MINUTES OF THE MEETING OF THE
STATE OF NEVADA ECONOMIC FORUM

May 2, 2011

The meeting of the State of Nevada Economic Forum (created by Senate Bill 23, 1993) was held at 9:30 a.m. on Monday, May 2, 2011, at the Legislative Building, 401 South Carson Street, Room 4100, Carson City, Nevada, with videoconference to the Grant Sawyer State Office Building, 555 East Washington Avenue, Room 4401, Las Vegas, Nevada.

ECONOMIC FORUM MEMBERS PRESENT:
John Restrepo, Chairman
Michael Alastuey, Vice Chairman
Andrew Martin
Linda Rosenthal

ECONOMIC FORUM MEMBERS ABSENT
Matt Maddox – excused

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
Janet Rogers, Chief Economist, Executive Budget Office
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division
Patti Sullivan, Secretary, Fiscal Analysis Division

EXHIBITS

Exhibit A	Meeting Packet and Agenda
Exhibit B	Attendance Report
Exhibit C	Gaming Revenue Forecasts, Fiscal Years 2011-2013 – Gaming Control Board
Exhibit D	General Fund Revenue Forecasts – Department of Administration, Division of Budget and Planning
Exhibit E	Forecast Information Packet – Fiscal Analysis Division
Exhibit F	Table 7 – Major General Fund Revenue Forecasts for FY 2011, FY 2012 and FY 2013 – Fiscal Analysis Division
Exhibit G	Impact of Three Percent Room Tax Increase – Nevada Commission on Tourism
Exhibit H	State of Nevada Economic Forum – May 2, 2011 Forecast
Exhibit I	State of Nevada Economic Forum – General Fund Revenue Forecast Comparison

I. ROLL CALL.

Chairman Restrepo called the meeting to order at 9:41 a.m. The secretary called roll; all members were present in Carson City except Mr. Matt Maddox who was absent excused.

II. APPROVAL OF MINUTES OF THE DECEMBER 1, 2010, MEETING.

Chairman Restrepo asked for a motion to approve the December 1, 2010, meeting minutes included in the meeting packet (Exhibit A) on page 3.

> MR. MARTIN MOVED TO APPROVE THE MINUTES OF THE DECEMBER 1, 2010, MEETING OF THE STATE OF NEVADA ECONOMIC FORUM. THE MOTION WAS SECONDED BY MR. ALASTUEY.
>
> THE MOTION CARRIED UNANIMOUSLY.

Before moving to the next agenda item, Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau provided an explanation of the meeting materials and handouts to be utilized throughout the meeting. The handouts included the Economic Forum meeting packet (Exhibit A); the Department of Administration, Budget Division General Fund Revenue Forecast packet (Exhibit D); the Fiscal Analysis Division Forecast packet (Exhibit E), the Nevada Commission on Tourism Room Tax Forecast (Exhibit G); Gaming Revenue Forecasts (Exhibit C); and Table 7, Major General Fund Revenue Forecasts (Exhibit F). He also pointed out that all the meeting materials were available on the Legislative Counsel Bureau website and the presentations were located under each agenda item in the Economic Forum meeting packet (Exhibit A).

III. PRESENTATION ON THE NATIONAL, REGIONAL AND STATE ECONOMIC OUTLOOK.
Dan White, Economist, Moody's Analytics

Dan White, Economist, Moody's Analytics, presented information on the U.S. Macroeconomic Outlook, the Nevada Economic Outlook as well as Moody's Analytics Sales and Use Tax and Gaming Percentage Fee Forecasts for Nevada. He said while Moody's Corporation owned both Moody's Analytic's and Moody's Investor Service he represented Moody's Analytic's and anything he said at the meeting should not be misconstrued as having any bearing or implications on ratings decisions.

Mr. White started his presentation on page 54 of Exhibit A, the U.S. Macroeconomic Outlook. He said the outlook was positive; however, not as positive relative to the consensus at the December 2010 meeting where Moody's expected 3.9% gross domestic product (GDP) growth in 2011. That forecast was lowered in April 2011 to 3.3% and was expected to be lowered again to 3.1% for May 2011. Mr. White noted there were three major reasons Moody's downgraded the outlook for 2011 including weaker fourth quarter 2010 data; more federal government fiscal restraint, with $40 billion in cuts in FY 2011 alone; and the profound effect on energy prices from the unrest in the Middle East. He said Moody's expected an approximate 4% growth for FY 2012 in part due to strong corporate profits (page 55, Exhibit A) over the previous 6 to 12 months, with fourth quarter profits exceeding pre-recession peaks. He said 2010 represented a full-year growth of 29.2%, which was the strongest corporate profit growth seen in the United States since 1948. The record profits were a result of corporations streamlining operations effectively during the recession and bringing down the costs coupled with an increase of 9% in consumer spending.

Although there was usually a lag, job growth typically followed profit growth. The chart on page 56 of Exhibit A showed that unit labor costs were very competitive in the U.S., below 2008 numbers, and Mr. White thought that was conducive toward an aggressive hiring practice in various industries. He said that monthly job growth was over 200,000 and Moody's estimated 125,000 to 150,000 jobs needed to be added each month in order to maintain a stable U.S. employment rate.

Pages 57 through 59 of Exhibit A showed other positives to support Moody's outlook, including the improvement of credit quality and credit conditions. Mr. White said the chart on page 57 (Exhibit A) illustrated significant deleveraging by consumers since the onset of the recession. Consumers had made a point to pay down revolving credit lines, which caused credit quality to improve (page 58, Exhibit A). He attributed the strong increase in consumer demand to less of household monthly budgets going toward debt service payments, which freed up some disposable income for retail spending. Mr. White also indicated the increase in credit quality had allowed the credit spigot to open (page 59, Exhibit A), with some encouraging growth in bankcard originations. Moody's saw the spigot open for commercial investment as well, which was positive for the economy especially in the depleted construction sector. He said another positive was that fiscal policy only remained a small drag on the economy since the U.S. had worked through the majority of the fiscal stimulus that had been implemented. In terms of fiscal stimulus the chart on page 60 (Exhibit A) showed a small loss of GDP growth, but not more than was gained in the prior years, and mostly remained under 1%.

Continuing, Mr. White said housing prices were still falling as anticipated. He cited the record high foreclosures and the widespread document fraud in the mortgage industry (also known as robosigning) the main reason for the decline (page 61, Exhibit A). Although the mortgage industry issues delayed many foreclosure processes, Moody's had noticed foreclosures picking up and Mr. White said the faster the foreclosure inventories were out of the system a rebound in home prices and residential investment would follow. Moody's also saw a much better foundation underneath the national housing market. As shown on page 62 (Exhibit A), Mr. White reported the under/overvaluation was at about zero, which was optimum. The excess inventory of houses had started to fall precipitously and Moody's envisioned it would not return to a reasonable level until the foreclosure inventory was reduced.

Mr. White indicated there were four major risks to Moody's baseline outlook, including the unrest in the Middle East and North Africa. Moody's forecast for West Texas Intermediate (WTI), which was a grade of crude oil used as a benchmark in oil pricing, averaged at just above $100 per barrel, and could move to $105 per barrel. This posed some significant risk because there was not only an uncertainty premium but also legitimate supply concerns, since all of the Libyan supply had been removed from the market due to its civil war. Libya formerly produced 1.3 million barrels a day of crude, but the effects of that supply reduction were subdued because Saudi Arabia offered to make up for supply Libya would not provide. However, there were only 4 or 5 million barrels a day in excess capacity. He said there was also unrest in Yemen and Bahrain, which would be another huge problem if the production in those countries were taken offline. Mr. White thought Saudi Arabia would not be able to fully compensate the global markets for the lapse in production from the other countries, and as a result, WTI would increase to approximately $125 per barrel. He explained that action would negatively affect the GDP by taking .6% to .7% off Moody's 2011 forecast if WTI averaged $125 for a year. If the unrest were to spread through Syria and Iran or include Saudi Arabia, oil prices could rise as high as $150 per barrel and precipitate another U.S. recession.

