MINUTES OF THE MEETING OF THE
ECONOMIC FORUM

December 13, 2011

The first meeting of the Economic Forum pursuant to Assembly Bill 332 (2011) was held at 1:30 p.m. on Tuesday, December 13, 2011, at the Grant Sawyer State Office Building, 555 East Washington Avenue, Room 4401, Las Vegas, Nevada with videoconference to the Legislative Building, 401 South Carson Street, Room 4100, Carson City, Nevada.

ECONOMIC FORUM MEMBERS PRESENT:
Ken Wiles, Chairman
Matt Maddox, Vice Chairman
Michael Alastuey
Andrew Martin
Linda Rosenthal

ECONOMIC FORUM MEMBERS ABSENT:
None

STAFF:
Mark Krmpotic, Senate Fiscal Analyst, Fiscal Analysis Division
Rick Combs, Assembly Fiscal Analyst, Fiscal Analysis Division
Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division
Becky Lowe, Secretary, Fiscal Analysis Division

EXHIBITS:

Exhibit A	Meeting Packet and Agenda
Exhibit B	Declaration of Economic Interdependence provided by a member of Occupy Carson City
Exhibit C	Statement provided by a member of Occupy Carson City
Exhibit D	Economic Outlook 2012 provided by the Center for Business & Economic Research
Exhibit E	State of Las Vegas Tourism provided by the Las Vegas Convention and Visitors Authority

I. ROLL CALL.

Acting Chairman Michael Alastuey called the meeting to order at 1:43 p.m. The secretary called roll, and all members were present and in the Las Vegas meeting location.

II. PUBLIC COMMENT.

Fredricka King read from a Declaration of Economic Interdependence provided by Occupy Carson City (Exhibit B).

> We believe in opportunity for all. We believe that a world where individuals thrive is consistent with a world where business thrives. We believe that corporations should behave responsibly and be held responsible, that government has a role in ensuring that there are not excesses of wealth in the hands of the very few, that essential services are adequately funded, that all humans are respected and that the future of the earth is ensured. We believe in government by the people.
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> Because, in America, an excess of wealth and influence has accumulated in the hands of the very few, because adequate regulation and political oversight has become tainted by the influence of money, because these problems have resulted in a decrease to the quality of life for most Americans and because there are structural changes needed that deserve the support of all Americans, we support and recommend immediate reforms to our state legislators and the experts who advise them.

Janette Dean, a member of Occupy Carson City, said that members of Occupy Carson City were in attendance at the meeting of the Economic Forum to become more involved in the state's economic direction.

Ms. Dean said the members of her group were in attendance to petition their grievances to government leaders, present and not-present, and to the Economic Forum's members and contributors. The grievances are that Nevada citizens' basic needs for employment, housing, health care, education, and safety are not being met nor are they being adequately protected.

Ms. Dean reported that a recent study developed jointly by Opportunity Nation, a broad-based, cross-partisan coalition of 200 organizations, and the American Human Development Project, ranked Nevada dead last in the nation among the 50 states and the District of Columbia in the opportunity index, which measures each state's economy, education, and community and civic life. She said Nevada's ranking was due to the state's low rates in job opportunities, education and health care as well as high rates of violence. The study is published at opportunityindex.org, and she asked that every person involved in the government take a close look at it.

Ms. Dean said the reason the citizens' basic needs were not being met was due to the severe lack of revenue to fund and operate Nevada's government functions and responsibilities properly and adequately. Her organization believes that was mainly due to the lack of employment and educational opportunities – which would lead to more state revenue – as well as inadequate state and local taxation, on larger corporations in particular. She said contrary to what some suggest, there was no evidence that Nevada's low-tax business climate was helping its citizens thrive with economic opportunity.

Ms. Dean said Nevada had more gold than any country in the world except South Africa, Australia and China, with little benefit to its citizens. Nevada and South Dakota supplied two-thirds of the gold used in the United States. However, the mining corporations operating in Nevada – many which are foreign-owned – pay absurdly low amounts to the state in comparison to the true riches they are reaping. With so few industries developed in Nevada, our precious gold - a finite resource - should not continue to be offered for so low a price due to lax tax standards and unnecessary deductions. She suggested that proceeds from our non-renewable mines help fund more development of renewable industries such as alternative energy.

Ms. Dean said, for these many reasons, Occupy Carson City recommends that many taxes and tax deductions be reevaluated and changed immediately to reverse the crippling cuts many critical and beneficial government divisions and departments continue to endure.

Ms. Dean concluded her remarks saying her group respectfully asked and demanded that state government officials act fairly and make swift changes to improve the lives of the state's citizens they have taken oaths to serve, and that the experts and Economic Forum members do all they can to help those officials make the correct decisions and bold actions that will enable that improvement. In conclusion, she said time was not on our side as Nevada families and individuals continued to struggle unnecessarily.

III. ELECTION OF CHAIRPERSON AND VICE CHAIRPERSON.

MR. MADDOX MOVED TO NOMINATE KEN WILES AS CHAIR. THE MOTION WAS SECONDED BY MR. MARTIN.

THE MOTION CARRIED UNANIMOUSLY.

Chairman Wiles asked for a motion to nominate the vice chair.

MR. ALASTUEY MOVED TO NOMINATE MATTHEW MADDOX AS VICE CHAIR. THE MOTION WAS SECONDED BY MS. ROSENTHAL.

THE MOTION CARRIED UNANIMOUSLY.

IV. OPENING REMARKS AND OVERVIEW OF THE ECONOMIC FORUM.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, referred to Assembly Bill 332 (2011) on page 5 of the meeting packet (Exhibit A). He noted that the Economic Forum was responsible for approving the unrestricted State General Fund revenue forecast in December of even numbered years. The Governor uses that forecast to develop the Governor's recommended budget. In May of odd numbered years the Economic Forum meets to produce a revised forecast, if necessary, for use by the Nevada Legislature in adopting the legislatively approved budget.

Mr. Guindon said A.B. 332 added two new meetings of the Economic Forum. The bill requires the Economic Forum to hold additional meetings, on or before June 10 of each even-numbered year and December 10 of each odd-numbered year, to consider current economic indicators, and review how the current forecast of the Economic Forum was tracking in relation to actual collections.

Mr. Guindon explained that the meeting was being held on December 13 because when the meeting date falls on a holiday or a weekend, the Economic Forum is given two additional business days to schedule the meeting. Also, the December 1 date in even-numbered years was changed to December 3 due to the Thanksgiving holiday, and to allow time to analyze the latest sales tax data.

Mr. Guindon said there would be several presentations with regard to employment, unemployment and personal income. In addition, representatives from UNLV and UNR would provide an update on the economies of Southern and Northern Nevada. Several agenda items were added to provide an update of the status of actual revenues compared to the latest forecasts.

Mr. Guindon noted that not all of the meeting materials were included in the meeting packet. Tables displaying gaming market, gaming percentage fee, gaming win, and taxable sales statistics are posted on the Economic Forum webpage (http://www.leg.state.nv.us/Interim/76th2011/Committee/NonLeg/EcForum/?ID=59).

In addition, Mr. Guindon said the Chair of the Economic Forum was required to report to the Interim Finance Committee (IFC) after the two meetings being held pursuant to A.B. 332. The first presentation would be made at the February 2012 IFC meeting.

V. APPROVAL OF MINUTES OF THE MAY 2, 2011, MEETING.

MR. ALASTUEY MOVED TO APPROVE THE MINUTES OF THE MAY 2, 2011, MEETING. THE MOTION WAS SECONDED BY MR. MARTIN.

THE MOTION CARRIED UNANIMOUSLY.

VI. PRESENTATION ON THE STATE EMPLOYMENT AND UNEMPLOYMENT OUTLOOK.

Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation, referred to page 69 of the meeting packet (Exhibit A), to his presentation on the state employment and unemployment outlook. In the interest of time, Mr. Anderson said he would focus his remarks on labor market information.

Mr. Anderson recommended that the Economic Forum consult the DETR website (nevadaworkforce.com) for monthly updates to state labor market information, which includes a press release, a newsletter, and a presentation similar to what is included in the meeting packet. He estimated it would take under 30 minutes to read the information and get an overview of the state's labor markets.

Mr. Anderson said the national economy was creating roughly between 100,000 and 200,000 jobs per month. That number was relatively low by historical standards, and was not enough to affect the jobless rate, hence the term, "jobless recovery." He said about one-quarter of all of the jobs that were lost over the recession have been added back.

Referring to page 72 (Exhibit A), Mr. Anderson said the country has added about 2 million jobs over the last 29 months, which was well below historical norms. He said the economic recovery of the early 2000s coincided with the war in Iraq, which skewed the numbers. He said, relative to the recovery of the early 1980s and early 1990s, the number of new jobs has been much lower. He noted that there was a big increase in the share of workers who involuntarily lost their jobs (page 73). There was also a subsequent decrease in the number of workers who voluntarily left their jobs. Historically, those workers left their jobs when they found other employment opportunities. Given the lack of those opportunities in the current economy, there was a decrease in the share represented by those workers.

Mr. Anderson said "discouraged" workers gave up their search for work. They did not think there was a job for them, and they were not included in the number of unemployed. He said those numbers were higher than historical norms, and have skyrocketed over the past few years.

In regard to Nevada's labor market conditions, Mr. Anderson said the broadest measure of economic activity was personal income growth, which was up about 4% so far in 2011 compared to one year ago. That indicator has grown for five consecutive quarters on a year-over-year basis, following six consecutive quarters of decline. Likewise, average weekly wages showed wage growth increases that was short of historical norms. Nonetheless, the growth looked relatively encouraging compared to one or two years ago.

Mr. Anderson reported that human services caseloads, such as TANF and SNAP, were starting to trend downward. There were declines in increases for SNAP, and TANF was experiencing outright declines in caseload.

Mr. Anderson said that as of October 2011, Nevada's unemployment rate was 13.4% compared to a record high in 2010 of about 14.9%. This indicator has trended downward, but the state's jobless rate was still well above the national average. In fact, the state continued to have the highest unemployment rate in the nation. The second highest unemployment rate was 11.7% in neighboring California.

Mr. Anderson said unemployment rates by gender (page 81, Exhibit A), showed that males have suffered the brunt of the recession, which is attributable to the impact this recession has had on the construction sector. The recession has impacted younger workers much more significantly than older workers (page 82). This could have structural implications for the competitiveness of Nevada's workforce in the future. He said African Americans and Hispanics have been hit harder during this recession (page 83).

Mr. Anderson said in Nevada more than half of the unemployed have been out of work for over six months. The fact that a large number of workers (93,000) have been unemployed for a long period could have implications for future productivity if the skill base of the state's workforce is eroded.

Mr. Anderson said if the measure of unemployment in Nevada were broadened to include discouraged workers, and those working part-time who would rather be working full-time, the jobless rate would be in excess of 23% over the course of the last year. The difference between that and the official rate of unemployment was similar to the difference in just about every other state.

