitt

**STAFF:**

Michael Nakamoto, Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau (LCB)  
Susanna Powers, Deputy Fiscal Analyst, Fiscal Analysis Division, LCB  
Christian Thauer, Deputy Fiscal Analyst, Fiscal Analysis Division, LCB  
Hayley Owens, Economist, Fiscal Analysis Division, LCB  
Maria Montes, Committee Secretary, Fiscal Analysis Division, LCB  
Bronwyn Johnson, Committee Secretary, Fiscal Analysis Division, LCB  
Mauricio Solorio Arteaga, Ph.D., Economist, Governor's Finance Office

**EXHIBITS:**

[Exhibit A:](#) Meeting Packet and Agenda  
[Exhibit B:](#) Agenda Item VII – Table 8 – Comparison of May 1, 2025; December 2, 2024; and November 7, 2024, Forecasts by Forecaster (Revised)  
[Exhibit C:](#) Agenda Item VII – Gaming Control Board, Gaming Revenue Forecasts  
[Exhibit D:](#) Agenda Item VII – Governor's Finance Office Forecast  
[Exhibit E:](#) Agenda Item VII – Fiscal Analysis Division Forecast Information Packet  
[Exhibit F:](#) Agenda Item VII – Department of Taxation, Major Revenue Forecasts

**I. ROLL CALL.**

BRONWYN JOHNSON (Committee Secretary, Fiscal Analysis Division, LCB) called roll. All members were present.

**II. OPENING REMARKS.**

CHAIR ROSENTHAL:

My name is Linda Rosenthal, Chair of the Economic Forum (Forum). I would like to welcome my fellow Economic Forum members, presenters, staff, and any public participants to the November 7, 2024, meeting of the Forum. I would also like to thank

LCB staff for their assistance with today's meeting. I would ask Michael Nakamoto, Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB, as staff to the Forum, to assist me as needed in conducting today's agenda.

The Forum is required to provide a forecast of unrestricted General Fund revenue for the current fiscal year, which is Fiscal Year (FY) 2025, and for FY 2026 and FY 2027, on or before December 3<sup>rd</sup>. In compliance with that mandate, the Forum will be meeting on Monday, December 2, 2024, to finalize the unrestricted General Fund revenue forecast. Today's meeting will include a presentation by Emily Mandel from Moody's Analytics (Moody's) on Moody's current economic outlook and forecasts for the sales and gaming taxes, as well as presentations of preliminary forecasts of the state's major General Fund revenue sources and minor General Fund revenue sources, which were approved by the Technical Advisory Committee on Future State Revenues (TAC) at its November 4, 2024, meeting.

The Forum will not formally approve any forecasts at today's meeting. This meeting is intended to allow the forecasters to present their preliminary forecasts and the assumptions or outlook used in generating those forecasts. On December 2, 2024, the Forum will meet to finalize the General Fund forecasts, which will be used by the Governor in developing The Executive Budget and subsequently be submitted to the Legislature for the 83<sup>rd</sup> (2025) Legislative Session.

There was no further discussion on this item.

### **III. PUBLIC COMMENT.**

There was no public comment.

### **IV. APPROVAL OF MINUTES OF THE JUNE 6, 2024, MEETING.**

MR. LEAVITT MOVED TO APPROVE THE MINUTES OF THE JUNE 6, 2024, MEETING.

MR. CROME SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY WITH THE MEMBERS PRESENT.

### **V. PRESENTATION ON THE NATIONAL, REGIONAL, AND STATE ECONOMIC OUTLOOK.**

EMILY MANDEL (Associate Director – Senior Economist, Moody's Analytics):

It is always good to discuss the economic outlook, and I think this one comes at an interesting time. Given the 2024 General Election results, there may be some changes to the forecast. Those changes will be incorporated into Moody's December 2024 baseline. Unfortunately, that will be after the December 2, 2024, Forum meeting, so I will try to make some adjustments before that meeting to ensure that Moody's incorporates

some of the revisions to the outlook that might be expected given the election results. I will discuss those prospective revisions later in the presentation.

There is still uncertainty, of course, as to the actual policies and legislation that will come about; however, the full party control clears the way for some more significant changes than anticipated in Moody's previous baseline. That will be one factor that will underline the preliminary nature of these initial forecasts that have been provided to the Forum.

Over the past year or two, the discussion concerning a recession has shifted quite a bit, from questioning whether the United States was experiencing a recession to elevated recession risks, and finally, questioning whether the nation had reached a soft landing. There has been much discussion about the definition of a soft landing—does it mean that interest rates are coming down, once there is full employment, once inflation is back to target, or is it that interest rates are back to a neutral rate, which they are not. Regardless, the U.S. is on the path towards that soft landing based on current economic data.

The Federal Reserve has a dual mandate—to promote maximum employment and stable prices. There are two lines on the chart on page 38 of the meeting packet ([Exhibit A](#))—the blue line represents the unemployment rate, and the green line represents the Personal Consumption Expenditures (PCE) deflator. The unemployment rate is hovering around 4.0%, which is in line with Moody's expectations for a full employment economy. The PCE is the Federal Reserve's preferred metric of inflation, similar to the Consumer Price Index, but with some differences. The PCE is currently near 2.0%, which is expected in a well-functioning economy.

Recently, the unemployment rate has increased slightly, but that is by design. The labor market has been very tight, which was fueling some of the price increases and strong wage gains but also going into higher prices that I think are still one of the major difficulties that households are facing in this economy. There are some other areas of fairly strong performance in the economy that I think are worth mentioning. Strong business formations have taken off since the COVID-19 pandemic. Just seeing that kind of entrepreneurship and vitality in the economy bodes well and is one of the reasons there has been fairly strong growth in productivity in the economy, which is a positive outcome. In addition, the Gross Domestic Product (GDP) is growing at a solid 3.0% per year. Thus, by and large, many of these metrics are moving in the right direction. The U.S. is in a stronger position from these metrics than a year or a year and a half ago.

The last portion of this to ensure that the United States remains in a strong position is the further easing in interest rates (page 39, [Exhibit A](#)). The interest rates include the federal funds rate, which is the rate the Federal Reserve directly targets; the 10-year U.S. Treasury; and the 30-year fixed mortgage. These rates have started to drop—there has already been one cut and additional cuts are anticipated. This is one area that could potentially be impacted. The Federal Reserve might move more slowly based on the election results, but either way, the rates are coming down, bringing them a little further out of the restrictive territory.

Moody's baseline—the numbers that are underlying these forecasts—anticipate an additional quarter percentage point cut in 2024 and then another quarter percentage point cut each quarter until the policy rate levels off in mid-2026 into that equilibrium level shown on the chart.

I think it is important not to overstate the speed with which this decline in interest rates will support the economy. The current economy is fairly rate insensitive. People have locked in a lot of lower rates, especially related to housing. Many people still have lower mortgage rates from the start of the pandemic, or pre-pandemic, when mortgage rates were significantly lower. Even corporations that are refinancing debt that is on a shorter timeline, if the debt was issued three to five years ago, those were periods when the interest rate was lower; therefore, refinancing will likely be at a higher rate than those earlier debts. It will take time to filter through until the impacts are seen. However, it is progress and movement in the right direction. It takes some of the risk off the economy.

A lot of what has been driving the economy, Nevada in particular, is consumer spending—how consumers have been faring in this economy, how consumers are expected to fare. The chart on page 40 of the meeting packet provides an interesting look into how different segments of households, based on income, have been coping with this period of higher rates and higher prices ([Exhibit A](#)). The chart shows the personal savings rate by income group. It is a measure of how much of household income is being saved versus being spent. If that turns negative, like what was seen with many of these income groups, it means they are spending more than their income. They could be burning through savings or borrowing money, but that is a sign of financial difficulty. That has begun to improve, and it is starting to level off; still lower than pre-pandemic but at least moving to the positive side of that again. The big contrast is the 80<sup>th</sup> and up income tiers—those households have done well in this economy, which makes sense. Homeowners and those with wealth in the stock market are probably doing well and have not been impacted as much. Many of the price pressures are crucial for daily life, including expenses like groceries and housing; however, those are potentially a smaller share of the income for the higher income groups. Therefore, those groups may not have needed to borrow at the higher rates. That is one factor that has kept propelling the economy forward, because that spending has remained quite strong. There has been strong growth in consumer spending overall, which is expected to continue. It will not necessarily improve but broaden the space where the spending is being seen as some of the lower-income households begin to fare better as wage growth is more than keeping pace with prices.

However, that is not the case with everyone; some people have gone under stress as is reflected in other metrics. The chart on page 41 reflects borrowing on credit cards ([Exhibit A](#)). The interest rate that is being charged on those cards is noted in blue on the chart. Those interest rates have increased as well as the delinquency rate on this type of debt. As households rapidly depleted excess savings and then borrowed on these credit cards, they might have been able to keep up until interest rates began to rise, which happened later than this period of high inflation. Consequently, that has become difficult for many to manage, which has resulted in an increase in loan delinquency rates. It is important to note that these rates are still far below the levels seen during the Great Recession, which was closer to 7.0% as opposed to the 4.0% that is seen now.

Thus, while it is not a crisis or a major fault line in the economy, it is an issue that requires stabilization—and there have been signs of stabilization in recent months. The credit card borrowing rates are going to be some of the fastest rates to respond to these lower interest rates—still high rates but starting to improve.

One of the key reasons this is set for improvement is the continued relationship between wage growth and price growth. Wage growth is softening as noted by the lines at the top of the chart on page 42, but wage growth has not softened as much as inflation has slowed ([Exhibit A](#)). As real incomes rise, more people will have breathing room, and it will help them pay down that debt and pay for their consumption. As noted, that is important because consumers are the main edge of the economy. Consumer spending creates demand for businesses; it is increasingly a major factor powering even the global economy right now as the U.S. economy has performed more strongly than a lot of its counterparts. As consumers keep spending, businesses continue to see steady income, which encourages further investment.

Recessions are ultimately a crisis of confidence. When spending and investment decline, it creates a self-reinforcing cycle that leads to actual contractions in economic activity. If real incomes continue to rise and consumer confidence starts to improve, the U.S. is in a relatively strong position to sustain this economic expansion, albeit at a slower pace. Given the nation is at near full employment, the economy is expected to moderate somewhat moving forward; not seeing the same strong gains in employment and incomes as before but still experiencing growth and moving in the right direction.

As mentioned earlier, this is Moody's baseline forecast, and it will remain largely consistent as it assesses potential changes going forward. However, the recent election has introduced a lot of uncertainty. These are estimates, and I do not want to overstate the finality of these numbers. Moody's ran some simulations looking at different policies the candidates were proposing in August 2024. Moody's baseline forecast is built on the assumption of a Harris administration with a divided government. In this scenario, the expectation was more of a status quo, with no major shifts in policy. However, with a Trump administration, there is potential for more significant changes, and the economic impact of some of the policy proposals put forward by President-elect Trump could be considerable (page 43, [Exhibit A](#)). There are some potential positives for GDP growth from proposed changes to the tax code, particularly a lower corporate tax rate. However, offsetting impacts are expected, such as tariffs and the impact on inflation, which could slow the reduction in interest rates. Additionally, a reduction in immigration could shrink the labor force, and since the labor force is a key factor in maintaining a full employment economy, this could limit job growth.

The figures are not final, but they generally reflect the expected directional impacts of some of these policies. Even by December, it will be challenging to predict exactly what to expect. Moody's can listen to what the candidates have said and incorporate that into the forecast, but ultimately, there is a significant amount of uncertainty about what will become law. Moody's will make adjustments and try to account for these factors to the best of its ability, but it will remain an estimate until any legislation is enacted.

I would like to shift to the Nevada outlook; however, if there are any questions on the U.S. portion of the forecast, I would also be happy to take those questions now.

CHAIR ROSENTHAL:

I realize my questions might be premature given that you still have substantial work to do following the outcome of the 2024 General Election. You mentioned the Federal Reserve may act more slowly, but the current expectation is a quarter basis point reduction followed by quarterly reductions. Do you anticipate that will change? What factors might cause the Federal Reserve to slow its actions?

MS. MANDEL:

The Federal Reserve is in a tough spot, largely due to the inflationary pressures from tariffs and possibly immigration. When tariffs raise the cost of imported goods, some of that increase is passed on to consumers, which drives inflation. The Federal Reserve will likely be cautious because it does not want to cut interest rates only to have to raise them again soon after. To avoid a whiplash effect, it seems prudent for the Federal Reserve to slow the pace of rate cuts while these factors play out. It is hard to say for sure, but these are some of the key factors that could lead to a more gradual approach. That could mean delaying the pace of those quarter point cuts, pushing them out a bit further than initially expected.

MR. LEAVITT:

As you are aware, a forecast needs to be made for Nevada for the next two and a half years. If you were to compare the risk outlook for this period to the risks faced in the previous forecast, how would you say they compare?

MS. MANDEL:

That is a very interesting question. I believe the nature of the risks has changed. Over the past couple of years, much of the pressure has stemmed from the aftermath of the COVID-19 pandemic, particularly around supply chain disruptions and efforts to keep consumer inflation expectations in check, ensuring inflation could get back to target. Looking ahead, I think the risks for the next couple of years are more focused on policy, particularly potential changes in policy. Additionally, some geopolitical risks have intensified, which could have consequences, potentially on oil prices.

I am trying to find a way to quantify these risks, but they are so different that it is difficult to quantify. I will have a clearer picture and be able to provide recession probabilities when this is revisited in December.

MR. GORDON:

Regarding the chart on page 43, would you orient the Forum to the graph on the left, the change from baseline ([Exhibit A](#))? The baseline is how the economy is performing at present, and this is the delta that Moody's is preliminarily suggesting would exist on a

go-forward basis. Am I reading the line correctly in terms of the slowing of the economy, but not necessarily a negative turn?

MS. MANDEL:

Yes, that is correct, broadly speaking. This is a comparison of the percentage point difference between the new forecast and the baseline forecast. I would note this is based on an August 2024 baseline, so it is not the same as the current baseline. Essentially, there was an initial trajectory—not a straight line and not exactly where we are today—but it is where we expected to go. Now, we expect it to be slightly different so there is a gap in terms of looking ahead over the next few years.

When Moody's ran the initial assumptions—and there are some changes that Moody's is planning to make based on how quickly these policies are implemented, which will also change things—solely from a peer modeling perspective, I think this resulted in a mild contraction of economic activity beginning mid-2025 to mid-2026; thus, there are actual declines. Again, it is a preliminary forecast, but that is how to think about this, how much lower it could potentially be under these policies versus the status quo baseline.

I talk to a lot of states, but it is especially nice to talk to Nevada because this state does well, and it has a quickly growing economy. The title of the chart on page 44, *Nevada Slipping Within Mountain West*, is a little less positive, but I think it is still important to keep in mind the broader trends that are seen in Nevada's economy ([Exhibit A](#)). The horizontal axis represents how employment has changed over the past year, and the vertical access represents how employment has changed over the past three months. Basically, it is a way to look at the broader trend versus more recent movement and then determine how that compares to other states in the region. Over the past year, Nevada has still been ahead of the national average, and it is still near the front of the other mountain west states; however, the last few months have been slightly weaker.

Year-over-year, there are still strong gains in sectors like goods production, construction, mining, manufacturing, government, etc. However, more recently, there have been losses in leisure/hospitality, as well as some pullback in goods production. Leisure/hospitality is highly seasonal, so the data can fluctuate more, which is why I would not place too much emphasis on it. That said, it is important to consider this slower economic growth in the context of other factors, such as the weaker performance that has been seen in recent sales tax collections. There are a couple data points that show a slight pullback in the economy after a strong summer.

Another factor to consider when looking at the employment numbers is that it is likely there will be some downward revisions to data from the past couple of quarters, specifically the last quarter of calendar year 2023 and the first quarter of calendar year 2024. This will mostly affect employment in the manufacturing, retail, and mining sectors. Even with those revisions, Nevada is still ahead of the national average. Nevada is not alone in this trend as downward revisions are expected nationally. It is also important to note that these revisions do not necessarily mean that current employment levels are any different, but the path to get here is slightly weaker. This is something to



keep in mind for the future as it will manifest in the employment data in March 2025. The turquoise line on page 45, which is data from the Quarterly Census of Employment and Wages, will begin to push out a little further, but again, the changes will not be seen until March 2025 ([Exhibit A](#)).

The expanding labor force has kept Nevada growing and it has risen over the past year. The unemployment rate has also edged up over the past year. Nevada's unemployment rate is currently the highest in the country outside of the District of Columbia. That is not unusual for Nevada, but we do not want it to continue to rise. Moody's baseline forecast expects some improvement as the labor force growth slows down combined with ongoing job gains. Moody's forecast shows it dropping to approximately 4.0% by 2027, which is a decent improvement. If unemployment rises, it is potentially a cause for concern, but the fact that it has been rising as the labor force has also been expanding is preferred.

There are still plenty of positive factors in the outlook for Nevada. For example, there are a lot of job openings in the state. Those job openings have come in somewhat over the past couple of years as has also been seen nationally—likewise by design to take some pressure off the labor market—but there are still many job openings and businesses looking to hire. Mostly importantly, layoffs are still low. This is something that Moody's has been examining closely both nationally and at the state level because layoffs will trigger a crisis of consumer confidence. Layoffs are a sign that businesses are struggling. That is not something Moody's has observed, and unemployment claims are also still low.

I am focusing on some of the negatives because there are things to watch, but I do not want to negate the other metrics that are not concerning or only mildly concerning. Overall, it is still a decent picture.

Affordability has been a challenge. That was seen earlier with the United States starting to experience increases in default rates. This is also a challenge in Nevada where affordability was a struggle even before the pandemic when it was declining significantly, and it has declined even further since. Page 47 of the meeting packet shows Nevada's housing affordability index ([Exhibit A](#)). This metric measures the portion of income that a median-income household would need to allocate to afford the mortgage on a median-priced home. It considers factors like mortgage rates, housing prices, and household income, providing a broad overview of the affordability of the current housing market, which is not very affordable. In Nevada and most of the western U.S., affordability is a struggle. There are a couple factors that will improve. Most of this challenge has been from an undersupply of housing, which feels strange to say considering that during the period following the Great Recession, Nevada had too much housing. However, given the strong population growth and relative lack of new building since then, Nevada is once again in the position where there is not enough housing, which keeps the pressure on prices. More construction is expected in the forecast, which will improve the availability of housing. Also, lower mortgage rates will make mortgages more affordable.

I have been talking about strong population growth in Nevada, which is true. The affordability pressures are less than the pressures of California residents. The graph on page 48 shows the top destinations from which people are relocating to Nevada ([Exhibit A](#)).



Of the locations listed, California is the state that people are most frequently leaving. Nevada is still maintaining some advantage relative to some places, but for the average Nevada resident, affordability still needs to improve so that people have the resources for other areas of their lives; things that impact the broader economy as well as tax revenues, which will be discussed later. Despite the price pressures, net migration has somewhat accelerated recently. People still consider Nevada a place to which it is worth relocating, even with the higher prices.

As noted, improvement in affordability is anticipated as home prices begin to level off and even contract (page 49, [Exhibit A](#)). That is largely due to increased construction. As those construction projects are completed, it will reduce housing prices, and finally level off after the significant increases in 2021 and 2022. Year-over-year there has been a price increase in the Case-Shiller Home Price Index—the Home Price Index was almost 25.0% for over a year, which is a significant amount. Although there have been slight declines in the housing market and housing prices, it is not going to take away from the wealth that households have accumulated, but it will give income more time to start catching up to the current high housing prices.

I focused on some of the negatives in the economy, but I believe it is important to keep this position within the broader outlook of Nevada remaining an outperformer. As long as Nevada's population is growing faster and the state continues to add jobs, Nevada will remain significantly ahead of the average economy in the United States. Page 50 shows two forecasts—population and personal income ([Exhibit A](#)). Personal income is staying around the 5.5% level, which is quite strong. As the discussion moves into revenue series, it would be helpful to think of these two metrics as a base level of what a normal economy would feed into these series. These metrics would be a good benchmark for thinking about how sales tax revenues and to a lesser extent, the Gaming Percentage Fee revenues, could increase relative to these metrics. It is slower than previously, especially related to income. This is partially due to less tightness in the labor market, and less inflation for which employers must account. Nevada is in a lower price level-type of situation now, which is good.

Moving on to the Sales and Use Tax outlook and the Gaming Percentage Fee, the Sales and Use Tax ties in closely to the earlier indicators, because people's incomes determine what they can spend (page 51, [Exhibit A](#)). As interest rates start to decline, that will also make borrowing more affordable. There are a few factors that Moody's included in its model for the Sales and Use Tax—personal income, unemployment, and PCE on durable goods. Nevada has a more cyclical economy than many other states, so unemployment is a greater factor. There was a significant increase in PCE on durable goods during the COVID-19 pandemic largely as people were buying goods for their home, many trying to improve their home office situation. People could not spend on services, so they spent more on goods. Goods consumption likely came ahead of needs. There has been slower growth in goods spending since that time. As time goes on, there will be more increases in durable goods spending as people have the resources and desire to spend in these areas. This will be especially true as housing construction continues—home building and furnishing new homes are a significant driver of this

spending. The chart on page 49 shows the rising home building starts, which will also help improve the outlook for spending ([Exhibit A](#)).

Finally, I have also included national recreation spending in the model to provide a measure of visitor spending in Nevada. This spending includes dining out, retail shopping, activities, etc. All these things contribute to sales tax revenues in Nevada outside of spending by local residents.

Looking forward, the forecast tracks closely to the income series that I discussed earlier. There is still growth, but not necessarily the same growth as in FY 2023 and before; however, the growth aligns with the resources Nevada residents have to spend. As the positive effects of lower interest rates and increased homebuilding become evident, it is important to also consider the offsetting impact of slower price growth. Prices are a double-edged sword. On one hand, higher prices reduce real incomes and limit the amount of money people have to spend. On the other hand, as people spend more at these higher prices, sales tax revenues are nominal.

The tourism economy in Nevada is performing surprisingly close to where one would expect it to be if the pandemic had never occurred. I was looking at some different metrics around recreation spending, Gaming Percentage Fee revenues, and visitor counts, and it is all similar to what would be expected if there was a line drawn between then and now. I think this underlines the story of normalization—getting back to those economic fundamentals. As an example of one of these metrics, the chart on page 52 displays Las Vegas visitor volume ([Exhibit A](#)). Obviously, this is one of the major drivers of tourism in Nevada. The current visitor volume is similar to before the pandemic. There are still some areas that need continued improvement, such as international visitation. Also, smaller areas such as conventions have not returned to pre-pandemic levels. Although there are some areas that need improvement, by and large, this metric has returned to pre-pandemic levels.

On the other hand, however, is consumer confidence (page 53, [Exhibit A](#)). People need to have confidence in the economy in order to afford luxuries like vacations, gambling, etc. This factor is going to be especially important looking forward over the next couple of years to see how this changes. The interesting aspect of consumer confidence is that it has not really aligned with some of the other metrics. Consumer confidence is not especially low depending on what you look at, but it is kind of middling, and it is not really a level that would be expected to be consistent with an unemployment rate nationally of around 4.0%. People do not feel confident in the current economy and their own prospects. Much of that comes back to these price pressures. Economists focus a lot on inflation and how prices are changing, but even if prices are rising more slowly, prices are not going down. Economists do not want prices to go down, because deflation is not good from an economic perspective. However, that means prices are still much higher than they were before the pandemic and that does not make people happy. That is the major factor behind the lack of consumer confidence.

It will be interesting to see how these metrics change after the election. On one hand, there could be a positive shift, with people viewing the outcome as a fresh start and

possibly adopting a new perspective on their economic situation, leading to improvements. On the other hand, depending on the impact of upcoming policies, there could be some deterioration moving into the next year. This is going to be a major factor for looking at how Gaming Percentage Fee revenues change. Consumer confidence is middling and Gaming Percentage Fees are slightly stronger than before (page 54, [Exhibit A](#)). Gaming Percentage Fees have been very volatile lately with significant changes during and after the pandemic followed by slow growth in FY 2023 and a stronger gain in FY 2024. Moody's expects that things will be slower in FY 2025, primarily because it will be coming off very strong growth in the last couple of years. The industry has shifted some to look at different types of recreation activities. Las Vegas has hosted many high-profile events, especially last year, such as the Super Bowl, but the upcoming year will not necessarily be a repeat of the past year.