Mr. White said state and local government budgets were another large source of risk, as shown on page 64 (Exhibit A). Moody's started to see tax receipts pick up nationwide, but there were still 45 states that had to address a deficit for Fiscal Year 2012. What he thought was more alarming was there were ten states that had to address deficits in excess of 20% of its general fund spending, including Nevada. As a result, state and local government employment had been a huge drag on the employment report as state and local governments were retrenching (page 65, Exhibit A). It was a pattern expected to continue, and two primary reasons the downside risks could be worse than expected in the local government sector was the dramatic decrease in state aid nationwide and the decline in tax revenues. Local government relied primarily on property tax revenues and because those revenues were based on assessed valuations and not market valuations the huge declines in property prices over the previous two to three years had yet to be fully reflected in property tax collections. Moody's expected national property tax collections at the local level to decrease in the following three fiscal years. Page 66 (Exhibit A) showed a smaller but still significant risk, the European debt crisis. Mr. White indicated the European debt problem was not resolved, citing issues in Ireland and Portugal among others. Lastly, in terms of risk, was the uncertainty of how the federal government was addressing in-house fiscal issues (page 67, Exhibit A). He explained the U.S. narrowly avoided a government shutdown in response to the 2011 budget. In terms of getting around the debt ceiling, he thought a bigger fight would ensue in July 2011 when it was predicted the Treasury would be in trouble. Mr. White indicated the government would have to start cutting about $100 billion out of federal allotments. It was possible there would be some small extensions of the debt ceiling until there was a long-term solution. After the debt ceiling was resolved, he thought the next hurdle for the federal government would be the Fiscal Year 2012 budget and long-term deficit reduction, but those issues would be addressed in the presidential election cycle.

Moving on to the Nevada Economic outlook, Mr. White said Nevada's data since the December 2010 meeting had been encouraging. However, all of the forecast risks previously discussed in the U.S. Outlook would have some type of effect on Nevada because of its strong ties with the national economy, particularly with oil and gas prices. He said he expected to move Nevada's recessionary status from recession to recovery by the end of the fourth quarter of 2011 (page 69, Exhibit A). That did not mean Nevada would expand at great speed, but that the economy was better and the state needed to enter recovery before it could get to expansion. As shown on page 70 (Exhibit A), the majority of the employment gains were led by private services, with 5,400 jobs added by leisure hospitality in a 12-month period. He reported business professional services, education and health care had also been strong, but the major drags continued to be manufacturing and government employment. Since the December 2010 meeting Moody's downgraded the numbers for construction in 2011 from 5,000 jobs to 1,000 jobs. The primary factor for the downgrade was due to the foreclosure crisis. It lasted longer than expected by about four or five months, which caused the growth in residential investment to be prolonged, resulting in weaker construction growth in 2011.

Mr. White said page 71 (Exhibit A) showed the continued gain in leisure and hospitality employment; however, there were no corresponding gains in gaming win. Gaming win had remained extremely flat and he thought that signaled a change in focus of the major resorts and casinos to other entertainment opportunities such as shows, clubs, restaurants and high-end retail. He reported visitor volume was strong, retail sales were up and leisure and hospitality had gained 5,400 jobs over the previous year. However, since gaming remained flat it meant that visitors were spending money, but less money at the gaming tables. Most importantly, visitor volumes were elevated despite a 25% increase in gasoline prices (page 72, Exhibit A). Mr. White thought part of the reason was because visitors, especially in the fourth quarter, came to Las Vegas by airplane because they had less time to travel. Although there was a rise in air travel costs, it did not compare to the increase in gasoline prices. He said if the cost of gasoline increased higher in the summer of 2011 when visitors to Southern Nevada primarily traveled by car, it could present a real problem for the economic outlook.

The worst news for the Nevada economy was that housing remained the biggest drag on the recovery (page 73, Exhibit A). Mr. White said that even if housing had stayed flat Nevada would have moved into recovery much sooner. The main problem continued to be foreclosure inventories and according to Moody's partner Realty Trac at least 1 in every 14 households in Nevada were in some stage of foreclosure, which was the highest in the nation by a significant margin. He indicated until the foreclosure inventories could return to acceptable levels there would not be a rebound in prices or a rebound of residential construction of any value. Moody's did not expect statewide home prices to rebound until mid-2012. Most of the housing weakness was in

Las Vegas (page 75, Exhibit A) with Reno and Carson City bottoming out sooner, but staying flat for a significant time. In conclusion, Mr. White said Moody's saw improvement in the Nevada economy especially with the employment data and were optimistic Nevada was entering a period of recovery.

Continuing, Mr. White presented Moody's Sales and Use Tax forecast (page 77, Exhibit A), which showed much stronger growth than was anticipated in the first two quarters of Fiscal Year 2011. The stronger growth caused Moody's forecast to increase 1.8%. He thought Nevada would continue to see strong growth into 2012 and 2013 because of the shift in focus of the resorts and tourist areas broadening into more retail opportunities. Mr. White said the main drivers for Sales and Use Tax (page 79, Exhibit A) used in Moody's models were retail sales driven by disposable income and U.S. recreation expenditures, both which were expected to see strong growth. He reiterated that housing would remain the main drag on the economy (page 80, Exhibit A) pointing out that housing made up a large portion of the durable goods consumption in Nevada, and consequently a large portion of the retail sales.

Moving on to the Gaming Percentage Fee forecast (page 81, Exhibit A), Mr. White said it came in much weaker than expected over the first six months of 2011 and Moody's downgraded the forecast for 2011 from 4.8% to 2.4%. The growth rates for 2012 and 2013 were also lower than anticipated and Moody's did not expect gaming to be a big part of Nevada's recovery. The chart on page 82 (Exhibit A) showed the forecast for Gaming Percentage Fee collections for Fiscal Year 2013 far below the peak at the end of 2007. The main drivers (page 83, Exhibit A) like the Sales and Use Tax forecast were disposable income and U.S. recreation expenditures, as well as the U.S. unemployment rate. Mr. White indicated Moody's had revised the unemployment forecast primarily because there had not been the growth in the labor force that was expected. The unemployment forecast was downgraded for 2011, and kept flat for 2012, because of the anticipated influx of people going back into the labor force (i.e., discouraged workers, students who remained in school to pursue a master's degree etc.). He thought once those workers moved back into the labor market there would be a slower pace of decline in unemployment.

Mr. Martin thought the forecast was interesting in terms of the macroeconomics. Since he studied the tax code in his profession as a CPA wondered where Moody's was regarding the anticipated change in the tax rates by the U.S. Congress and the President, especially corporate tax rates. He said the Paul Ryan Plan called for a decrease of 35% to 25% at the top rate. He asked where Moody's expected the tax rate to go and how it might impact the national economy, which would affect the Nevada economy.

Mr. White said the difference between the Ryan Plan and the Obama Plan was interesting. The Ryan Plan did an admirable job of tackling the long-term deficit by making greater than short-term cuts, and the Obama Plan emphasized getting out of the recovery in the near term with much less focus on the long-term deficit. He thought it was important there was a good balance between lowering the top tax rate and keeping some of the targeted exemptions in the tax plan, especially as it related to smaller companies.

In terms of the Gaming Percentage Fees, Mr. Alastuey appreciated Moody's lowering the near term expectation, although in Fiscal Years 2012 and 2013 the forecast showed 7% and 8% increases. He wondered how the Economic Forum could seriously consider that large of an increase because gaming win per visitor had declined due to the evolving nature of the industry and people's entertainment taste. He pointed out that Gaming Percentage Fee collections in the near term were only up a bit over 1%, whereas visitation was going up in the 3% and 4% range.

Mr. White said that was one of the reasons Moody's downgraded from the originally anticipated gaming revenue forecast of 13% to 8.7%, which was historically accurate in terms of what Nevada would see in a recovery period. In 2004 and 2005 regular increases of 10% or greater were seen; however, he realized those were different times than the state was experiencing in 2011. Given the amount of pent up demand for vacationing and leisure hospitality, he thought Nevada would see an increase in Gaming Percentage Fees and Moody's forecast was not overly optimistic. He admitted there was some significant downside risk to Moody's long-term forecast, but by the end of 2013 the forecast still did not reflect where Gaming Percentage Fees were at the start of the recession.

Chairman Restrepo asked Mr. White for his view on food prices, which had risen approximately 35% year over year, and what it would do to consumer spending on discretionary items. He thought the rise in world food prices had not fully impacted the U.S. economy to date; however, food prices in the U.S. had significantly increased month over month.