Mr. Anderson said there were signs of stability and slight improvement in job growth. In both September and October of 2011 there was an increase in the number of jobs on a year-over-year basis. In fact, job growth in October was about 11,700 over the previous year. For the first time in years, there has been slight positive job growth in the state for the first 10 months of the year.

Mr. Anderson said Nevada was hit hard by the recession compared to the nation as a whole. As a result, job levels declined at a faster pace in the state than nationwide. This gap was starting to narrow as job growth in the state was up about .1% and nationwide employment was up about 1%. He said the chart on page 87 (Exhibit A), showed a considerably larger gap between the state's job growth and the nation's job growth. He said more industries were starting to add jobs at a modest pace (page 88). Trade/transportation/utilities and construction continued to lag behind in growth. There was an increase in construction employment in September, but that was erased to some extent in October. He would be watching for tentative signs of growth in the construction sector moving forward. A big part of the state's job growth, 15,000 new jobs on a year-over-year basis, was coming from the leisure and hospitality sector. He said that reflected the rebound in visitor volume. There was solid growth in professional and business services, as well as health services.

Mr. Anderson said it was important to know that, although the state has lost jobs over time, there was lots of "churn" taking place in the labor markets. He said that was not focused upon, because the data are somewhat lagged, as information is only available through the first quarter of 2011. The number of gross new hires are being counteracted by separations. Nonetheless, the most recent information showed new hiring activity of roughly 150,000 to 175,000 on a quarterly basis. This was down from a few years ago, but despite the stagnant labor market, there was still lots of activity.

Mr. Anderson said the number of employers paying into the unemployment insurance system was showing its first signs of trending up. There were about 56,000 employers in Nevada, and for the first time since the end of 2008, the most recent quarter brought with it some growth in the number of businesses in Nevada.

Mr. Anderson said that initial claims for unemployment insurance – the best indicator for employment in the state – were below 20,700 for the past 9 months. Initial claims peaked in excess of 35,000. He would not be surprised if there was a seasonal increase from October to November, which would be very typical of what happens in November. When the November numbers are put together, there will likely be an increase, but initial claim activity will remain well below levels of the previous year.

Mr. Anderson said the level of unemployment claimant activity showed that about 30,000 individuals were receiving regular state unemployment insurance benefits as of October. There are close to 47,000 Nevadans receiving extended benefits funded by the federal government. He said there were signs that level was easing off from recessionary highs. Those claims were coming from construction sector, which accounted for roughly 5% of employment in the state, yet made up close to 20% of claimant activity.

Mr. Anderson said the theme of his presentation was that the economy had stabilized, and was starting to grow in some areas, such as leisure and hospitality, and professional business services. Unemployment claims activity was easing. He still expected relatively modest improvement moving forward, and did not expect the boom-like conditions of a half-decade ago. He thought the unemployment rate would come in just above 13% in this year, and would drop by roughly one point per year over the next two years. For employment, the 6% year-over-year job growth rates would not be sustained, rather, a much more modest rate of growth of 1% was likely. He recalled that in 2009, the state lost 115,000 jobs, and in excess of 30,000 jobs in 2010, and there were signs of stability and slight growth in 2011.

VII. PRESENTATION ON THE NATIONAL AND SOUTHERN NEVADA ECONOMIC OUTLOOK.

Dr. Stephen Brown, Director, Center for Business and Economic Research, University of Nevada, Las Vegas, said he would not cover the topics in his presentation that were covered by Mr. Anderson.

Dr. Brown said the U.S. and world economies were improving, however there was slowing growth in 2011 in the advanced economies largely due to the weak economy in Europe as shown on page 4 of Economic Outlook 2012 (Exhibit D). He said the International Monetary Fund expected growth to pick up sometime in 2012. However, because of the weak economy in Europe, that may not be fully realized. At the same time, there is a recognition that the emerging and developing economies were showing a slower rate of growth after the recession than before the recession. He said the major theme was that this recession has changed the way the world economy reacts, and economic growth was slower after the recession than before.

Dr. Brown said the recession took a big bite out of the U.S. GDP. Referring to the chart on page 6 of Exhibit D, he said the economy's potential continued to grow throughout the recession, and even though recovery has begun, the U.S. GDP was about 6.8% below what was estimated as the potential by the Congressional Budget Office. This amounts to over two years' worth of economic growth below the potential of the economy. On average, over the past 40 years, the U.S. economy grew at a 3.2% rate. It would take very strong growth to catch up with potential. Industrial production has lagged in this recovery. It was well below the level prior to the recession, but it was beginning to come back. Corporate profits were very strong, which was largely achieved by cutting costs rather than by selling more product. He noted one of the areas in which costs were cut was payroll.

Dr. Brown said there was a favorable trend in initial claims for unemployment (page 10, Exhibit D). He said the unemployment rate declined a lot in November 2011, mostly due to people dropping out of the labor force, the so called, "discouraged workers." He said inflation was ticking up nationally at close to 4% overall. The headline inflation number includes the volatile components of food and energy. The general expectation was for energy prices to remain relatively strong worldwide because the growth in capacity was not keeping up with the growth in demand. Nonetheless, lots of forecasters were saying that inflation would trend toward 2% for Core CPI, which excludes food and energy. He believed that energy prices, particularly oil, would remain strong over the coming few years, and international food shortages would contribute to high food prices. He expected overall inflation to remain relatively high.

Dr. Brown said short-term interest rates were being held quite low by monetary policy. The rates were so low, that when inflationary expectations were taken into account, it could be claimed that the real federal funds rate was negative, and that people were essentially being paid to borrow money in real terms. Long-term interest rates have also come down, which developed subsequent to the quantitative easing and was probably an indication that market participants had some sense that the economy would remain soft for a while. With high rates of inflation and relative monetary ease, there was strength in the price of gold, which has decreased just a bit since its peak of almost $1,800 per troy ounce. Gold prices could fall sharply as monetary policy tightened. When interest rates rise, gold will become a much less attractive investment. He said that stimulus to the Nevada economy could disappear pretty quickly.

Dr. Brown explained that the slow recovery was largely due to the financial crisis. He said there were disruptive relationships between financial institutions and investors. There was a lack of confidence in the economy that has undermined investment, hiring, and consumer spending. He said the timespan between the trough of the recession and the pre-recession peak in terms of per-capita GDP was about 4.4 years internationally, and the state was at 51% of that amount at 2.25 years. If the state was growing at a reasonable pace, which seemed feasible, the state could be back at its pre-recession peak about 3.75 years after the trough, in the first quarter of 2013.

Dr. Brown said monetary policy was holding interest rates extremely low and proving to be mostly ineffective in stimulating economic activity. Fiscal policy was mostly contractionary. The federal government was tightening its budget, along with the state and local governments. Because governments were spending less money, it slowed economic activity in the short term. In the long term, it put the governments in a better financial position, and put less pressure on the market.

Dr. Brown said the following national policy options would have implications for what states would do:

- Continuation of Bush-era tax cuts to stimulate spending
- Extension of unemployment insurance benefits to stimulate spending, but also keep unemployment rate up as people remain in the job market simply to collect benefits
- Bailing out underwater homeowners to restore the consumer balance sheet
- Infrastructure development could be a good use of government money that would pay dividends in the future
- Providing tax incentives for investment and hiring, which has been done in a number of previous administrations

Dr. Brown said there was no imminent U.S. recession, and only two of the seven indicators were showing signs of recession – the slowing GDP for the past couple of quarters and the stock market. Both of those indicators generally provided false warnings. The rest of the indicators were unclear or indicated no recession. The three indicators with the best record – oil prices, yield curve, and U.S. leading indicators – did not indicate a recession.

Dr. Brown said the U.S. index of leading economic indicators was quite strong. There may be some quibbles about whether it is accurate at this time, but it was still quite strong. He said consumer confidence and sentiment indices were rebounding strongly from low levels. In fact, the consumer confidence index had the largest one-month increase in its history, so both consumer confidence and sentiment were rising, resulting in consumer spending. According to forecasters, the outlook for U.S. real GDP growth was very strong for the fourth quarter. He said Goldman Sachs released a report that U.S. GDP would grow at a 3.5% annual rate in the fourth quarter, while he forecast 2.9% growth for the fourth quarter. He said that 3.5% growth was certainly within striking distance, given that the last two quarters there have been sharp draw downs in inventories. There is an indication that spending was very strong in the fourth quarter. Nonetheless, he expected growth of a more reasonable, sustained pace of about 2.8% next year, and about 3.2% in 2013. He noted one forecaster in Michigan, with one of the best track records, showed much lower rates of growth. Even with that growth, the growth would not match potential, but would close in on potential going from about 6.8% gap to about a 5% gap by the end of 2013.

Dr. Brown said industrial production will pick up to where it had been by the end of 2013. Job growth will continue to be slow as U.S. businesses were slow to add workers. His outlook for the national unemployment rate was to trend from the current range of 8.6% to 8% at the end of 2014. He said it took about 120,000 jobs each month just to keep up with the growth in the labor force.

In summary, Dr. Brown said no U.S. recession was eminent. The United States was in a slow expansion which was likely to accelerate through 2012 and 2013. The fourth quarter of 2011 would probably be very strong. He said the GDP would remain well below potential for the next couple of years. The economy was on pace to reach the pre-recession peak in per capita GDP in the first quarter 2013.

Dr. Brown said he would focus the rest of his presentation on the Southern Nevada outlook as opposed to all of Nevada, recognizing that Southern Nevada contributed about 70% to 75% of the Nevada economy. The new Southern Nevada coincident index showed some strength toward the end of 2011. He said the Clark County business activity index showed the same general upward trend throughout 2011. The Clark County tourism index, which measured gaming, visitor volume, airport landings and room occupancy, was on a general upward trend throughout 2011, but it was a volatile series, with the most volatile component being gaming. He said the Clark County construction index has been relatively flat toward the end of 2011, but he viewed that as a good sign, because in the early part of 2011, games and tourism were offset by continuing losses in construction.

Dr. Brown said, overall, Las Vegas metropolitan employment had a slight upward trend toward the end of 2011. In 2011, employment would be slightly higher than in 2010. He said the civilian unemployment rate remained relatively high in Nevada, and in Las Vegas it was well above the national numbers.

Dr. Brown reported that visitor volume had returned to 2007 levels, but there was a different kind of tourist that was coming from farther away, and thus was more reliant on taxis. He said taxi numbers were the highest they had ever been. The visitors were from the Midwest, East Coast, Europe and Asia. There were not as many California visitors, in fact, the number of Californians crossing the border into Nevada was lower than in 2007, but higher than last year. He said occupancy was the highest it has ever been, and there was an increase in the number of nights that the tourists were spending in Las Vegas. Unfortunately for the hospitality industry, the capacity numbers increased much faster than the occupancy numbers, so there are discounts from the rates charged in 2007 when the market was very tight, of about 25%. He said gaming showed a pretty strong run up to 2007, and was growing from 2000 to 2007 much faster than visitor volume, as this was a period in which Americans felt wealthy because of equity in their homes, and took expensive vacations centered on gaming. He said people, particularly in Southern California, were treating their houses like ATMs, in which they refinanced and then took a vacation to Las Vegas. He said gaming numbers in Clark County were about 10% lower than in 2007. The relationship between visitor volume and gaming has returned to levels of the 1990s, and he thought the gains in gaming revenue were probably sustainable.