The Quarter 1 value for FY 2025 is a negative value, which is purely related to timing and some of that revenue will be shifted into Quarter 2. I do not believe it signals any real weakening; however, Moody's does not expect that visitors will top the previous year's values by much. Growth is expected to resume, driven by rising incomes and increased consumer spending, as well as potentially more international visitors.

MR. GORDON:

Regarding the Gaming Percentage Fee outlook, I understand the thought process related to FY 2025 and returning to growth. In terms of how Moody's looks at its models, is that based on a volume impact or value impact? You referred to the stability of the tourism economy in terms of visitor volume. The value related growth is because visitors will be spending more than in the past, correct?

MS. MANDEL:

Yes, Moody's looks at both sides. I did not mention this but the two factors in this model include disposable income (value), and visitor volume (based on national recreation spending). Moody's tries to combine both of those factors when looking at growth. I think more of this growth is coming from value, from the perspective of resources; however, Moody's also anticipates continuous improvement in volume.

MR. CROME:

On the gaming piece, there is a shift in FY 2025 from Quarter 1 to Quarter 2 and you mentioned that Nevada will make up for that change. I expected to see a decline in Quarter 1 given the activity in the state, but why do you anticipate Quarter 2 will make up for that change?

MS. MANDEL:

August 2024 ended on a Saturday so some of this revenue was recognized the following month. In addition, there was a one-month delay in some of the revenue. After I finished this for the following month, the first month of Quarter 2, I believe there was a 25.0% decline followed by a 27.0% decline year-over-year; therefore, it appears some of that

revenue has been shifted. My positivity is more from an arithmetic perspective. Expecting to see some of that revenue shifted into the second quarter, absent some of that shifted income, things would look slightly weaker in the second quarter. That is coming off some of the stronger growth in the same quarter of the previous year, therefore, looking at some of those base effects.

MR. CROME:

Regarding consumer confidence, you indicated things are improving, such as the lower unemployment rate. What factors do you think will cause a rebound in consumer confidence? Prices are expected to remain stable, allowing wages to gradually catch up. Over time, will there be a psychological shift, with people becoming more comfortable with higher prices as the new norm?

MS. MANDEL:

Looking at the current metrics from an economic standpoint, they look fine; therefore, I think it will take time to move past some of the stressors of the past couple of years. I believe it will be a combination of rising incomes combined with slowly rising prices. The price of goods will be at a higher level, but they will begin to feel more affordable. The cost of some goods has increased significantly in recent years; however, in the past year, the cost of those same goods may have only increased by a small percentage, which may be more acceptable as income continues to rise.

MR. CROME:

Regarding the unemployment rate, you indicated it is expected to improve. Nevada is going to continue experiencing migration. In which sector are you anticipating an improvement in the availability of jobs?

MS. MANDEL:

Moody's anticipates labor force growth will continue to rise, but at a slower pace. Much of this was due to national immigration over the past couple of years. That has already started to slow down somewhat, and Nevada is not especially reliant on international immigration, but it is a component. As far as job gains, I believe the health care sector has a strong outlook and I expect some improvement in the manufacturing industry. I do not anticipate there will be significant increases in the leisure/hospitality industry.

MR. LEAVITT:

The visitor volume is rebounding, but we have seen over several months that gaming is not doing well. Over time, has there been a change in the mix of spending when visiting Nevada? Nevada's two biggest revenue sources are gross gaming and sales tax. Gross gaming had done well until recently. Is Nevada entering a period where the two principal taxes are not going to grow as much as some of the auxiliary spending? For example, if room rates increase, visitors will pay the room tax, but that is not one of

the state's major taxes. If visitors spend more money on rooms and less on gaming, that impacts the state's revenues.

MS. MANDEL:

I agree. There has been a lot of focus on sports and events that are supposed to keep drawing people to Las Vegas. Consequently, more visitors to Nevada will have spillover effects, still some gaming; however, I think the focus of visitation has changed. Additionally, there is more availability of gaming outside of Nevada, and this continues to expand. This means people can still participate in gaming without traveling to Las Vegas. It is positive that there has been so much diversification because otherwise it would probably just be a loss to some of these visitors. However, I do think, especially for the Gaming Percentage Fee side of things, there is a downside from this shift. I am a little more optimistic on sales taxes because there is a strong internal demand just from Nevada residents, so prospects are good in that regard, but the gaming industry has some challenges.

CHAIR ROSENTHAL:

It is interesting because major events such as the Super Bowl and Formula 1 have come to Las Vegas and that is driving visitation. These events seem to draw a higher income participant because these are expensive events. The question is whether those same individuals are gamblers. I do not know what degree of magnitude would be needed to see results in the associated taxes. It is good that the number of visitors is similar now as it was prior to the pandemic, but the question is about the makeup of those visits.

The forecasts will be updated for the December 2, 2024, meeting. I know that some of the analytics that Moody's provides is also used as base information in some of the other modeling by the forecasters. In terms of timing, will Moody's be able to update its forecast in time to get it to the other economists?

MS. MANDEL:

Probably not. Moody's just published its November forecast so that did not give time to implant things. Moody's December forecast will likely come out, at the national level, the first week of December and then it takes another week for the state level to be produced. Moody's will have some thought pieces and things published before then that I would be happy to share with the state economists, but it will not be baked into the actual forecast numbers yet because those figures were during the election cycle.

CHAIR ROSENTHAL:

The data will not be provided to the state economists because of timing, but in Moody's forecast the data will be included so the comparison will be different?

MS. MANDEL:

I will try to determine how to incorporate these into my forecast, but they also will not be based on finalized forecasts from Moody's side because those are published externally

as soon as Moody's has them internally. It will be more of an estimation for now. I am in the process of weighing the different factors and trying to understand the potential impacts as we continue to discuss them.

CHAIR ROSENTHAL:

Yes, I understand the timing challenges. When the Forum reconsiders the forecast in May 2025, there may be more variability than in the past, given the potential for significant policy changes stemming from the election results, which could ultimately affect the numbers.

MS. MANDEL:

I think we might have concrete legislation and executive actions and other things to account for in May.

There was no further discussion on this item.

## **VI. PRESENTATION OF HISTORICAL TAXABLE SALES AND GAMING MARKET STATISTICS.**

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

Based on requests from past Forum members in previous cycles, the Fiscal Analysis Division prepares a series of tables and charts relating to taxable sales and gaming. Printed copies are not usually provided, but they can be provided upon request. The tables and charts are also available on the meeting webpage (<https://www.leg.state.nv.us/App/InterimCommittee/REL/Interim2023/Meeting/34550>).

For the October 16, 2024, meeting, the tables were updated through the first month of FY 2025 for sales tax for taxable sales and through the third month for the Gaming Percentage Fee as well as the Commerce Tax statistics through FY 2024. There is no additional information for the Commerce Tax, which is why it is not included. The rest of those taxable sales and gaming charts have been updated to incorporate the most recent month—through August for sales tax and through the fourth month of FY 2025, which is September, for the Gaming Percentage Fees. If Forum members have any questions about those charts, please contact the Fiscal Analysis Division.

There was no further discussion on this item.

## **VII. REVIEW AND DISCUSSION OF PRELIMINARY FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2025, FY 2026, AND FY 2027.**

- A. GAMING PERCENTAGE FEE TAX
- B. LIVE ENTERTAINMENT TAX
  - GAMING
  - NON-GAMING
- C. STATE 2% SALES TAX



- D. INSURANCE PREMIUM TAX
- E. MODIFIED BUSINESS TAX
  - NONFINANCIAL
  - FINANCIAL
  - MINING
- F. REAL PROPERTY TRANSFER TAX
- G. COMMERCE TAX
- H. INTEREST INCOME – TREASURER

CHAIR ROSENTHAL:

We will move to Agenda Item VII. The Forum will hear presentations on the preliminary forecasts for the major General Fund revenues. It would be helpful if each presenter would begin with a general overview of the broad assumptions or underlying outlook that is included in the forecast.

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

I would like to provide an overview of the tables that are in meeting packet under the tab for Agenda Item VII as a refresher on the information that is being provided as well as for members of the public who may be watching the meeting ([Exhibit A](#)). There are five tables for this agenda item, which begin on page 57 of the meeting packet.

- Table 1 (page 57, [Exhibit A](#)) shows the actual collections for each piece of the General Fund, everything that is under consideration by either the Forum or the TAC for FY 2022, FY 2023, and FY 2024 as well as year-to-date collections through October 31 for both FY 2024 and FY 2025. In terms of actual revenue, this is the most current information. An updated table will be provided at the December 2, 2024, meeting. The updated table will include actual revenues through November 30 of FY 2024 and FY 2025. The Forum members and the public may not see that updated table until the day before or the day of the meeting because we must wait until the beginning of the month to obtain that information and include it in the table.
- Table 3 (page 67, [Exhibit A](#)) shows the forecasts for each of the revenue sources—major and non-major revenue sources—by fiscal year and then by forecaster. For each fiscal year, there is an individual column for the agency, fiscal, and budget. The “agency” is the relevant agency which collects or administers this revenue source; “fiscal” is the Fiscal Analysis Division; and “budget” is the Governor’s Finance Office (GFO) Budget Division.
- Table 4 (page 77, [Exhibit A](#)) is more of a summary table that provides information about the major General Fund revenues that will be presented today. The figures are rounded to the nearest millions with some decimal points trailing behind. This table gives information on the FY 2024 actuals as well as the forecast for FY 2025, FY 2026, and FY 2027 from each of the forecasters. The table also includes Moody’s forecast for the Gaming Percentage Fee and the Sales and Use Tax.

There is a row listed for Economic Forum for each of these revenue sources—this is the Forum’s approved forecast at the May 1, 2023, meeting for FY 2025 only. It is provided as a reference as to how the forecasts are changing compared to what the Forum considered and approved at the last meeting during the 82<sup>nd</sup> (2023) Legislative Session.

- Table 8, which is on green paper, has been provided to the Forum members. For those who may be looking at the meeting packet online, the version of Table 8 that is included in the packet contains a typographical error due to a formula error relating to a percentage change on the old version. The corrected version is the version to which we will refer ([Exhibit B](#)).

The table is set up in such a way that everyone’s forecast will be added for the December meeting, which will allow Forum members to see the changes in each fiscal year as well as the changes in the forecast for each of the forecasters. We will do the same thing for the May 2025 meeting so that all the forecasts for all the major revenues that will be considered by the Forum will be in one place. The document includes everything on today’s agenda including interest income.

- Table 9 (page 89, [Exhibit A](#)) shows the average growth in the tax during the remainder of the last fiscal year and then the growth that is needed for each of the forecasters to achieve their forecasts during the current fiscal year. This information is based on the year-to-date actual collections for each major revenue source for which we have information available compared to the collections in the same periods from the previous two fiscal years. Table 9 is not usually provided until the December meeting because that is when the quarterly information for the Modified Business Tax (MBT), Insurance Premium Tax, and Real Property Transfer Tax is available; however, I thought it would be beneficial for Forum members to see the information for the monthly tax revenues for which we have data. That includes two months of the Sales and Use Tax, two months of the non-gaming portion of the Live Entertainment Tax (LET), three months of the gaming portion of the LET, and four months of the Gaming Percentage Fee. This will allow Forum members to see on the forecasts that are being presented today, based on the actual collections, the average growth in each month or until the end of the year that needs to be achieved to reach that forecast.

The information is there as a reference so that when the forecasts are being presented for FY 2025, it will help to determine what it means between now and the end of FY 2025 to achieve those forecasts.

### **A. GAMING PERCENTAGE FEE TAX**

MICHAEL LAWTON (Senior Economic Analyst, Gaming Control Board [GCB]):

During my discussion, I will be referring to a set of charts, which have been provided to the Forum members ([Exhibit C](#)). In terms of forecast methodology, when the GCB forecasts percentage fee collections, gaming win is forecast first for the applicable

fiscal years and then gaming win is converted into taxable gaming win, which is then converted into percentage fees. The GCB projects growth rates for each of the state's 16 individual major markets such as Las Vegas Downtown, the Las Vegas Strip, Las Vegas locals, Elko, Reno, etc.

In these forecasts, the GCB incorporates into its model any new property openings, property expansions, and known or anticipated closings. This is done through a review of historical data and trends and most importantly, through interviewing some of the individual properties in the various markets. The GCB also obtains input from several Wall Street analysts and from the Research Department of the Las Vegas Convention and Visitors Authority. The sum of these individual market forecasts produces an estimate of total statewide gaming win. Within these markets, the GCB also forecasts slot win and games win separately.

To your question, Chair Rosenthal, based on discussions with several operators in markets across the state, I would say the outlook is stable, but with the caveat that the GCB forecast shows moderate growth in FY 2026 and FY 2027. I will get to the substance of this forecast shortly, but there will be a definite reset in FY 2025 compared to FY 2024.

Before I get into actual gaming win forecasts, I wanted to discuss some recent trends related to baccarat. I think it is important information due to the considerable amount of attention there has been recently relating to difficult comparisons linked to baccarat win amounts being driven by a whole percentage. The first chart displays baccarat volumes (page 2, [Exhibit C](#)). During FY 2024, baccarat volumes totaled \$9.1 billion. It was a steady increase of 9.7%, or \$803.9 million, over last fiscal year. Baccarat volumes have been steadily increasing post-pandemic; however, baccarat volumes are down about 23.7%, or \$2.8 billion, which remains quite below the peak level established in FY 2014. Currently, baccarat volume is down 1.3%, or \$37.6 million, which is not concerning, because that could change in a positive direction in a single weekend.

The next chart, which displays baccarat win totals, is somewhat of a surprise (page 3, [Exhibit C](#)). In FY 2024, there was a large spike in the win amounts, which set a new all-time record of \$1.65 billion, which was 42.9%, or \$494.5 million, over FY 2023. The win amount was even higher than the peak level recorded in FY 2014 of \$1.6 billion—it exceeded that number by 2.2%, or \$36.0 million. The \$494.5 million increase that baccarat recorded in FY 2024 was 84.0% of the \$587.5 million increase that total gaming recorded in FY 2024. Nearly all the growth came from one game. The fiscal year-to-date for baccarat is down \$175.9 million, or 31.5%. That amount cannot be made up in a weekend.

The next chart shows how this occurred (page 4, [Exhibit C](#)). The hold percentage in FY 2024 was 18.0%, which established the highest hold percentage recorded by baccarat in the last 20 years. Not including FY 2024, the average hold in baccarat for the past 10 years was around 13.0%. Fiscal year-to-date, baccarat is at 13.65%, which is close to the expected percentage. Last year at this time, baccarat was at 19.66% through December.

Baccarat is a volatile game—significant swings can occur due to the large amounts wagered by a limited number of customers. However, based on my research in FY 2024, which included discussions with multiple industry representatives, the hold percentage recorded in FY 2024 is not sustainable. Simply put, baccarat ran extremely lucky for the house in FY 2024. There have been some structural changes to the game. Additional side wages are offered, and customers are allowed to make much larger maximum bets than when I was a baccarat dealer in the 1990s. These two factors increase volatility; however, there is not enough structural change in the game that would support a 30.4% increase in hold between FY 2023 and FY 2024.

The big picture is that in addition to the gaming win totals from which the state benefited, the state's percentage fees also benefited from the spike and hold. If a normalized hold percentage was applied to baccarat volume totals in FY 2024, percentage fees would increase by approximately \$25.0 million, which accounts for much of the \$29.8 million increase recorded in percentage fees in FY 2024. While what occurred in FY 2024 with baccarat might be viewed as a loan that Nevada may need to repay this fiscal year, rest assured that after speaking with the baccarat houses, the game and overall business are healthy. However, it remains very concentrated and extremely volatile, which will not change.

The chart on page 5 outlines the total gaming win forecast for the state ([Exhibit C](#)). Charts for the Las Vegas Strip and the balance of Clark County have also been provided on pages 6 and 7. For FY 2025, gross gaming win is forecast at a total of \$15.6 billion, which is a decrease of approximately 1.0%, or \$156.9 million, versus the all-time record of \$15.72 billion established last year. The state has recorded all-time records in gaming win in three consecutive fiscal years back to FY 2022. Fiscal year-to-date, the state is down 1.2%, or \$59.6 million. For the remaining eight months of FY 2025, the state is facing a growth rate of about 5.0%.

The comparison for baccarat over the last eight months of the fiscal year is a volume increase of 14.1%, or \$778.6 million, and an increase in win of 53.5%, or \$379.1 million on a hold percentage of 17.3%, so a very difficult comparison. I would note that the next two quarters represent the highest gaming win totals in state history. The fourth quarter in FY 2023 was the highest gaming win total in state history, and the first quarter in FY 2024 was the second highest gaming win total in state history.

As mentioned earlier, the decreases noted for the first four months of the fiscal year are related to baccarat. Excluding baccarat from the gaming win totals, the state is up 2.5%, or \$116.2 million, which is healthy given the 2.5% growth is off all-time records. The factors that go into this forecast that are showing a decrease include a potentially slightly weaker second Formula 1 race, which is related to hold. I think the credit lines are there and the players will be there, but I do not know if the state is going to hold baccarat at 18.9% in November 2024.

There are several factors that will cause a slide in FY 2025 and FY 2026. February 2025 does not include the Super Bowl—it must be baked into the forecast because that event will not be replicated. Also, the Mirage Hotel and Casino closed in July 2024, and the

benefits from the Durango Station Casino and Resort and Fontainebleau Las Vegas will be annualized in December 2024, making it more challenging to drive growth from these two entities moving into December. The last factor is the baccarat comparisons discussed earlier.

In FY 2026, gaming win is expected to grow, \$15.68 billion, which is an increase of 0.7%, or \$113.2 million. In FY 2027, gaming win totals are expected to come in at \$15.86 billion, which is an increase of 1.1%, or \$179.1 million, from FY 2026. There are no major new property openings during the forecast period. I am estimating the Hard Rock Hotel and Casino will open early in FY 2028. Over the forecast period, growth is being driven by gradual increases to slot win and a stabilization of game and table win after the hold driven record set in FY 2024.

The chart on page 6 is the forecast for the Las Vegas Strip. It is interesting to note that the Las Vegas Strip is showing a larger decrease than the state ([Exhibit C](#)). Forecasted gross gaming for the Las Vegas Strip in FY 2025 is \$8.77 billion, which is a decrease of 2.8%, or \$249.2 million, compared to the all-time record set last year of \$9.0 billion. Similar to the state, the Las Vegas Strip has set three consecutive record gaming wins going back to FY 2022. Fiscal year-to-date, the Las Vegas Strip is currently down 4.4%, or \$131.0 million. An unusual statistic I would note is that through the first four months of the fiscal year, the state is up 3.3%, or \$71.4 million, in the statewide gaming win, excluding the Las Vegas Strip. Not surprising to the overall theme of this discussion today, baccarat is responsible for the decreases recorded on the Las Vegas Strip. For example, fiscal year-to-date on the Las Vegas Strip, slot win is up 1.8%, or \$27.5 million. Games win is obviously down 11.3%, or \$158.6 million, but that is because of baccarat. Table game win excluding baccarat is up 3.3%, or \$28.5 million, on volumes which are up 1.2%. Total gaming win on the Las Vegas Strip, excluding baccarat, is up 2.3%, or \$56.0 million.

For the remaining eight months of FY 2025, the Las Vegas Strip is facing a growth rate of 6.5%. Growth is also forecast for FY 2026. The Las Vegas Strip's gaming win will total \$8.9 billion, which is an increase of 1.4%, or \$126.2 million. Growth is again forecast in FY 2027 with a \$9.0 billion gaming win, which is an increase of 1.3%, or \$113.4 million, over FY 2026.

The next chart is the balance of Clark County (page 7, [Exhibit C](#)). I usually do not present this chart to the Forum, although it is a very important market—the state's second largest market outside the Las Vegas Strip. I think it is important for the Forum members to see this because the majority of what is currently driving gaming increases in the state is coming from this market. Fiscal year-to-date, the balance of Clark County is currently up 11.5%, or \$63.7 million, compared to the all-time record that was established last year, which was \$1.8 billion. As I mentioned earlier, a statewide gaming win, excluding the Las Vegas Strip, is up 3.3%, or \$71.4 million. The balance of Clark County is responsible for about 89.0% of that growth.

The balance of Clark County is doing well because it has benefited from the opening of the Durango Station Casino and Resort in December 2023. Additionally, the balance of

Clark County benefits from record levels of employment like the rest of the state. It also benefits from continued population growth and then an improved mix of higher income earners that are moving into the area. Consequently, FY 2025 is forecasted to come in at \$1.92 billion, which is an increase of 5.7%, or \$104.0 million, over FY 2024. For the remaining eight months of the year, the balance of Clark County is facing a growth rate of 9.5%.

In FY 2026, the growth trajectory is expected to moderate to 1.0%, or \$1.94 billion, in gaming win, which is an increase of \$19.7 million. Although not significant, this moderation of growth is the result of a full year of annualization of the Durango Station Casino and Resort.

In FY 2027, gaming win is forecast at a total of \$1.96 billion, an increase of 1.4%, or \$27.4 million, over FY 2026.

Page 8 contains the slot win forecast ([Exhibit C](#)). Slot win has been steadily increasing post-pandemic and has continued to set all-time records going back to FY 2022. Difficult comparisons, record levels of inflation, and rising interest rates have not impacted slot win totals. There is no indication of any imminent softness on the horizon as customer behavior has remained stable. Consequently, the GCB is forecasting continued moderate growth for the forecast period.

Currently, fiscal year-to-date slot win is up 1.8%, or \$61.4 million, on volumes which are up 1.3%, or \$633.9 million. The comparison over the remaining eight months of the year is an increase of 2.0%. In FY 2025, slot win is anticipated to come in at \$10.48 billion, which is an increase of 1.2%, or \$124.0 million, over last year's all-time record of \$10.35 billion. In FY 2026, slot win is forecast at a total of \$10.55 billion, which is an increase of 0.7%, or \$70.1 million. In FY 2027, slot win is forecast at a total of \$10.67 billion, which is an increase of 1.1%, or \$120.5 million.

The statewide game and table win forecast is on page 9 ([Exhibit C](#)). Like slot win, game and table win has recorded all-time records in three consecutive fiscal years going back to FY 2022. In my opinion, these game win totals have been very impressive over this period considering that a key component of table game win, which is baccarat, has not reached record levels until last fiscal year. For FY 2025, the GCB is forecasting game and table win to total \$5.1 billion, which is a decrease of 5.2%, or \$280.9 million, compared to FY 2024. Fiscal year-to-date game and table win is down 6.9%, or \$121.0 million, and volumes are up 1.3%, or \$141.6 million. The comparison growth for baccarat over the last eight months is difficult with an increase of 11.4%. Baccarat's comparison is 53.5% growth and then non-baccarat game and table win is essentially flat, a decrease of 0.4%.

Growth is forecast again for FY 2026—games win of \$5.13 billion, which is an increase of 0.9%, or \$43.2 million, over FY 2025. In FY 2027, games win is forecast at a total of \$5.2 billion, which is an increase of 1.1%, or \$58.6 million, over FY 2026. Like slot win, the state is experiencing games win, and game and table win remains solid, excluding baccarat. There are several contributing factors which the GCB believes will cause games



win to record a decrease in FY 2025 before these totals can stabilize and Nevada begins to experience growth again.

Obviously, I have discussed these factors which all fall under table game play. These include very difficult baccarat (which is a table game) comparisons on the Las Vegas Strip; a slightly weaker Formula 1 race in November related to hold is on the table game comparison; and the Super Bowl in FY 2025, which was a one-time event, is going to be more skewed to tables than it is for slots based on the type of business that was brought in for that game. Those are the reasons why there is a reset in FY 2025. I believe the state can grow off that, but I think Nevada will require a reset in FY 2025, especially on the table game side.