Mr. White responded that the majority of the increase in food prices was attributed to the increase in WTI because transportation cost was a very large part of the pricing. He did not have exact figures with him at the meeting, but he thought Moody's baseline forecast did not have food prices increasing as much as oil prices. Moody's did not see a huge problem with inflation, especially with food prices in the near term in the U.S. Mr. White indicated developing countries such as China might have a more difficult time and that could trickle to the U.S. in terms of decreased demand. He speculated if the oil prices increased to $150 a barrel then increased food prices could play a large part in what could put the U.S. into a recession.

Referring to the chart on deleveraging of households and credit quality improvement (pages 57 and 58, Exhibit A), Chairman Restrepo asked how much the increase in personal bankruptcies nationwide had affected debt and deleveraging. He surmised there was deleveraging when a household filed bankruptcy, but at the same time the household's credit was negatively impacted and ultimately would have an impact on that household's ability to spend.

Mr. White said much of the deleveraging came as a result of bankruptcies earlier in the recession, but bankruptcies had declined significantly nationwide. In relation to credit scores, page 59 (Exhibit A) showed the increase in the percentage of bankcard originations with credit scores of less than 660. He said credit scores had come down because banks had survived the recession with a lot of cash on hand and had significantly widened their lending standards. In 2010, there was an increase in millions of loans, so Mr. White thought the nation would see an increase in credit scores and expanded lending, especially when the foreclosure inventories were depleted.

Chairman Restrepo, referring to the chart of page 83 (Exhibit A), asked what disposable income looked like through the end of calendar year 2011 after it was adjusted for inflation.

Mr. White said because the core inflation was low it would not take the disposable personal income down much. In 2011, Moody's expected inflation to be well below the Federal Reserve's target and it was not expected that the Federal Reserve would raise rates until the second quarter of 2012. As he mentioned previously, the potential increase in gasoline and food prices would correlate directly to disposable personal income and to date those were unknown factors.

Chairman Restrepo commented he was not sure if only the core inflation could be considered at this point. He asked about Moody's trending down the U.S. unemployment rate in 2013 to 7%; Mr. White responded the rate was slightly below 7%. Chairman Restrepo thought the federal government had come out with trending down 7% in about 2.5 years. After doing a quick calculation with that information Chairman Restrepo said he did not necessarily agree with it. Assuming that Nevada's unemployment situation improved at the same rate as the rest of the U.S., Nevada's unemployment would trend down to 11%.

Mr. White said Moody's was happy with the progress of the Nevada unemployment rate over the previous year. In February 2011, the unemployment rate had finally fallen below 14% for the first time in nearly two years. He noted Moody's macroforecast showed unemployment coming down to approximately 10.75% in early 2013.

Chairman Restrepo commented 10.75% was essentially twice the historical trend rate and said Nevada still had an issue with the unemployment rate. He thanked Mr. White for his presentation.

IV. PRESENTATION ON CURRENT STATE EMPLOYMENT AND OUTLOOK. Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation

Bill Anderson, Chief Economist, Research and Analysis Bureau, Department of Employment, Training and Rehabilitation provided a brief overview of labor market activity in Nevada, with an emphasis on changes since the November and

December 2010 Economic Forum meetings. The summary on page 98 of Exhibit A compared the labor market activity from the 2010 meetings with the current data. Mr. Anderson said there were definite signs of stability and some modest improvement in the state's labor markets since the last presentation. In late 2010, unemployment was holding steady at historically high levels and Nevada had the highest unemployment rate in the nation. He indicated the unemployment rate had declined approximately 1.7 percentage points since year-end 2010; however, Nevada remained the highest jobless rate in the nation. There was negative job growth, in late 2010, with the state losing jobs on a year over year basis. He reported there had been an easing of deterioration of the employment base and positive job growth in March 2011 for the first time in two years. Year to date, the state's job levels were flat relative to the year prior, which compared to a 1.1% increase in employment nationwide. Mr. Anderson indicated the state's future job growth equated to 0.75% for 2011, 0.9% for 2012 and 1.0% in 2013.

Mr. Anderson reported the state's unemployment rate (page 99, Exhibit A) at year-end 2010 was 14.9% and as of March 2011 was down to 13.2%, the lowest level since late 2009. He said at the peak of the state's jobless rate Nevada was 5.4 percentage points higher than the nation as a whole, with that gap narrowed to 4.4 percentage points to date. However, much of the decline in the jobless rate was not attributable to improving employment conditions, but rather a reflection of underlying labor force and population dynamics. The state demographer released information that Nevada's population base had gone stagnant and had declined, which was also reflected in the labor force. He said the labor force was down about 44,000 people from the previous year. The decline represented people leaving the state to look for better employment opportunities, as well as those who had gotten discouraged and given up the search for work, dropping out of the labor force. Unemployment insurance claims activity (page 100, Exhibit A) was a good real-time indicator of labor market conditions. Mr. Anderson noted initial claims for unemployment in Nevada had been trending down, with 35,000 claims per month in late 2008, 23,000 claims per month in 2010 and below 20,000 per month in March and April 2011, the lowest rate since 2008. He said as of March 2011, there were approximately 104,000 Nevadans (page 101, Exhibit A) receiving unemployment benefits. Slightly less than half were receiving regular state benefits as part of the 26-week program, with the remainder paid through various forms of federally funded benefits. By comparison, at the peak there were over 140,000 people receiving unemployment insurance benefits. He said despite initial signs of improvement, it was important to note Nevada's jobless rate remained the highest in the nation (page 102, Exhibit A). California was the second highest at 12% and North Dakota the lowest at 3.6%.

Continuing, Mr. Anderson indicated in 2004 to 2005 Nevada's job growth had seen four times the rate of growth recorded in the nation, but the state was hard hit by the recession, with statewide job losses in 2009 at nearly double digits. In the first quarter of 2011 job levels were flat by comparison to a 1.1% gain nationwide (page 103, Exhibit A). He said the department had monitored a trend of job loss easing for 1.5 years and as noted earlier in his presentation Nevada had moved into positive territory in March 2011 (page 104, Exhibit A), which was the first year over year increase in more than three years. Nevada saw job growth of about 0.5% on a year over year basis, equating to 5,800 jobs. However, Mr. Anderson stressed the state needed to make up considerable ground (page 105, Exhibit A) because there were over 400,000 jobs gained during the boom decade from 1997 to 2007 and in excess of 175,000 jobs lost from 2007 to 2010 during the recession. Page 106 of Exhibit A showed that Nevada's wage growth moved 0.9% in the second half of 2010, which was an improvement over the negative wage growth in 2009 and 2010. Average annual wage growth was around 5% prior to the start of the recession, but many jobs were lost in the high paying construction industry where the annual wage was $59,000 in Nevada compared to $43,000 for all other jobs. As shown on page 107 (Exhibit A), the unemployment rate peaked in 2010. Mr. Anderson saw it gradually moving downward with a flat or stable population and labor force base playing a role in that downward trend followed by a modest recovery. He said for two decades Nevada led the nation in population growth, which fed into labor force growth. Now that the population growth was stagnant, there would be minimal growth in the state's labor force. Mr. Anderson noted there was a quick run in the unemployment rate in Nevada in excess of 10 percentage points over a three-year period. Through 2014, the department saw further signs of a modest recovery with the jobless rate declining by slightly more than 6 percentage points. Mr. Anderson said the employment outlook had stabilized (page 108, Exhibit A), but with modest growth by historical standards. The department forecast was for 30,000 jobs between 2010 and 2013, with half from the accommodation and food service industry. He said retail trade and health care would also contribute to the numbers; however, construction would remain flat. Job trends in the construction industry were very volatile and in 2010 the industry was down nearly 30% on a year over year basis. To date in 2011, the construction industry was down 7.5%. He reported external risks going forward (page 109, Exhibit A) were increases in gasoline prices and the potential impact on disposable income, as well as consumer confidence attributable to the global uncertainty. In conclusion, Mr. Anderson indicated Nevada had moved from a stable labor market environment to one exhibiting early signs of modest improvement.

Linda Rosenthal asked for a broader description of the rapid downward trend in the unemployment forecast in Nevada. She wanted to know what was driving the steep decline considering the Moody's forecast had some decline on a national basis, but then flattening due to people returning to the labor market, and an increase in the actual number of people looking for work.

Mr. Anderson described the forward-looking forecast as consistent rather than a rapid decline. He said over a three-year period Nevada saw the jobless rate rise by 10.3 percentage points and looking forward over a four-year period the jobless rate was predicted to decline 6.5 percentage points. Nevada was coming off a two-decade long period of being the fastest growing state in the nation and now it was the opposite, so it was difficult to capture the labor force dynamic. He described the forecast as modest job growth alongside a stable labor force environment.