Dr. Brown said employment in the leisure and hospitality sector was tracking fairly closely with gains in visitor volume. There was a bit of a lag, because the industry was slow to lay people off from 2007 to 2009, and a bit slow to begin hiring. Also, companies that are developing a national or international presence are locating their analysis staff in Las Vegas. He reported that Caesar's had moved 70 analyst positions to the Las Vegas market.

Dr. Brown said for Southern Nevada housing, the story was familiar. There was a big run up in housing prices way above any historical trend. The increase was largely a speculative bubble driven by loose monetary policy and financial innovation. There would still be some slippage in house prices, mostly for existing homes. The prices of new homes has stabilized. He said during the boom, median home prices in Clark County, which were at about the national level in 1995, where pushed up well above the national level in 2007. Las Vegas house prices have dropped so that they were now below the median prices in the United States. This result was bad for current homeowners in Las Vegas, but it was an opportunity for future economic growth, because housing opportunity as measured by the National Association of Homebuilders was now considered to be more attractive in Las Vegas. Once the U.S. economy really gets moving again, depressed home prices will attract people to Las Vegas. The people attracted by the low home prices may be retirees, or they may move to Las Vegas to work in the new industries that are being developed.

Dr. Brown expected a continued recovery. He said the leading Southern Nevada index has a general upward trend throughout 2011, similar to the Nevada index (page 48, Exhibit D). He said both trends were very slow, which meant that the economy would improve at a slow pace. He said the Southern Nevada business confidence index (page 49, Exhibit D) showed that for the first quarter 2012, Southern Nevada businesses are more confident than any time in the four-year history of the index. He noted that confidence was above 100%, which meant businesses expected economic conditions to improve. The survey was made up of answers to five questions on sales, profits, hiring, capital expenditures and economic conditions. In all five of the categories, Southern Nevada businesses expected improvement. He noted that was the first time all five indicators have been above 100%. It was also the first time in the survey that hiring and capital expenditures were expected to increase rather than decrease. Not only were the businesses expecting conditions to improve, they were actually willing to put their own money into it.

Referring to page 51 (Exhibit D), Dr. Brown said from 2010 to the fourth quarter of 2011, more U.S. businesses were seeking financing, and of those seeking financing, more were getting it. For Nevada (page 52), from 2010 to the fourth quarter of 2011, there were slightly fewer businesses seeking additional credit, and fewer firms that were seeking credit were getting financing. Dr. Brown said he has confirmed with bankers that financial headwinds to economic growth would continue throughout the state. He said the medium-sized banks were doing the lending as the small banks had no money to lend and the large banks were not lending, which would impede the state's economic recovery.

Dr. Brown said 2011 was a much better year throughout the west than 2010 for employment growth (page 53, Exhibit D). Most of the forecasters in the western states, which includes Arizona, California, Utah, Colorado, Oregon, Washington and Nevada, expected 2012 to be much better. Tourism conditions were expected to improve, and more Californians were expected to drive to Las Vegas.

Dr. Brown said income growth for 2011 was impressive, considering that employment did not do very well, and is expected to continue into 2012, which supports the idea that there would be continued growth in tourism.

Dr. Brown said his forecast for Southern Nevada was for visitor volume to grow at a rate of about 4.8% to 5% in 2011. Growth should be stronger in 2012, and even stronger in 2013. Gross gaming revenue has been volatile, with a general upward trend that would not quite keep pace with the growth in visitor volume. He noted that baccarat revenue could be very low or very high, because it was played by a small number of high rolling gamblers. Nonetheless, growth in gaming revenue was expected to be strong in 2012 and 2013, but not at the level of the growth in visitor volume.

Dr. Brown said that the growth in the number of hotel and motel rooms was flat in 2010, and would be about 0.7% in 2011. Given the excess capacity, and no construction projects on the drawing board, he expected a bit of a loss in 2011, and a small gain in 2012.

Dr. Brown reported that population growth was pretty strong in 2010, would be a bit weaker in 2011, and would pick up again in 2012 and 2013. There were some net gains in employment in 2011, which he said would continue in 2012 and 2013, as jobs were retained in the construction sector, and there was growth in employment to match gaming and tourism.

Dr. Brown said the unemployment rates would decrease in the next few years, but would remain high in Las Vegas compared to historical standards. He said total personal income for Southern Nevada would increase about 3% in 2011, which should strengthen in 2012 and 2013.

Dr. Brown said the number of permitted housing units decreased in 2011, and there are currently 200 to 250 units permitted per month. He expected a 4% increase, which would amount to another 8 to 10 units per month in 2012.

In conclusion, Dr. Brown said the Southern Nevada economy was in the initial stages of recovery. The stronger U.S. economy was very helpful, as was the stronger growth in the western states. He said the Southern Nevada economy should experience slow growth in 2012 and 2013, not the same kind of growth that occurred prior to the recession, but much better than the growth since 2007. He said diversification of the Las Vegas economy was underway, and that would provide benefits in the long term. He said real estate prices would be slower to recover. He observed that the Reno/Sparks area was not doing quite as well as the Las Vegas area. There were parts of Northern Nevada where mining and gas pipeline construction caused sizeable gains in economic activity. He said those gains would be mostly temporary, as gold prices would collapse when the Federal Reserve raised interest rates. The construction jobs related to the gas pipeline would disappear when the project was completed.

Mr. Martin asked Dr. Brown if he thought the price of oil would increase to $150 per barrel. He noted that would affect the number of visitors traveling by car or airline. Dr. Brown said unless the Chinese economy melts down, he expected prices to increase to the $120 to $130 per barrel range, because investment in new capacity was not keeping pace with growth. In fact, Saudi Arabia announced that it would hold the line on investment in new capacity for a while, which would make the market increasingly tight. He said there were many theories as to why investment in oil was not keeping pace with international economic activity. One theory was there was not as much oil there to invest in, and that we were running out of oil. It is also the case that there have not been any major technological breakthroughs in recent years. Investment tended to go toward the industries where there are major breakthroughs. He said the Chinese economy was experiencing a breakthrough that is social rather than technological in nature. Capital has been flowing to China and India, and away from oil, which meant oil would be relatively more expensive. In addition, much of the world's oil was in countries that are not free-market oriented, are run by the state, or are inhospitable to foreign investment. Consequently, there are many reasons to expect relatively little investment in oil and relatively strong investment in other parts of the world economy. This creates a situation in which oil prices would have to remain high, because oil would remain relatively scarce in comparison to other economic output in the world, which is why he thought $120 to $130 per barrel was a reasonable expectation. There could be a spike to $150 per barrel, or an increase to that rate closer to 2020.

Chairman Wiles noted that Dr. Brown said Federal Reserve policy could affect housing prices, and may affect the price of gold, which was a key component to Nevada's economy. He said the current rate was close to zero, and in the past four years the Federal Reserve's balance sheet has expanded from $865 billion to just under $3 trillion. He asked if Dr. Brown had an estimate as to when the Federal Reserve would tighten the rates.

Dr. Brown said the Federal Reserve was on record that it would not tighten the rates in 2012. Much would depend upon their view of how the economy was doing relative to its potential. He thought it would be a few years until rates were tightened. He said in the past, the Federal Reserve released its own potential GDP series, and people were able to figure out what monetary policy would be based on that information. He expected the Federal Reserve to continue to ease rates as long as there was potential for economic growth in GDP. He thought that would continue, and the price of gold would remain strong for a few more years. Historically, when the price of gold falls, it falls quickly.

Mr. Maddox asked for a description of the "coincident index." Dr. Brown said the coincident index measures the current status of the economy using a combination of different measures of employment in Southern Nevada. He said it was basically an index of business conditions for a moment in time.

Mr. Maddox asked if Dr. Brown ever compared Las Vegas visitor volume to total spending by visitors in Clark County. He noted the $700 million nightclub industry has blossomed over the past six or seven years.

Dr. Brown said there was a shift toward other types of spending by visitors. He said event and convention travel has picked up. Anecdotal evidence showed that nightclubs have become a very important source of revenue for the various establishments along the strip. He said it was unfortunate that he did not have a good measure of the amount spent per visit. There was an annual survey conducted by the Las Vegas Convention and Visitor's Authority about the amount of total spending by visitors. The last numbers that he saw put the spending per visitor at about $800 on average for 2010. He said about $200 of that was a net take for gaming.

VIII. PRESENTATION ON THE VISITOR AND TOURISM STATISTICS FOR THE LAS VEGAS MARKET.

Rossi Ralenkotter, President/CEO, Las Vegas Convention and Visitors Authority (LVCVA), said the LVCVA was the brand marketer for Las Vegas. The LVCVA was responsible for "heads in beds" and positioning the destination. He has been at the convention center for about 39 years, and he believed it was important to look at trends. The one consistent thing during previous recessions was that the tourism gaming industry has lead Las Vegas, and the state, out of these recessions. The impact of tourism on the economic wellbeing of Southern Nevada, and the revenue that comes to the state was significant. He said the LVCVA had an 11 point plan to get through the recession, and a 9 point plan to take us out of the recession. He said, after 18 straight months of increases in visitor volume, it was time to start changing directions. Referring to page 2 of the State of Las Vegas Tourism handout (Exhibit E), Mr. Ralenkotter said there had been 20 straight months of growth in visitor volume. He said the LVCVA has devised a strategic three-year innovation plan to position the destination.

Mr. Ralenkotter said visitor volume was up 4.5% year-to-date in calendar year 2011 through October. He noted that in 2007, there was a record-breaking 39 million visitors to Las Vegas. If the current trend continued, there would be over 39 million visitors to Las Vegas in 2011. However, the spending of the current visitors was different than in 2007. The hotels have provided a value proposition to our visitors and convention delegates by bundling their products and lowering prices. The fact that the number of visitors was returning to previous levels speaks to the strength of Las Vegas as a destination.

Mr. Ralenkotter said there would be a slight increase of about one thousand rooms in 2011. He said that the current hotel properties were being refurbished. Another tourist attraction called the "link project" was moving forward. He described that as a series of nightclubs and entertainment venues that would lead to the "wheel." He noted that the Mob Museum, the Neon Museum and the Smith Center would open in 2012. The Michael Jackson Cirque du Soleil show was already open at the Mandalay Bay Hotel and Casino. He said the city-wide occupancy rate was at 85.4%. Traditionally city-wide occupancy was about 25% above the national average. However, the average daily rate, which was the key indicator for hotels, was up almost 11%. He believed that would continue through 2011 and 2012. The average rate was increasing, which would be reflected in the room tax collections.