The next chart is the taxable gaming win forecast on page 10 ([Exhibit C](#)). As I stated, gaming win is converted to taxable gaming revenue (TGR). This chart follows a similar trajectory as the GCB's total gaming win forecast. Taxable gaming revenue is expected to come in at \$14.88 billion, which is a 1.0% increase, or \$154.4 million, compared to the all-time record in FY 2024 of \$415.03 billion. Fiscal year-to-date, TGR is down 1.5%, or \$72.0 million, similar to gaming win. The comparison over the remaining eight months of the year for TGR is an increase of 4.1%.

One thing this chart does not display is the ratio between gaming win and TGR, which drives the whole TGR. That is currently sitting at 95.6%, which is down slightly from last year at 95.91%. That ratio is forecast to come in at 95.57% versus 95.60% from last year, so a slight decrease. It will continue to decrease in FY 2026 before it increases slightly in FY 2027. This key ratio has been decreasing post-pandemic due to sustained increases in the total amount of credit issued each fiscal year coming out of the pandemic. In FY 2026, the GCB is forecasting an increase of TGR of 0.7%, or \$99.4 million, with \$14.98 billion in TGR. In FY 2027, the forecast is for continued growth of 1.4%, or \$206.1 million, with \$15.18 billion in TGR.

In FY 2025, the GCB is forecasting \$972.1 million in percentage fee collections, which is a decrease of 2.8%, or \$27.9 million, from the all-time record in FY 2024 of \$999.9 million (page 11, [Exhibit C](#)). Current fiscal year-to-date with four months reported, the total percentage fee collections are \$320.2 million. That is down 3.0%, or \$10.0 million. The comparison over the last eight months of the fiscal year is an increase of 3.9%.

There are two components that comprise the percentage fee collections—percentage fee collections on TGR and the estimated fee adjustment (EFA). Fiscal year-to-date, percentage fee collections on TGR are at \$317.4 million, which is down 1.9%, or \$6.0 million. For the forecast, the total is \$970.2 million, which is a decrease of 1.1%, or \$11.0 million. The EFA fiscal year-to-date is \$2.8 million, which is down 58.35%, or \$4.0 million. The EFA is forecast to come in at \$1.9 million and decrease \$16.9 million, or 90.0%, compared to last year's \$18.7 million in EFA collections. To clarify, the EFA is the difference between the amount of tax due on taxable gross gaming revenue for the current month, less the amount of tax paid on taxable gross gaming revenue from three months prior. As gaming revenue growth begins to slow or slightly decrease, as forecasted, EFA totals are expected to moderate as well. In FY 2026, the GCB is

forecasting percentage fee collections of \$980.8 million, which is an increase of 0.9%, or \$8.7 million. In FY 2027, the GCB is forecasting percentage fee collections to total \$992.9 million, which is an increase of 1.2%, or \$12.1 million.

MR. GORDON:

Obviously, you have your finger on the pulse of what is happening in terms of the gaming market. It sounds like you have a lot of conversations with people in the industry and obtain feedback in real time from operators and others within the industry. The discussion about baccarat was informative and insightful, and provided the Forum members with valuable points to consider. The hold adjustment that is required because of the anomaly that happened last year makes sense and your commentary was helpful.

What are your thoughts about the international versus domestic play that takes place on the table game side? Nevada has yet to see the international consumer level come back to the pre-pandemic level; there appears to be more visitation from domestic travelers. I believe historically the international component has been a big contributor to the high-end table game segment. Although the number of international travelers will increase, that will be partially offset from these record-setting hold percentages. Did you factor that in when preparing the forecasts?

MR. LAWTON:

I do not take that into consideration in building the forecast, but those are great observations. I have been wondering about the resurgence of baccarat play post-pandemic; it is unclear from where all the play is coming. These visitors are not coming from Asia, because they cannot even get here. There has been a notable shift toward domestic baccarat play, and there has even been some international domestic play. Additionally, travelers from Latin American, Europe, etc. are traveling to Las Vegas, helping to offset the absence of the Asian market; however, I am uncertain if that will fully fill the gap left by Asian travelers. From conversations I have had with executives on the Las Vegas Strip, money transfers out of Asia might not return. The record levels of baccarat volume in FY 2014 were during a time when the symbiotic relationship between Asian operators and Las Vegas resorts thrived, and it was much easier to transfer money; however, that dynamic has since changed.

MR. GORDON:

Regarding the balance of Clark County submarket, the one-year anniversary of the opening of the Durango Station Casino and Resort is approaching so Nevada will not likely see as much growth in that area. The data you provided is specifically for the balance of Clark County, it does not include the other local segments.

MR. LAWTON:

Certain markets lean more to mid-level or low-level and growth in those markets is challenging. If there is a market segment in any business that is struggling, it is because they are stretched to the maximum due to inflation and other factors. I think those markets

such as North Las Vegas and Boulder Highway do not have as much growth as the Durango Station Casino and Resort and Red Rock Casino Resort and Spa. There are some other impacts in the Boulder Highway due to remodels and road construction that will impact resorts in that area. I believe the growth is mostly going to come from the balance of Clark County, because the Durango Station Casino and Resort is going to expand in 2026. I think some of the loss of business that Red Rock Casino Resort and Spa has experienced will be backfilled. Overall, I concentrated more on the balance of Clark County than I did the other two markets.

MR. GORDON:

Is stability the general theme going forward for the balance of the state, outside of the submarkets that you focus on?

MR. LAWTON:

Yes, I think there will be some stability going forward. However, I was recently speaking with a friend who runs the largest casinos in the Carson Valley, and he indicated that it was going to be tough because those casinos cater to mid-level customers who are stretched thin. When I talk to operators in Elko and Reno, they mention that while high-end play is helping keep them afloat, they are also concerned about the potential decline in mid-level play because they rely on those customers too.

I think the outlook for the balance of the state is a little softer than the Las Vegas Strip, not that the Las Vegas Strip was anticipating significant growth. Those operators acknowledged it will be difficult for them too and they are hoping for 1.0% or 2.0% growth and control margins. That is how they are going to remain profitable.

MR. GORDON:

The forecast assumes the broader economy is humming along at a reasonable pace of growth. If something were to change at the national or global level, that would affect these forecasts, correct?

MR. LAWTON:

Yes, absolutely.

MR. LEAVITT:

What is the risk that Nevada will not measure up if revenue is less than anticipated? As I understand it, the risk is almost entirely with baccarat. If everything else is excluded, that appears to be very stable growth and the risk is low. On this particular tax, there is one thing that causes the risk. Is that accurate?

MR. LAWTON:

Yes, every month when the numbers come in, the first thing I check is how baccarat performed, because that determines the state's fortunes in terms of percentage fees. The risky assumption would be thinking baccarat will hold at 19.0% indefinitely. I have inquired about this many times, but no one has indicated that the game has changed so much structurally that the operators are going to hold at 19.0% every year. I do think it could increase due to the structural changes discussed earlier, like the side bets and higher maximum bets, but it is also possible that it could swing in the opposite direction. The state might be able to drive hold a little, but not the 19.0%. I might be wrong, but I am only as good as the information I am gathering. Ultimately, the risk would be to assume that is going to continue, and this forecast did not make that assumption.

MR. LEAVITT:

No one can truly predict what it will be, but I would prefer to forecast under that amount rather than over, because the risk on the state is that money will be spent that is not actually available. If the forecast is under, the ending balance will build up, but that is nowhere near the risk if we go the other direction.

MR. LAWTON:

To paraphrase Yogi Berra, predicting is hard, especially when you have to predict the future. Over time, I have learned that the nature of the GCB is to forecast conservatively. When I am working with models and talking with operators, I try to approach everything with caution, not jump to conclusions or assume things will remain the same. I think this is a good forecast. It was described to me that Nevada essentially received a loan in FY 2024. It was a better fiscal year than expected, and the state may need to "pay back" some of that money in FY 2025, which will be painful. However, I am confident that Nevada will see growth in FY 2026 and FY 2027, though a reset in FY 2025 is necessary. This was evident coming in because of the Super Bowl and the first Formula 1 race. Those events were very strong and then on top of that, the hold—there were two new properties, Durango Station Casino and Resort and Fontainebleau Las Vegas. It is going to be difficult to replicate that in FY 2025.

MR. LEAVITT:

I was very happy to hear in your presentation that the rest of the market, other than baccarat, is stable. That bodes well for the economy of the state.

MR. LAWTON:

I agree. I feel good about slot revenue and non-table game revenue, both are healthy.

CHAIR ROSENTHAL:

Please describe your assumptions for baccarat volumes in the out periods.

MR. LAWTON:

I do not prepare a forecast specific to baccarat now that Matt Maddox is no longer the chair of the Forum—he required that from the economists. In my outlook for volume for baccarat and in talking to operators, baccarat is healthy, concentrated, and volatile. There is no reason to believe baccarat volume will decline significantly. While it may experience a slight dip of 2.0% to 5.0% in FY 2025 due to events like the Super Bowl and Formula 1, it should grow from there. None of the operators have suggested that increasing baccarat volume will be challenging. Resorts are investing capital to attract these players, with new rooms and enhanced amenities. They are fully committed to capturing their share of the baccarat market.

CHAIR ROSENTHAL:

When you prepare the forecast, is the assumption that the volumes are stable?

MR. LAWTON:

Yes, volumes are stable and holds will not replicate FY 2024.

CHAIR ROSENTHAL:

To the extent that there is an increased volume of international visitors who tend to play more baccarat, there could be some conservatism in that assumption, correct?

MR. LAWTON:

Yes, I agree that I did not take that into account, but I do not believe it has a significant impact. Based on the Las Vegas Convention and Visitors Authority presentation during the October 16, 2024, meeting, it seems unlikely that international visitor volume will see an immediate increase. There have been sales efforts on the convention side, but that is weak and needs to grow. The question is why that has not begun to grow at this point.

CHAIR ROSENTHAL:

Is the convention visitor really the baccarat player?

MR. LAWTON:

No, but to your point, I think it is not just the convention side, the international baccarat player component has not returned either.

CHAIR ROSENTHAL:

Yes, that was my point. I understand it is largely driven by China, and I appreciate your perspective on that; however, if international visitation were to recover, there is some conservatism in the forecast, correct?

MR. LAWTON:

Absolutely, I am always going to lean conservative on baccarat.

MR. CROME:

I am going to revisit the baccarat topic because Mr. Lawton spent time at the start of his presentation discussing the game's volatility. Given the upcoming forecast, it would be helpful for the Forum members to see baccarat volume presented separately from the rest of the data. This would provide clarity around the assumptions. I understand that baccarat win is highly volatile, but the volume itself is such a significant component that I am uncertain how the Forum can adequately do its job without a breakdown of baccarat volume.

The other point I would like to address is that I do agree with your conservative approach of adjusting the baccarat hold back to historic levels. We all recognize that it could swing the other way as well. If we wanted to be extremely conservative, we could even consider setting it below the historical hold, although I am not recommending that. That is also another risk. You mentioned it as a "loan"—the loan might come due next year, but I doubt that will happen.

Returning to my original point, I believe the Forum needs to see the baccarat volume separately to fully understand the forecast.

MR. LAWTON:

I will provide a baccarat forecast to the Forum.

MR. CROME:

Yes, please provide it for the December 2, 2024, meeting. It would be helpful to see the table with and without baccarat, tying back to volume, which is also driving the win piece. This data will help inform the Forum's decision.

DR. MAURICIO SOLORIO ARTEAGA (Economist, GFO):

My approach was very different from Mr. Lawton's due to my lack of information and experience. I reviewed the historical revenue of Gaming Percentage Fees, which have been very stable over the years. On most of my graphs you will see a red rectangle, which indicates the timeframe between March 2020 and April 2021 when COVID-19 restrictions were in place ([Exhibit D](#)). The pre-pandemic monthly average revenues were approximately \$58.5 million from July 2005 to March 2020 (page 3, [Exhibit D](#)). After the pandemic, there was an increase in average monthly revenue to \$82.2 million.

My forecast is based mostly on the number of visitors to Nevada, state population growth, and disposable income of Nevada residents and domestic non-residents. The main limitation with this approach is that I am uncertain how many visitors gamble and how



much they spend on gambling. Therefore, this forecast is mainly driven by visitor volume and disposable income.

Once I put my forecast into the historical trend from April 2021 to October 2024, the monthly average revenue increases to \$82.2 million, which is an increase of \$4.5 million in monthly average revenue. The forecasted monthly average revenue from November 2024 to June 2027 is approximately \$92.8 million. This translates to an estimate of \$1.03 billion in Gaming Percentage Fees for FY 2025, \$1.06 billion in FY 2026, and \$1.08 billion in FY 2027; therefore, I am forecasting some growth. However, after seeing Mr. Lawton's presentation, I think this is probably not realistic. Again, the main limitation on my model is that it is based on visitor volume and disposable income.

CHAIR ROSENTHAL:

I think historically, the Forum has tended to lean towards the agency's forecast because the GCB has such rich information; however, it is always valuable to consider different perspectives and see how various economic models perform based on different assumptions.

MR. NAKAMOTO:

I wanted to provide some general comments for the Forum members regarding the Fiscal Analysis Division's forecast. As some of you know, the Fiscal Analysis Division prepares its own packet, which includes write-ups on the various forecasts ([Exhibit E](#)). Pages 2 through 25 are the main drivers of the forecast. There are different variables relating to wages, personal income, employment, some housing indicators, visitor volume, and the Consumer Price Index; however, it is not an exhaustive list. This information is provided to the Forum to provide a better understanding of the Fiscal Analysis Division's outlook.

The Fiscal Analysis Division's total forecast for the General Fund, before tax credits, shows some growth in FY 2025 compared to FY 2024; it is about 0.3%. That does not necessarily hold consistent with all the revenue sources. There is growth in some of the revenue sources. For example, the forecasts for Gaming Percentage Fee and Sales and Use Tax are weak, the reasons for which are not necessarily related to the economy. Generally speaking, the Fiscal Analysis Division forecast is calling for moderate and stable growth; that is the overarching theme. However, there are instances where a forecast will be negative in FY 2025, such as the Gaming Percentage Fee forecast, which considers the baccarat issue as referenced by Mr. Lawton, as well as the lack of special events such as the Super Bowl. There is some mitigation this year because the Super Bowl and Lunar New Year coincided on the same weekend last year, effectively causing a loss of the Lunar New Year crowd. Many people who would typically travel to Las Vegas for the event were likely priced out. This year, since the two events fall on different weekends, it could help lessen the impact. The Fiscal Analysis Division has factored that into the forecast, but there are other issues as well, such as collection issues and various tax and policy changes that are affecting revenues in positive and negative ways; however, we are also looking at the economy in general.

The forecasts that the Fiscal Analysis Division is presenting are agnostic to the recent election; the forecasts are based on the most realistic scenario going forward. The election will certainly have an impact, but there are other factors at play as well. For example, Ms. Mandel talked about the uncertainty around when interest rates will drop. The Federal Open Market Committee is currently meeting and is expected to announce the new rate soon.

CHAIR ROSENTHAL:

I believe the Federal Open Market Committee has announced that the interest rate will be reduced by a quarter.

MR. NAKAMOTO:

Thank you for that information. The Fiscal Analysis Division will adjust the forecasts accordingly.

These types of things are anticipated, but the real question is how consumers and the economy will respond—and when that response will occur. Thus, much of this comes down to timing. We anticipate that in FY 2026 and FY 2027, Nevada will experience moderate and stable growth across many of these revenue sources. The key question is how long it will take to reach that point. Compared to some of the other forecasters, the Fiscal Analysis Division believes it may take longer—possibly until the beginning of calendar year 2025—before interest rates on housing, vehicle loans, and other areas start to decrease, which will ultimately spur more taxable activity. However, we are also considering that people are perhaps saving a little more money—which Ms. Mandel noted in her presentation—but also the people who are spending money and consuming may be consuming things that are not subject to Nevada taxes. For example, Mr. Leavitt mentioned the room tax, but consumers may be spending more on groceries, which are exempt from the state sales tax, and they may be paying more for insurance, which is less disposable income than they have for live entertainment, sales tax, etc. While it might seem like Nevada's outlook is soft, I do not believe it is anything more than the fact that FY 2024 was a strong fiscal year, and the state will try to match that performance in FY 2025. In some instances, that will not work out, especially with external factors like the absence of the Super Bowl this year. Beyond FY 2025, the state will begin to experience growth again.

SUSANNA POWERS (Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

I will be presenting the Gaming Percentage Fee forecast, which begins on page 27 ([Exhibit E](#)). It includes a summary of how the tax functions and what variables drive the TGR. I will briefly describe the Fiscal Analysis Division's forecast methodology and start with Table 2 on page 31. The Fiscal Analysis Division starts the forecast with a coin-in estimate derived by forecasting the coin in per slot machine. Slot win is determined by estimating the win percentage. The slot win percentage has been higher than usual; however, we anticipate it will come down slightly. Fiscal year-to-date, the slot win

percentage is averaging around 7.13%. The history and forecast for the slot coin-in, slot win percentage, and slot win are summarized in this table.

The Fiscal Analysis Division repeats the same steps for the game and table market. It starts with the volume for games and tables by forecasting the drop per game. After the division has locked in a win percentage with which it is comfortable, game and table win is determined. As noted earlier, the FY 2025 game and table win percentage reached an all-time high, but that is expected to settle. Fiscal year-to-date, game and table win is averaging about 14.8%. Again, the history and forecast are shown on Table 2 for the game and table market.

To develop the forecast for Gaming Percentage Fees, slots are separated from the game and table segment. Clark County, Washoe County, and balance of state are drivers, but Clark County is the main driver for the statewide forecast. Baccarat is not separated in the Fiscal Analysis Division's forecast; it is included in the game drop. It can vary to the extent of the share it makes of the game's drop. It has been hovering around 25.0%; however, lately, it has been as low as 20.0% and as high as 30.0% during the Super Bowl month. It varies considerably but it is considered in the gaming volume when the division is forecasting.

Next, I will be turning to Table 1A, which is on page 28 ([Exhibit E](#)). Once the slot and gaming segments have been determined, they are summed up to determine total win and then the TGR by estimating the TGR-to-win ratio. The final step is to estimate the effective tax rate—the assumptions for which are included on Table 1A. The EFA is an automatic calculation.

Table 1B is located on page 29 ([Exhibit E](#)). This table shows the Gaming Percentage Fee collections on taxable gross revenue in the column titled, % *Fee-TGR* and the EFA is in the column titled, % *Fee-EFA*. The total percentage fee collections are in the column titled, % *Fee-Total*.

Table 1B also includes the current fiscal year-to-date statistics for the key variables driving the forecast. In FY 2024, Nevada had an extraordinary fiscal year for gaming due to the Formula 1 race, the Super Bowl, and other events. Currently slot win is up by 1.8% ([Exhibit E](#)). The slot win will pull back some because of those difficult comparisons against the quarters a year ago that will be hard to repeat or beat. The Fiscal Analysis Division's FY 2025 slot win forecast is essentially flat over the fiscal year. Most notably, the early indicators signaled that the upcoming Formula 1 race may not be in the same demand as the previous race. There have been headlines about lower room rates and ticket prices, so we have taken that as an indicator that perhaps there is a slight pullback there as well related to even gaming revenue. Then of course, the Super Bowl will be excluded so we are trying to true up against that year.

The games win is down by 6.9%. The forecast assumes an improvement but overall, the forecast shows it falling by 3.2% by the end of the current fiscal year. As noted earlier, FY 2025 is going to be a reset year for gaming revenue. Our comparisons are harder in the coming quarters than what they have been so far. The Fiscal Analysis Division's

FY 2026 and FY 2027 forecasts for the growth in slot win are similar to the period seen before the COVID-19 pandemic; however, they are more conservative. The table game side is more challenging because it can be significantly impacted by baccarat play; therefore, the forecast takes that into consideration. The Fiscal Analysis Division is showing modest growth in games win hovering around 2.0%. Fiscal Year 2025 to date, Gaming Percentage Fee collections are down by 3.0%, and the forecast estimates that collections will decline by 3.2% to \$968.08 million in FY 2025, and then increase by 2.0% in FY 2026 to \$987.92 million and increase again by 1.9% in FY 2027 to \$1.07 billion.

## **B. LIVE ENTERTAINMENT TAX GAMING • NONGAMING**

MICHAEL LAWTON (Senior Economic Analyst, GCB):

The casino LET is based on a forecast of taxable casino entertainment activity. The forecast of taxable activity is based on an examination of historical growth patterns and most importantly, through a review of entertainment offerings and discussions with industry representatives. The forecast also incorporates expected increases in taxable activity due to the opening of new properties or changes in entertainment venues at existing properties. As I have said in the past, the LET is one of the more difficult taxes to forecast as the GCB does not receive any of the statistical detail that it receives for game-related taxes, and changes to entertainment offerings are challenging to predict. I think this particular forecast period feels much like forecasting baccarat win with the recent swings. For example, a 32.0% drop in March 2023, a 26.0% increase in April 2023, and this year, there was a 22.0% decrease in the first month and a 23.0% decrease in September 2024. The LET is extremely volatile and difficult for me, as a forecaster, to establish a base because it changes so frequently.

In FY 2024, the gaming LET collections were \$127.0 million. Like gaming, under the current law, admissions are taxed at 9.0%. That is the highest percentage ever recorded, which is good. The state is coming off an all-time record and is off to a slow start—fiscal year-to-date collections are \$28.9 million. That is down 17.7%, or \$6.2 million, compared to last year through September. However, the growth trajectory for the remaining nine months is essentially flat—a decrease of 0.8%.

The chart on page 12 shows the gaming LET collections ([Exhibit C](#)). The GCB is forecasting them to remain below the all-time record set last fiscal year. The gaming LET collections in FY 2025 are projected to decrease 6.9%, or \$8.8 million, with \$118.2 million in collections. There are several factors driving this decrease, the first of which was the closing of the Mirage Hotel and Casino (Mirage). The Mirage had a much stronger impact on LET collections than gaming. It had Cirque du Soleil as well as the Shin Lim Magic Show that was held in a large auditorium five nights a week. Those were big contributors to the LET. The Shin Lim Magic Show will be at the Venetian Resort and some of the attendance from the Mirage will go to other shows, but the extent of that remains to be seen. To date, that is not helping the state.

Another factor to consider, maybe more than the closure of the Mirage, is the fact that Adele and Garth Brooks, who headline at the Colosseum at Caesars Palace, are ending their residencies in FY 2025. I am not aware of any replacements. Those two shows are significant to the LET.

Regarding the lag in convention attendance and international travel from pre-pandemic levels, those two market segments overlap. They are significant drivers to midweek hotel occupancy, as well as showroom attendance and ticket prices. The shows run all week, so that business is needed to facilitate attendance and profitability.

The last point I would like to make about this forecast model, which is something I heard and considered years ago, there are certain non-gaming LET venues that are negatively impacting the gaming LET venues in terms of attendance to shows, particularly the Sphere. For the gaming operators, that is bad because they do not own the Sphere, but from the perspective of the state, the revenue is still going to the LET. Thus, it is positive revenue, but it impacts the forecast.

As I stated earlier, Nevada is off to a slow start; however, I anticipate gaming LET can make up some ground this fiscal year due to certain show rotations that will benefit collections. Adele will finish her run in November so there will likely be a spike. However, I do not see a path for growth in FY 2025 similar to the gaming forecast. In FY 2026, the GCB is projecting flatlining the base—\$113.7 million in gaming LET, which is a 3.8% decrease, or \$4.5 million from FY 2025. The reason for that is because FY 2025 benefits from the Garth Brooks and Adele residencies for most of the fiscal year; however, FY 2026 does not have that benefit. Until I hear differently, I am not going to assume another show is going to replace those two shows.