Chairman Restrepo asked what modest job growth would be on a percentage yearly basis.

Mr. Anderson said the forecast was for .75% growth in 2011 and 1.0% growth in 2012 and 2013.

Chairman Restrepo pointed out that using those percentages Nevada would be down to an 8.25% unemployment rate against a relatively flat labor force. Mr. Anderson agreed. Chairman Restrepo also asked about the types of jobs or the occupation categories that saw growth in the first quarter of 2011.

Mr. Anderson said Nevada saw growth in private sector service industries such as leisure hospitality and professional business services. Also making noticeable contributions in the upcoming years would be accommodation and food services industries, and retail trade and health care. He thought there would be modest growth in a number of industries, but nothing that would push the state beyond the 1.0% growth rate.

Chairman Restrepo asked if Nevada was seeing growth within those industries in lower-level, mid-level and higher-level occupations. Mr. Anderson replied he could not answer that question because the department did not track that information on a real-time basis, but rather it was done with a several month lag through the occupational employment statistics survey. He thought because of visitor volume and tourist activity most of the jobs were frontline having direct interaction with customers.

Chairman Restrepo wanted clarification on whether the annual average wage of $43,000 included the annual average construction wage of $59,000 or excluded it. Mr. Anderson said it did include the $59,000 construction wage; therefore, when the construction annual average wage of $59,000 was excluded the annual average non-construction wage would be reduced moderately to $41,500.

Mr. Martin commented on the shrinking gap between Nevada unemployment versus federal unemployment and thought it was a good in terms of attracting industry to the state. He asked if the department tracked how Nevada's unemployment compared to California.

Mr. Anderson replied that California had the second highest unemployment rate in the nation at 1.2 percentage points below Nevada. However, with Nevada's flat labor force he anticipated further narrowing of that gap in the upcoming months of 2011.

V. PRESENTATION ON THE OUTLOOK FOR NORTHERN NEVADA.

A. Brian Bonnenfant, Project Manager, Center for Regional Studies, University of Nevada, Reno

Brian Bonnenfant, Project Manager, Center for Regional Studies, University of Nevada, Reno provided an overview of the economic outlook for Northern Nevada (page 111,

Exhibit A). Although there were positive economic signs at the state and national levels, he said due to a number of economic concerns the Center for Regional Studies maintained its level of projections for Northern Nevada as presented at the November 2010 Economic Forum meeting. Mr. Bonnenfant noted the conclusion of the federal stimulus and the reduction in federal spending; higher fuel prices, which negatively impacted discretionary spending important to taxable sales and gaming revenues; and distressed housing, with its downward pressure on home values all affected the economy in Northern Nevada. Page 112 of Exhibit A illustrated the percentage change in quarterly taxable sales year over year through the first two quarters of calendar year 2010. The chart showed the first two quarters of 2010 with negative percent change quarter over quarter (Nevada in red, Clark County in green and Washoe County in blue). Mr. Bonnenfant said the chart on page 113 of Exhibit A showed the taxable sales to date through the last two quarters of calendar year 2010, with those two quarters of taxable sales posting increases. The state had not seen two quarters of taxable sales increases since the second quarter of 2006. He forecast a 5% increase through February 2011, which was a 5.4% increase over the same period in 2010. However, he thought taxable sales would decrease slightly from March to June 2011 due to higher fuel and food prices, and the decrease in one-time purchases attributed to the Ruby Pipeline project in Northern Nevada. In November 2010, Mr. Bonnenfant projected a 1% to 2% increase in taxable sales for FY 2012 based on weak employment projections and the potential for thousands of layoffs in state and local government, and educational sectors, with a projected increase of 2% to 4% for FY 2013. He said the Center for Regional Studies still agreed with those projections due to signs of economic traction across the nation. Mr. Bonnenfant noted that if the economy continued to stabilize and added jobs, then economic uncertainty would decrease and inflation should remain moderate.

Continuing, Mr. Bonnenfant said the chart on page 114 of Exhibit A showed the percentage change in taxable gaming revenue through the first two quarters of calendar year 2010, with negative change for the first two quarters of 2010. Page 115 (Exhibit A) illustrated the last two quarters of calendar year 2010, with Washoe County (dark blue) showing negative activity, but the state (white) and Clark County (light blue) in positive territory. For FY 2011 to date the taxable gaming revenue increased 0.5%, and for the first quarter of 2011, Nevada showed a 0.7% increase. In November 2010, based on property values not hitting bottom, Real Property Transfer Tax (page 116, Exhibit A) was projected to have a 10% decrease for FY 2011. On the chart, the red line showed the median value of Reno-Sparks home sales from the Multiple Listing Service to the third quarter of 2010 where it flattened out to $175,000. He said the chart on page 117 of Exhibit A (fourth quarter of 2010 and first quarter of 2011) illustrated more movement toward finding the bottom, which showed a loss of 9% in home values since September 2010 and the bottom value at $160,000. Mr. Bonnenfant reported that Las Vegas home values decreased 7.4% between March 2010 and March 2011, and the Reno-Sparks area decreased 6.9% for the same time period. He pointed out the upside of the decrease in home values was that home sales were at peak levels in the lower price ranges, but Las Vegas sold 6.6 more homes in March than in all of 2010 and Reno-Sparks sales increased 9.1% in the first quarter. Turning to page 118 (Exhibit A), Monthly Home Foreclosures and Notices of Defaults through September 2010, Mr. Bonnenfant explained the graph of the Notice of Defaults (red line) was a predictor of foreclosures (blue line). Page 119 (Exhibit A), showed an easing-off of Notice of Defaults, but a spike in foreclosures. Since the recession began, the largest number of foreclosures occurred in Washoe County in March 2011. The graph on page 120 of Exhibit A illustrated the median sales price of foreclosure resales (red line), short sales (blue line) and all sales (black line) in Washoe County. He explained the reason that distressed housing was such an issue in Nevada was that home values were plummeting, with the median value of foreclosures down to $123,500 (in September 2010 it was $135,000), which placed heavy downward pressure on all home and property values.

Mr. Bonnenfant said in November 2010, the Center for Regional Studies projected a 5% decrease in Real Property Transfer Tax for FY 2012 and FY 2013. Based on the large backlog of distressed homes he thought it would take years to process because 75% of mortgages in Las Vegas "were underwater," meaning more was owed on the home than it was worth. In addition, a recent survey conducted in Las Vegas showed 23% of foreclosures were the strategic kind, meaning the household could afford the mortgage, but chose not to pay it and to foreclose instead. He said commercial sales activity was not tracked for the state; however, it was for Washoe County and in calendar year 2010 there were 111 sales versus 110 sales for 2009. Those numbers represented only 25% of the peak levels in 2005 where there were 417 commercial property sales per year. Mr. Bonnenfant noted the median price per acre increased in 2010, but only by 0.7%, which represented about 59% of peak values. The projection for Modified Business Tax (MBT) in November 2010 of 0% to 1% followed the Department of Employment, Training and Rehabilitation's employment projections for 0% to 1% growth in employment for FY 2011. He said employment had decreased for FY 2011 through March 2011 by 0.8% compared to a 3.4% decrease for the same period of FY 2010, but for the three months from January to March 2011 there was a 1.1% increase in employment compared to 0.1% decrease for the first quarter of 2010. Mr. Bonnenfant noted wages were up 0.2% in privately owned companies that paid MBT, so he thought for FY 2012 if the MBT rates did not sunset and the Department of Employment, Training and Rehabilitation's employment projections held steady then MBT revenue could increase 1% to 2%. However, if the MBT rates did sunset on July 1, 2011, a 43% decrease was projected in MBT revenue for FY 2012 and a possible 2% to 3% increase in FY 2013. Mr. Bonnenfant concluded his presentation.