Mr. Ralenkotter said convention attendance was very strong with almost 10% growth. There was a consistent increase in major trade shows and convention booking in Las Vegas. For 17 straight years, Las Vegas has been the number one trade show destination for North America with the "Trade Show 250," which comprises the largest 250 shows, which should continue as more conventions are drawn by the Sands Hotel and the Mandalay Bay Hotel and Casino. He noted that conventions bring in business during slow periods and mid-week. The average spending for convention visitors was higher, and that was critical to the anchoring of the visitor base.

Mr. Ralenkotter said enplaned and deplaned passengers at McCarran International Airport increased across a variety of carriers. The biggest increase percentage-wise has been in the international carriers. He said the international carriers would be the growth market in Las Vegas for the next 10 years from 18% to a projected 32%. He said McCarran International Airport had the highest percentage increase of international seats of any airport in the country in 2011. Average growth in daily traffic on the highways was flat. Some of that traffic had shifted to the airlines. It was influenced somewhat by the rise in gasoline prices.

Mr. Ralenkotter said gaming revenue in Clark County was $7.7 billion, an increase of 3.3%. He said about $38 billion of gaming and nongaming will be generated in 2011 by the visitors to our destination, which has shifted from the gaming side to the other attractions in Las Vegas. At one time, a visitor could see everything in three days, but that was no longer possible, because there were so many attractions. He noted there were two club scenes: nighttime and daytime. The pools have been turned into clubs as well, which has been a good source of revenue. Mr. Ralenkotter said that spending by the leisure traveler for 2011 was 9% above the 2010 level. There was a 12% increase in convention delegates over the previous year, at about $798 per delegate. The tradeshow exhibitors were also trending at about 12%, with an average spending of $1,059. He said one travel trend was "recession fatigue," that caused people to return to patterns of the past. He said Las Vegas offered a great place to escape that was all about adult freedom.

Mr. Ralenkotter referred to the visitation statistics on page 3 (Exhibit E), noting a rebound in the fourth quarter of 2009 that has continued through 2010 and 2011, that he believed would continue going forward. He said the LVCVA projected an increase in visitor volume between 2% and 4%. He noted that 2.5% growth would mean that there were 40 million visitors, which would affect spending and the average dollar amount per visitor.

Mr. Ralenkotter said that the LVCVA kept only one-third of the room tax that was collected. The other two-thirds went to the state, the cities and the county. Referring to page 4 (Exhibit E), he said the entities had received about $43 million more than what was budgeted, and the LVCVA was also experiencing the same increases. He noted the Nevada Commission on Tourism was also funded with room tax. He said room tax collections were at 2005 and 2006 levels.

Mr. Ralenkotter said the hospitality sector has been driving the number of new jobs added since the bottom of the recession in November of 2009. Close to 20,000 jobs have been created in the hospitality industry and gaming. For every 1,000 visitors, 9 jobs were supported. In 2012, a 2.5% increase in volume amounted to about one million more visitors, or about 9,000 more jobs.

In summary, Mr. Ralenkotter said the convention industry remained very strong. The LVCVA continued to sign long-term leases with a variety of building customers into 2018 and 2019, and bookings into 2021, 2022 and 2023. He said that showed the sustained growth on the convention bookings.

Mr. Ralenkotter said the LVCVA had proposed an expansion of its facility prior to the recession, and had begun the pre-work of improvements amounting to $125 million to the electrical, sewer and water systems. This work would resume in 2012, and between $5 million and $7 million would be spent over the next 6 to 9 months remodeling and refurbishing the existing facility.

Mr. Ralenkotter said three key areas for growth for visitor volume for Southern Nevada have been identified. First were special events like the NASCAR races, the Country Music Awards, the opening of the Michael Jackson Cirque de Soleil show, the Las Vegas Marathon, and the Las Vegas Rodeo. He said that the City of Las Vegas hosts more special events in three or four days than some destinations in three for four months. He noted there would be a birthday party for Mohamed Ali on February 19. No other city could really host those kinds of events, and Las Vegas would continue to look for these kinds of opportunities. Second, Las Vegas was branding certain weekends. For example, “America’s Party,” for the celebration of New Year’s Eve, or “The best place to be for Halloween is Las Vegas.” There was one branded weekend scheduled for each month. Third, over 20,000 corporate meetings took place in Las Vegas each year. He noted 70% of the international visitation was from Canada, Mexico and the United Kingdom. He said there was pent up demand, and lots of growth potential. He said that the LVCVA would expand its efforts into South America, Brazil, the Far East, Australia, India, and China. In addition, the LVCVA would expand its efforts in the marketplace of Europe, particularly Russia, which has a trend of visitation throughout the world.

Mr. Ralenkotter said the Corporation for Travel, which was formed by the federal government, would begin marketing destinations in the U.S. in 2012, and Las Vegas would benefit from that. He said 82% of visitors to Las Vegas were domestic. The LVCVA recently finished a national survey about domestic visitors and the recession. He said two key components came from the survey: there are “core” Las Vegas visitors, and “persuadable” Las Vegas visitors. There are about 41 million core visitors who love Las Vegas and cannot wait to come back. He said the LVCVA knows how to market to the core visitors by simply providing information. He said the 43 million identified as persuadable visitors needed a reason to visit, such as a particular concert or event. He said with this information, the LVCVA could drive visitation and revenue for Southern Nevada and the rest of the state.

Mr. Maddox noted that the LVCVA expected to see the growth in the Average Daily Rate (ADR) to continue at a rate similar to 2011 of 11%. Mr. Ralenkotter said that outlook was based on advanced bookings and conversations with the hotel properties. He said the demand for corporate meetings was very strong, and bookings for December conventions were very strong.

Mr. Maddox noted that some of the larger conventions were rotating out. Mr. Ralenkotter said other convention groups were filling that space, and there were lots of ongoing annual shows, such as the consumer electronics show. He said there was a high demand for Las Vegas as a convention site, and there were second and third options for most dates because of that demand.

Mr. Maddox said, in his experience, much of that growth was due to demand for rooms being higher than expected. For example, a convention would initially reserve a block of 1,000 rooms, but ended up needing 1,200 rooms. The property was able to keep its room rates quite high. He said that ADR revenue was unexpected, and he did not know if that would continue.

Mr. Ralenkotter said that trend would continue due to the fact that the convention groups were stronger, even though people were booking later for leisure visits.

Mr. Maddox agreed that the base was good for 2012. He believed that rates were artificially depressed in 2009 and 2010, because there was too much supply, and pricing was too aggressive. He asked if it would be harder to compete with the major competitors now that prices were rising by 25% over a two-year period.

Mr. Ralenkotter said that Las Vegas was an experience, and the city delivers on its brand promise. People have a great experience whether they visit for leisure or a convention. He said the rates for Chicago, New York, Orlando and San Francisco are still strong.

Mr. Maddox noted those cities had much softer growth than Las Vegas, and Las Vegas just caught up this year. Now that the city is catching up, he asked if that growth would continue.

Mr. Ralenkotter believed the growth would continue. He said that 19,000 rooms were added over the course of the recession, which impacted the rates. No new rooms were expected to be added.

Mr. Wiles asked if the LVCVA had ADR growth rates for different types of properties. Mr. Ralenkotter said the LVCVA got information from all of the hotel properties. All of the types of properties were combined to come up with the forecast. He added that to fill 150,000 rooms per day, which amounted to roughly 300,000 visitors, there must be a price point and a product for everyone.

Mr. Maddox said the room tax revenue base was about $5 billion, so a 10% increase would add $500 million to that base. He noted visitor volume and spending per visit would not grow that fast, so the growth must be due to capacity. Mr. Ralenkotter said that was correct.

IX. PRESENTATION ON THE SOUTHERN NEVADA HOUSING OUTLOOK.

Dennis Smith, President, Home Builders Research, Inc., presented information on the Las Vegas housing outlook. Referring to the graph on page 98 of the meeting packet (Exhibit A), Mr. Smith said he did not have good news on the annual new home closings in Clark County. He said the projection for 2011 was roughly 3,600 new home closings, which included all product types. He noted that in 1995 there were almost 18,000 new home closings. There was a peak amount of 38,957 in 2005, which then declined quickly. He said the 2011 rate declined almost 33% compared to the previous year. He noted that was partially due to the federal tax credit in 2010, which boosted production and sales. He expected that 2011 would be the bottom of the cycle. He did not project any dramatic change over the next few years. He thought that the activity in 2012 would be similar to 2011, with a slight uptick of 100 or so units. He expected another small uptick in 2013, based on the marketplace, which is progressing through the situation, regardless of some of the artificial aspects that are affecting the supply and demand, such as the previously mentioned tax credit.

Mr. Smith said the chart on page 99 (Exhibit A) showed recent activity of net sales per subdivision per week from 2007 to date. The chart shows the bottom was in late 2008 and the early first quarter of 2009. It peaked in 2010 with the federal tax credit. The market then settled into a natural pace of demand, and over the past 10 months, there have been approximately 0.4 net sales per subdivision per week. It has been down to 0.3 and 0.2 in the past weeks, which he believed was a seasonal trend that would increase in January and February of 2012 to the 0.4 range. He expected 2012 to be similar to the past 10 months of 2011.

Mr. Smith said the resale closings since 1990 was shown on page 100 (Exhibit A). He attempted to exclude lateral transactions from bank to bank, and keep just the end users in the numbers. The end users could be investors or landlords. For 2011, the projection was for 47,500. Higher numbers may come out at the end of the year, which would reflect transactions from bank to bank. He said when the number of new homes is included, the total number of transactions was just over 50,000.

Mr. Smith said the resale transactions going forward were not changing very much, because the market is moving forward, and as it moves, you cannot look at the number this year and assume next year's number will be based on the same parameters. He noted there were different factors to the 2011 number, such as S.B. 284. The banks are controlling the market and controlling the supply of the homes. We cannot control what the banks put out to buy and sell.

Referring to page 101 (Exhibit A), Mr. Smith said the graph showed the gap in the price of new versus resale homes from 2002 to date. There was typically a gap of about $20,000 to $25,000. The gap was now fluctuating month-to-month between $75,000 up to $100,000. He said the median price at the end of October for the new homes was $196,360, which was a year-to-year decrease of 7.6%. The resale median price at the end of October was $110,000, which, coincidently, had the same year-to-year decrease of 7.5%. He did not expect that the new home price would change much. He said the builders would have to sell the homes as low as possible, and were doing everything possible to cut their overhead. Mr. Smith said the construction of new homes cannot decrease any further without builders leaving the valley. He said one major builder had already left the marketplace. He said the resale median price would have to increase to decrease the gap. Because of unknowns in the resale segment due to the foreclosure situation, it does not appear that would happen any time soon.

Mr. Smith said the satellite image from Google Earth on page 102 (Exhibit A) showed the median prices for certain areas in the valley. He said the green font represented the resale median price and the black font represented the new home median price. He said the larger the difference between the median price of a new and existing home, the weaker that market would be for new homes. The resale market created downward pressure. He said the strongest area in terms of pricing was Henderson. The southwest area was the second strongest. The weakest market was in the east part of the valley.