In FY 2027, the GCB is forecasting collections to total \$114.8 million, which is an increase of 1.0%, or \$1.1 million from FY 2026, which is very modest growth. I feel that some of these collections are going to stabilize due to improved midweek convention business. It is a key driver for growth—it allows large production shows and headliners to reach maximum capacity and profitability. Prices increase based on attendance. My assumption is expected to offset some of the anticipated decreases to the base as a result of those shows that are ending in FY 2025, and then the assumption is also going to offset this continued competition from non-gaming LET venues. Non-gaming venues are not going away. Incredible lineups are being offered at the Sphere, Allegiant Stadium, and T-Mobile Arena. The competition factor with the gaming side will persist for a while. I think there is an offset because it is going to go to the General Fund on the non-gaming side, but I considered that in my forecast. I do not know if any show replacements will be announced in December, but possibly by May 2025. Even if a replacement show is announced, there is always a ramp-up period. Overall, my outlook is soft, but after looking at the non-gaming LET forecast, it appears the other forecasters are seeing the same thing.

CHAIR ROSENTHAL:

I do not see what you are seeing in the non-gaming forecast. I see the non-gaming forecast is down compared to FY 2024.

MR. LAWTON:

I think that might be related to the Super Bowl.

CHAIR ROSENTHAL:

I thought your point was that the state was making up for the decline in gaming LET with non-gaming LET.

MR. LAWTON:

I do not think the state will make up for it in FY 2025.

CHAIR ROSENTHAL:

It still does not match the state's revenue in FY 2024 except for the GFO forecasts; it is down significantly.

You are removing the benefit of Adele and Garth Brooks completely from your base and not replacing it with anything, either due to timing or, at a lower level, there is nothing replacing those shows, correct?

MR. LAWTON:

I do not know the exact numbers for those two shows. I am given a set number and I ask questions from there. I did not completely remove the Colosseum at Caesars Palace revenue from the base, but for the months with large spikes, I removed those from the base. I did not include that in the average monthly estimate for gaming LET collections. Those shows were very strong, and I am uncertain they will be replaced in FY 2025 and FY 2026. I am sure a new show will be added, but the magnitude is unknown. Hopefully, Celine Dion will make an announcement for Resorts World Las Vegas, which will change the entire forecast, but nothing has been announced.

CHAIR ROSENTHAL:

I understand the dilemma in not knowing, which makes it difficult to forecast. You made a point about the success of the Sphere and the assumption is that it will continue, but in this case, there was great success with the Adele and Garth Brooks residencies, but you made the assumption that will not continue. I think it is a little conservative again.

MR. LAWTON:

It is definitely conservative. I looked at the Fiscal Analysis Division's forecast, and maybe not to that level, but I can see where there could be growth. The base will decrease in



FY 2026, but I do not know to what level. I would assume it is going to decrease slightly. In FY 2025, although the state is off to a slow start and will not match FY 2024, it does benefit from the Garth Brooks and Adele shows. I believe Garth Brooks' residency ends in March 2025. I do not know that a new show will be up and running by FY 2026, because it takes time to ramp up. Caesars Palace did not give me any indication about replacements.

ERICA SCOTT (Economist, Department of Taxation):

Today I am going to be presenting the Department of Taxation's forecast for the major revenue sources for the General Fund. To begin, I will discuss the key assumptions that went into this forecast for the agency (page 2, [Exhibit E](#)). Those key assumptions are as follows:

- Consumer Price Index will remain at a normalized percentage of approximately 2.0% to 3.0% within the next biennium.
- Mortgage interest rates continue to trend slightly downward into the next biennium but maintain around a 5.0% range.
- Nevada's gross state product continues to increase at a steady 3.5% to 4.0% annualized nominal growth.
- Jobs in Nevada continue to increase. To clarify, wage growth is the 5.0% that I am putting into this assumption.
- Overall assumption is that Nevada continues to maintain a healthy stream of tourism while building economic diversification.

Like my colleagues, the department is also forecasting steady stable growth. More stabilization within FY 2026 and FY 2027 for some of these revenues. Beginning with the LET for the non-gaming portion, the assumption is healthy tourism and continued activity, especially in Las Vegas and Southern Nevada due to the large events centers. Nevada has substantially increased over the past three years in this revenue source. Southern Nevada has seen the opening of new stadiums and concert arenas as well as hosting national and international events.

The chart on page 4 shows FY 2022 through the first two months of FY 2025 ([Exhibit F](#)). The chart is color-coded to highlight the highest and lowest values. February 2024 was the highest month on record at \$29.5 million, the same month that Las Vegas hosted the Super Bowl. Prior to the pandemic, the average monthly revenue for this tax type was around \$2.1 million, which was in FY 2019. Fast forward to FY 2025, the average monthly LET non-gaming revenue tax is over \$9.0 million a month (excluding February) from this revenue source. That is an increase of 334.0% from FY 2019. Comparing normalized revenue from FY 2019 prior to the pandemic to present time, those event centers are driving that increase of 334.0%.

On page 5 is a time series view of the revenue stream with an obvious peak during February 2024 ([Exhibit F](#)). With non-gaming LET, the tax is due when the admission is sold, so the revenue may or may not reflect during the month of the event. This depends on the timing of when the taxpayer releases tickets for sale as well as the consumer behavior of ticket purchases. Typically for a high-priced large venue event, when tickets go on sale months in advance, some of that revenue will show up in the months leading up to the event, but that is not always the case.

Page 6 shows the non-gaming LET revenues from FY 2019 through FY 2024, which are represented by blue bars, and the Department of Taxation's forecasts are represented by red bars ([Exhibit F](#)). Without a one-shot event in this biennium as popular as the Super Bowl, the forecast for LET dips down in FY 2025 but is still high above the prior revenues of FY 2023. The department forecasts continued growth from this revenue source.

For FY 2025, the department's forecast for non-gaming LET is \$108.3 million, which is a 16.3% decrease from the prior year. That is not to imply any weakening market for the live entertainment in the state, but rather the effect of a normalized tourism trend the year after hosting one of the biggest events. In FY 2026, the department forecast \$113.5 million, which is an increase of 4.8%, followed by \$128.3 million, or a 6.0% increase in FY 2027. Despite the decrease forecasted in FY 2025, the department's outlook for this tax type is overall very positive with growth forecasted for FY 2026 and FY 2027.

MR. CROME:

Looking at page 4, Formula 1 is part of the non-gaming LET, correct ([Exhibit F](#))?

MS. SCOTT:

Yes.

MR. CROME:

Is that the lift that is shown in December 2024?

MS. SCOTT:

The Department of Taxation is held to confidentiality on taxpayer information.

MR. CROME:

You mentioned the Super Bowl, that is why I asked about the Formula 1 race.

MS. SCOTT:

Speaking to specifics of months where revenue is posted, those revenues are not necessarily going to show up in one month of revenues. It depends on when they are sold and consumer demand.

DR. MAURICIO SOLORIO ARTEAGA (Economist, GFO):

Regarding the LET gaming historical data, the state revenue has been very stable over the years. Prior to the pandemic, the average monthly revenue from LET gaming was \$8.42 million per month. After the pandemic, there was an increase of \$9.0 million. The average has increased to \$9.0 million per month from April 2021 to September 2024, so that was an extremely consistent source of revenue. One of the things that I have taken into consideration in my model is increasing competition from the non-gaming LET (page 8, [Exhibit D](#)). This model itself is a competition-based model so how well the competition is doing will affect the financials of LET gaming. I am forecasting that the average monthly fee from LET gaming is going to decrease as the competition from LET non-gaming starts to increase, which puts pressure on the gaming side. I am forecasting a decrease of approximately \$0.04 million, and the average monthly revenue from October 2024 to June 2025 will be approximately \$8.8 million.

One of the reasons I do not have this number going down further as competition from the non-gaming institutions increases is because the pre-pandemic time on the LET gaming was also before Allegiant Stadium and the Sphere. Thus, I do not think this revenue will decrease—it will likely stabilize to the levels prior to Allegiant Stadium and the Sphere. I have that built into the model so it does not eliminate the LET gaming because casinos are still going to offer shows, which people will attend, but they will not have the same turn out as before.

Overall, I am forecasting a decline of the fiscal year revenues from \$127.8 million in FY 2024 to \$110.2 million in FY 2025; \$106.7 million in FY 2026; and \$104.9 million in FY 2027.

Moving on to non-gaming LET, one interesting aspect is the incredible growth from its beginning with the incorporation of the football stadium. Prior to the pandemic, the non-gaming LET was a very low number. The LET non-gaming revenue was on average \$2.11 million, which is nothing compared to the casinos' revenue. However, after the COVID-19 pandemic, when restrictions were lifted and Allegiant Stadium and other non-gaming institutions were built, this revenue continued to rise.

The major outlier on the graph on page 11 is in February 2024, mostly due to the Super Bowl, which significantly increased the non-gaming LET for that year ([Exhibit D](#)). I removed this outlier from my forecast because Nevada will not host a major event like this for several years. I replaced February 2024 with the average of the past five Februarys because I noticed it is very cyclical (page 12, [Exhibit D](#)). February is known to bring in \$3.0 million to \$5.0 million in revenue. After replacing February 2024 with the average revenue for the past five Februarys, I calculated the percentage of growth of the non-gaming LET revenue. Even after controlling for the Super Bowl, there was an increase in average monthly revenue of 66.2%, which is incredible growth (page 13, [Exhibit D](#)).

Adding my forecast into the mix, I am not foreseeing any significant growth because the newness of the non-gaming institutions will wear off; however, I am still forecasting

growth of 39.6% (page 14, [Exhibit D](#)). Adding that into the historical revenue, the actual growth in the non-gaming LET from November 2024 to June 2027 is 4.7%. This is the actual monthly growth that I am forecasting. Translated into dollar amounts, there is still an upward trend.

I understand my fiscal year forecasts are quite high compared to my colleagues. One of the reasons I was confident about submitting these numbers is because approximately \$40.0 million in revenue was generated in FY 2022, and in FY 2023, that amount nearly doubled to \$80.6 million—those two years did not include a Super Bowl or a Formula 1 race. In FY 2024, after controlling for the Super Bowl, the revenue was still \$100.0 million for the LET, which is a \$20.0 million increase.

In FY 2025, there was a record-breaking Ultimate Fighting Championship (UFC) fight in September 2024. That UFC fight included an average roster. In any other stadium, that fight would not have generated the record-breaking views and sales, which means that revenue was mainly driven by the venue, not the event. I am forecasting that other industries, such as the boxing industry, might want to mimic the success of that UFC fight. I would not be surprised if there is a big Cinco de Mayo fight in the same stadium. Thus, I left the forecasts as is because I believe Nevada is going to continue to do well especially now that artists are realizing how much money they can generate from a single concert at the Sphere, which is a state-of-the-art venue.

For FY 2025, I am forecasting \$139.78 million; for FY 2026, I am forecasting \$167.67 million; and for FY 2027, I am forecasting \$184.11 million in revenue from the non-gaming LET.

CHAIR ROSENTHAL:

It is amazing how Las Vegas always seems to find something. It always seems to recreate itself.

MR. CROME:

To clarify, for the normalized, I will call it FY 2024, it was about \$100.0 million because of the Super Bowl impact. Are you saying that you think it will increase another \$20.0 million in FY 2025 because of the growth that you have seen mostly historically? Is that the major driver?

DR. SOLORIO ARTEAGA:

Yes, that is the major driver as well as the hit shows that have not yet been seen. For the December 2, 2024, meeting, I do not know if the data will be available for tax revenue from the UFC fight, but if it is available, I can add it to the model to see if it is on track.

CHRISTIAN THAUER (Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

The Fiscal Analysis Division's LET forecast begins on page 45 ([Exhibit E](#)). I will start with the gaming LET, also called the casino LET. It is levied on ticket sales for live entertainment

taking place on the gaming license. As Mr. Lawton has mentioned, of note is that FY 2025 actual revenues generated by the casino LET for the first three months are down approximately 17.7% when compared with FY 2024 actuals for the same period. The question is how much should be read into these numbers, also given the volatility of the tax revenues in general and given that these numbers are only for three months.

Although we do not want to read too much into these numbers, there are three structural issues that should be mentioned in the context of which we look at these numbers. Generally, when considering FY 2025, we do so in comparison with FY 2024, which was a strong year for the casino LET. In a way, the lower numbers seen today is the normal way the tax would move. There are other reasons why the first three months in FY 2025 may have come in relatively weak. As mentioned by Mr. Lawton, the Mirage closed, which directly affects weekly ticket sales. The Fiscal Analysis Division also agrees that we may see cannibalization—we may have reached a point in Las Vegas where live entertainment taking place outside of the casinos competes and takes business away from live entertainment inside the casinos. For example, the Sphere and the large stadium events that are now regularly offering big ticket concerts.

All in all, that tells us that FY 2025 revenue levels will be lower than in FY 2024. However, the Fiscal Analysis Division is less pessimistic on how much lower the revenues will be because we do not see any sign of a crisis of casino live entertainment in Las Vegas. Adele's residency is scheduled through the end of calendar year 2024. I believe Garth Brooks is scheduled to play until March 2025. The Formula 1 will race again in Las Vegas, possibly lighter than the first race, but it is still going to take place. As well, the lineup for calendar year 2025 on the Las Vegas Strip includes artists such as Bruno Mars, Janet Jackson, Mariah Carey, Blake Shelton, Keith Urban, the Black Eyed Peas, Maroon 5, Rod Stewart, Carrie Underwood, the New Kids on the Block, and the Scorpions. While the Fiscal Division believes that revenue levels in FY 2025 will be lower than in FY 2024, casino live entertainment appears healthy and strong.

In view of these considerations, the Fiscal Analysis Division projects the gaming LET to decrease in FY 2025, when compared with FY 2024, by 4.7% to \$121,055,000. For FY 2026, the Fiscal Analysis Division projects the gaming LET to moderately grow by 2.1% to \$123,551,000. For FY 2027, the forecast is for continued moderate growth of 2.5% resulting in \$126,602,000 in tax revenues. After the casino LET falls slightly in FY 2025, we believe it will continue to grow moderately in FY 2026 and FY 2027.

I will now move on to the non-gaming part of the LET. As mentioned by the other presenters, the tax on entry fees for live entertainment outside casinos has in recent years become, only matched by interest income revenues, the most dynamic General Fund revenue source in Nevada. Chart 1 on page 49 illustrates that well ([Exhibit E](#)). The graph near the bottom of the chart between FY 2005 and FY 2021 represents non-gaming LET revenues. After FY 2021, revenues dramatically increased and even surpassed the revenues generated by the gaming LET in FY 2024.

The difficult question after such a development is where it will go from here. The first question that needs to be addressed is whether this tax will continue its dramatic steep

growth in collections during the 2025-27 Biennium. Three considerations and information points inform the Fiscal Analysis Division's answer to that question. First, unlike during the 2023-25 Biennium when the Sphere was added to the live entertainment market in Nevada, no additional large venues are scheduled to be added to the market during the 2025-27 Biennium. The planned new stadium for the Oakland A's will take time to be constructed, and in our view, will enter the market after the 2025-27 Biennium. Second, unlike during the 2023-25 Biennium, during which the Super Bowl and the first time Formula 1 race were held in Las Vegas, we do not know of any similarly big one-off events that are planned to be added to the live entertainment mix in Las Vegas during the 2025-27 Biennium. Third, we believe that visitors will continue to come to Las Vegas, but that visitor volume growth will be slow for reasons that the Las Vegas Convention and Visitors Authority presented at the October 16, 2024, meeting of the Forum. Based on that information, the Fiscal Analysis Division does not foresee tax revenues continuing their staggering growth path in the upcoming biennium.

The next question is on which level tax collection will stabilize. With respect to that question, we know that the Super Bowl in February 2024 was a very important event for the non-gaming LET in FY 2024, which will not repeat itself. We also think that the first Formula 1 race in November 2023 in Las Vegas was an exceptional event and that it will probably be lighter in terms of attention, crowds, and ticket prices the second and third times around. We further know now that festivals taking place in Nevada, generating non-gaming LET, have experienced declining revenues, and believe this trend will continue following a national trend in that respect.

In view of these considerations, the Fiscal Analysis Division projects the non-gaming LET to decrease by 17.7% in FY 2025 to \$106,396,000. As mentioned, this projection takes into account that in comparison to FY 2024, FY 2025 will not have a Super Bowl and Nevada will see lighter revenues generated by the Formula 1 race and festivals. In FY 2026, the division believes that non-gaming LET revenues will moderately grow off of that lower-level set in FY 2025 and increase by 1.2% to \$107,697,000. In FY 2027, there will be a similar growth pattern; however, the division also takes into account that the contract between Formula 1 and the Las Vegas Convention and Visitors Authority schedules annual Formula 1 races until the end of calendar year 2025 only. In other words, it is yet to be decided whether a Formula 1 race will really take place in Las Vegas in FY 2027, or more precisely, November 2026. The Fiscal Analysis Division decided to factor in this uncertainty relating to the Formula 1 race in FY 2027 by cutting in half the anticipated revenue generated by a Formula 1 race to essentially hatch against the upside and downside risks. With that in mind, the division projects declining tax revenues for FY 2027 by 6.1% resulting in non-gaming LET revenues of \$101,080,000. Any additional information removing the uncertainty regarding the Formula 1 race in FY 2027 would lead the Fiscal Analysis Division to revise the forecast.

To clarify for information concerning the mentioning of UFC fights at the Sphere, those events fall under the regulation of the Athletic Commission and the LET would not be levied on tickets sold for UFC fights, but instead the Athletic Commission has a fee similar to the LET that is differently collected. Thus, UFC fights would not be included in the non-gaming LET.

MR. LEAVITT:

I think it is interesting that for the LET gaming forecast, of all three forecasters, the Fiscal Analysis Division is higher than anyone else, but for the LET non-gaming forecast, the Fiscal Analysis Division is lower than anyone else. Combining the two, the Fiscal Analysis Division and the Department of Taxation forecasts are close.

CHAIR ROSENTHAL:

To clarify, the 9.0% tax is the same on both the gaming and non-gaming LET, correct?

MR. THAUER:

That is correct.

MR. GORDON:

Thank you to all of you that presented on this topic. What we have generally seen is that people who are coming to Las Vegas are focused a little more on these experiences as opposed to some of these other areas. My general sense is that venue and casino operators, and those who invest in the State of Nevada will continue to make investments that target that segment of the market; therefore, there may be some opportunities for additional demand within this segment of overall consumer spending. Obviously, there are some anomalies, and one offs, and things you cannot predict, but certainly it seems like Nevada has seen a pretty seismic shift in terms of the consumer. I think Nevada will probably continue to see the development of more venues and events that center around these types of experiential offerings.

MS. LEWIS:

The volatility of the events is interesting. I track what is happening at Allegiant Stadium for work purposes. I have been fascinated by the mayhem of the Taylor Swift and BTS events, and I have been trying to determine who else is touring that generates that much revenue and excitement. The other question I have also pondered is what other new venues might be coming to Nevada. I do not know what the Hard Rock Hotel and Casino will bring when it reopens in 2027. If the Hard Rock Hotel and Casino has a venue, I am curious if that venue will be as cool as a Cirque du Soleil show. I think most people have seen the other Cirque du Soleil shows because it has been around a long time.

Northern Nevada does not really rank in this area. I know there is an event center at the Grand Sierra Resort, but if the games are all locally based teams, I am uncertain that will make a difference for either of the LET revenues.

MR. THAUER:

If you are referring to local sports teams, they are exempt from the LET. There is also revenue from Northern Nevada, such as the Burning Man festival, which is subject to the LET. There are discussions about the Grand Sierra Resort building a large arena, but



that would be beyond the upcoming biennium; however, that could transform the Reno area into one of the major contributors to the LET.

Chair Rosenthal called a recess at 12:23 p.m. The meeting reconvened at 12:57 p.m.

### **C. STATE 2% SALES TAX**

ERICA SCOTT (Economist, Department of Taxation):

I will first discuss the current revenues with the State 2% Sales Tax as a time series just within the past few years back to FY 2022 (page 9, [Exhibit F](#)). The graph highlights the seasonality of this tax with the peak months always in December. Within FY 2025 to date, the July and August monthly average of the State 2% Sales Tax revenue is \$144.0 million, but the average in FY 2024 was nearly \$150.0 million; therefore, it appears that FY 2025 is starting off somewhat stagnant. Although there is a lot of time remaining in this fiscal year with the highest earning months still to come.

With the key assumption in mind that the Consumer Price Index is coming back into a steady 2.0% to 3.0%, the stagnant State 2% Sales Tax revenue is not surprising for the first few months of this fiscal year. One of the most important indicators for this tax that the department used for the forecast is Nevada retail sales. Moody's has forecasted growth over 3.0% and 4.0% for FY 2025 through FY 2027. With that considered, the State 2% Sales Tax forecast is presented on the bar graph in the red columns (page 10, [Exhibit F](#)). Considering the growth forecasted by Moody's for Nevada retail sales and with the assumption that Nevada's tourism maintains a steady growth, the department's forecast for the State 2% Sales Tax is \$1.84 billion in FY 2025, \$1.93 billion in FY 2026, and \$2.01 billion in FY 2027.

The chart on page 11 shows the year-over-year growth, which works out to 2.8% growth in FY 2025, so somewhat flat but steady ([Exhibit F](#)). In FY 2026, growth is forecasted at 4.8%, and in FY 2027, growth is forecasted at 4.1%. While the Department of Taxation does not anticipate matching the growth rates seen in FY 2021, FY 2022, and FY 2023, steady growth is still anticipated.

DR. MAURICIO SOLORIO ARTEAGA (Economist, GFO):

For the State 2% Sales Tax, I wanted to begin with the analysis of the historical trend of this tax. As shown on page 18, the State 2% Sales Tax has been increasing on an upward trend with a dip during the months with COVID-19 pandemic restrictions (page 18, [Exhibit D](#)). I would note that even during the pandemic, Nevada saw a neutralization effect with regard to the percent growth.

The graph on page 19 shows the average percent growth, including the pandemic months, was around 1.12% on average per month from July 2016 to October 2024 ([Exhibit D](#)). Excluding the pandemic months, the average percent growth is 1.41%. There is not a significant difference with or without the pandemic months. I believe the reason for this is because during the pandemic, there was a supply disruption of goods. The few

items that were sold in the economy were sold at higher prices, so the low supply and higher prices helped the State 2% Sales Tax remain consistent.

One of the things I considered when preparing the forecast was the amount of consumer credit that Nevadans have been collecting throughout the years—that percentage has been outpacing the average household income in the State of Nevada. On the graph on page 21, the blue line represents consumer, and the green line represents average household income ([Exhibit D](#)). In terms of percentage, household income has not grown at the same rate as consumer credit—consumer credit is outperforming household income. This means that the debt-to-income ratio that households are accumulating is increasing—the debt is higher than what households are producing in income. The Federal Funds Rate has an inverse relationship with consumer credit. When interest rates increase, consumer credit goes down because it is more expensive to borrow money.

Interest rate decreases are expected in the upcoming years, which will influence consumer credit. Consumer credit will increase because it is less expensive to borrow money. I built the debt-to-income ratio variable into my model to neutralize the effect of borrowing against people who prioritize paying debt.

The GFO forecast as well as historical Sales and Use Tax data is shown on page 22 ([Exhibit D](#)). It is growing, but not exponentially because of that neutralization effect that was mentioned—some households are going to be more finically minded than others.

The chart on page 23 shows the percent change ([Exhibit D](#)). After merging in the GFO forecast, the average growth rate of the Sales and Use Tax will decrease around 0.34%. The forecasted average monthly percentage growth from November 2024 to June 2027 will be around 0.6%. That translates to \$1.85 billion in revenue in FY 2025, \$1.93 billion in FY 2026, and \$2.0 billion in FY 2027.

My theory of people prioritizing debt over discretionary spending might have been busted over the weekend. I went car shopping with my cousin and was surprised at the busyness of the dealership—there was even a waitlist to talk with a salesperson. As a good economist, I asked the salesperson how long the dealership had been that busy. He said sales have been strong for about six weeks, and the dealership is selling an average of 80 cars in a weekend. It made me think that perhaps I underestimated people. As interest rates go down, more people may be borrowing money for large purchases.