B. Thomas Harris, Foundation Professor and Director, Center for Economic Development, University of Nevada, Reno

Thomas Harris, Foundation Professor and Director, Center for Economic Development, University of Nevada, Reno, said he was a state extension specialist in rural economic development and would discuss economic outlook for the rural areas of Nevada. His presentation followed the map on page 121 of Exhibit A, Unemployment Rate by County, March 2011. Mr. Harris reported the areas of the state (shown in white on the map) experienced less than 10% unemployment as of March 2011, with most other areas shown on the map at a larger percentage. He said the economy in Northeastern Nevada was doing well because of natural resource sectors such as mining and agriculture. Consequently, not all areas of Nevada had a decrease in jobs; some areas experienced an increase in jobs. Unemployment rates for the Reno-Sparks area (page 122 of Exhibit A) and most of the metro areas had experienced job decreases since the recession started in December 2007. Since 2007, unemployment had been higher in Nevada than the U.S., with approximately 164,000 jobs lost statewide. By comparison, in 1995 the entire Reno-Sparks State Metropolitan Statistical Area (SMSA) had about 164,000 jobs. Unemployment rates for the Rural Nevada, Western Region (page 123, Exhibit A), which encompassed the areas of Douglas, Lyon, Pershing, Churchill and Mineral counties were influenced by the economic activity and commuting patterns of the Reno-Sparks SMSA, as well as the Carson City SMSA. Mr. Harris noted about 40% of the labor force in Lyon County commuted outside the county. Lyon County was one of the fastest growing areas in the U.S. and in January 2010, its unemployment rate was approximately 21%, but had decreased to 18%. He said the unemployment rate for Western Rural Nevada increased to about 17% in January 2010 and had since decreased to 14%. The Rural Western Nevada Region was impacted by economic factors in Reno-Sparks and Carson City, with those who commuted and lived in Lyon County and the surrounding areas impacted by potential state layoffs and reduction in payroll. Unemployment rates in the Rural Southern Nevada Region (page 124, Exhibit A), which included Nye, Lincoln, and Esmeralda counties were impacted by the Las Vegas-Paradise SMSA (Clark County). Mr. Harris reported unemployment rates went from approximately 13% in January 2009 up to 17% in 2010, and then decreased to 15%. Those areas, and mainly Pahrump, were highly influenced by activities in Las Vegas. Lincoln and Nye counties expected to start a number of solar projects, which was projected to increase employment; however, those counties were still linked to the fluctuation of activity in Las Vegas. Lastly, the unemployment rates for the Rural Nevada Natural Resources Region shown on page 125 of Exhibit A, included Elko, Eureka, Lander, Humboldt and White Pine counties. Mr. Harris said those counties were impacted by mining activity, mineral prices and agricultural prices. He noted agricultural prices and mineral prices (e.g., gold at $1,500/ounce) had been quite high. The Rural Nevada Natural Resources Region had been expanding and the unemployment rate in that area was lower than throughout the U.S., as well as other areas of the state. The unemployment rate was approximately 6.9% in January 2009, increased to 9.8% in 2010 and then decreased to 8.1%. The Rural Nevada Natural Resources Region (page 125, Exhibit A) had seen employment growth jumping from 38,000 jobs in the first quarter of 2010 to about 40,000 jobs in the third quarter of 2010. He said those figures were not as large as Clark County and Washoe County, but was encouraging to see growth in the economy in those areas. Lastly, Mr. Harris pointed out in the packet starting on page 139 (Exhibit A) was a detailed analysis of forecasted agricultural prices, which were expected to remain high in 2011.

In conclusion (page 127, Exhibit A), Mr. Harris said the Rural Nevada Western Region counties, because of commuting patterns and inter-regional trade, would be impacted by the economic activity of the Northern Nevada metropolitan counties of Carson City and Reno-Sparks. Potential reduction of state payroll and layoffs could negatively influence those counties, but there was also potential for clean energy projects and the development of the USA Parkway to have a positive impact for those rural counties. Commuting and economic linkages with Clark County would impact the counties in the Rural Nevada Southern Region, but there was potential for clean energy developments in solar and geothermal to provide impetus for further economic growth. The Rural Natural Resources Region, with increases in agricultural products and substantial gold prices provided a counter cyclical trend in the state. Continued growth was projected for this region along with diversification in clean energy development. The impacts of higher commodity and fuel prices could affect metropolitan tourism and economic activity because metropolitan consumers who saw decreased household income and increased commodity and fuel prices were likely to reduce expenditures. Mr. Harris said although higher commodity and natural resource prices could make a positive impact on the Rural Nevada natural Resources Region it could negatively affect the state's metropolitan and other rural Nevada regions.

VI. PRESENTATION ON THE OUTLOOK FOR SOUTHERN NEVADA.

A. Alan Schlottmann, Professor of Economics, Department of Economics, University of Nevada, Las Vegas

Alan Schlottmann, Professor of Economics, Department of Economics, University of Nevada, Las Vegas, presented a summary and update of the Nevada budget forecast for FY 2011 and FY 2012, as well as comments on the outlook for Southern Nevada. As background, he recalled that on a national basis it took at least a five-year recovery, assuming no structural changes, for state tax revenues to regain their former levels. He indicated on a national basis states tended to make revenue forecasting errors greater in fiscal crisis than in general. The overestimates in forecasting seemed to become larger during the last three periods of economic downturn and Nevada had been among the states with the larger errors. Referring to the chart on page 164 (Exhibit A), Dr. Schlottmann commented on the type of income trend in the state of Nevada and specifically in Southern Nevada. He said the 2011 report for the Bureau of Economic Analysis defined Southern Nevada (Las Vegas-Pahrump, etc.) as an economic area and released data in 2011, which corresponded to 2009 employment, commuting patterns and housing patterns. As shown on the chart, the per-capita personal income in Southern Nevada continued to lag the U.S., but more importantly, continued to fall in relative terms. Referring to page 165, Dr. Schlottmann reported during better economic times Southern Nevada attempted to parody the rest of the U.S., but since 2004 to 2005 relative to job creation the area experienced, the historically high level of unemployment and the level of per capita income had fallen significantly through 2009. He thought that trend did not bode well for local residents relative to taxable sales forecasts in the future. Referencing historical trends used for forecasting unemployment (page 166, Exhibit A), Dr. Schlottmann said the chart showed a four-quarter rolling average for the U.S. in terms of annual change in real GDP in the unemployment rate trend. If Nevada followed a similar pattern, or even had a local hiring relationship that was twice as good, he thought the state would not experience reasonable levels of unemployment until

2014 or 2015. He said the hiring of workers did not immediately correlate to a better regional economy. Data showed the average hours worked in Clark County from February 2010 to February 2011 had not increased at all, but had declined from 34.5 hours per week to 33.8 hours week. Dr. Schlottmann said the average hours worked was a factor that mattered in the context of Nevada's taxable sales, which was shown as a 12-month moving average on page 167 of Exhibit A. He also noted there was potential for a slight increase in total taxable sales (page 168, Exhibit A) and it was a positive trend over the short run.

Moving on to gaming (page 169 and 170, Exhibit A), Dr. Schlottmann said his largest concern with gaming revenue was the negative California economic market and limited Nevada resident disposable income. He explained the decline in the relative per capita income of Southern Nevada residents would factor into local gaming revenues, and California as the single largest segment of Las Vegas casino visitors, with its high gasoline prices and unemployment rate forecasted to remain at double-digit levels into 2013, would offer limited growth potential. He emphasized California was a critical market segment that would affect gaming revenues. Although the Las Vegas convention sector had shown recent improvement among the Las Vegas Strip properties, the 12-month moving average percentage for gaming win suggested a slow recovery.

With respect to the U.S. and Nevada economy, Dr. Schlottmann said inflation in food prices and gasoline prices would be an important factor for the Economic Forum to consider when deliberating the state forecasts. He noted that significant increased gasoline prices cut into the state's taxable sales. According to Las Vegas Convention Authority statistics, 95% of casino visitors from Southern California drove to Las Vegas, so increased gasoline prices had an important impact on that segment of visitors. Food prices were another factor and Dr. Schlottmann pointed out that forecast data from the Economic Research Service of the United States Department of Agriculture showed at home grocery store prices in 2011 were to rise 4%. He said although food purchases for home consumption in Nevada were non-taxable, significant changes in expenditures on those necessities influenced other more discretionary consumer taxable purchases. Any negative impact on food-at-home prices could offset small positive trends elsewhere. He finished his presentation and thanked the committee.

In terms of percent growth per year for the subsequent two to three years, Chairman Restrepo asked how Dr. Schlottmann tracked year over year job growth in Nevada.

Dr. Schlottmann said he looked at the unemployment rate and the figures were consistent with the data Bill Anderson presented earlier in the meeting.

Chairman Restrepo commented that Nevada was close to 1% year over year job growth.