Mr. Smith said the chart on page 103 (Exhibit A) reflected annual permits from 1990 to date. The chart showed the previous level of the market, where it peaked at almost 33,000 permits annually, and the projection of 4,000 permits for 2011. He thought permits would grow at a rate similar to the closings, which were relatively flat. He did not expect an increase in the number of permits until 2014.

Mr. Smith said the unsold inventory of new homes was not a concern (page 104, Exhibit A). He explained that new homes were being sold and closed, and the trend since January 2011 was slightly up. He said most homebuilders would not build a new home without a contract and an approved buyer. The table on page 105 represented the Multiple Listing Services (MLS) inventory of single-family homes, not including condominiums. He noted that the table displayed the number of properties with and without contingent offers. On November 30, 2011, there were 9,827 homes without an accepted contingent offer. There were 1,879 homes that were repossessions and real estate owned without a contingent offer. He said the year-to-year changes were very strong. One factor in the large decrease was the banks robo-signing problem. Because of that, the market would not be flooded with listings. As long as the banks have threats of lawsuits due to robo-signing, they will not dump houses on the marketplace without being very careful that the paperwork has been prepared properly. He said this information would dispel rumors of the market being flooded by foreclosed homes. He did not expect much change in 2012.

Referring to the chart on page 106 (Exhibit A) showing single-family foreclosures that have been sold versus the trustee deeds, Mr. Smith said the trend was relatively flat. He said there were plenty of investors in the marketplace to absorb whatever inventory the banks release. It would be better if the homes were being purchased by owners to occupy. However, he believed it was good that investors were interested in the properties, because of the difficulty in getting loans for the amount of the appraisal.

Mr. Smith said the chart on page 107 (Exhibit A) showed bank auctioned closings based on information from the Clark County Assessor. He said in January 2010 the trend was flat, then there was a run up in the numbers of about 200 units in April 2011. He has heard from bankers that this could continue anywhere from three to six months.

Mr. Smith said the average price per square foot of the auction sales on page 108 (Exhibit A), showed the value ratio of the market from January 2010 to date. He said the average price per square foot has been about $60 for single family homes purchased by way of the auction process. The prices shown are actual closing prices.

Referring to the map on page 109 (Exhibit A), Mr. Smith said the situation in the land market has not changed much since 2010. He said there were finished lots and partially finished lots available in the valley. However, those lots were primarily owned by investors or large builders. Those lots were being held, and most investors were looking at a five-year hold. He said the builders today would tell you there was a shortage of lots. He noted that was contradictory to what was shown on the map. He said the builders meant that there was a shortage of lots that they could build houses on to be priced at today's market level. He said today's market price for a finished lot was about $60,000. The ratio of finished lot cost to retail price is about 22% to 23%. At the peak of the market the ratio was 30% to 32%, and in the late 1980s the ratio was about 18% or 19%. The land being sold were distressed lots that were taken by the banks. Also, some builders were selling lots to other builders. He said the land market appeared to have inventory, but it was not really available, because the finished lots sold for $80,000 to $100,000. The houses cannot be built at a price where they will sell. The appraisal amount would be too low for the bank to approve a loan.

Mr. Alastuey noted, based on the MLS inventory table (page 105, Exhibit A), that it would take five to eight years for the balance of the inventory between existing and new to move closer to historical numbers.

Mr. Smith explained that the "shadow inventory" cannot be calculated in a way that would be comfortable. There could be a five to eight year inventory. He injected lots of subjective analysis from what he sees and hears from his clients every day in the marketplace. He said there was good information coming from the gaming industry. The economy in the rest of the country was improving much faster than the state's economy. He has been tracking this information for 35 years, and said the demand for Las Vegas real estate cannot be measured by simply looking at the numbers. For example, there was a period from 2003 and 2004 where a large number of homes were sold to residents of Hawaii. The demand from outside of our borders, which cannot be measured, would make the absorption period shorter than the numbers might indicate. Also, there were investors interested in buying houses in bulk. If a major bank wanted to sell 1,000 homes, it would probably take three or four phone calls to get somebody to buy those houses, which would take away some of the unsold inventory.

Chairman Wiles asked Mr. Smith about the impact of federal and state mortgage mitigation programs. Mr. Smith said those programs would have very little impact. There was no equity for 63% of the mortgages in Las Vegas according to data from the Center for Business and Economic Research. He supported the programs that helped homeowners stay in the property, but those programs have benefited only a few. He said the federal tax credit in 2010 brought about only 700 sales of new homes in Las Vegas. He said the problem in Las Vegas was so deep that national programs would not work. A regional fix that would affect a large number of properties would be needed for the state. He believed principal reduction was the only thing that would make a difference, but the banks would not allow that to happen. He said that if something negatively affected a mortgage holder's lifestyle, such as divorce, they would walk away from their mortgage. He said in order for the local housing industry to rebound, consumers from other locations must buy up the homes. He said that has happened in the past: in the late 1980s buyers came primarily from California. The buyers would have to come from a broader area. He said the Las Vegas housing prices were affordable to baby boomers who were moving and looking for property.

X. PRESENTATION ON THE NORTHERN NEVADA ECONOMIC AND HOUSING OUTLOOK.

Presenting from Carson City, Brian Bonnenfant, Project Manager, Center for Regional Studies, University of Nevada, Reno, said he would cover employment, sales, gaming and population in Northern Nevada. He introduced Brian Kaiser, Housing and Real Estate Analyst, Center for Regional Studies, University of Nevada, Reno, who would present information on housing indicators in Northern Nevada.

Referring to page 112 of Exhibit A, Mr. Bonnenfant said the chart displayed monthly nonfarm employment in the Reno/Sparks Metropolitan Statistical Area (MSA), which includes Storey County. He said for October 2011, the Reno/Sparks MSA had 189,400 employees, 2,000 less than in October 2010, but this decrease was slightly better than the 3,400 decrease between October of 2009 and October of 2010. Between January and December 2010, there was a return to normal seasonal employment growth. During the recession years of 2008 and 2009, there was a negative seasonal trajectory in employment. He said 2011 growth was flat, but 1,900 jobs were added between January and October. He said the year-over-year decreases showed that the bottom of employment has not been reached. The 189,400 number was similar to 1998 levels. Over the 13 years, Washoe County and Storey County have added 90,000 persons, and only 1,700 jobs. Unemployment was 12.1%, or one-half percentage point better than the previous month, over one full percentage point higher than the October 2010 rate of 13.3%, and one full percentage point lower than in Clark County.

Mr. Bonnenfant said local governments have lost the most jobs over the past year. Retail was the second highest job loser, although financial activities have lost the highest percentage of their workforce over the year equal to 7%. He said construction job loss bottomed out in 2010. Over the year 300 jobs were added to that category. Education and health services continued to grow, as they have since the peak of Reno/Sparks MSA employment in December 2006. The education and health services sector and federal government were the only two sectors that reported increases since the employment peak. There was growth in leisure and hospitality of 1.1%, which was a good sign of increased local discretionary spending. He said the gain of 300 positions in the professional and business services and the loss of 800 positions in retail should not be surprising since the north was transitioning to a service-based economy from a retail-based economy.

Mr. Bonnenfant said the chart on page 114 (Exhibit A) showed industrial employment as a share of total employment for selected industries. He said that in 1990 casino hotels represented 16%, and in 2011 casino hotels represent 8%, a 21 year low. He said construction started at about 6% in 1990, reached a peak of 11% in 2006, and in 2011, reached a 21 year low of 4.6% of total employment. He said the service-based industries showed the most growth. He said the professional and business services and education and health services made up about 8% in 1990, and now represent about 13% of total employment. He noted that the service-based industries surpassed the historical heavyweight sector of trade, transportation and utilities in the year 2000.

Mr. Bonnenfant said for taxable sales the rate of change in the second quarter of 2010 was the first increase since the first quarter of 2007, a period of three and one-half years (page 115, Exhibit A). The third and fourth quarters of 2010 brought the first back-to-back increases since the second quarter of 2006, a period of four and one-half years. The increases in 2010 in Washoe County were followed by a 0.1% decrease in the first quarter of 2011, a 5.1% increase in the second quarter and a 0.8% increase in the third quarter of 2011.

Referring to page 116 (Exhibit A), Mr. Bonnenfant said the real story was the change in taxable sales in the rural counties. He said the 15 non-metro counties were far outpacing the changes in taxable sales growth in Washoe and Clark County. The 2010 third quarter rate of change for those 15 counties was the second highest in the last 13 years, and the 2010 fourth quarter rate of change for those 15 counties was the highest in the 13 years shown on the graph.

Mr. Bonnenfant said page 117 (Exhibit A) showed the taxable sales by county, compared with 2010, and the rate of change. He said Churchill, Elko, Esmeralda, Eureka, Humboldt, Lander, Lyon, Mineral, Pershing, Storey and White Pine Counties reported double-digit increases in taxable sales. Those are mostly counties not linked to the metro corridors or metro counties. He said Lincoln County had a negative change in taxable sales over the year. Carson City, Clark, Douglas, Nye and Washoe Counties had single-digit increases. Washoe County's growth was the weakest at 0.8%. He noted that although the 15 rural counties have a combined lower population than Washoe County by about 97,000, they have generated more taxable sales than Washoe County for the last four quarters. The industries responsible for these spikes are utilities, manufacturing, vehicles, wholesalers and contractors, which are all directly or indirectly related to the mining industry and utility development.

Mr. Bonnenfant said page 118 (Exhibit A) showed the percentage change in taxable gaming revenue year-over-year. He said Washoe County has yet to see an increase in taxable gaming revenue since the second quarter of 2007. This data is a good indicator of visitation and local discretionary spending. Visitor counts in Washoe County have dropped 23% since the peak in 2002. The taxable gaming revenue has dropped 2.6% since 2002, indicating that gaming expenditures were lower for both visitors and locals.

Mr. Bonnenfant said Washoe County population estimates varied depending upon the source. There were two official sources of state population estimates: the State Demographer and the U.S. Census Bureau. The estimates were conflicting as to whether population was lost. The State Demographer and Washoe County reported a decrease in population of 1.6% between 2008 and 2009. If that were true, it would be the first decrease in population in Washoe County since 1960 when the Stead Air Force Base was closed. The State Demographer showed a 0.2% increase in population from 2009 to 2010. He said that trend for Washoe County reflected the same growth trend as the state, with a decrease in 2009 and a slight increase in 2010. The U.S. Census Bureau reported a 0.6% increase between 2008 and 2009, and between 2009 and 2010, the U.S. Census Bureau reported 1.6% growth. The U.S. Census Bureau showed a continuous increase in population through the years. He noted the State Demographer's average annual growth rate was only 0.5% for the years from 2006 to 2010, which included the housing peak and the recession. For the same period, the U.S. Census Bureau reported a 1.4% average annual growth rate. He said Washoe County School District enrollment has experienced very minimal decreases in enrollment for the last four years. He noted that the data did not take into account the baby boomer effect of the retirees. He said on January 1, 2011, the oldest baby boomers hit 65, and retirement age, which would affect the data for the next 20 years. He said the population projections from the State Demographer were based on high and low job growth scenarios. He noted that those scenarios would not incorporate the effect of the retiring baby boomers.