CHRISTIAN THAUER (Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

I would like to begin by providing some context. The State 2% Sales Tax, the most important tax for the General Fund, was a key driver for the expansion of revenues after the COVID-19 pandemic. Fueled by pent up consumer demand coming out of the pandemic as well as increasing inflation, the State 2% Sales Tax overperformed the May 2021 Economic Forum forecast significantly for the 2021-23 Biennium in each year of the biennium. However, during the 2023-25 Biennium, sales tax revenues started to come in lower than expected by the Economic Forum's May 2023 forecast. In FY 2023, revenues remained approximately \$26.0 million, or 1.5%, under the May 2023

Economic Forum forecast, and in FY 2024, by more than \$50.0 million, or 3.0%. As concerns the first two months of actuals in FY 2025, sales tax revenues to date are approximately 10.0% under forecasted revenues.

Another interesting development, throughout most of the 2023-25 Biennium State 2% Sales Tax revenues have been increasing year-over-year. In FY 2023, sales tax revenue increased by 6.7% when compared to FY 2022, and in FY 2024, by 4.0% over FY 2023. However, since May 2024 sales tax revenues not only fall behind the Economic Forum's May 2023 forecast, but they also shrink when compared with the same month one year before. July and August revenues for FY 2025 came in about 2.1% lower than July and August revenues in FY 2024.

The question is what should be read into these numbers. The Fiscal Analysis Division believes these developments of year-over-year decreases are not only related to lower inflation rates and a general normalization of consumer demand after the pandemic but are also related to a realignment of consumer spending. That relates to what Mr. Nakamoto said when he introduced the economic outlook before the Gaming Percentage Fee presentation in that wages continue to increase and consumers spend money, but our interpretation of the situation is that spending has moved increasingly into areas that are not covered by the sales tax such as increased rental payments, increased insurance payments, and groceries, which are exempt from the sales tax. For example, if you look at the two most important contributors to taxable sales by the North American Industry Classification System (NAICS) code—food services and drinking places and motor vehicle and parts dealers—sales by food services and drinking places decreased by 3.6% year-to-date over FY 2024 sales year-to-date, and sales by motor vehicle and parts dealers decreased by 12.9%. The Fiscal Analysis Division thinks this is due to consumers dining out less and grocery shopping more. Bigger investment in cars and auto parts are delayed due to the high interest rate environment and increasing cost-of-living prices for rent, insurances, and other necessities. However, the Fiscal Analysis Division does believe that this realignment of consumer behavior will soon level out with lowering interest rates, increasing wages, and re-emerging demand for new cars and auto parts. What was just presented by Dr. Solorio Arteaga fits into that narrative because I think we already see that happening in the car market. There were also over capacities of American car manufacturers, thus those manufacturers usually push the vehicles into the market through discounts and favorable loans. I believe that is already happening, but it is not yet reflected in the numbers due to the reporting lag. We believe this will level out and the state will proceed on a growth path. However, that growth path will be lower than in the previous years due to the cost-of-living pressures consumers feel in Nevada.

In view of these considerations, the Fiscal Analysis Division projects an increase of State 2% Sales Tax revenues by 0.3% to \$1.795 billion in FY 2025. For FY 2026, sales tax revenues will increase by 3.7% to \$1.861 billion. For FY 2027, sales tax revenue will increase by 4.7% to \$1.948 billion.

I would note that the Fiscal Analysis Division will need to make a small revision to the sales tax forecast in December as a result of Ballot Question 5 receiving the approval of voters in the 2024 General Election. Passage of Ballot Question 5 exempt diaper

products from the State 2% Sales Tax beginning in January 2025. The Fiscal Analysis Division will calculate how much we will need to deduce from the forecast due to this new exemption. As a ballpark estimate, in calendar year 2024, the loss would have amounted to approximately \$2.3 million; therefore, it is not a significant amount that will be removed from the forecast.

MR. LEAVITT:

Will another month of sales tax information be available by the December 2, 2024, meeting?

MR. THAUER:

The revenue figures will probably be available and then we will be able to work ourselves back to the sales. The Fiscal Analysis Division forecasts taxable sales first and from there on, forecasts the collections, including all the abatements, etc. Although the taxable sales figures from the Department of Taxation will not be available before we prepare the forecasts, we may have another data point for the actual collections.

MR. LEAVITT:

I am concerned about showing increases when all available data shows decreases up to the point where the forecast is made. However, there will be another forecast in May 2025, by which time we will know if there is a turnaround in sales tax revenue.

MR. THAUER:

I think the anecdotal story told by Dr. Solorio Arteaga was in line with what we are also seeing—that will be a turnaround soon. But yes, it is true that the current numbers look negative.

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

To add to Mr. Thauer's comments, when I was discussing the Fiscal Analysis Division's economic overview and talked about timing, Fiscal Analysis Division staff had a similar question as to when sales tax revenue would begin to improve. Our assumption, at least for sales tax in FY 2025, is that much of the slower sales right now, especially for things like vehicles, are perhaps the result of higher interest rates. With the Federal Open Market Committee's action from this morning as well as Ms. Mandel's mention that there will likely be further reductions going forward, we assume this will spur additional spending. For FY 2025, there is not a lot of growth. Table 9 shows that the last ten months only need to grow by 0.5% to get to our forecasted amount (page 89, [Exhibit A](#)). The forecast for sales tax is a little weak in the first half of FY 2025, but it will begin to recover in the second half of FY 2025; therefore, sales tax is expected to result in a modestly positive outlook.

## D. INSURANCE PREMIUM TAX

ERICA SCOTT (Economist, Department of Taxation):

The chart on page 13 shows the time series for the Insurance Premium Tax ([Exhibit F](#)). There is clearly an upward trajectory with the rate increases over the last several years. As well, the tax revenue growth over the past eight fiscal years is represented in this time series. In FY 2024, this tax revenue brought in an average of \$146.0 million per quarter to the General Fund.

During the October Economic Forum meeting, the Forum heard from Chief Deputy Insurance Commissioner, Todd Rich, who communicated that there were upcoming approved insurance carriers increasing their rates overall. Mr. Rich mentioned that several insurance carriers had upcoming rate increases between 10.0% and 25.0%, although those increases would not go into effect until FY 2026 and FY 2027. That has been factored into this forecast. Although the rate increases will be implemented, ultimately, consumer behavior will dictate what premiums are paid to the insurance carriers. Consumers still have the option of shopping with other carriers and adjusting coverages to offset the increased premium costs. These factors have all been considered into this forecast.

An additional consideration to the forecast is that the totals shown are just for the General Fund portion and before any tax credits are applied. Sometimes when the department does these year-over-year comparisons, if the tax credits are not included in those prior year totals, it shows a larger growth than what is being forecasted.

The department's forecast for FY 2025 is \$647.18 million, \$690.9 million in FY 2026, and \$737.1 million in FY 2027 (page 15, [Exhibit F](#)). When comparing the annualized growth, the figure is net tax credits for FY 2024 versus the forecasted FY 2025 prior to any tax credit being taken. Approximately \$27.0 million in tax credits were taken against that FY 2024 figure. Thus, the forecasted growth is closer to around 5.9% from FY 2024 to FY 2025. This is the difficulty of presenting net revenues to pre-credit forecasts. Ultimately, that growth is 5.9% in FY 2025, 6.8% in FY 2026, and 6.7% in FY 2027. The department's forecast is for the later fiscal years to be more reflective of the upcoming premium rate increases and the consumer behavior and premium payments.

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

I would note that the numbers in Ms. Scott's presentation do not match what is on Table 8 because there is an additional portion of the Insurance Premium Tax, specifically on surplus lines insurance, that is not collected and administered by the Department of Taxation ([Exhibit B](#)). Rather, it is collected and administered by the Division of Insurance within the Department of Business and Industry. Thus, the forecasts seen in Table 8 are inclusive of that portion for the forecasted amounts from the Department of Business and Industry, and it is in the range of approximately \$25.0 million to \$26.0 million per fiscal year. That explains the difference between the presentation given by Ms. Scott and Table 8—the agency forecast is inclusive of both portions.

CHAIR ROSENTHAL:

Ms. Scott, you mentioned the approved carrier rate increases and consequently, consumers may shop around or reduce coverages to mitigate some of the impact of the higher rates. Do the assumptions in your forecast assume all the rate increases flow through without the consumer actions? In other words, what underlying rate assumption is in your forecast? Is it 100% of the rate increases or is there a mitigant for consumers acting against the rate increases?

Ms. SCOTT:

There is a mitigant; somewhere meeting in the middle. As insurance carriers do ask for rate increases, this would be more of a question for the Division of Insurance about the process; however, my understanding is that not every carrier is asking for a rate increase every time. That is also factored into this forecast. If the rate increases are not warranted in future fiscal years, that is also considered, but ultimately consumer behavior is going to dictate what premiums are paid.

DR. MAURICIO SOLORIO ARTEAGA (Economist, GFO):

Regarding the previous discussion with Ms. Scott, I have a schematic in my presentation showing the consumer dynamics related to the rate increases (page 27, [Exhibit D](#)), which might be helpful for the Forum members.

The chart on page 26 shows the historical time series of the Insurance Premium Tax ([Exhibit D](#)). This tax has experienced exponential growth rather than a flat trending slope. It was also not impacted by the pandemic because auto insurance must be paid regardless of whether the vehicle is driven.

The GFO forecast includes the rate increases that were effective in October 2024 (page 27, [Exhibit D](#)). According to the Division of Insurance, there are at least six carriers that will increase their rates by at least 10.0%. Nevada ranks fourth in the nation for the highest auto insurance rates in the United States. It is calculated that Nevada residents pay around \$3,500 a year on auto insurance, which is almost 5.0% of annual income.

One of the largest corporations that increased rates is Allstate. Rates increased by 10.0% effective October 28, 2024. This will have the largest impact because 94.0% of people are going to face a 10.8% increase. Farmers Group increased rates by 24.0%, which is quite a significant increase.

The schematic on page 27 shows the demand supply curve for the large insurance market (top) and the small-to-medium insurance market (bottom) ([Exhibit D](#)). If the equilibrium price for insurance is, for example, \$110.00 a month for auto insurance, and a large insurance company increases its rates by 24.0%, that will result in a premium rate increase of \$136.40, which is an increase of almost \$26.00. When those companies increase their prices, the demand for that given insurance price is going to go down, which is going to encourage people to migrate to the small-to-medium size market. That influx of people will then put pressure on the small-to-medium size companies to increase rates

because the transaction costs are going to increase due to the fact that those companies will need to hire more agents, implement new software, etc. The demand curve is going to naturally shift to the right, which is going to bring the price for the small-to-medium size insurance up. In my example, the rate will be higher than \$110.00, but the specific amount is unknown.

When the large insurance companies begin to see they are losing customers, they will decrease prices to compete with the small-to-medium size companies. Consequently, people are going to migrate from the small-to-medium size companies to the larger companies when they see that the difference between the two is not that big and the larger insurance companies have better coverage. Therefore, this dynamic is going to repeat itself and the price is going to stabilize to an equilibrium point where there is not going to be an incentive for people to move from large insurance to small insurance. It is uncertain when the price stabilization will occur, but it will be higher than what people are currently paying.

The other possibility in this scenario when insurance rates increase is that people can opt out of auto insurance. That is an increasing phenomenon in the United States. I was looking at some statistics and apparently 14.0% of Americans are driving without auto insurance, which is approximately 33 million people. As insurance rates increase, people will opt out, especially considering Nevada auto insurance costs about 5.0% of annual income. For people living paycheck to paycheck, they might choose to opt out of auto insurance and take their chances rather than pay higher insurance rates.

The green line on the graph on page 27 is the scenario where people just accept the rate increase ([Exhibit D](#)). The other scenario is where people shop around, which will stabilize rates. In my model, I factored in half the increase, or 5.0%, because of the market dynamics. I am forecasting an average quarterly percentage growth in insurance premiums to be around 1.8% from November 2024 to June 2027, so it is a moderate growth increase of the Insurance Premium Tax. That translates to \$653.72 million in FY 2025, \$679.35 million in FY 2026, and \$702.38 million in FY 2027.

MR. GORDON:

The GFO forecast includes both components of insurance that we were discussing before. Is that correct?

DR. SOLORIO ARTEAGA:

Yes.

MR. CROME:

Regarding the shift on the chart, are you assuming all the migration to smaller insurance companies will happen in the next fiscal year or gradually (page 27, [Exhibit D](#))?



DR. SOLORIO ARTEAGA:

I am forecasting that it will be a dynamic shift because most insurance premiums are on a six-month basis. If someone is notified close to the termination of their policy, they may decide to switch to a different company. I believe it will occur as people are notified of the insurance premium increase.

MR. CROME:

You are assuming it will all occur in FY 2025, correct?

DR. SOLORIO ARTEAGA:

Yes, that is correct.

MR. CROME:

You mentioned that people could exit the market completely, but there is another option where people could choose to reduce their coverage. Did you consider any of those other factors in your analysis?

DR. SOLORIO ARTEAGA:

Yes, I will consider. One of the things that I noticed is that most people typically choose the state's legal minimum of auto insurance. The only decrease from the state legal minimum is to opt out of auto insurance, but then it is illegal for them to drive.

MR. NAKAMOTO:

In the Fiscal Analysis Division forecast packet, the Insurance Premium Tax begins on page 69; however, I will refer the Forum members to page 71, which is the table that is currently on the display ([Exhibit E](#)). This table is the historical collections for the Insurance Premium Tax back to FY 2011. This table in and of itself tells an interesting story because the only year during this period where Insurance Premium Tax collections were negative was in FY 2011, which was at the bottom of the Great Recession. Otherwise, there was slight growth in FY 2012, and it has continued to increase. There are reasons why in certain fiscal years it went up higher than others; FY 2015 was right at the beginning of the provisions of the Affordable Care Act. Consequently, there were increases in coverage as more people were able to obtain health insurance in an easier fashion.

As shown on the table, there has been stable growth, again with the exception perhaps of FY 2020 when collections only increased by 3.7%. I believe I have mentioned in my previous presentations on this tax that going back to the pandemic, there were a lot of auto insurance companies that were not increasing their rates or even refunding premiums to people because they were not driving as much. Consequently, there was less demand for auto insurance at least, which is only a portion of it, but that can help mitigate some of the collection growth; however, then it began to increase again. One of the things that we have observed, at least for some of these property insurance categories,

is that insurance companies that were not raising their rates during the pandemic suddenly found that as people were driving more, claims increased and the cost of automobile repairs increased; therefore, the insurance companies lost money because they were paying out more in claims than they were receiving back in premiums. From my estimation, that is one of the things that has been driving these large premium increases, at least in the automobile and some of the other property categories that have been previously discussed.

Again, that is not a significant part of the market. Thinking back to the presentation by the Division of Insurance at the October 16, 2024, meeting, approximately 38.0% of premiums are in the health insurance sector, which is also experiencing relatively stable growth. The information that the Division of Insurance was giving with respect to rates, at least for Plan Year 2025, ranged between 4.0% and 6.0% depending on the plan type, which is moderate. However, when almost 40.0% of insurance is going up by that amount, naturally, growth is expected. Whatever is in the property and casualty and life and all the other categories is only going to add to it.

One thing to note is the 11.2% growth in FY 2024. One piece of legislation that was passed during the 82<sup>nd</sup> (2023) Legislative Session was Senate Bill 435, which essentially says that if the Department of Health and Human Services establishes a tax upon private health providers, the proceeds will be used by Medicaid to provide services through managed care organizations for behavioral health services. As a result, there would be increases in the Insurance Premium Tax because the payments that are received by the managed care organizations are consideration for the Insurance Premium Tax and are taxed at a rate of 3.5%, like any other payments to insurance companies.

The information that I received from the Medicaid analysts in the Fiscal Analysis Division said that the provider tax began on January 1, 2024. As a reminder, we look at the quarterly collections for the tax, the premiums that are written, which make up about 95.0% of the tax, the surplus lines and the “all other,” which includes things like workers' compensation, which is a smaller amount. For the third and fourth quarters of FY 2024, there is significant growth—just over \$20.0 million more in premium tax in those two quarters than the same two quarters in FY 2023. Based on the information available, approximately 40.0% is due to this provider tax. Private health providers, hospitals, and the like pay this tax, the money goes to Medicaid to pay for behavioral health services through managed care organizations, and then the managed care organizations must pay a portion of that back in Insurance Premium Tax. Most of the money is federal, so I believe the state is net ahead. Assuming about \$8.0 million per quarter of that was from this provider tax and the payments, actual growth will be just over 8.0% in the tax. We believe some of that growth is because the provider tax took effect at the beginning of the calendar year.

Having said that, I think the first two quarters of FY 2025 are stronger because we will annualize against the provider tax in the third quarter of FY 2025, which begins January 1, 2025. It is entirely possible though that the effect might be a little low because the growth is only between \$12.0 million and \$15.0 million; therefore, there could be an upside. There has been discussion from the other forecasters concerning the premium

increases. The Fiscal Analysis Division believes the more significant premium increases are limited to certain categories, such as property and casualty, which makes up approximately 20.0% of the market. With more moderate increases in areas such as health insurance, along with the expectation that the significant increase in auto and other insurance categories may begin to stabilize as we move past the pandemic, growth in FY 2026 and FY 2027 is projected to be more modest, in the range of 5.2% to 5.4%. That is probably a bit below the long-term looking at the percentages going forward, but there comes a point where it is reasonable to assume that premiums cannot be increased much more. It is entirely possible that premiums will continue to increase, but we expect that Nevada will experience slightly more growth in FY 2025, as we are still annualizing the impact of the provider tax. However, in FY 2026 and FY 2027, the state will have moved beyond that, and it will moderate some of the growth. In FY 2025, there will be 6.5% growth in FY 2025 to about \$688.9 million, \$726.1 million in FY 2026, and \$763.9 million in FY 2027.

MR. GORDON:

You mentioned that 20.0% of the overall premiums were sourced to property and casualty. What is the general distribution of the sources of the insurance premiums that are being paid where this tax applies?

MR. NAKAMOTO:

I would have to review the previous presentation, but the tax is applied uniformly—it does not differ between health insurance, auto insurance, or life insurance. Thus, we assume that the distribution of the rate is equal to the net premiums that are reported by the Division of Insurance. That assumption essentially says that 38.0% of the insurance written is health insurance; therefore, we assume that 38.0% of the Insurance Premium Tax derives from those premiums.

## **E. MODIFIED BUSINESS TAX NONFINANCIAL • FINANCIAL • MINING**

CHAIR ROSENTHAL:

The next item is Agenda Item VII.E, which has three components—nonfinancial, financial, and mining. I would like the presenters to walk through all three components of the tax rather than switching between presenters for each component.

ERICA SCOTT (Economist, Department of Taxation):

First, I have a graphical representation of the quarterly General Fund revenues for the MBT (page 17, [Exhibit F](#)). This includes all three MBT types in the totals. The chart is color coded for the highest and lowest revenue quarters from FY 2022 through FY 2024. The second quarter of FY 2023 was the highest on record. The lowest revenue quarter is always quarter one of each fiscal year. It is also apparent where the rate reduction came into play in FY 2024—the MBT rates were reduced in July 2023 for FY 2024. This goes into play with the MBT revenues so the reduction by comparison in FY 2024 is due

to the rate decrease, not necessarily any economic indicators. Despite that rate reduction, quarters three and four of FY 2024 were in the top five highest revenue quarters from this time series, which is due to steady wage and job growth that Nevada has experienced within FY 2024.

Page 18 shows the time series of the MBT revenues from FY 2017 through FY 2024 ([Exhibit F](#)). With this view of the revenues, we can also clearly see the seasonality play out again. The lowest quarter of revenue is typically the first quarter of the fiscal year, but overall, there is still a steady incline in this revenue source.

Getting into the forecast, the department has broken out the general business portion of the MBT revenues in the two preceding years in the blue bars and then the red bars are the forecast for the agency (page 19, [Exhibit F](#)). Again, there is a dip in FY 2024, which is due to the tax rate decrease not reduced economic activity.

Since the department's key assumption is that Nevada's job growth continues the upward trend and wages remain at a growth rate of approximately 5.0%, the department is forecasting growth in each fiscal year for this tax type. Also, once again, the forecasted figures displayed here are prior to any tax credits. In this graphical representation, I have added back in the tax credits that were utilized to provide an apples-to-apples comparison with the year-over-year growth rate. The department is forecasting \$847.94 million in FY 2025, \$893.75 million in FY 2026, and \$939.76 million in FY 2027. This is a 6.2% increase in FY 2025, a 5.4% increase in FY 2026, and a 5.1% increase in FY 2027.

Moving on to the MBT financial institutions forecast, another factor that was added into this employment sector is the interest rates, specifically lowering of interest rates (page 21, [Exhibit F](#)). There was a general decrease in reporting of wages for financial institutions when interest rates were on the rise because those wages are tied to the financial sector. With the reduction of interest rates for lending, my model takes into effect the wage growth that would be the relationship with the lowering of interest rates and expanding that financial industry with jobs and income.

For the financial institutions section, the department is forecasting \$43.74 million in FY 2025, \$46.1 million in FY 2026, and \$48.48 million in FY 2027. In the chart on page 22, the department included the actual credits taken against the financial institution MBT returns ([Exhibit F](#)). With these forecasted figures, there will be a 6.9% increase in FY 2025, a 5.4% increase in FY 2026, and a 5.2% increase in FY 2027. This is reflective of the continued federal interest rate reductions anticipated in FY 2025 and followed by a steadying of interest rates in FY 2026 and FY 2027.

Next is the MBT mining forecast (page 23, [Exhibit F](#)). The department does not anticipate any large fluctuations in this industry. For this industry sector, I looked at industrial productions forecasted by Moody's. It does not seem to have a big fluctuation in FY 2025, but then there will be some normalized growth within FY 2026 and FY 2027. That being considered, the department's forecast is \$19.6 million in FY 2025, \$20.55 million FY 2026, and \$21.61 million in FY 2027, all before tax credits are applied. For the year-over-year comparisons, there will be a 0.1% increase in FY 2025, 4.8% in FY 2026, and 5.2% in

FY 2027. This is reflective of an anticipated slightly stagnant year in FY 2025 followed by some expansion in FY 2026 and FY 2027.

DR. MAURICIO SOLORIO ARTEAGA (Economist, GFO):

I am going to be presenting the MBT nonfinancial. This model is very straightforward; I used similar assumptions as Ms. Scott with strong economic growth, especially in the job market sector. The GFO forecast for FY 2025 is \$751.89 million, for FY 2026 it is \$763.14 million, and for FY 2027 it is \$797.7 million. I would note that these numbers might be a little short, especially after the results of the election. I was looking at the markets this morning, which reacted in favor of the election. The Dow Jones went up by 4.0%, and the S&P 500 went up by 3.0%. Economists are saying that the reason the markets reacted in favor of the election is because of the anticipated corporate tax cuts. Once these corporate tax cuts take effect, there will likely be a surge in business activity because companies will have the funds to expand; therefore, the job market is expected to grow with this tax credit. As noted, these numbers may be a little short, but it is too early to tell. By the May 2025 meeting, we should have a better understanding of the impact on the job market.

Moving on to the MBT financial, I am aware that I am the only one who shows this tax decreasing (page 33, [Exhibit D](#)). The reason for this is because of some research reports related to artificial intelligence (AI). According to Accenture Research, the banking industry is the industry that is most vulnerable to job displacement by AI. As shown on the chart, 54.0% of jobs in banking institutions are at risk of being replaced by AI or becoming automated. Only 12.0% of banking institution jobs will benefit from the introduction of AI, meaning that the job will become more efficient; 24.0% of those jobs are at low risk; and 10.0% of those jobs are safe from the introduction of AI. Displacement of 54.0% is significant. This is evident just by walking into a banking institution—there are few employees and many empty desks. There have been bank closures nationwide because many banks are moving to online services. Many financial institutions are boasting about their AI capabilities and advisors in television commercials. There will be some job displacement by AI in the coming months.