B. Dennis Smith, President, Home Builders Research, Inc.

Dennis Smith, President, Home Builders Research, Inc. presented information and statistics on the Las Vegas housing outlook. The chart on page 174 of Exhibit A showed the net sales per subdivision per week in the new homes subdivisions in Las Vegas, which were reported each week by those new home subdivisions. Mr. Smith said the spike in sales from March 2010 to July 2010 shown on the chart was due to the federal tax period where the increase in net sales per subdivision per week was at a level never seen before. The levels declined since then, but had held steady with sales for the previous four to eight weeks at 0.4 to 0.5 net sales per week. He anticipated continuing at that level for at least the first half of 2011, and the second half of 2011 was expected to be at the 0.2 to 0.3 level.

Referring to page 175 of Exhibit A, Mr. Smith said the chart dated back to January 2009 and illustrated the average number of traffic per subdivision per week. The chart showed an increasing trend in the traffic, especially since the beginning of 2011, which was a good indicator for the new home segment. He thought that trend reflected the fact there were new products that had opened since the beginning of 2011, as well as consumers dissatisfaction with looking at foreclosed properties, which took extra cash to make the properties livable by the buyers standard. Mr. Smith said page 176 (Exhibit A) was a comparison of the net sales of the various market areas in Las Vegas and the summary on the right side of the chart showed there had been a drop in net sales in every submarket in town from year to year. Except for the east side of Las Vegas, there had been increased traffic, but the net sales had not increased by the same magnitude. He pointed out consumers were shopping very thoroughly by studying all the competition and taking a long time to make an informed decision. He thought the increase in traffic would eventually lead to a steady pace in new home sales in the second half of 2011. The top ten builders were listed on page 177 (Exhibit A) and showed net sales for 2010 and the first quarter of 2011. Mr. Smith said if the net sales were averaged for the rest of 2011, very few of the homebuilders could anticipate matching what they sold in 2010. The chart of 2009 to 2011 monthly new home permits (page 178, Exhibit A) showed steady behavior at the beginning of 2011 after bottoming out during the fourth quarter of 2010. According to the chart for the preceding six months, the average new home permits equated to 281 per month. Based on that number, he calculated a total of 3,400 new home permits could be expected for 2011. Page 179 (Exhibit A) showed the annual number of new home permits back to 1998. With 3,400 permits anticipated for 2011, it would be the lowest number of new home permits in Las Vegas since tracking that activity starting in 1988. Mr. Smith did not foresee much change in new permit activity for 2012, but possibly a small uptick for 2013. He then talked about new home closings of traditional housing products, which meant every type except high-rise housing. The new home sales would be very close to the number of new home permits. He said the amount of unsold new home products had remained steady for the previous year at about 350 to 400 homes, but those numbers did not concern him.

Continuing with the monthly trend in resale closings back to 2004 (page 191, Exhibit A), Mr. Smith reported the Las Vegas area showed a stable trend overall. The bottom was during 2009 and then there was a rise, which correlated to the influx of foreclosures followed by increased investor activity, with resale closings remaining steady since then. The chart on page 182 (Exhibit A) illustrated the annual recorded resale numbers. He said the projected number for 2011 was 43,000 resales, with potential for a small increase in 2012. It was unknown how 2013 would fare and would primarily be dependent upon how the banks handled the release of built-up home inventory.

Turning to page 183 of Exhibit A, the new versus median resale prices from 2002 to 2011 showed the gap that existed between the pricing. The red line was for new home median pricing, which peaked in August 2007 at $338,560 compared to March 2011 at $200,000. The blue line represented the resale median pricing, which was $113,000 in March 2011. The gap between new home and resale median pricing during a normal market situation was approximately $20,000, but now that gap had widened to $87,000, which was a major problem for homebuilders. Mr. Smith thought that gap was too large to expect any type of price correction in the near future. Before Las Vegas could see consistent appreciation in new home pricing, the resale prices had to start increasing. New home median prices could not go much lower because most builders had cut prices as much as possible. However, some builders tried to lower prices by building smaller homes with fewer amenities to compete with the resale segment. Mr. Smith reported for March 2011 the single-family resale home average price per square foot was $82.99, compared to the single-family new home average price per square foot at $98.99. The chart on page 184 (Exhibit A) compared the new versus resale average value ratio or price per square foot from 2008 to 2011. The arrows on the chart showed the existing gap in the pricing. The average size of a new home, which had not changed in three years, was 2,225 square feet and the resale home was 1,949 square feet. For the first quarter of 2011, the new home average price per square foot had been less than $100, which he thought would be the continuing trend throughout 2011. The new home price per square foot would not come up until resale median prices and the resale price per square foot increased, because the homebuilders could not take the pricing much lower. Mr. Smith said it was much easier for the public builders to lower the pricing; the private builders found it difficult to compete with resale home pricing.

Mr. Smith said page 185 of Exhibit A showed Multiple Listing Service (MLS) data year over year for single-family homes, which chronicled what was happening with short sales and Real Estate Owned (REO) properties in Las Vegas. The first half of the chart was the total number of listings and the bottom of the chart was more noteworthy in that it showed the number of single-family listings that were without contingent offers. As of April 2011, there were approximately 11,000 single-family homes that were on the MLS listing that did not have accepted contingent offers and approximately another 8,000 homes, which had accepted contingent offers. Of those listings, year to year there had been an 82% increase of REO listings and an 82% increase of short sale listings. He thought this information demonstrated that Las Vegas was far from being out of this situation in terms of getting rid of the excess housing inventory. The last chart (page 186, Exhibit A) presented information taken from the Clark County Assessors records of single-family home foreclosures versus recorded Trustee Deeds. The first part of 2011 saw an uptick in the number of foreclosures entering the marketplace. Mr. Smith said the lenders were starting to move the foreclosure properties, but not to the extent that the market could expect a complete dumping of their inventory, as that would be devastating to the pricing.

In summary, Mr. Smith thought there were still many pressures that would keep the Southern Nevada housing markets at recessionary levels, including the unemployment rate and the lack of job growth, which led to a lack of consumer confidence. Another factor was the continuing inventory pressures of the distressed existing home market segment keeping the prices down. He said resale home values could decline further during 2011 if lenders put more inventory into the marketplace. Although there were a number of large investors who would buy those foreclosure properties, if Fannie Mae and Freddie Mac started dumping houses into the marketplace in volume, eventually there could be a problem. Some positive signs included a slow improvement of unemployment and a slow increase of existing home sales, which showed confidence from the investment sector on the long-term viability of the Las Vegas housing market. Mr. Smith noted the affordability of the housing market in Las Vegas was as good as it had been since the late 1980's, and would continue to attract consumers from around the world. He pointed out that one of the things to be considered when measuring the demand for the Las Vegas housing market was that it was different from the typical housing markets in other areas. Since Las Vegas had buyers from all over the country, as well as the world, the economic conditions of all those areas had to be considered. Mr. Smith said his definition of recovery was when there was a consistent positive appreciation of home prices, and he did not foresee that happening for at least a minimum of two to three years and possibly closer to five years.

Mr. Alastuey said the proportional relationship between annual new home closings of traditional products and annual recorded resales (pages 180 and 182, Exhibit A) seemed fairly consistent for 2011 and looked like it was expected to remain constant for 2012 and 2013. In terms of the Economic Forum trying to project Real Property Transfer Tax, which was essentially average value times the number of transactions; he asked if Mr. Smith saw the values between new and existing product holding in the same pattern as the projected volume.

Mr. Smith replied the median price of the resale home segment was going to see softness rather than a steep decline through 2011, with the number of resales expected to be consistent. The median price could drop on the short term, but was anticipated to pick up again in 2012, only it was not going to be much higher than it was currently. He thought the volume of resales and new homes could rise dramatically if there was a change in lending practices, but that probably was not going to happen. He did not see any reason for the numbers in terms of the volume of resales and new homes to change in the near term. The relationship of the pricing of the products in comparison to the value ratios of new homes versus resales had been very steady for two years. It was as low as the builders could go and the public and the lenders were trying to get as much for their products as possible and were not going to lower pricing unless it was absolutely necessary.

Referring to the chart on page 176 (Exhibit A), traffic and net sales, Mr. Martin asked for clarification using area H as an example, because it appeared that net sales dropped nearly 20%, yet traffic increased 60%.