Brian Kaiser, Housing and Real Estate Analyst, Center for Regional Studies, University of Nevada, Reno, presented information on housing indicators in Northern Nevada. He said it was unfortunate that the housing indicators in Northern Nevada were much like those in Southern Nevada, if not worse. He referred to the chart on page 120 (Exhibit A) regarding foreclosures and notices of default, saying that overall, there was a general declining trend in notices of defaults filed and actual foreclosure activity in Washoe County during the year. He said A.B. 284 resulted in a decline from 684 notices of default per month, to 10 or 11 the last couple of months. He said the banks would find a way to deal with the situation, but it was not certain how that would happen. He reported lots of talk about the "pipeline" of foreclosed homes beginning to dry up if this went on much longer. It was possible that there would be fewer homes on the market for investors to buy, but over time, the distressed homes would find their way into the market. He said A.B. 284 was passed with good intentions as a consumer protection clause, but the result would be a bottleneck for the time being. The houses were still in distress, the owners were still missing payments, and would ultimately be in default, but that process was being delayed. He said almost 70% of the active listings in Washoe County were for distressed homes – either bank owned or short sale. He said the distressed inventory was a drag on the overall housing market and the economy in general.

Mr. Kaiser said the chart on page 121 (Exhibit A) tracked the median sale price for all homes from 2009 to date, relative to the short sales and bank owned property. In October 2011, the median sale price for all homes in Washoe County was just under $132,000, which was a decrease of 14% year-over-year. He said 36% of those were cash sales. Investors were making up a sizeable chunk of the sales in this area. For short sales, the median sale price was $125,000 in October of 2011, which was slightly down from one year ago. Bank-owned properties were selling for under $100,000. Those numbers have been trending downward, and have not yet hit bottom. Overall, the median sale price for resale has been more stable in the last few months in that prices were decreasing at a slower pace.

Mr. Kaiser said the graph on page 122 (Exhibit A) clearly showed what happened with home values in Washoe County. He said the average appreciation rate over 20 years was .97% per quarter. He said at the peak, values were grossly overinflated to $350,000 for a median home, which was almost seven times the median household income at the time. On average, in a healthy market, the median housing price should be two and one-half to three times the median household income. At the peak, this market was so wildly overvalued that it was inevitable that prices would decline. There was no question that there was a correction in the making, but the magnitude of the correction has been dramatic. He said at the end of the third quarter 2011 the median resale price was $151,000 in the Reno/Sparks area. He said if the housing bubble had not occurred, the median home price would be about $240,000 today. He thought it would take quite some time – decades perhaps – to reach that level again. For the next few years, he expected prices to be flat. Because the median home price was near two and one-half times the median household income, he believed prices have hit the bottom. He said the prices were affordable for most families. He predicted some sliding over the next year, but prices should stabilize and move sideways for several years.

Mr. Kaiser said the graph on page 123 (Exhibit A) showed a price per square foot calculation for each of the nine sub regions in the Reno/Sparks area. He said the general trend was down in every neighborhood. The chart showed that no part of town has been unaffected by the downturn. He said the graph on page 125 dealt with new homes in Washoe County. He said the upside to the falling prices on the existing market was that there have been strong sales. Increases in resales have come at the expense of new home sales. He said through the end of October 2011 there were 341 new home sales, and he expected about 400 total would be closed through the end of the year. For perspective, he said an average in Washoe County would be about 3,000 to 3,500 new home sales closings per year. The slow rate of new home sales would probably continue for quite some time considering the available inventory of distressed homes. It would take quite some time to clear out the existing homes to make room for the sale of new homes. He noted the median new home price has not come down nearly as much as the price for existing homes. He explained that the new home builders do not have the flexibility to drop prices in the same way the existing home market. The distressed inventory of existing homes has pushed prices down rapidly, but new home builders have too many costs invested in finished lots and infrastructure to be able to match those prices. He said builders that were not in the market before the housing bubble picked up finished lots at bargain basement prices, sometimes $15,000 to $20,000 for a finished lot, to be able to build a new home that could be sold at a profit. He said there were pockets of new homes being built in Washoe County, but in most cases the builders had purchased the lots recently, and were entering the market for the first time. The builders purchased finished lots during the housing bubble were likely to keep them off the market until prices increased.

Mr. Kaiser said the graph on page 124 (Exhibit A) showed apartment vacancy rates and rents in the area. As a side note, he said investors were picking up many single-family homes, which would result in a glut of rental homes hitting the market that would compete directly with larger apartments. A three bedroom, two bath home rental would be in direct competition with some of the larger apartments. He thought there would be a squeeze on rental rates at some point given the fact that there are so many single family homes available to rent. He said rents have been on the rise for the last two quarters in the Washoe County area. Occupancy rates have been pretty strong as well. He said this will be an interesting statistic to watch over the coming years, because there will be lots of single-family homes competing with apartments for rentals.

Chairman Wiles asked what was driving the significant increase in taxable sales year-over-year (page 115, Exhibit A). Mr. Bonnenfant said those increases were driven by mining and utility projects, such as the Ruby Pipeline, the NV Energy Online, and other renewable energy projects. Chairman Wiles asked how much longer those projects would cause an increase in the revenue. Mr. Bonnenfant said the NV Energy project will be half completed in 2012, and the pipeline project was nearly completed. He did not know whether the renewable energy projects would continue. He said the guaranteed counties received one allotted value from the Department of Taxation regardless of the amount of taxable sales generated. Anything above the guaranteed value would be distributed to the non-guaranteed counties. He said the renewable energy projects were good for the state, but he did not know how long that activity would last.

Chairman Wiles asked if pricing and vacancy information was tracked for commercial property as well as residential properties. Mr. Bonnenfant said that the commercial, residential, and vacant land information is tracked. He said he would provide that information to Fiscal Analysis Division staff.

Chairman Wiles called a recess at 4:22 p.m.

XI. PRESENTATION OF THE TAX CHANGES APPROVED BY THE LEGISLATURE DURING THE 2011 SESSION AND THE ECONOMIC FORUM MAY 2, 2011, FORECAST FOR FY 2012 AND FY 2013 ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2011 SESSION AND COURT DECISIONS.

The meeting reconvened at 4:36 p.m.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division said the three tables beginning on page 127 (Exhibit A) were prepared by the Fiscal Analysis Division for the 2011 Appropriations Report, which summarizes the 2011 Legislative Session with regard to the Economic Forum's General Fund revenue forecast adjusted for legislative actions that occurred during the session, as well as the General Fund budget and the appropriations. Mr. Guindon said pages 127 and 128 contain summary information, and the following pages show the Economic Forum's May 2011 forecast for each revenue source. Turning to page 138, Mr. Guindon said the summary table itemizes legislative actions and the estimated revenue impact. The estimates were either prepared by the Fiscal Analysis Division, or were based on information provided by other entities, and then reviewed by staff of the Fiscal Analysis Division.

Mr. Guindon said there were two actions that altered the FY 2011 forecast. He said after the May 2, 2011, forecast, the Treasurer's Office made the Governor's Office and the Legislature aware that they had received more unclaimed property than expected. In addition, $62 million was added during the 26th Special Session from the Clean Water Coalition. The Supreme Court made a ruling on those funds after the meeting of the Economic Forum. He said the Economic Forum was required to produce a forecast based on current law, and cannot speculate on legislative actions that may be approved, or what the court may decide. The Supreme Court made its decision after the May 2, 2011, meeting, and that money was taken off of the sheets, resulting in a net negative adjustment for FY 2011 for unrestricted General Fund revenues.

Mr. Guindon said in the 2009 Legislative Session, certain revenue actions were approved with sunsets that would cause the action to expire on a certain date. Some of those sunsets were extended or removed during the 2011 Legislative Session. The major structural change to the Economic Forum's General Fund revenue forecast was to the Modified Business Tax. He explained the Modified Business Tax for nonfinancial had been a flat rate, and in the 2009 Legislative Session, it was turned into a bifurcated rate of 0.5% up to $62,500 in taxable wages per quarter, and 1.17% on any taxable wages above that amount. The 2011 Legislature and the Governor approved keeping the bifurcated structure, but adjusted the 0.5% rate for taxable wages up to $62,500 to zero. Page 138 showed an estimate of the additional revenue that would come from the action of the 2011 Legislature and approval by the Governor. He estimated the amount that would have been added to the General Fund if those actions had not taken place at approximately $318.5 million for FY 2012, and $196.8 million for FY 2013, for a total of approximately $515 million for the biennium. For FY 2011, approximately $48.4 million was lost, which changed the estimated ending fund balance to be carried forward into FY 2012.

Mr. Guindon said page 141 (Exhibit A), showed General Fund revenue offsets due to actions of the 2011 Legislature that added revenue to K-12 funding. He said the Economic Forum forecast room tax for FY 2010 and FY 2011 based on the 2009 Legislature. However, no forecast was prepared for FY 2012 and FY 2013, because under current law, the money was not going to be an unrestricted General Fund revenue source, rather it would go to the State Supplemental School Support Fund. The 2011 Legislature and the Governor approved that revenue would go into the Nevada Plan and the Distributive School Account (DSA), and thus provide a General Fund offset. In addition, the 2009 Legislature added an increase to the Local School Support Tax (LSST) of 0.35%, which provided a General Fund offset. The sunset for the LSST was extended for two years to June 30, 2013. The change to the Net Proceeds of Minerals also added additional monies to K-12 education. Finally, the Clark County School District capital projects redirection to the General Fund was continued. Mr. Guindon said the table at the bottom of page 141 summarized those actions by the 2011 Legislature that had a direct impact to the General Fund, and the actions that caused indirect effects to the DSA.

Mr. Maddox asked about the rate change in the LSST. Mr. Guindon said the rate had been 2.25%, and the 2009 Legislature increased the rate by 0.35%, to 2.6%, with a sunset date of June 2011. The 2011 Legislature extended the sunset date to June 2013. In response to a question from Mr. Maddox about how the increase generated $139 million. Mr. Guindon explained that the 2% forecast approved by the Economic Forum was used to calculate the yield from the 0.35% increase to the LSST.