The graph on page 34 shows a survey conducted by Citigroup in which banks were asked if they have begun introducing AI ([Exhibit D](#)). Of the banks surveyed, 21.0% have not yet started to introduce AI in their operations; 68.0% have begun introducing AI; and only 11.0% are already in the deployment phase—they are already offering AI products to customers. Financial technology companies (FinTechs) are already ahead on the adoption of AI, and insurance companies are also beginning to implement AI—the automation of tedious tasks can be very beneficial for these companies.

The forecast shows the MBT decreasing due to the replacement of many jobs with AI (page 35, [Exhibit D](#)). In FY 2025, the GFO is forecasting \$38.26 million in revenue, and \$36.92 million in revenue in FY 2026. As jobs are replaced by AI, jobs will evolve because banking institutions will need to hire a more sophisticated type of employee—people with a software engineering degree or a minor in financial technology. When that transition of

labor begins, there will be an increase in gross salaries. Therefore, the forecast for FY 2027 is \$40.05 million, which reflects that job transition.

The MBT mining cannot be discussed without also discussing gold prices because Nevada is historically a mining state (page 37, [Exhibit D](#)). I have a degree in mining engineering from the University of Nevada, Reno, Mackay School of Earth Sciences and Engineering so I am familiar with how mining works with commodity prices.

The average gold price in terms of ounces is forecasted to increase in FY 2025, FY 2026, and FY 2027. The average gold prices are approximately \$2,500 for FY 2025, \$2,600 for FY 2026, and \$2,700 for FY 2027. One reason I believe people are forecasting high gold prices in the coming years is because gold is one of those commodities that loves chaos. When there is chaos in the world, gold prices increase. Peace treaties are not being forecasted in the coming years for the wars in the Middle East and between Ukraine and Russia.

The MBT mining forecast is increasing but not significantly with the gold price because of the engineering constraints that mining faces. Mining is one of those industries that cannot capitalize quickly on gold prices because of the engineering constraint—production cannot be ramped up quickly at a mining site because it takes time to order and receive equipment. Also, throughputs of processing facilities are limited so the facility needs to be expanded before increasing the amount that can be mined. The mining industry does not capitalize quickly; however, that capitalization is going to occur because I am sure that Nevada gold mines are already expanding their operations due to current gold prices. With that in mind, the forecast is \$22.16 million for FY 2025, \$22.10 million for FY 2026, and \$22.27 million for FY 2027.

HAYLEY OWENS (Economist, Fiscal Analysis Division, LCB):

I will be presenting the Fiscal Analysis Division's MBT forecast for nonfinancial, financial, and mining, which begins on page 77 of the Fiscal Analysis Division forecast information packet ([Exhibit E](#)). The first couple of pages summarize the forecast results and provide a history of this tax. It has experienced a number of tax rate changes as well as modifications to the way taxable wages are calculated. I do want to make a note on the rate changes that you have seen and heard from the presenters already. We did have a rate change for all three components of the MBT that began with the commencement of FY 2024. At that time, the rate for nonfinancial, or general businesses, was reduced from 1.378% of taxable wages in excess of the \$50,000 each quarter to 1.17%. The MBT rate for financial institutions and mining companies was reduced from 1.853% to 1.554% of taxable wages. I would note that those rate changes are permanent, and the way that statute is written, there are no more rate changes allowable by current law. The rate changes in FY 2024 are going to be the same for the entire forecast horizon, and without any kind of law change, additional rate changes are not anticipated.

Table 2A on page 80 shows wage and employment information for the nonfinancial sector ([Exhibit E](#)). As mentioned previously by other presenters, the general thought is that the Nevada economy is expected to continue growing, but at a slower rate now than the initial



post-COVID-19 recovery has peaked and passed. The MBT is a payroll tax, so it is really a function of both employment and wages. In preparing its forecasts, the Fiscal Analysis Division looks at employment expectations and average annual wage expectations and combines those into total wage forecasts. From there, the effective tax rate is applied to create the forecast.

At the bottom of Table 2A, in the second column, job growth is expected to slow—from 3.1% in FY 2024 to 2.3% in FY 2025; 1.6% in FY 2026; and 1.4% in FY 2027. The average annual wage growth, in the third column, is holding steady—it is not declining as much. The upward pressure on wages is easing, but wage growth between 2.6% and 2.8% is anticipated.

In Table 2B, columns A and B show the same total wage disbursement figures as the prior table, by quarter on top and then summarized since the fiscal year on the bottom (page 81, [Exhibit E](#)). Columns C and D translate this to total wages reported by taxpayers to the Department of Taxation. The Fiscal Analysis Division keeps the ratio of Department of Taxation taxpayer reported wages to Bureau of Economic Analysis equivalent wages steady at about 95.0%. This is in line with the past two fiscal year actuals. Columns F through J deal with taxable wage adjustments due to deductions for employer paid health care costs for health insurance or health benefit plans. The Fiscal Analysis Division expects those trends to remain steady.

Column I is the actual and forecasted taxable wages and column K is tax collections, which is the revenue. For the MBT for the nonfinancial sector, the forecasted revenue is \$834.2 million in FY 2025, \$869.4 million in FY 2026, and \$905.8 million in FY 2027. Those are growth rates of 4.5% in FY 2025 and then 4.2% in FY 2026 and FY 2027.

Chart 1 on page 82 shows the last three years of actual collections compared to the three years of forecast ([Exhibit E](#)). There is a decline in FY 2024 due to the permanent rate change and the state will grow from there. Chart 2 shows collections on a quarterly basis (page 83, [Exhibit E](#)). The past three fiscal years are shown in green, and the forecast years are shown in blue.

Moving to the MBT financial sector, Table 3A on page 85 has a typographical error that affects the numbers for FY 2027; however, it does not affect the actual forecast ([Exhibit E](#)). This is the same table as the one used for the nonfinancial sector showing employment and wage expectations. For the financial sector, employment is expected to grow at 1.0% per year in this sector—further slowing down from FY 2024 following the strong growth in FY 2022 and FY 2023. Average annual wages are expected to grow at 5.2% in FY 2025, 4.1% in FY 2026, and 4.1% in FY 2027. The table shows 0.2% for FY 2027, but it should be 4.1%. Similarly, the inflation adjusted wages should be showing 1.6% in FY 2027, not the -3.6% shown in the table.

Table 3B on page 86 shows detail on quarterly wages, taxpayer wages, health care deductions, and taxable wages ([Exhibit E](#)). The forecasted revenue for the MBT from financial institutions is \$43.3 million in FY 2025, \$45.4 million in FY 2026, and \$47.5 million in FY 2027. This represents growth rates of 5.9% in FY 2025, 4.8% in



FY 2026, and 4.5% in FY 2027. Growth rates are stronger in the beginning of the Fiscal Analysis Division's outlook versus the end because we also expect a slight boon to the financial sectors as interest rates are lowered, which might spur more activity.

Chart 1 on page 87 shows the last three years of actuals and the three years of the MBT financial sector forecast, as well as how that looks on a quarterly basis on page 88 ([Exhibit E](#)).

Table 4A on page 89 is the Fiscal Analysis Division's employment and wage forecast for the mining sector ([Exhibit E](#)). Employment is expected to hold steady. The percentage changes appear larger than they are because employment in this sector is low. Employment in this sector grew slightly in the latter half of FY 2024; thus, the forecast shows employment growing from that level in FY 2025, FY 2026, and FY 2027. As mentioned by Dr. Solorio Arteaga, we expect the current composition of mines to generally hold steady even in the face of historically high gold prices. Extraction costs and exploration and development timelines are constraining factors. In November 2022, my colleague, Susanna Powers, indicated that mining employment was not fluctuating, and that the industry had found efficiencies for mergers, and the forecast assumes a somewhat steady state. I believe that is what we have been observing and what we continue to anticipate.

Revenue collections for the MBT mining forecast are expected at \$20.6 million in FY 2025, \$21.1 million in FY 2026, and \$21.6 million in FY 2027. Chart 1 on page 91 shows the forecast on a fiscal year basis and Chart 2 on page 92 shows the forecast on a quarterly basis ([Exhibit E](#)).

Returning to Table 1 on page 79, the total MBT collections are shown in the bottom left section ([Exhibit E](#)). The MBT is expected to grow by approximately 4.6% in FY 2025, 4.2% in FY 2026, and 4.2% in FY 2027.

## **H. INTEREST INCOME – TREASURER**

This agenda item was taken out of order.

CHAIR ROSENTHAL:

Agenda Item VII.H will be taken out of order because State Treasurer Zach Conine is available now to present on this item.

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

I would note that the forecast information prepared by Treasurer Conine and his staff is available in the meeting packet beginning on page 97 ([Exhibit A](#)).

ZACH CONINE (State Treasurer, Office of the State Treasurer):

Page 97 shows expectations related to the average daily fund balance ([Exhibit A](#)). In the past, we have taken the average of the last two years for that quarter, because there is

some seasonality in average daily fund balance, and then it is increased by 5.0%. In discussions with the GFO and Fiscal Analysis Division staff, the 5.0% has not been added this year because, while we have not observed American Rescue Plan Act (ARPA) funds being spent outside the state from a cash balance standpoint, we are aware that approximately \$1.4 billion will be disbursed before the deadline of December 31, 2026. As a result, we wanted to account for this and determined this approach would be the simplest way to do so. Although the dates for when those funds will be disbursed are becoming clearer, we still do not have complete certainty. We thought that taking this approach was the most conservative way to manage the fund balance going forward. This also means we are being cautious about the potential impacts of the interest rate environment and the actual interest earnings for the portfolio. That is how we determined the average dollars under management.

STEVEN HALE (Deputy Treasurer of Investments, Office of the State Treasurer):

The rates for the projections going forward are in the table on page 98 ([Exhibit A](#)). As mentioned at the October 16, 2024, Economic Forum meeting, these rates come from forward contracts—they are interest rate futures contracts. They are a good proxy for predicting interest rates because these are actual contracted deliverable rates that are used to hedge specific obligations. Transactions and money exchanges occur based on these rates. The interest rate futures contracts are easy to find on Bloomberg, so it has been a resource for many years. Historically, the office has had good luck with this and the 5.0% forecast for the size of assets under management. It has historically been conservative so the office will continue with that approach. As noted by Treasurer Conine, the one thing that was changed was using 0.0% growth rate for this forecast. The total fund balances will not change much over the course of the next three years—it is going to finish about where the fund balance is currently, which is approximately \$9.4 billion (page 97, [Exhibit A](#)).

The key point on page 97 is the General Fund, as it is the portion from which interest is paid ([Exhibit A](#)). The General Fund column shows a slightly smaller number than the total fund balance. The General Fund is usually about 60.0% to 65.0% of the total fund balance. Page 98 includes the interest rates and page 99 includes some calculations for the size of the different segments of the portfolio ([Exhibit A](#)). Although not critical, it was provided as a historical record of those figures from 2010 going forward.

On page 100, the *FY Total* column reflects the projections by fiscal year ([Exhibit A](#)). These projections are based on the numbers that were used for projected assets as well as projected interest. The projection for FY 2025 is \$230.4 million, for FY 2026 it is \$225.4 million, and for FY 2027 it is \$224.0 million.

CHAIR ROSENTHAL:

Regarding the chart on page 97, you mentioned the General Fund is 60.0% to 65.0% of the total fund balance. Is that the only invested portion?

MR. HALE:

The total fund balance represents all the assets that are invested; however, the state does not pay out interest to all the state agencies. Distributed interest fluctuates between 58.0% and 70.0% in any given quarter, which can be seen in the last column titled, *% of Total*. The office's interest forecast—what is modeled for interest rates for the next several years—is based on the General Fund portion. The state will pay 3.54% on \$4.7 billion in this quarter. Both are estimated figures, and they contribute to the final estimated interest of \$42.0 million.

TREASURER CONINE:

The remaining funds are still available; they are simply being allocated to other areas of the state that are not part of this General Fund discussion.

CHAIR ROSENTHAL:

I understand the interest rate assumptions are based on Treasury bill rates. Are the funds typically invested in risk-free funds?

TREASURER CONINE:

I would say the funds are typically invested in low-risk funds such as treasuries, agencies, commercial notes, high-quality corporate commercial paper, and bank commercial paper—all of which are at the highest end of the scale, including Q1, P1, A1, and P1+.

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

When the Forum meets on December 2, 2024, the Fiscal Analysis Division is hoping to have the best information possible with respect to the year-to-date revenue forecasts. Because this is the first time that interest income is a major revenue, it is uncertain whether the first quarter of interest will be posted. The timing is based on when the Treasurer and his staff finish the distributions, which oftentimes does not occur until after the Economic Forum meeting in December. I will discuss with the Office of the State Treasurer and determine whether additional information related to year-to-date actual revenues will be available for the Forum's consideration at the December meeting.

CHAIR ROSENTHAL:

When the Forum meets again in May 2025, more accurate information will be available to assess how this forecast compares to actual results.

MR. NAKAMOTO:

That is correct. By May 1, 2025, we will at least have data for the first two quarters, and possibly the third, depending on the timing. More than likely, it would be the first half of the fiscal year.

## F. REAL PROPERTY TRANSFER TAX

ERICA SCOTT (Economist, Department of Taxation):

The graph on page 26 is a time series graph going back to FY 2004 when the Real Property Transfer Tax began distributing to the General Fund ([Exhibit F](#)). The housing crash and the Great Recession are reflected in this series, declining from FY 2006 to when it bottomed out in FY 2012. From FY 2012 to FY 2019 the Real Property Transfer Tax revenue was steadily increasing; however, when mortgage interest rates were at an historic low in FY 2020 through FY 2022, the number of property transfers soared resulting in extreme gains in Real Property Transfer Tax. Fiscal Year 2022 set the record of Real Property Transfer Tax to the General Fund at \$177.8 million only second to FY 2006 of \$164.8 million.

A drastic reduction in revenue occurred in FY 2023 while mortgage interest rates began to rise and the real estate market slowed significantly. While this drastic decline in FY 2023 may look similar to the decline in FY 2007, the pent-up housing demand as discussed earlier continued to show results in real estate transactions into FY 2024 even with the higher cost of borrowing.

Now into FY 2025, we look to our indicators for reference on where the state is headed. The department reviewed Moody's forecasted number of Nevada homes to be sold and new home starts, average home prices, etc. All indicators were on an upward trend within the 2025-27 Biennium in addition to the forecasted lowering of mortgage interest rates. The Department of Taxation's forecast is for steadying of this revenue and more stable growth in the coming years.

The bar graph on page 27 shows the General Fund portion of the Real Property Transfer Tax for FY 2023 and FY 2024 actual revenues in the blue columns and the red columns represent the forecasted years ([Exhibit F](#)). The forecast is \$118.23 million in FY 2025, \$132.33 million in FY 2026, and \$138.3 million in FY 2027. The department forecasted a slight increase in FY 2025 with some movement and an uptick in the real estate market, but generally the higher growth years are forecasted for FY 2026 and FY 2027 accounting for the lowering of interest rates.

Page 28 shows the year-over-year change, which works out to an increase of 8.5% in FY 2025, a larger increase of 11.9% in FY 2026, and as interest rates are coming down and stabilizing in FY 2027, the growth rate will be 4.5% ([Exhibit F](#)).

MR. GORDON:

Do you have the breakout between commercial, residential, and vacant transfers?

Ms. SCOTT:

I do not have that breakout available. I know the Local Government Services Division within the Department of Taxation publishes reports—that division would be a better resource.

MR. GORDON:

That information does exist though, correct? As the Department of Taxation builds its forecasts, is it done on a land use-by-land use basis or is it done in aggregate?

MS. SCOTT:

The forecast was done as an aggregate and heavily tied to the number of transactions and the residential real estate market.

DR. MAURICIO SOLORIO ARTEAGA (Economist, GFO):

The Real Property Transfer Tax is a time series plot that tells the story of the housing market (page 40, [Exhibit D](#)). The housing bubble began in the early 2000s. Banks were issuing loans without proper due diligence, leading more people into the market and artificially driving up housing prices. Then in 2006, housing prices and the transfer tax peaked at the same. In 2007, the housing bubble burst resulting in 79.0% in foreclosures, which were reported in 2008. Many major financial institutions had to face insolvency, some declared bankruptcy, and some were bailed out by the federal government. That created the financial crisis of 2008 that lasted several years and is reflected in the Real Property Transfer Tax. In 2013, the housing market and the Real Property Transfer Tax began to recover.

In 2020, the COVID-19 pandemic triggered a housing boom due to historically low mortgage rates. People desired larger houses and took advantage of the lower rates. Consequently, there was a massive supply shortage. The construction industry also experienced high increases in prices, even prior to the pandemic, due to tariff wars that were in place specifically for China steel. The high demand and low supply inflated the housing market.

In June 2022, inflation reached a peak—the Consumer Price Index in June 2022 was 9.1%. That is when the Federal Reserve decided to intervene by increasing interest rates to cool down the economy. As a result, people hesitated to enter the housing market because the interest rate on a 30-year loan was around 9.0%. In 2024, the Real Property Transfer Tax began to increase because the housing market began to heat up.

The chart on page 41 illustrates the trends of mortgage rates and is one of the assumptions that I have taken into consideration in my forecast ([Exhibit D](#)). As noted earlier, historically low rates for 30-year fixed mortgages were seen in 2020 and 2021. In FY 2020, the average mortgage rate was 3.53% and in FY 2021, the average mortgage rate was 2.9%. The greatest variation in 30-year mortgage rates was seen in 2022, which is when the Federal Reserve began increasing rates. The average mortgage rate went from a low of 3.5% to 6.8%. The most aggressive rate increases by the Federal Reserve were in 2023—the highest mortgage rates seen in the United States. The maximum 30-year mortgage rate was approximately 7.2%, and the average was approximately 7.0%. I would note that the average mortgage rate was based on excellent credit; anything less would qualify for mortgage rates of 12.0% or 13.0%.

The forecasted mortgage rates for FY 2025, FY 2026, and FY 2027 are not going to decrease by much—the forecast is very conservative. As noted by Ms. Mandel, if the United States enters a tariff war, it will have an inflammatory effect that might cause the Federal Reserve to keep interest rates stable to combat the resulting inflation. It is too early to tell if a tariff war will occur. Ideally it will not, because that will set back the inflation policies implemented by the Federal Reserve.

The chart on page 42 shows the monthly average of 30-year mortgage rates ([Exhibit D](#)). The lowest monthly averages occurred in 2020 and 2021. The forecasted monthly average is still expected to remain high, which will create a holding effect for people who purchased homes before 2022. Prior to April 2022, people who purchased their houses had no incentive to sell. Previously, people would sell their small home in California and purchase a larger property in Nevada for the same price; however, now that seller would likely be facing a much higher interest rate. Consequently, there will be a hold back from people who already purchased residential properties.

The forecasted revenue is mainly driven by the fact that the few houses on the market are going to be sold at average high prices because people will enter the market as interest rates decrease but while inventory is low. I was looking at some collateralized loan obligation numbers and the forecast is for higher-than-average prices simply because, although people are still going to buy, supply is limited; therefore, the few houses that are available will sell at average market price. My forecast is mainly driven by that small volume, which will limit the state's ability to truly increase the Real Property Transfer Tax. The forecast for FY 2025 is \$120.43 million; \$124.54 million for FY 2026; and \$127.76 million for FY 2027.

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

I was going to begin with Chart 1 on page 105, but it is very similar to the presentations by Ms. Scott and Dr. Solorio Arteaga ([Exhibit E](#)). One exception is that the Fiscal Analysis Division took the \$0.55 collections from the consolidated tax distribution—because this was primarily a local revenue source prior to the imposition of the state tax in 2003—and translated those collections to \$1.30 to show a little more of that run up going into the housing boom and then bust of the Great Recession.

In response to Mr. Gordon's previous question, the Fiscal Analysis Division looks at collections by county as reported in the State Controller's system and then reported by the Department of Taxation. The statistics related to the residential, commercial, and vacant land and associated transfers do exist. Our assumption has always been to analyze it in the aggregate, with a primary focus on the residential real estate sector, as it plays a major role in driving the market, particularly for the larger transfers through real estate investment trusts and other exempt entities that avoid the tax.

Regarding collections to date, we do not have the most up-to-date information, but we have a general sense because we can access the State Controller's system to determine what has posted. For the first quarter of FY 2025—2024 Q3—that number of \$30,659,000 is the best estimate of the forecast knowing that actual collections from 15 of 17 counties



have been received. The tax is collected at the county level when the transfer of the title is filed with the county recorder, then the county remits the tax to the state. We can see how much the collections are by month or quarter. The only counties that are missing to date are Esmeralda County and Storey County. Esmeralda County is not moving the needle—collections are going to be approximately \$5,000. Storey County will likely be more because there is increased activity, especially at the Tahoe-Reno Industrial Center where there could be some transfers of commercial property. Overall, the collections for those two counties will probably be approximately \$200,000 for the quarter. Those collections are not on the same scale as Clark County, which accounted for approximately \$22.0 million of the total \$30.6 million in collections. The tax is primarily driven by Clark County and to a lesser extent, Washoe County. The balance of the state accounts for between 10.0% and 15.0% of the total collections.

The state is up by approximately 7.9% year-to-date in collections for the Real Property Transfer Tax. In May 2023, I mentioned that I did not have much confidence in the housing market or real estate coming out of the pandemic. The housing market was relatively stable until the pandemic struck. After that, a combination of factors—low interest rates, desire to move to more affordable areas, and the flexibility of remote work—led to a significant surge in activity. However, as interest rates began to rise and supply constraints remained, we suddenly found ourselves unsure of where things would land. My forecasts expected a larger drop than what occurred. For FY 2024, the forecast in May 2023 showed this tax falling below \$100.0 million, but the actual collections were approximately \$10.0 million above the forecast. Some of those issues are still present—supply constraints, especially for new construction, as well as land and the amount that the federal government has released and made available. Over the forecast horizon, construction will increase but not at a significant rate, especially compared to the early 2000s; however, there will be steady growth. Consequently, that should free up some sales as well. I think there are constraints even on the existing markets—people are reluctant to let go of their existing homes again because interest rates are still a constraint. As Dr. Solorio Arteaga mentioned, if someone currently has a mortgage rate between 3.0% and 4.0%, moving to a new home with a 6.0% interest rate could mean paying the same or even a higher mortgage, even if they are downsizing. As a result, there is still little incentive for people to leave their current homes. However, there is still supply, and many people relocating from places like California or other states can pay cash for their homes. This is one of the realities of the market. Over the past six or seven years, we have noticed that the hyper-inflated prices in California—especially in major cities like Silicon Valley, San Francisco, and Los Angeles—have given people enough equity to bypass concerns about interest rates. These buyers can pay cash because they have accumulated equity. I think that will continue to increase; I do not think there is any reason to see downward pressure on prices given all these factors. There is still a relatively limited supply, and even with ongoing construction, it is not enough to lower prices. As a result, the Fiscal Analysis Division forecasts, which are on page 104 ([Exhibit E](#)), show growth of 8.3% to about \$118.0 million in FY 2025, and then we moderate that growth slightly in FY 2026 to 6.7%, followed by 4.9% in FY 2027. Much of that is driven by the fact that we believe prices are going to continue to increase and then stabilize slightly in FY 2026 and FY 2027, especially as interest rates come down.



One of the concerns is how far interest rates will drop. They will not fall to the point of FY 2019 and FY 2020 when interest rates were below 3.0%. Dr. Solorio Arteaga's charts indicate interest rates may fall between 5.5% and 6.0%, which is a reasonable range. This is what we have been observing lately, especially following the Federal Reserve's recent rate cut. However, 30-year mortgage rates did not follow suit. In fact, they rose slightly before dropping a bit. Looking ahead, we do not anticipate much sensitivity between the two, though we generally expect rates to stabilize by a percentage point. While this will not drive significant activity, it could lead to some slight movement—though it will probably be more at the margins than anything substantial.