Mr. Smith answered there had been a dramatic increases in the traffic numbers since the beginning of the year. There were a lot of people looking rather than actually buying, because of the competition that existed among the homebuilders. He said new homes were being built with new products to make them “greener” or environmentally conscious and homebuilders were also building more value conscious homes. Many consumers were tired of looking at the poor condition of foreclosure properties because not all the purchasers had enough cash to go out and renovate some of the resale properties that were available. Many did not want to buy a used home with problems and preferred to purchase a new home with a warranty. The market was very competitive and in essence, people were shopping to buy the right house and get the best deal.

Chairman Restrepo asked when Mr. Smith thought the Las Vegas area would get back to the historical trend rate of closings and prices prior to 2004, excluding the boom period.

Mr. Smith thought a traditional market level would generate about 10,000 closings if just the annual building permits were considered in that equation. He said it would take at least three to five years before there was recognizable recovery where there was consistent appreciation of pricing. The projected volume of permits for 2011 was 3,400 so in order to meet the 10,000 level, the production would have to increase by 7,500 permits. Mr. Smith did not think Las Vegas had the production capabilities in town to build 10,000 houses at this time. Much of the labor had left the area and if the level reached 5,000, the homebuilders would be happy. Mr. Smith noted the high level of foreclosures and short sales in the market were a huge factor in the recovery. The short sales were worse because lenders typically took over 120 days to close a short sale. He said that it would realistically take three to five years before production of new homes started to come back. Neither the level of new home production that existed from 2004 to 2007 nor the level prior to 2004 (about 20,000 permits per year) would be seen again. Land restrictions and consumer demand would also factor into keeping the numbers down.

Chairman Restrepo asked what percentage of traditional home sales were purchased by investors versus homebuyers.

Mr. Smith said according to MLS, 52% of single-family listings were cash sales; however, he could not say those were all investor sales. Another statistic showed that 47% of the sales were to investors, which was based on determining if the mailing address was different from the property address. If the addresses were different, it was considered an investor sale.

Chairman Restrepo asked Mr. Smith his opinion if the quality of a transaction of an investor sale versus a homebuyer sale were equal in terms of improvement in the housing market to a normal level.

In his opinion, Mr. Smith said an investor sale was just as good as an owner-occupied sale if only to rid the housing inventory on hand. He noted that eventually those investor purchased houses were going to be back on the market, but the large investors he had spoken to indicated their plan was to hold on to the homes for a minimum of five years. Mr. Smith thought the first step to recovery was to stabilize the inventory and then clear the inventory. The industry could not count on just owner-occupants to reduce the inventory of existing homes since lenders had tightened restrictions on qualifying for loans. Changes were expected in Fannie Mae, Freddie Mac and FHA so it would be increasingly more difficult for people to qualify for homes, so the industry would have to count on investor sales for inventory reduction. Mr. Smith added that the rental market was still holding, although, rents had softened somewhat. Investors were still reaping an 8% to 10% return, whereas in 2010 the return was closer to 12%.

Chairman Restrepo wanted to know if Mr. Smith anticipated the same level of investor activity in Southern Nevada in the subsequent two to three years at about 50% of sales to investors.

Mr. Smith replied he did not see a downturn or a reduction in investor activity. He thought there could possibly even be an increase in investor activity in the short term until the rental market started to change and decline. For now, there were many people who could not qualify to buy a home and they had no choice but to rent. The industry wanted to see more owner-occupants versus investors, but it was not going to happen for at least three to five years until job growth got back on track, until the lending segment stabilized and until a two wage earner family could qualify for a home loan. Mr. Smith finished his presentation.

VII. DISCUSSION OF INFORMATION REQUESTED BY THE ECONOMIC FORUM RELATED TO COMMENTS PROVIDED BY OUTSIDE REVIEWERS ON ECONOMIC OUTLOOK AND REVENUE FORECASTS FOR THE STATE.

Upon Chairman Restrepo's request, Mr. Guindon said outside reviewers had provided comments on the state economic outlook and revenue forecasts for consideration by the members. Mr. Guindon thanked Dr. Glen Atkinson, Mr. Dick Bartholet, Mr. Brian Bonnenfant, Mr. Brian Kaiser, Dr. Tom Harris and Dr. Mike Reed from the Center for Regional Studies, University of Nevada, Reno, for their comments, which were located on page 187 of Exhibit A. He also expressed appreciation to Dr. Stephen Brown and Mr. Robert Potts from the Center for Business and Economic Research, University of Nevada, Las Vegas, for their comments on the Nevada economic conditions and outlook starting on page 205 of Exhibit A.

Chairman Restrepo thanked all of the presenters, including those who provided written testimony as it was valuable information for the members to use in deliberating the forecasts.

Chairman Restrepo called for a recess of the meeting at 11:53 a.m.

The meeting reconvened at 12:44 p.m.

Mr. Guindon indicated the presentations were finished and the next part of the agenda involved consideration and approval of forecasts by the members. He wanted to review the tables included in the Economic Forum packet (Exhibit A) starting with Table 1 (page 241, Exhibit A), which showed the previous six years of actual data. In addition, data from FY 2011 to date through March 2011, along with a comparison for the same time period in FY 2010 was incorporated into Table 1. He explained this was the information that the Agency, the Fiscal Division and the Budget Division had available to take into consideration when revising forecasts for the minor revenues, as well as for gaming and sales taxes. However, he noted there was one more month of actual data for gaming than for sales tax. Mr. Guindon pointed out Table 3 located of page 247 of Exhibit A, which consisted of all the revised forecasts for each one of the General Fund revenue accounts for FY 2011, FY 2012 and FY 2013 from Agency, Fiscal Division and Budget Division. The Fiscal Division and the Budget Division sent letters to request the information from each of the Executive Branch agencies. The agencies, based on their current year to date information, were asked to reevaluate their forecasts that had been presented to the Economic Forum on December 1, 2010. The Budget Division and Fiscal Division reviewed the agency forecasts and used the information to prepare Table 3 for the non-major General Fund revenue sources. The Table 3 forecasts were considered by the Technical Advisory Committee (TAC) on April 26, 2011. Mr. Guindon identified Table 4 (page 251, Exhibit A), which consisted of the major General Fund revenue sources data the Economic Forum would consider when approving forecasts under Agenda Item VIII. The Economic Forum forecast on Table 4 was from the December 1, 2010, meeting and each forecasters revised forecast was also listed for the members consideration. He said Table 7 on page 253 (Exhibit A) allowed the members to see the sequence of forecasts in terms of how the forecast compared to the last forecast by forecaster for each of the major revenue sources. Mr. Guindon explained the table included the Economic Forum December 1, 2010, forecast as well as the May 2, 2011, forecast for each of the forecasters for each revenue source. He also pointed out in Table 7 that the dollar difference listed for the May forecast was relative to each forecasters forecast presented in December 2010, along with growth rate difference. Table 5 was located on page 259 (Exhibit A), which contained the TAC's approved forecast for selected non-major General Fund revenue sources. The TAC's approved consensus forecast was shown in Table 6 on page 261 of Exhibit A.

IX. REVIEW AND APPROVAL OF MAY 2, 2011, FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2011, FY 2012, AND FY 2013 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE AT ITS APRIL 26, 2011, MEETING.

This agenda item was taken out of order.

Using Table 6 (page 261, Exhibit A), Mr. Guindon highlighted some of the forecasts of the minor General Fund revenues approved by the Technical Advisory Committee (TAC) at its April 26, 2011, meeting for FY 2011, FY 2012 and FY 2013. He addressed the most important forecasts in the table and then concluded with information on the Net Proceeds of Minerals, which was the first item listed on Table 6. Mr. Guindon advised the members there was an issue with the forecast for the Net Proceeds of Minerals, based on information from the Department of Taxation regarding Net Proceeds of Minerals taxes. Based on reports of mining industry estimates and payments for calendar year 2011, filed March 1, 2011, he said the forecast was revised up. The table showed the forecast at $82.5 million for FY 2011, which was approximately $16.0 million higher than the forecast approved in December 2010, and $69.0 million in FY 2013, which was approximately $9.0 million higher than the previous forecast.