XII. REPORT AND DISCUSSION OF FY 2011 ACTUAL COLLECTIONS COMPARED TO THE ECONOMIC FORUM DECEMBER 1, 2008; MAY 1, 2009; JANUARY 22, 2010; DECEMBER 1, 2010; AND MAY 2, 2011, FORECASTS, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2011 SESSION AND COURT DECISIONS.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division referred to Table 1 on page 143 (Exhibit A) that compared actual collections to the forecasts. He explained that the forecasts were made for the current year (an odd numbered year), one year ahead (an even numbered year), and two years ahead (an odd numbered year). For every odd numbered year, there was a forecast for two years ahead and a current year forecast. Because of special meetings of the Economic Forum in June 2008 and January 2010, it was complicated to compare the forecasts to actual collections. He explained that there were two forecasts of FY 2011 from two years ahead: one in December 2008, and another in May 2009. There was a one year ahead forecast for FY 2011 in January 2010, and current year forecasts in December 2010 and May 2011 for FY 2011.

Mr. Guindon said if legislative action affected a revenue source, the forecasts were adjusted to allow a comparison. The table shows the Economic Forum's forecast, and the forecasts that were presented by the Fiscal Analysis Division of LCB, the Budget Division of the Department of Administration, and either Global Insight or Moody's, which were contracted to forecast the sales tax and gaming percentage fees. He explained that if the difference was negative, actual collections came in below the forecast. He said for the state's two major revenue sources – the Sales and Use Tax – actual collections were about $10.8 million above the Economic Forum's May 2011 forecast, and about $4.3 million above the forecast for gaming percentage fees for FY 2011. Mr. Guindon said the forecast for all major General Fund revenues, which make up about 73.9% of the General Fund revenues, was about $27.3 million above the forecast.

Mr. Guindon explained that forecasts for the non-major General Fund revenues were prepared by the Technical Advisory Committee and presented to the Economic Forum for consideration (page 145, Exhibit A). He said the select non-major General Fund revenues accounted for about 12.6% of the state's General Fund revenues. The Economic Forum's forecast was about $838,000 above the forecast.

Mr. Guindon said the other revenues listed on the bottom of page 146 (Exhibit A), made up about 13.5% of the state's General Fund, and actual revenues were about $9.9 million above the forecast.

Mr. Guindon said for FY 2011, the Economic Forum's May 2011 forecast, adjusted for legislative actions and court decisions, was about $38 million above actual collections. Because collections were over the amount forecasted, that put the budget in a better position than was estimated. He said the notes on page 147 tracked the changes to the revenue sources based on legislative actions approved during regular and special sessions.

Mr. Guindon said the table on page 148 showed the Economic Forum's December 2010 forecast, and the May 2011 forecast, adjusted for legislative actions. The table was followed by notes explaining changes due to legislative action.

XIII. REPORT AND DISCUSSION OF FY 2012 YEAR-TO-DATE ACTUAL COLLECTIONS COMPARED TO THE ECONOMIC FORUM MAY 2, 2011, FORECAST, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2011 SESSION AND COURT DECISIONS.

Mr. Guindon referred to Table 3 on page 155 (Exhibit A) which showed General Fund revenue actuals from FY 2006 through FY 2011 and FY 2012 versus FY 2011 year-to-date through November. The table listed every General Fund revenue source fiscal year-to-date through November 2010 for FY 2011, and November 2011 for FY 2012. He said that became more complex considering that for some of the revenue sources, although revenue has been collected through November, that may only reflect three or four months of revenues. For the quarterly revenue sources, only the first quarter of collections was known. Those revenue sources were primarily minor General Fund revenue sources. He said that to gather information for the forecast for these types of revenue, he looked at collections in the Controller's Office financial system from July 1, 2010, through November 30, 2010, and July 1, 2011, through November 30, 2011.

Mr. Alastuey asked, regarding the items that are required to be reported to the Interim Finance Committee by the Economic Forum, whether there was a comparison of forecasts for November 2011 to date, and November 2012. He noted that through November 2011, there was a considerable amount of room tax deposited to the General Fund that would no longer be part of the General Fund. In addition, a considerable amount of Property Tax was transferred from Washoe and Clark Counties that would no longer be part of the funding structure.

Mr. Guindon said because of the way some of the revenues were recorded, it was difficult to make a direct comparison. When A.B. 332 was passed, the Fiscal Analysis Division staff began presenting more detailed information on the revenues, and about how the forecasts were prepared.

Mr. Maddox asked about the percentage of change on page 155, noting that every comparison was negative. He asked if that was how the year-over-year comparisons would be shown.

Mr. Guindon thought Tables 4, 5 and 6 would address that question. He noted Table 3 showed the numbers as they were either recorded in the Controller's Office system, or reported by the Secretary of State's Office, the Gaming Control Board or the Department of Taxation. He said the sales tax numbers were the numbers that were reported for July, August and September for those revenue sources under sales tax. Under the gaming taxes, those are the numbers reported by the Gaming Control Board through the numbers that they just released last week. For most of the other major revenues, such as cigarette tax, liquor tax, and other tobacco tax, the collections were for three months compared to three months one year ago.

Mr. Guindon said the revenues listed on page 157 (Exhibit A) showed an "apples to apples" comparison in that the dates compared were November 30 to November 30. He explained that when an Insurance License Fee is paid the transaction is recorded and deposited into a general ledger account in the Controller's Office financial system, but there was no monthly report as to how many insurance licenses were issued, or the amount of fees collected on a formal monthly report.

In response to a question from Mr. Maddox, Mr. Guindon explained that the state functions on a modified accrual basis, except that the books do not close on June 30 at the end of the fiscal year.

Mr. Maddox asked if the three month comparisons were representative of any trends. Mr. Guindon said the data showed the amount of revenue collected year-to-date. He said Table 5 (page 162, Exhibit A) showed how many periods were reported for that revenue source. He said the picture would be clearer when the level of detail was reduced.

Mr. Guindon said that Table 4 (page 161, Exhibit A) displayed General Fund revenue sources for which the Economic Forum produced forecasts at its May 2011 meeting. He said the tables showed the FY 2011 actual collections and the FY 2012 forecast. He noted that the "All Other Revenue" included all other General Fund revenue sources not included in the Major and Select Non-Major categories. Some of the revenue included in the All Other Revenue category may have been collected in FY 2011 only or FY 2012 only. These revenue sources needed to be isolated out in the analysis to provide an accurate comparison. Those revenues were also displayed by fiscal year to provide a better comparison. In some instances, there was not a common revenue to compare in both fiscal years. He noted that the tables on pages 127 through 137 showed whether there was a forecast for a particular revenue in a particular year. He said staff focused on the Major General Fund revenues, which account for about 75% of the General Fund. The select non-major General Fund revenues sources made up 13% to 14%. Together that accounted for almost 90% of the General Fund. The "All Other" revenue sources could affect the forecast to actual comparison, but it would not have the type of impact as the major and select non-major General Fund revenue sources would have on the total General Fund revenue position.

Mr. Guindon said Table 5 on page 162 (Exhibit A) showed that for Sales and Use Tax, the Department of Taxation has reported three months of actual collections of $193.972 million, which is actually 3.6% growth over the same three months of FY 2010, and it accounted for about 24.4% of the total FY 2011 sales tax collections. For FY 2012 year-to-date, approximately $205.398 million has been collected, which is up 5.9% compared to the first three months of FY 2011, and accounts for about 25.6% of the Economic Forum's May 2011 forecast. He clarified that the Economic Forum's forecast was for a fiscal year, rather than a month or quarter. He said there were numerous methodologies to translate a fiscal year number into a year-to-date forecast. The Fiscal Analysis Division has traditionally figured out how much growth was needed per month to reach the Economic Forum's forecast. The far right columns on page 161 showed the difference between the projected growth rate and the actual collections.

Mr. Guindon said for Sales and Use Tax there are three months of actual collections, for gaming percentage fee there are five months of actual collections.

Mr. Maddox said the October 2011 gaming percentage fee numbers had been made available to the public by the Gaming Control Board. He noted those numbers differed from the numbers on Table 5. He asked which five months were reported on Table 5.

Mr. Guindon said the numbers in Table 5 were taken from the Gaming Control Board's revenue summary report. The number presented by the Gaming Control Board was the total amount of gaming percentage fees. He said his number would be slightly lower because the law requires that a portion of the gaming percentage fee be allocated to three counties to provide a funding subsidy. He said the five-month period was from July through November 2011 tax collections, or June 2011 through October 2011 businesses activity.

Mr. Maddox was concerned that there were a few months of bad baccarat hold in this period. Mr. Guindon said the volatility of baccarat, the credit play, and the estimated fee adjustment was the reason year-to-date data was used rather than monthly data. For example, gaming percentage fees had been down $15 million through four months. Currently, the gaming percentage fee was down $11.9 million due primarily to baccarat activity.

Mr. Guindon said the entries on Table 5 (page 162, Exhibit A), show the periods of time being considered for each revenue source. Chairman Wiles said the issue was whether the comparisons were for the same period and Mr. Guindon agreed.

Mr. Guindon noted the room tax was no longer an unrestricted General Fund revenue source. He said the revenue still benefited the state through the DSA, but it did not appear on the table. He said collections were about $7.7 million ahead of the forecast fiscal year-to-date for those major revenue sources. He said for the select non majors revenue collections were about $6.4 million above the forecast fiscal year-to-date. The major benefactor is the Governmental Services Tax, which was about $2 million per month above the projected level. For the All Other Revenue category, there was revenue for FY 2012 due to late payments that were recorded in the current fiscal year. For FY 2012, a little bit of the revenue was coming in due to the legislation for unredeemed slot voucher wagering instruments. He said All Other Revenue, at this point in time, was $7.1 million above the forecast.

Mr. Guindon said actual collections for FY 2012 to date were about $21.2 million ahead of the forecast and this amount was subtracted from the Economic Forum's fiscal year forecast to arrive at the amount of revenue needed for the rest of the year to reach the forecast. Those figures can be compared to FY 2011 actuals to determine how much the revenue would need to grow to meet the forecast. For example, on Table 6 (page 163, Exhibit A), The Sales and Use Tax only needs to average -0.8% over the remainder of the fiscal year to meet the forecast. He noted that the gaming percentage fee was down about $12 million through almost one-half of the fiscal year, so this revenue source would need average growth of 5.1% over the remaining 7 months of the fiscal year to meet the Economic Forum's estimate. He compared that to the percentage change of 1.8% needed one year ago, and said he was not concerned that the revenue estimate would not be met, because the last part of the fiscal year was much weaker than the first part.

Mr. Guindon said that if the Economic Forum members wished, he would update the tables quarterly. In response to a question from Mr. Maddox, Mr. Guindon confirmed that the Fiscal Analysis Division compiled the information in Tables 5 and 6 each month for use by the Fiscal Analysis Division staff.

Mr. Maddox said the information would be useful for the Economic Forum members to receive on a monthly basis to stay current with the revenue collections. Mr. Guindon said he would prefer to have the reports from the agencies collecting the revenue before distributing the report to the Economic Forum members.

Chairman Wiles asked Mr. Guindon to recommend a monthly cutoff date that would present the information in the most accurate way, and then provide the tables on a monthly basis. Mr. Guindon said he would provide that cutoff date to the Chairman. In addition, he would post the monthly report on the committee webpage of the Legislative Counsel Bureau's website.