MS. LEWIS:

I watch the data carefully on land more so than housing. About a year ago, land was selling for approximately \$1.0 million per acre, but at a recent land auction, that price increased to \$1.2 million. In doing the math and triangulating, by the time that land gets put into production in about two years, there is little room for the prices to drop. There may be some slight adjustments related to contractors and labor costs, but realistically, no one will take on a project if they are making less money—it is not viable to do for free. To me, there is no evidence suggesting that home prices will decrease soon.

I also track commercial transactions, and periodically an industrial park, for instance, will sell for around \$100.0 million. We have seen that a few times. It is difficult to predict whether this trajectory will continue.

MR. NAKAMOTO:

The trend with land is not a new development—land prices in Nevada, especially Southern Nevada, are increasing—but along the same lines, wages and cost of materials are also increasing. You are correct, there is not an incentive for homebuilders to construct homes that sell for less than current prices. To that end, it carries the existing along with it because many sellers may expect to get more for their properties, knowing that new home prices are rising. The rate at which homes sell may not accelerate the same way, as there are different factors at play. One being purely market driven, but the other having more components.

In Moody's baseline forecast, which is included in our assumptions at the beginning of the Fiscal Analysis Division packet, it shows the Case-Shiller House Price Index falling throughout the forecast horizon (page 20, [Exhibit E](#)). I do not think the current conditions necessarily support that—we are not seeing explosive growth, but I think there is still potential for some growth during the forecast period.

MR. LEAVITT:

Based on my years of experience with the Real Property Transfer Tax—I used to forecast it when I was in local government—I found that there are so many competing variables, such as interest rates, out-of-state buyers from California, and the housing market, that ultimately it is just an educated guess.

MR. NAKAMOTO:

You are correct. We look at any number of factors relating to inputs. As noted earlier, commercial transactions are unpredictable, especially the more significant transactions. We can look at historical data. For instance, earlier when I said I have a reasonable estimate of \$200,000 for Storey County's collections. However, looking at the same quarter in FY 2024, Storey County's collections were approximately \$897,000, and in the first quarter of FY 2022, I believe the collections were \$97,000. A single large commercial transaction is extremely noticeable in the smaller counties whereas it is much less noticeable in Clark and Washoe Counties. It is difficult to know when or where large commercial transactions may occur, so we tend to look at factors that are somewhat more predictable. The residential side is enough of a driver that it provides a decent outlook.

CHAIR ROSENTHAL:

Everything you are saying is evidenced in the forecast. You all have similar assumptions and mindset about what is happening with the inputs. Although the numbers are not strikingly different, there can still be an \$8.0 million to \$10.0 million swing in the forecasts even though you have similar assumptions. Again, this tax involves some guess work.

MR. LEAVITT:

One good thing about the Real Property Transfer Tax is if the forecast is off by 30%, it does not have a significant impact on statewide revenue given its size. That would not be the case with another tax, such as the State 2% Sales Tax.

MR. NAKAMOTO:

You are correct given the scope and magnitude of the Real Property Transfer Tax compared to the State 2% Sales Tax. Missing this revenue forecast by 30.0% is not going to have a devastating impact on the state, but as a forecaster, I would prefer that my forecast not miss by 30.0%.

## **G. COMMERCE TAX**

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

The Commerce Tax tables for the consensus forecast between the Fiscal Analysis Division, the GFO, and the Department of Taxation begin on page 91 of the meeting packet ([Exhibit A](#)). There is a series of five tables. This is the methodology the Forum has used with respect to this consensus revenue forecast since the Commerce Tax was implemented. I think the logic when we first started the forecasts for the Commerce Tax as a major revenue was that there was limited information. It was a new tax implemented during the 78<sup>th</sup> (2015) Legislative Session and first collected in FY 2016, so it has been eight or nine years of actual revenue. As we have gone through this process, we found that the methodology and the forecast we developed have been reliable. It is not a completely predictable tax in terms of how the tax is paid, especially because of the timing of the tax. When the Commerce Tax was instituted, there was a desire to collect revenue

as quickly as possible. It is an annual tax, but the tax is due 45 days after the end of the fiscal year. That day, barring a weekend or a holiday, is August 14. The last reported taxes from the Department of Taxation are normally toward the end of August and the entire state closes the fiscal year by the third Friday in September, which was September 20 in this last fiscal year. This gives the Department of Taxation about 35 days to process all the returns and deposit the money into the General Fund before the fiscal year officially closes. However, taxpayers can file an extension to pay the tax later, which pushes the payment into the next fiscal year. One of the subsequent challenges is lining up the taxable year for which the tax was due versus when the tax was actually paid. For example, the tax might have been due on August 14, 2023, for FY 2023, but due to an extension, it was paid in late September or October, so the revenue was credited in FY 2024. Thus, the tables are an attempt to reconcile that and get all the money back to the business activity period for which it was generated and then move it back for the accounting period for the purposes of the forecast.

Table 1 shows the Commerce Tax between FY 2020 and FY 2024 based on the fiscal year activity period (page 91, [Exhibit A](#)). Meaning that it is the Commerce Tax that was due based on the activity that occurred in that fiscal year. The table shows actual to date for FY 2020 through FY 2023. The reason it is actual to date is because taxpayers regularly pay their tax for past fiscal years. For example, in FY 2024, money was received for Commerce Tax that was due in FY 2016. Therefore, these numbers are continually changing because we must put that money back in the activity period; we are constantly trying to track this revenue. Fortunately, that number gets less over time. Approximately \$25,000 was paid in FY 2024 that belonged to FY 2016. The numbers for FY 2020 and FY 2023 are essentially what was paid based on that activity period.

Fiscal Year 2024 is shown as an estimate. The reason for this is because we know how much Commerce Tax was paid in FY 2024 based on the tax activity in that fiscal year, but then we must estimate the FY 2024 tax activity that will be paid in FY 2025 and beyond. Approximately \$299.0 million was paid in FY 2024 based on that activity period, and another \$32.0 million to \$33.0 million, or about 11.0%, will be paid in subsequent fiscal years.

There are several estimates in the various columns. The first column is titled, *Commerce Tax: Moody's Forecast Growth*. That looks at Moody's forecast for Nevada gross state product, which is not a pure match, but it is a reliable match. It is close in many situations, either positive or negative, but it was a good starting point. Moody's October 2024 forecast for Nevada gross state product was 5.5% in FY 2025, 5.6% in FY 2026, and 5.4% in FY 2027. Subsequently, we added some various alternative scenarios that were slightly higher or lower. Based on the conversation between the GFO, Department of Taxation, and the Fiscal Analysis Division, the Commerce Tax consensus estimate (right column highlighted in gray) is the third scenario—it is the middle scenario showing 6.0% in FY 2025, 5.5% in FY 2026, and 5.5% in FY 2027, which is close to the gross state product forecast, but slightly higher in FY 2025. The consensus estimate is the estimate of the taxable activity that is going to occur based on what happens in FY 2025, FY 2026, and FY 2027.

Table 2 puts all the collections in the correct buckets in the appropriate fiscal years (page 92, [Exhibit A](#)). The table shows the FY 2020 through FY 2024 actuals, which is the actual amount of revenue that we are reporting—it was collected by the Department of Taxation in those fiscal years and deposited in the Controller's Office—when we have our actual sheets and all the tables, these are the numbers. In FY 2024 it was approximately \$343.1 million, or a growth of 13.5%. While reviewing the collections, we noticed that, on average, approximately 11.5% of the revenue collected was from a previous fiscal year; however, in FY 2024 that number was close to 14.0%. A significant amount of the revenue that shows up as actual collections for FY 2024 was based on activity in previous fiscal years—people were simply paying late, the majority of which was from FY 2023. This was likely because of people asking for an extension on or before August 14 and then not paying their tax until after the fiscal year closed.

Looking forward, we must determine between revenue paid in the current fiscal year and that paid from previous fiscal years. We think 14.0% is too high and will not necessarily repeat, so we reduced that percentage to approximately 11.0% in FY 2025, and we reduced it a little further in FY 2026 and FY 2027. You can see what that does to the growth rates of the collections in each of the scenarios, because there is not as much of an emphasis on the collections from the previous fiscal years, especially in FY 2025. Thus, in the consensus estimate—the same 6.0%, 5.5%, and 5.5% growth—the 6.0% growth in the activity period, once the payments and the timing of the payments are accounted for, translates to 3.2% growth in collections. The reason for this is because we do not anticipate collecting as much of these later payments in FY 2025 compared to FY 2024. It begins to even out in FY 2026 and FY 2027 as the percentage stabilizes. There is 4.6% growth in FY 2026 and 5.5% growth in FY 2027. This is not so much driven by the economic activity so much as the timing of the collections. The low growth rate in the consensus forecast is due to the anomaly caused by the unusually high collections from FY 2024, which are not expected to recur in FY 2026 and FY 2027.

Table 3 shows some select economic indicators for the Nevada economy—the Commerce Tax; the business activity collections, including that estimate of \$332.6 million that we think will be generated in terms of taxable activity from FY 2024; the Nevada GDP, which is the gross state product that I referred to previously; and statistics on population, personal income, and total employment (page 93, [Exhibit A](#)). Some of those metrics are used to determine the Commerce Tax per \$1,000 of GDP. I would note there is a formula error in that portion of the table—it should be about \$1.20 not in the tenth of a cent. That will be corrected.

From those metrics, stable growth is anticipated in the Commerce Tax. Once again, the activity periods show growth rates of 6.0%, 5.5%, and 5.5%. However, there will be slightly lower growth due to the issue with late payments and the adjustments needed to correct for that.

Page 95 includes two different tables that are related to the Commerce Tax credit against the MBT ([Exhibit A](#)). When the Commerce Tax was implemented, the rates for the MBT were increased. To provide some relief to businesses that are particularly labor intensive, there was an agreement that up to 50.0% of a taxpayer's Commerce Tax liability could

be taken as a credit against the MBT in the following fiscal year. Thus, these tables lay out the Commerce Tax and the Commerce Tax credits as well as the resulting forecast. Tables 1 and 2 lay out the Commerce Tax and associated credits based on the fiscal year business activity period. For the Commerce Tax, it is the tax that was paid in that fiscal year for the fiscal year, and then the Commerce Tax for that business activity year that was paid in future fiscal years. It is equivalent to Table 1 of the other set of tables. We do the same thing for the Commerce Tax credits—for each of the Commerce Tax credits by fiscal year, it is the credits that were used in the fiscal year based on the Commerce Tax that was paid in the previous fiscal year. The next column shows the Commerce Tax credits for that MBT fiscal year that was paid in future fiscal years. Taxpayers may file late or amended returns, but they still have the Commerce Tax credit that can be used. For example, if a taxpayer had a Commerce Tax credit that they earned based on what they paid in Commerce Tax in FY 2020, they can still use it against their FY 2021 MBT, even though they may have filed and paid that MBT in FY 2024.

There is a percentage listed on Table 1 in the row titled, *MBT Commerce Tax Credits as % of the Commerce Tax*. I mentioned earlier that the Commerce Tax credit can be up to 50.0% of the Commerce Tax that is paid; however, not all 50.0% of the credit is taken. Historically, the percentage taken was higher but as the MBT has decreased, the percentage has decreased to as low as 19.5% in FY 2024. However, going forward, the assumptions for FY 2025, FY 2026, and FY 2027 show it holding steady at approximately 20.0%.

Table 2 is again measuring the same statistics based on the accounting period; not based on the business activity period but the tax paid for that fiscal year. This is similar to Table 2 discussed earlier, but it requires some adjustments and modifications to be translated. Then we do the same thing for the Commerce Tax—consider both the Commerce Tax credits used in a fiscal year for the current business activity period and those used based on previous activity. That percentage is stable at just under 20.0% and then coming up to just over 20.0%. The forecasts for the Commerce Tax credits for FY 2025, FY 2026, and FY 2027 are shown on the bottom line. Approximately \$67.6 million in FY 2025, approximately \$70.4 million in FY 2026, and approximately \$74.3 million in FY 2027 compared to the FY 2024 actual that is listed there of approximately \$60.5 million. As the Commerce Tax and the MBT are growing, we think they will consistently grow together so that percentage remains around 20.0%.

MR. LEAVITT:

Whomever is responsible for the Commerce Tax must have had a hard night before they designed it based on its complexity. I have never seen one quite that bad. Some of the local governments' computations are similarly complex, but not usually the normal taxes.

MR. NAKAMOTO:

Having been with the LCB during the 78<sup>th</sup> (2015) Legislative Session, and indirectly involved when this was designed, at the behest of Governor Brian Sandoval at the time,

this is a very elegant solution that was developed by those people who were working with the Governor and his team.

There was no further discussion on this item.

**VIII. REVIEW AND APPROVAL OF PRELIMINARY FORECASTS OF MINOR GENERAL FUND REVENUES AND TAX CREDITS FOR FY 2025, FY 2026, AND FY 2027 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE ON FUTURE STATE REVENUES (NRS 353.229) AT ITS OCTOBER 30, 2024, MEETING.**

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

Agenda Item VIII is the summary of the non-major General Fund revenues (or minor revenues) that were considered and approved by the TAC at its meeting held on October 30, 2024.

I will be discussing three tables, which begin on page 101 of the meeting packet ([Exhibit A](#)). Earlier, I discussed Table 4 as a summary of the major General Fund revenues; Table 5 is the non-major version of Table 4 (page 77, [Exhibit A](#)). This table lays out the FY 2024 actuals as well as the forecasts by forecasters—the Department of Taxation, Fiscal Analysis Division, and the GFO—for FY 2025, FY 2026, FY 2027. Numbers are also listed for the TAC, which are the numbers approved as part of the TAC's forecast at the October 30, 2024, meeting.

There are ten revenues that are considered “major-minor revenues.” Those revenues include some of the larger revenues such as unclaimed property and Secretary of State commercial recordings and security, as well as smaller revenues such as Athletic Commission fees (as charged on the admission of unarmed combat, such as boxing and mixed martial arts). Depending on the fiscal year, Athletic Commission fees are a major-minor revenue source, but currently that revenue is only about \$6.5 million per year.

Table 6 begins on page 103 and is the entirety of the forecast that was approved by the TAC at its October 30, 2024, meeting ([Exhibit A](#)). Table 6 is what I will focus on after discussing Table 7.

Table 7 is a summary of the forecast (page 115, [Exhibit A](#)). It includes some of the major-minor revenues, an “All Others” section, and tax credits, which will be discussed as part of the presentation on Table 6. Table 7 also shows the outcome—an apples-to-apples comparison of the forecasts for FY 2025, FY 2026, and FY 2027 for the non-major General Fund revenues compared to the FY 2024 actuals.

Returning to page 103, I will discuss some of the highlights of the non-major General Fund revenues ([Exhibit A](#)). For context with respect to the process, the fiscal year closes on the third Friday in September, which was September 20, 2024. On Wednesday of the following week, the Fiscal Analysis Division sent requests to the relevant agencies requesting their forecasts for each of the revenues on the General Fund revenue sheet



for FY 2025, FY 2026, and FY 2027. Requests were sent to Mr. Lawton, Gaming Control Board; Ms. Scott, Department of Taxation; and the Office of the State Treasurer, following the direction that was given to this body with respect to the definitions of a major revenue and a non-major revenue from the June 6, 2024, meeting, which was an item on that agenda. It is then incumbent upon Dr. Solorio Arteaga at the GFO as well as Fiscal Analysis Division staff to develop forecasts. The end results are the forecasts seen on Table 3, which shows all the forecasts that were submitted by each of the forecasters (page 67, [Exhibit A](#)).

After receiving those forecasts, the Fiscal Analysis Division met with Dr. Solorio Arteaga to develop a consensus for presentation to the TAC. We discussed what constitutes reasonable forecasts, whether an average can be used, and then reached an agreement on a forecast wherever possible. We presented that forecast to the TAC, explaining the decisions made and the underlying assumptions. After deliberation, the TAC approved the forecasts for those non-major revenue sources.

Table 6 is the consensus forecast between the GFO and the Fiscal Analysis Division that was approved at the October 30, 2024, TAC meeting ([Exhibit A](#)). Beginning on page 103 is a list of the taxes. The major revenues are blank because they are under the purview of the Economic Forum rather than the TAC. There was no forecast for the mining tax, (net proceeds of minerals tax and the gold and silver excise tax) because of legislative actions in the 81<sup>st</sup> (2021) Legislative Session that moved those revenues to the State Education Fund beginning in FY 2024. They remain on the sheet for posterity, but they are not forecasts to be considered by this body. The forecasts will be included with the forecast process for the State Education Fund.

With respect to the block of gaming taxes—of which there are about 15 different fees—the forecasts that were approved were prepared by Mr. Lawton who has the expertise and direct communication with the operators. In terms of the significant changes from FY 2024 to FY 2025, the first one is General Ledger (GL) 3042, Gaming Penalties. It was approximately \$10.9 million, but went down to \$850,000 in FY 2025, and then down to \$700,000 in FY 2026 and FY 2027. The \$10.9 million was a one-time unanticipated fine that was levied very early in FY 2024; it will not repeat unless the offender generates another fine. Based on information provided by Mr. Lawton, there is a Northern Nevada operator that was expected to be issued a \$250,000 fine by the Gaming Commission, which is included in the FY 2025 forecast but is not anticipated to repeat. This revenue source is not necessarily stable or predictable, but the typical revenue amount is closer to the forecasted amount barring any unforeseen fines.

The next item is GL 3046, Advance License Fees, which totaled approximately \$9.6 million in FY 2024, but then declines to around \$550,000 over the forecast period. The Advance License Fee is what primes the Gaming Percentage Fee. New licensees, whether they are opening a new casino or transferring a license, must pay a fee equal to three months of their estimated Gaming Percentage Fee to prime that tax. In previous fiscal years, the revenue for Advance License Fees increased when there were large casino openings. The Fontainebleau Las Vegas and other large properties opened in



FY 2024. Mr. Lawton's information indicates that no significant properties will be opening during the forecast period; thus, most of the revenue will come from transfers of licenses.

Next is GL 3073, Transportation Connection Excise Tax, which is commonly referred to as the Uber/Lyft tax. It was passed during the 78<sup>th</sup> (2015) Legislative Session as part of the structure to regulate network carriers such as Uber and Lyft. The tax added a 3.0% tax on the fares that are charged to network carriers, but it also applies to other common carriers such as taxicabs.

The revenue increases substantially in FY 2025, decreases in FY 2026, and then increases again in FY 2027. The reason for that is because the first \$5.0 million of this tax that is collected in each biennium goes to the State Highway Fund; thus, we must consider that when preparing the forecast. The actual activity for the tax is higher in FY 2024 and FY 2026 than what is showing in the forecast, but we are showing the General Fund portion and then have to back out the \$5.0 million, which results in large fluctuations between fiscal years.

The Cigarette Tax is imposed at a rate of \$1.80 per pack, \$1.70 of which goes into the State General Fund and the other \$0.10 goes to local governments through the Consolidated Tax distribution. As smoking becomes less popular, the number of packs for which stamps are issued is decreasing—stamps are purchased from the Department of Taxation and affixed to each pack—and there is no reason to believe it will not continue to decrease over the forecast horizon.

Moving on to the Other Taxes section on page 105, the Business License Fee is the annual fee that must be paid by entities doing business in the State of Nevada ([Exhibit A](#)). This annual fee also applies to entities that may not be doing business in the state but have filed articles of incorporation or registered as a limited liability company (LLC) or other type of entity with the Office of the Secretary of State; they are also required to obtain a business license. The fee is \$500 per year for a corporation and \$200 per year for any other type of entity. The growth in this is a mix of activity of local businesses within the state that are being established or renewing as well as businesses that may not be physically located in state but are using Nevada to form their corporation, LLC, or other entity. Because of the difference in the fees for corporations and non-corporations, the number of corporations that are receiving licenses is decreasing, and the number of non-corporations that are receiving licenses is increasing, the net of which is an overall slight increase of between \$125.0 million and \$129.0 million per year throughout the biennium. I believe the Business License Fee is now the largest of the non-major revenues, as the Cigarette Tax has fallen below it.

With respect to the Liquor Tax, there is steady growth in the tax through FY 2025, FY 2026, and FY 2027. I would note the 3.0% decrease in FY 2025. Fiscal Year 2024 was just over \$49.0 million and that was a significant increase compared to FY 2023. As we were analyzing it, we found there were not a lot of collections in June 2023, but July 2023 was unusually high. After speaking with the Department of Taxation, we discovered that one of the major taxpayers, which includes liquor wholesalers and others, filed their June 2023 return in July 2023. As a result, revenue that should have been

recorded in FY 2023 was instead recorded in FY 2024. This led to lower collections in FY 2023, higher collections in FY 2024, and a subsequent decline in FY 2025 to annualize the figures. Thus, there is not a significant change in the number of gallons of liquor that are being imported into the state; the decrease in FY 2025 is due to an accounting issue.

The Other Tobacco Tax (GL 3053) will decrease from FY 2024 to FY 2025 and throughout the forecast horizon. There are a few reasons for the decrease, the first of which relates to Assembly Bill 232 (82<sup>nd</sup> [2023] Legislative Session). The tax on other tobacco—anything other than cigarettes—is 30.0% of the wholesale price. Assembly Bill 232 specifies that the tax on premium cigars is set at 30%, but it also stipulates that the tax rate cannot be lower than \$0.30 or higher than \$0.50. As such, there has been a significant revenue loss because many cigars are imported into the state. Another observation is that since approximately FY 2019, the Other Tobacco Tax has included e-cigarettes and vapor products, which initially provided a significant increase to this tax during the first few fiscal years. However, as time has passed, the perception that vaping was a safer alternative to cigarettes may be diminishing. It seems that vaping could be falling out of favor, with people possibly turning to cannabis or quitting altogether. That was the logic behind the decrease—the demand for these products is going to decrease further.

Lastly, the Branch Bank Excise Tax (GL 3068) is not a significant revenue source, but it is worth noting because Dr. Solorio Arteaga mentioned it as a driving factor in his MBT financial institutions forecast. This tax is \$1,750 per bank branch, per quarter with an exemption for the first branch located in each county. Revenue for this tax has been falling. We have consistently observed a decline in the number of bank branches listed on the Federal Deposit Insurance Corporation (FDIC) website. Financial institutions, particularly the larger ones, have recognized that many customers now conduct their banking online or through mobile apps, leading to a reduced demand for in-person banking. While bank branch closures have been occurring for some time, it accelerated after the pandemic when there was a fundamental shift in the way that people conduct their banking. We think this revenue source will continue to decline, especially as the larger financial institutions such as Bank of America and Wells Fargo assess the optimal number of branches needed in each area.

Page 106 contains licenses and fees and fines ([Exhibit A](#)). I am only going to discuss a few items, the first of which is Commercial Records under the Secretary of State section. Commercial Recordings is a large revenue source at over \$90.0 million. Earlier, I discussed the business license fee and its application to entities outside of Nevada that wish to conduct business here and must form a corporation, LLC, etc. As noted, there are fees associated with this process, many of which are based on the value of shares. This revenue is deposited into GL 3130, Commercial Recordings.

The forecast shows stable growth. There is always competition in this venue. For the longest time, Nevada has been favorable for entities to form a corporation or an LLC here because historically, the laws for corporate protection and piercing the veil, so to speak, for any entity have been favorable; however, with rate increases in other states—

Wyoming and Delaware also have favorable laws—it becomes more competitive; thus, the growth is low to moderate.

MR. GORDON:

You are referring to commercial recordings. Are these foreign entities deciding to record in the State of Nevada? You discussed business licenses earlier, which are businesses that are recording and doing business in Nevada. Is that correct?