XIV. REPORT AND DISCUSSION OF THE FY 2011, FY 2012 AND FY 2013 ESTIMATED STATE GENERAL FUND BALANCE BASED ON THE ACTIONS OF THE LEGISLATURE DURING THE 2011 SESSION.

Mark Krmpotic, Senate Fiscal Analyst, Fiscal Analysis Division, referred to the fund balance statements for FY 2010 through FY 2013 beginning on page 165 (Exhibit A). He said the fund balance statement provides a concise view of the state's financial position with respect to the General Fund balance. The sheet identifies the beginning fund balance on July 1, and the General Fund resources that flow into the General Fund. The balance sheet includes appropriations approved by the Legislature for the support of state government. Lastly, the balance sheet includes the ending fund balance.

Mr. Krmpotic said he would focus on FY 2011 (page 166, Exhibit A), which showed a beginning fund balance of about $313 million. The state was projected to collect resources totaling $3.1 million and this projection included the Economic Forum's May 2011 forecast, with an adjustment to eliminate the Clean Water Coalition transfer.

Mr. Krmpotic explained that General Fund reversions were simply unspent General Fund appropriations that were returned by state agencies at the end of each fiscal year. The state projected $47.5 million in unrestricted reversions. Other actions approved by the 26th Special Session in 2010 transferred $82.8 million. A Rainy Day Fund transfer of $41.3 million was approved by the 2011 Legislature.

Mr. Krmpotic said General Fund appropriations included a transfer between fiscal years of $89.8 million. In FY 2011, that had a positive effect, because more appropriations were transferred out than in, the potential for expenditures was reduced in FY 2011.

Mr. Krmpotic said that at the end of the 2011 Legislative Session, it was expected that the FY 2011 ending fund balance would be about $244 million. He explained that a 5% minimum ending fund balance was included for operating appropriations as provided for in statute. This was required on the proposed budget submitted by the Governor each biennium, and was generally adhered to by the Legislature.

Mr. Krmpotic said that in FY 2011, the state collected about $38 million more than the amount forecast by the Economic Forum in May 2011, which had a positive effect on the state's financial position with respect to the General Fund. He said the ending fund balance for FY 2011 was about $79 million greater than what was projected, and the state ended up with about $324 million in the ending fund balance, as opposed to the $244 million projected during the 2011 Legislative Session. He said another contributing source to the positive ending fund balance was that reversions were returned to the General Fund totaling about $36 million higher than budgeted. During the Legislative Session it was anticipated that $47.5 million would be returned, but about $84 million was actually returned to the General Fund.

Mr. Krmpotic said for FY 2012 (page 167, Exhibit A) the Economic Forum forecast of $2.7 million in revenue. He said details of the $318.5 million adjustments can be found on pages 138 and 140 of the meeting packet (Exhibit A).

Mr. Krmpotic said the state estimated General Fund reversions of $35 million. The Legislature approved appropriations of approximately $3.1 billion, and the unappropriated General Fund balance was projected to be $162 million. The state estimated using a portion of its existing General Fund balance of about $80 million to fund state government over FY 2012.

Mr. Krmpotic said for FY 2013 (page 168, Exhibit A), the starting fund balance was about $162 million, General Fund resources about $3.1 billion, and General Fund appropriations about $3.2 billion, ending with the unappropriated General Fund balance of $163 million on June 30, 2013. That was about $8 million above the 5% minimum ending fund balance for the fiscal year.

Mr. Alastuey asked whether the legislatively approved balance shown for FY 2011 had been adjusted for the reversions and the slight revenue gain. Mr. Krmpotic replied that the amount of $244 million on page 166 (Exhibit A) has not be adjusted for actual revenue collections or reversions made in FY 2011. He said an estimation was made as to the effect of those positive impacts to generate an ending fund balance of approximately $324 million.

Chairman Wiles asked about the $22 million line of credit approved by the Legislature for FY 2012 (page 167, (Exhibit A). Mr. Krmpotic explained that the Legislature provides authority in the Appropriations Act for the state to access a line of credit through the local government pooled investment trust. He said the fund balance statement projects the line of credit would be accessed in the amount of $22 million in FY 2012, and $135 million in FY 2013. Those amounts are not provided for in any legislation enacted by the Legislature, but the Legislature did provide enabling legislation to access the local government pooled investment trust and make loans from that trust. The lines of credit in FY 2012 and FY 2013 are projected to enable the state to maintain a positive ending fund balance above the 5% minimum in each fiscal year.

Mr. Wiles asked if the state would borrow to stay above the 5% minimum level, and Mr. Krmpotic agreed that was correct.

Mr. Martin was concerned that the loan amount was $155 million for the two fiscal years combined. He asked if this was the usual method of supplementing total revenue, and he asked if there was a plan to repay the loan.

Mr. Krmpotic said the legislation that provides for access to the line of credit had a limit of the lesser of 25% of the amount of the local government pooled investment trust, or $160 million. This was provided for beginning in FY 2008 in the 25th Special Session. It was subsequently renewed by the 2009 Legislature and the 2011 Legislature. The legislation also provides for repayment of the line of credit in the out years. Beginning in FY 2013, but primarily in FY 2014, the legislation provides that the state has to pay back 25% of the outstanding balance borrowed.

Mr. Maddox asked for clarification on Table 6 (page 163, Exhibit A). Specifically, he asked if revenue would need to decline by 7.4% for the remainder of the fiscal year in order to reach the FY 2012 Economic Forum forecast. He said if revenues grew by 3% or 4%, there would be an additional $450 million in revenue. Mr. Guindon said there was potential for that if the forecast were linearly extrapolated. Mr. Maddox said it was fairly draconian to assume that revenue would decline by 7.4% for the remainder of the fiscal year. Mr. Guindon said it was a mathematical absurdity; the algorithm was working, but the result must be questioned.

On the topic of the line of credit, Mr. Guindon said the state used it as an accounting mechanism to allow the Legislature to pass a budget with a minimum 5% ending fund balance. The line of credit provided access to the resources to meet the minimum 5% level. He noted that in the 2009 Legislative Session, the line of credit was $140 million, but because the Economic Forum's forecast was enough below actual collections, and the line of credit was not utilized. The Treasurer can use the line of credit if the state's cash flow is in a dangerous position. With $22 million on the balance sheet, and an ending fund balance of about $80 million, it is possible that the state will not use the line of credit in FY 2012. He did not know whether the line of credit would be used in FY 2013. At this point, the Treasurer has not accessed the line of credit.

Chairman Wiles said the algorithm was forcing the table to show a decline in order to reach the number that was reached last year, which we believe is an unrealistic number. He suggested there should be a forecast, and then when the collections are too far away from the forecast, updated rolling projections would better estimate the revenues and costs.

Mr. Guindon said the Economic Forum would need to be careful not to give the public or the legislators the idea that there would be an additional $500 million available for the 2013 Legislative Session. He agreed that it was absurd to say the collections would decline to that extent shown on Table 6. He did not think the revenue would decline to that extent.

XV. REPORT ON FORECAST ACCURACY BY FORECASTER FOR SELECTED REVENUES.

Mr. Guindon said the table on page 169 (Exhibit A) shows the Economic Forum forecasts for the major General Fund forecasts and adjusts for legislative action. He noted the information is presented in percentages and dollars.

XVI. PRESENTATION OF HISTORICAL TAXABLE SALES AND GAMING MARKET STATISTICS.

Mr. Guindon noted that gaming market statistics, gaming percentage fee and gaming win statistics, and taxable sales statistics have been posted on the Economic Forum's Nevada Legislature webpage under the December 13, 2011, meeting link. He said sales tax was doing very well, but he was concerned that the underlying categories were not strong.

XVII. DISCUSSION OF THE REPORT BY THE ECONOMIC FORUM TO THE INTERIM FINANCE COMMITTEE.

Mr. Guindon said this item was added to the agenda pursuant to A.B. 332 which requires the chair to report to the Interim Finance Committee. He said the Fiscal Analysis Division staff and Budget Division staff would work with the Economic Forum to put together a report for the Interim Finance Committee.

Mr. Alastuey agreed with Mr. Maddox's comment that the presentation to the IFC should be streamlined and simplified similar to Table 5 and Table 6.

Mr. Guindon asked the members of the Economic Forum to contact him with comments and suggestions. He would work with Chairman Wiles to incorporate the suggestions into the report to the Interim Finance Committee.

Mr. Martin asked Mr. Guindon to provide the Economic Forum members with updates as to how close the forecast was to actual collections. He appreciated the background information, and information on the U.S. economy and oil prices. He asked the Chairman if future meetings could be targeted toward those specific issues. Mr. Guindon said the Fiscal Analysis Division would continue to provide that information. He noted there were several months before the June meeting to consult with the members of the Economic Forum as to what the focus of that meeting should be.

XVIII. PUBLIC COMMENT.

Jeanette Dean, a Carson City resident, and Occupy Carson City member, said several Occupy Carson City members attended the meeting. She said over the past four hours there was lots of talk about an economic forecast. She was pleased to have at least once heard the word “nightmare” toward the end of the meeting. She said after hearing the Economic Forum members speak about Nevada’s economic outlook showing trends of very slow recovery, with lots of the job recovery in lower wage industries such as leisure, hospitality and gaming, rather than in career industries, she was even more concerned about Nevada’s citizens’ continued financial struggle, and the continued budget constraints on critical and beneficial government services such as education, health and human services, and consumer protection. Today’s facts are showing the continued emergency situation Nevada state citizens are in. A figure of 4% income growth in 2011 was presented, which is well below pre-recessionary times. She thought it could be concluded that the growth would not be to everyone’s income. Most of that growth would likely go to the top 1% of our citizens. Furthermore, Nevada’s government leaders and its people must not continue to tolerate such historically high unemployment rates. The most recent unemployment rate of 13.5% from November 2011, which was the highest in the nation, can also be construed to be 23% if other important factors are included, such as people who have simply given up looking for work, or can only find part time work.

Ms. Dean said the presenters forecasted a decrease in the unemployment rate of perhaps 1% per year in the next couple of years, and “who knows what” decreasing after that. Nevada can do more for its citizens, and must do more, especially for minorities who have been hit proportionally harder. It is an injustice that many people will continue to limp along financially, lose their homes to bailed out banks and rich property investors who are paying very low prices, and will continue to lose out on their educational opportunities, because Nevada’s government leaders are not doing a better job of providing equal opportunity. She, for one, demanded true leadership from Nevada’s government leaders – not continued failure.

XIX. ADJOURNMENT.

Chairman Wiles thanks the members and the presenters for their participation. The meeting was adjourned at 5:58 p.m.

Respectfully submitted,

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Becky Lowe, Committee Secretary

APPROVED:

____
Ken Wiles, Chairman

Date:____________________________

Copies of exhibits mentioned in these minutes are on file in the Fiscal Analysis Division at the Legislative Counsel Bureau, Carson City, Nevada. The Division may be contacted at (775) 684-6821.