MR. NAKAMOTO:

Yes, you are correct. For commercial recordings, it could be a corporation or an LLC that is doing business in Nevada, but I think there is a bigger mix of entities that are not physically located in the state but want to form their corporation here. For example, the Tesla headquarters were previously in California but has since relocated to Texas. Tesla could have formed its corporation under Nevada laws and received the benefits of Nevada's corporate laws without the headquarters being physically located in Nevada. That is not uncommon for businesses. Over the years, it has generated a substantial amount of revenue for the General Fund. The business license fee is closely related, as it applies to anyone forming a corporation in Nevada. For example, even though Tesla's headquarters is not physically located here, the company would still be required to obtain a business license in Nevada. This requirement applies to nearly all businesses unless they meet specific thresholds or qualify for exemptions, such as home-based businesses. In this way, commercial recordings and business license fees are connected.

MR. GORDON:

They are both about \$100.0 million but one is a license to do business and the other is the commercial recording.

MR. NAKAMOTO:

Correct.

Secretary of State Securities (GL 3152) is the last of the larger Secretary of State categories discussed. This category relates to the license that is required for anyone who acts as a broker, such as a stockbroker or securities dealer, or a firm that sells securities or a similar service. There has been a low but steady increase in this revenue source, just over \$37.0 million per fiscal year.

The last item under Licenses section is Athletic Commission fees that were discussed earlier. The Athletic Commission charges an 8.0% fee on the admission price for unarmed combat events (boxing, mixed martial arts, etc.). It is similar to the LET in that the fee is charged based on admission price, but the rate and distribution are slightly lower. The Athletic Commission retains a quarter of that fee for its own budget, and the remainder is distributed into the General Fund. Revenue for events such as the UFC fall under this category. The Athletic Commission indicated that FY 2024 was high due to two large UFC events. Although there was a UFC event earlier this year at the Sphere in

Las Vegas, the Athletic Commission does not anticipate that FY 2025 will be as strong as FY 2024 based on information from the UFC and other large events. Thus, the forecast shows the revenue decreasing and then increasing again slightly.

Under the Fees and Fines section, I will be discussing Short Term Car Lease (GL 3066) because it is the largest in this category. This relates to the 10.0% fee for rental cars. It also includes a portion that applies to peer-to-peer car leasing companies—Turo is the best example. It is like Airbnb for cars. People can rent a personal car instead of going to Hertz, Avis, etc. The taxes are equivalent, but they are rolled together for confidentiality and disclosure purposes. There is slight growth in this revenue, but not as much as the Transportation Connection Excise Tax. Although people still rent cars, there may be a preference for taking a taxicab or using services like Uber or Lyft to avoid parking and traffic issues.

On page 107 is the Use of Money and Property section. This relates predominantly to repayments of General Fund loans ([Exhibit A](#)). Occasionally, the Legislature will pass a bill that makes an appropriation of General Fund revenue to an agency for a specific purpose with the agreement that the agency will repay the General Fund over a set number of years. It could be a fixed repayment or an accelerated repayment.

All these forecasts are based on statutorily required repayments of revenue, the largest of which is \$3.0 million per year from Senate Bill 450 (82<sup>nd</sup> [2023] Legislative Session). As background, the City of Las Vegas was appropriated \$12.0 million relating to the Windsor Park neighborhood. The Windsor Park neighborhood has received a lot of media coverage. Over the years, the residents of Windsor Park, which is near the North Las Vegas airport, have discovered that their homes are sinking because so much groundwater was pumped out from underneath their houses. Consequently, the houses are in disrepair and not repairable. Senate Bill 450 included an effort to allocate funding to address this issue, which involved federal funds as well as \$12.0 million appropriated to the Department of Business and Industry (B&I), Housing Division. The goal is to relocate the residents of Windsor Park to another area within the City of North Las Vegas and build them homes comparable to their original homes in the Windsor Park neighborhood. Although the money was allocated from the General Fund to the B&I Housing Division, the City of North Las Vegas is responsible for repaying the funds. The city is required to pay \$250,000 per month for four years. These payments will be deducted from the city's Consolidated Tax distribution, which is significantly higher, but the bill opted for a lower payment amount to avoid causing financial strain. The \$12.0 million will be repaid by the end of FY 2027.

I would note the Treasurer's Interest Income forecast for FY 2025, FY 2026, and FY 2027 is blank based on the decision made by the Economic Forum to change it to a major revenue (page 107, [Exhibit A](#)).

In the Other Revenue section, there are three highlights to note. The first highlight is Expired Slot Machine Wagering Vouchers (GL 3047). In a non-restricted location, when someone cashes out of a slot machine, they receive a ticket, which they must then insert into a nearby ticket-in, ticket-out kiosk to claim their winnings. However, not everyone

redeems their tickets, leading to an estimated \$18.3 million in unclaimed tickets for FY 2025. Based on a 2011 Nevada law, those tickets expire after 180 days. Of the value of that expired ticket, 25.0% may be kept by the operator, and the other 75.0% is deposited into the General Fund. The amounts shown on page 17 represent 75.0% of the value of vouchers that expire within a fiscal year ([Exhibit A](#)). Either a lot of people are leaving behind a few cents, or some people are failing to cash in larger tickets—regardless, it is a lot of revenue that continues to grow. The forecast decreases slightly because it follows slot win and some other things.

Court Administrative Assessment fee (GL 3114) was approximately \$15.5 million in FY 2024; however, it has historically been lower—about \$1.5 million. The increase is due to a law change during the 82<sup>nd</sup> (2023) Legislative Session. When an individual is found guilty of a misdemeanor or certain other infractions, they are required to pay an assessment based on the amount of their fine. This revenue is distributed to the local court and programs such as the Criminal History Repository, Supreme Court, and other related justice agencies and functions; however, \$5.00 is also distributed to the General Fund. The assessment revenue is generally in the range of \$1.5 million and \$2.0 million, but it fluctuates based on activity.

A decision was made during the 82<sup>nd</sup> (2023) Legislative Session to provide those justice agencies and functions with a General Fund appropriation instead of relying on court assessment fees. The entirety of the assessment fee revenue would instead be placed in the General Fund. Consequently, the revenue from these fees increased from \$1.5 million to \$15.5 million. This is a newer distribution for the General Fund, so this data will be used until better data becomes available.

Unclaimed property (GL 3255) is administered by the Office of the State Treasurer. Abandoned bank accounts, safe deposit boxes, gift certificates, etc., are turned over to the state after a certain time period. If the item is something such as shares of stock in a certificate, the state will sell those shares and hold the money for the owner. Residents can search the Office of the State Treasurer's website (<https://www.nvup.gov/>) to check for any unclaimed property in their name.

We assess the incoming revenue and the amount being distributed by the Office of the State Treasurer. While the money remains a perpetual liability for the state and the General Fund, it is initially placed into the General Fund until it is paid out. The state consistently ends up with more money than what is distributed. In FY 2024, it was approximately \$71.0 million, likely the highest on record.

Based on information in the State Controller's system, it appears that incoming funds have decreased, resulting in a slight reduction in the forecast. I believe the Office of the State Treasurer was in a similar position. I would note that a lot of funds came in toward the end of the month, but we must assume there will not be a corresponding amount distributed; therefore, this forecast may have the most movement at the December meeting of the Economic Forum.

Moving on to tax credits, there are eight programs listed on page 107 ([Exhibit A](#)). This is also part of the TAC's forecasts. These are the programs, where through various legislative actions, there is a credit that can be earned for various activities that can be used against one or more taxes. I believe tax credits started during the 77<sup>th</sup> (2013) Legislative Session and evolved into the list shown on page 107.

The first program is the Film Transferable Tax Credits, which was originally implemented during the 77<sup>th</sup> (2013) Legislative Session. It has been revised since that time, but under the current program, up to \$10.0 million in transferable tax credits can be issued to film productions for activity in Nevada. This includes television shows, movies, etc. For example, Battle Bots has an arena off the Las Vegas Strip where people can watch robots fight. Because it is also televised, film tax credits are earned. This program is administered by the Nevada Film Office within the Governor's Office of Economic Development (GOED). The credits that are earned by these productions can be transferred. Whomever uses the credit can use it against the MBT, Insurance Premium Tax, or the Gaming Percentage Fee. Under current law, up to \$10.0 million in tax credits can be issued. Anything that is not issued can be used in a subsequent fiscal year. Over time, we have found that the entire \$10.0 million does not get issued and used—the activity in terms of these credits is not currently supporting that. After speaking with Kim Spurgeon, Director of the Nevada Film Office, the figures are based on confirmed upcoming productions, applicants for the credits, and those currently filming, with each project undergoing audits before receiving credits and completing the entire process. According to the information provided by the Nevada Film Office for FY 2024 and FY 2025, tax credits in FY 2025 are expected to total \$7.3 million, followed by a slight decrease in FY 2026. In FY 2027, the amount is projected to increase again to around \$6.0 million per year, which aligns with the FY 2024 credits of approximately \$6.0 million.

The next item is Economic Development Transferable Tax Credits, which are often referred to as the “Tesla and Faraday Credits” (page 107, [Exhibit A](#)). During the 28<sup>th</sup> (2014) Special Session, the Legislature gave Tesla incentives in the form of transferable tax credits for the construction and operation of its gigafactory in Storey County. Two years later, during the 30<sup>th</sup> (2016) Special Session, the Legislature provided a similar deal to Faraday Future, but with less tax credits, to build a factory at Apex Industrial Park outside of North Las Vegas. Although that factory never materialized, the law was written in such a way that anyone who met the requirements could receive up to \$7.6 million per year in transferable tax credits until the end of FY 2025. In late 2022, Redwood Materials, a battery recycling company in Carson City, approached GOED requesting to build a facility in the Tahoe-Reno Industrial Center. Redwood Materials would recycle batteries and then sell the lithium to Tesla and Panasonic. Redwood Materials applied for transferable tax credits as well because the company had the ability under the so-called “Faraday” law to receive a limited amount of credits until those provisions expired at the end of this fiscal year. Based on the information submitted by Redwood Materials and the statutory requirement that the Interim Finance Committee approve the issuance of the credits, Redwood Materials was approved for \$2,137,500 in transferable tax credits. It was reflected on the Economic Forum sheets in May 2023 that Redwood Materials would take a portion of the tax credits in FY 2024, FY 2025, and FY 2026. I reached out to GOED because Redwood Materials did not use any of the credits in



FY 2024—the timing was off in the credits being issued. Based on information received from GOED, the entirety of those credits is anticipated to be issued and used in FY 2025.

The next item is Catalyst Account Transferable Tax Credits, which is a separate economic development incentive program administered by GOED. GOED can issue up to \$5.0 million per fiscal year of transferable tax credits against the MBT, Insurance Premium Tax, and Gaming Percentage Fee to small businesses as an incentive for them to come to Nevada. GOED indicated the program has not been used for several years and did not anticipate issuing any credits in the upcoming biennium, which is why the forecasts are zero (page 107, [Exhibit A](#)).

The Nevada New Market Jobs Act Tax Credits is a program that originated during the 77<sup>th</sup> (2013) Legislative Session. The Department of Business and Industry is allowed to receive \$200.0 million in investments from insurance companies. The department reinvests those funds into organizations that offer loans to businesses located mainly in low-income, distressed census tracts, with the goal of driving investment and activity in areas that need it most. In exchange for the investment that is made by these insurance companies, those companies are entitled to a 58.0% credit against their Insurance Premium Tax, which can be taken over a period of five years. That works out to \$116.0 million in total credits, and based on the percentages, between \$22.0 million and \$24.0 million of those credits are used per fiscal year.

As stated, the Nevada New Market Jobs Act Tax Credits program originated during the 77<sup>th</sup> (2013) Legislative Session. The first credits were used in calendar year 2015, and the credits eventually ran out because there were only five-years' worth of credits. The 80<sup>th</sup> (2019) Legislature reauthorized the program for a second round of tax credit authority—those credits were allowed to be taken in FY 2021. The FY 2024 actual figures, along with the forecasts for FY 2025 and FY 2026, reflect the remaining credits from the second incarnation of the program that are still outstanding and being utilized. In FY 2027, the amount increases because the 82<sup>nd</sup> (2023) Legislature reauthorized the program again, with investments starting in FY 2025 and the first credits being issued at the beginning of FY 2027. There is a slight difference in the amount of credits that can be issued—\$24.0 million per fiscal year to \$25.0 million per fiscal year. Based on the timing of how the credits are being issued, we see that number being slightly higher in FY 2027, which is due to the reauthorization of the program in 2023.

Because this program pertains to insurance companies that are making investments and receiving tax credits, they may use it against their own Insurance Premium Tax liability—it is not a transferable tax credit.

The College Savings Plan Tax Credit program is administered by the Office of the State Treasurer (page 107, [Exhibit A](#)). The program allows an employer that makes a matching contribution to a college savings plan, or a 529 plan, on behalf of its employees to receive a tax credit of up to 50.0% of the matching contribution amount against the MBT, up to a specified annual limit. The forecasts are very low, as historically, there has been limited participation in this program. The Office of the State Treasurer indicated that the program participation is likely to remain low.



The Education Choice Scholarship Tax Credit program allows a business to contribute to a scholarship organization which then in turn offers scholarships to children in grades K-12 to attend the school of their choice. This program originated during the 78<sup>th</sup> (2015) Legislative Session with an escalator of the amount of credits that could be issued. In subsequent years, that amount was frozen—the amount of credits that can be issued under this tax credit program is now set at \$6,655,000 per fiscal year. The FY 2024 actuals and the FY 2025 forecast are above that amount. We obtain information from the Department of Taxation regarding when these credits are issued, and how and when the credits are used. Because the tax credits can be issued in one fiscal year but can be taken any time within four years, not all the credits get used at one time; therefore, even though there is authorization for \$6.6 million per fiscal year, there are more credits than that available at any given time. Based on the most current information from the Department of Taxation, there is approximately \$2.9 million in outstanding previous fiscal year credits. Some of those credits were issued in FY 2019 and FY 2020 and are very close to expiring. In trying to determine how much of the \$2.9 million is likely to expired unused, the goal was to determine when the credits are expected to expire, and then, for those that have not expired, estimate when they will be used. The result of that is a forecast of approximately \$8.6 million in FY 2025, \$7.2 million in FY 2026, largely exhausting what is available, and then \$6,655,000 that is statutorily allowed for FY 2027.

The Affordable Housing Transferable Tax Credit program was established during the 80<sup>th</sup> (2019) Legislative Session. This program allows the B&I Housing Division to issue transferable tax credits as part of the financing for affordable housing projects. There are multiple public and private funding sources as well as a federal tax credit program for affordable housing projects. However, there was also a need for this last piece of financing—the Affordable Housing Transferable Tax Credit program—to spur more construction of affordable housing. The program was implemented right before the COVID-19 pandemic, and it was limited to \$40.0 million in tax credits over the life of the program, but no more than \$10.0 million in tax credits can be used per fiscal year. Many affordable housing construction projects were paused during the pandemic. However, following that period, approximately \$500 million in federal ARPA funds was allocated to support affordable housing initiatives. This further limited the need to use these tax credits because the ARPA funds must be utilized by the end of calendar year 2026. As of now, \$6.0 million of these credits have been used—\$3.0 million in FY 2023 and \$3.0 million in FY 2024.

The forecasts, provided by the Housing Division, are based on the affordable housing projects currently in the pipeline, the recipients to which the tax credits are expected to be issued, and the increasing reliance on tax credits as ARPA funds are utilized. These projections reflect what the Housing Division anticipates in terms of upcoming projects, while also considering the limitation of issuing only \$10.0 million in tax credits per fiscal year.

The final tax credit program is the Baseball Stadium Transferable Tax Credit program, which was approved pursuant to Senate Bill 1 of the 35<sup>th</sup> (2023) Special Session (page 105, [Exhibit A](#)). The project seeks to construct a baseball stadium at the southeast corner of Tropicana Avenue and Las Vegas Boulevard. The project includes

the issuance of a total of \$180.0 million in transferable tax credits over a span of five fiscal years based on certain goals and metrics that must be met relating to the construction of the project.

At the October 16, 2024, Economic Forum meeting, I inquired with Mr. Hill of the Las Vegas Convention and Visitors Authority about the status of the baseball stadium project. Mr. Hill indicated that the project was moving forward as scheduled, which means the first tax credits will be issued in FY 2026. Therefore, we are comfortable leaving the \$36.0 million per fiscal year in tax credits on the sheets for FY 2026 and FY 2027.

As a reminder, tax credits can be used against one or more revenue sources. The Forum will approve its forecasts as well as the forecast for the tax credits. Tax credits reduce the revenue available to the Governor when building The Executive Budget, and later in May, they affect the amount the Legislature can allocate under the legislatively approved budget.

CHAIR ROSENTHAL:

Since the Forum members were just provided a detailed review of the preliminary forecasts of minor General Fund revenues and tax credits, can we bypass that review at the December 2, 2024, meeting unless the forecast changes materially?

MR. NAKAMOTO:

The TAC will meet again on November 21, 2024, to consider any possible revisions to the forecast. Therefore, this item will be on the December 2, 2024, Economic Forum agenda. My intention is to discuss only the items that have changed, which will likely be minimal given the timing.

Table 7 is a summary of the TAC forecast for FY 2025, FY 2026, and FY 2027, and especially in comparison to the FY 2024 actuals (page 115, [Exhibit A](#)). The total of those non-major revenue sources in FY 2024 before tax credits was approximately \$806.9 million and then it declines to about \$774.8 million in FY 2025. The largest driver of that decline is a reduction of approximately \$20.0 million in gaming taxes and fees—\$10.0 million in fines and about \$9.0 million in Advance License Fees. Beyond that, there is a reduction in the Cigarette Tax of approximately \$8.0 million. In FY 2026, the forecast declines again to \$773.6 million. The primary reason for that decline is because the \$5.0 million in Transportation Network Connection Excise Tax that went into the General Fund in FY 2025 will instead go into the Highway Fund in FY 2026. In FY 2027, the number increases to approximately \$783.9 million. Overall, there is minimal growth in the non-major revenue sources.

There is slightly more movement in the tax credits. The total tax credits taken and used in FY 2024 was approximately \$38.3 million. The forecast for FY 2025 increased to approximately \$51.0 million. The primary drivers include the Redwood Materials transferable tax credits as well as an anticipated increase in the use of the Affordable Housing tax credits. In FY 2026 the amount increases to approximately \$72.3 million. The primary drivers include a reduction of approximately \$8.0 million in the

Nevada New Markets Job Act tax credits from \$24.0 million to \$16.0 million, which adds revenue, as well as \$36.0 million in Baseball Stadium credits in FY 2026 that were not reflected in FY 2025. In FY 2027, the forecast increases to approximately \$83.2 million, which is primarily driven by the third round of the Nevada New Markets Job Act tax credits.

The total amount after tax credits, which was approximately \$768.6 million in FY 2024, decreases to \$723.8 million in FY 2025—a decrease of about \$44.9 million, or 5.8%, in net revenue to the General Fund. It decreases again in FY 2026 to approximately \$701.3 million, which is a decrease of about \$22.4 million, or 3.1%. In FY 2027, it decreases further to about \$700.7 million, which is a decrease of about \$620,000, or 0.1%.

In past practice, the Economic Forum has not approved the non-major revenue sources forecast, but that is at your discretion whether to do so.

CHAIR ROSENTHAL:

The Forum will follow the same path as the major revenue source forecasts and approve the minor revenue source forecasts after the update is provided at the December 2, 2024, meeting.

There was no further discussion on this item.

## **IX. INSTRUCTIONS TO THE TECHNICAL ADVISORY COMMITTEE ON FUTURE STATE REVENUES (NRS 353.229) CONCERNING THE GENERAL FUND REVENUE FORECASTS.**

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

Now that the Forum members have heard the forecasts for the major revenues and seen information about the forecasts for the non-major revenues, this is the Forum's time to decide whether to move any of the non-major revenue sources to a major revenue source or vice versa for the upcoming TAC meeting on November 21, 2024.

CHAIR ROSENTHAL:

Something to consider are the forecasts for the MBT for financial and mining, which are comparable in size or smaller than many of the minor revenue sources. The recommendation is to not move them to minor revenue sources, as it is preferable to keep the MBT consolidated in the forecast. Is it possible to have the TAC handle that forecast, or request that the forecasters do a consensus forecast similar to the Commerce Tax? What are the options in terms of who would provide that forecast?

MR. NAKAMOTO:

If we were to do those forecasts as a consensus forecast, we would likely manage it like the non-major revenues for the TAC—all the forecasters would submit their forecasts and we would then determine as a group the consensus forecast. If the Forum decided to move those items to a non-major revenue source, we would handle the forecasts the

same as all other non-major revenue sources. It is at the Forum's discretion whether that is handled at the TAC meeting or presented as a consensus forecast like the Commerce Tax.

CHAIR ROSENTHAL:

I am not certain if I see a benefit or drawback either way. Which option would be the easiest for staff to manage administratively?

MR. NAKAMOTO:

It might be simpler to keep those items as a major revenue source but present them as a consensus forecast. This would require a minor procedural change and would alter the information in the table, but it is something we can manage as the forecasters for the data to be presented at the December 2, 2024, meeting.

MR. CROME MOVED TO COMBINE ALL THE MODIFIED BUSINESS TAX CATEGORIES INTO A SINGLE CONSENSUS FORECAST AND CONTINUE THE MODIFIED BUSINESS TAX AS A MAJOR REVENUE SOURCE FOR FUTURE MEETINGS OF THE ECONOMIC FORUM.

CHAIR ROSENTHAL:

I would like to clarify that because the nonfinancial MBT is a very large number, I would like to hear it as an individual forecast. However, I would like to combine the financial and mining portions of the MBT.

MR. CROME:

I can amend the motion concerning the MBT. Instead of a single forecast, there will be two forecasts—one for the nonfinancial MBT and the other combining the financial and mining portions of the MBT.

CHAIR ROSENTHAL:

As a second point of clarification, the MBT will remain a major revenue source as a single category; however, the mining and financial portions of the MBT will be done by consensus forecast. For the nonfinancial, the Forum will hear presentations from each of the forecasters.

MR. CROME AMENDED THE ORIGINAL MOTION AND MOVED THAT THE MODIFIED BUSINESS TAX REMAIN A MAJOR REVENUE SOURCE, THE FINANCIAL AND MINING PORTIONS OF THE MODIFIED BUSINESS TAX BE PRESENTED AS A SINGLE CONSENSUS FORECAST, AND THE NONFINANCIAL PORTION OF THE MODIFIED BUSINESS TAX BE PRESENTED AS AN INDIVIDUAL FORECAST BY EACH OF THE FORECASTERS—DEPARTMENT OF TAXATION, GOVERNOR'S FINANCE OFFICE, AND THE FISCAL ANALYSIS DIVISION.

MR. GORDON SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY OF THE MEMBERS PRESENT.

MR. NAKAMOTO:

For the December 2, 2024, meeting, individual forecasts will be presented to the Forum for the nonfinancial portion of the MBT and a consensus forecast will be presented for the financial and mining portions of the MBT. The GFO, the Department of Taxation, and the Fiscal Analysis Division will discuss how to best facilitate that request.

There was no further discussion on this item.

#### **X. SCHEDULING OF FUTURE ECONOMIC FORUM MEETINGS.**

MICHAEL NAKAMOTO (Chief Principal Deputy Fiscal Analyst, Fiscal Analysis Division, LCB):

The next Economic Forum meeting is scheduled for Monday, December 2, 2024, at 9:00 a.m. During that meeting, the Forum will be considering and approving the forecasts for major and non-major revenue sources.

This is also an appropriate time for me to ask the Forum members to please keep your calendars free for Thursday, May 1, 2025. That is the next statutory deadline for the Forum to produce a forecast. I am hopeful that with as much advance notice as possible that Forum members can keep that date free. If not, I will work with Chair Rosenthal to determine a date that is acceptable.

#### **XI. PUBLIC COMMENT.**

There was no public comment.

## **XII. ADJOURNMENT.**

Chair Rosenthal adjourned the meeting at 4:22 p.m.

Respectfully submitted,

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Carla Ulrych, Secretary for the Minutes

APPROVED:

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Linda Rosenthal, Chair

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Date