Moving to the next item, Mr. Guindon said there was no change to the forecast of $18.75 million for FY 2011 for the Mining Claims Fee, but pointed out there was no revenue listed for FY 2012 and FY 2013 because the fee was due to sunset. The Net Proceeds of Minerals also did not have revenue listed in FY 2012 because there was a sunset in the law, which resulted in no payments made in FY 2012. Another revenue source affected by sunset legislation from the 2009 Legislative Session was the Business License Fee, which the forecasters revised up slightly in all three fiscal years, based on assumptions about underlying business activity. There was a large decrease in FY 2012 compared to FY 2011 due to the sunset of the $100 increase in the Business License Fee approved for FY 2010 and FY 2011. Mr. Guindon said the total taxes in the Taxes category of Table 6 was revised up in FY 2011 by approximately $12.3 million; revised down in FY 2012 by approximately $2.1 million; and revised up by approximately $6.8 million in FY 2013. The major changes in the Licenses category on page 262 (Exhibit A) were due to the revisions in the forecast for the commercial recordings by the Secretary of State's Office. The forecast was a combination of GL 3106 and GL 3130 and showed 8% growth in FY 2011 at $74.2 million, with an approximate 2% increase in FY 2012 and FY 2013. It resulted in an upward revision in the forecast by approximately $4.0 to $6.0 million a year from FY 2011 to FY 2013. He indicated another Secretary of State revenue source, (Securities, GL 3152) had a revised forecast based on current year-to-date data and was revised up by approximately $3.5 million a year from FY 2011 through FY 2013. There were minor changes to a few other revenue sources, but the net result was the revising up of the forecast in the Licenses category of $7.0 million in FY 2011, $9.0 million in FY 2012 and $10.0 million in FY 2013. Mr. Guindon pointed out there were several minor revisions to some of the revenue sources in the Fees and Fines category. The most significant change was the forecast for Short Term Car Rental, which was an upward revision of approximately $2.7 million in FY 2011, $2.3 million in FY 2012 and $1.3 million in FY 2013. In the Use of Money and Property category, Treasurer's Interest Income (GL 3290) was revised down causing a downward revision of approximately $500,000 in FY 2011, approximately $1.6 million in FY 2012 and $300,000 in FY 2013. Interest rates and the Treasurer's Office staying short term in their investment portfolio caused lower yields than originally thought, which caused the forecast to be revised down. The Other Revenue category contained several GL's related to property taxes and Mr. Guindon noted there was no revenue shown for FY 2012 and FY 2013 because of sunset provisions, or one-time revenue approved during the 2009 Legislative Session or the 26th Special Session (February 2010). Unclaimed Property was also part of the Other Revenue category and was revised up by almost $13.0 million in FY 2011, $5.4 million in FY 2012 and FY 2013.

Mr. Guindon reported the net result of the combined revision of the forecast for the minor General Fund revenues was $71.8 million over all three years, with approximately $35.4 million for FY 2012 and FY 2013 for those two years combined. He concluded his presentation and asked for questions.

Ms. Rosenthal asked for more information on the Treasurer's Interest Income and inquired why it jumped so dramatically in FY 2013.

Mr. Guindon said the Treasurer's Office looked at several different interest rate forecasts when determining the Treasurer's Interest Income forecast. The average of the amounts were taken and the forecast based on when they thought the interest rates were going to start to increase again. The Treasurer's Office invested the revenue in the portfolio, which was anticipated to earn a higher return than the present investable balance previously maintained because of the state's budget situation.

Ms. Rosenthal summarized that it was a combination of the increase in rates and available cash to invest. Mr. Guindon agreed.

Mr. Alastuey asked if the percentage drop disparity between the 4-cent and 5-cent Property Tax was affected by the fact that a portion of the 5-cent Property Tax went to the Highway Fund.

Mr. Guindon said that was correct; the full 5-cent rate did not go to the General Fund. He pointed out in FY 2011, 3.2 cents went to the General Fund and it decreased incrementally, from FY 2010 to FY 2011 in terms of percentage, because the other incrementally increasing portion of the 5-cent rate under current law went to the Highway Fund.

Chairman Restrepo asked about the large spike of $72.0 million in the FY 2011 upward revision. He assumed a large part of that was non-recurring events versus recurring events because of how it was shown in the other years and items that were legislatively generated or were one-time events.

Mr. Guindon said that was correct. The upward revision was approximately $36.3 million of which $28.0 million of that was due to the $16.0 million upward revision to the Net Proceeds of Minerals because the entities reported they were going to pay more than was originally thought in December 2010. The revision in Unclaimed

Property was due to actions of an internal audit by the Treasurer's Office where additional unclaimed property was found and during the course of the audit it was anticipated that even more unclaimed property would be uncovered. Mr. Guindon explained that part of the reason the FY 2012 and FY 2013 forecast for Unclaimed Property was going down was $7.6 million in FY 2010 and FY 2011 was going to the state General Fund. By current law the $7.6 million would be returned back to the Millennium Scholarship Program in FY 2012 and FY 2013 putting the forecast closer to $58.6 million in both of those years compared to $69.0 million in FY 2011. Mr. Guindon thought Chairman Restrepo brought up a good point.

Mr. Alastuey commented there were other one-time events, including GL 3081, the Clean Water Coalition, in the Other Revenue category, which was the amount reallocated from the Southern Nevada Clean Water Coalition originally intended for wastewater projects. He thought there were upcoming oral arguments before the Supreme Court regarding the reallocation.

Mr. Guindon thought the Supreme Court hearing was on May 12, 2011. He said the Clean Water Coalition revenue was added during the 26th Special Session (February 2010). Regarding the reallocation, the state won in district court, but the decision was appealed to the Supreme Court. After discussion between the Budget Division and the Fiscal Division, it was decided there was no pertinent information to date, which indicated the state would not get the $62.0 million; therefore, there was no reason to remove it from the revenue forecast.

Returning to a previous subject, Mr. Guindon asked the members to turn to page 261 (Exhibit A) to the Net Proceeds of Minerals. He explained under current law, mining companies were required to file an estimate of mining activity for calendar year 2011 and make payments on that estimate. Based on that information, an estimate of $82.5 million was generated. After the TAC met on April 26, 2011, information became available to the Fiscal Divison, the Budget Division and the Department of Taxation that under current law the entities were allowed to provide quarterly "true-ups", where an adjustment could be made to their estimate in order to avoid penalties and interest at the end of the year when the true-up was made against the actual data. Utilizing information from reports filed by law at the end of April 2011, the mining companies were scheduled to make additional payments to the Department of Taxation. The General Fund portion of those payments at $23.8 million was scheduled to be submitted on June 1, 2011. Mr. Guindon explained when the Net Proceeds of Minerals forecast was considered, the Forum needed to decide whether to revise the TAC's forecast for FY 2011 adding the $23.8 million to the $82.5 million forecast.

Mr. Alastuey inquired if the remaining mining taxes, penalties and mining claim fees estimates were unchanged and if Mr. Guindon was indicating the actual payments as analyzed by the Department of Taxation would add $23.8 million for a total of $101 million.

Responding to Mr. Alastuey's question, Mr. Guindon explained the current forecast based on information available on March 1, 2011, was $82.5 million. Then based upon the company's quarterly true-up there would be an additional $23.8 million deposited in the state General Fund on June 1, 2011, when funds were remitted to the Department of Taxation. He said the total remitted would be $106.3 million (sum of $23.8 million and $82.5 million). Mr. Guindon pointed out the $82.5 million was an estimate of the companies mining activity for calendar year 2011 and the $23.8 million estimate was a true-up against estimated payments versus actual activity for calendar year 2010. A portion of that forecast was truing-up what was estimated for calendar year 2010 versus the actual data. The $82.5 million was a combination of that true-up from the prior year plus what was estimated for the current year of FY 2011. The mining companies did not anticipate gold would rise to $1,500 per ounce and realized their submitted estimates in March 2011 were probably too low and needed revising up.

Chairman Restrepo needed clarification on the $69.0 million forecast in FY 2013 for the Net Proceeds of Minerals.

Mr. Guindon said the $69.0 million for FY 2013 is what staff thought would be paid and there would not be any true-up. Under current law, due to sunset on June 30, 2011, required mining companies to estimate their mining activity for each calendar year and make payments based on that information. On July 1, 2011, the state would revert to the old law, which required the companies at the end of the fiscal year to consider the actual data from the prior calendar year and make payments on those figures. Mr. Guindon reported the state already taxed calendar year 2011 and now cannot inform the companies that they owe for the actual data from 2011 so that was the reason there were no payments for FY 2012. Under the present law, when the forecast was extended out to FY 2013, the companies would make their March 1, 2013, payment based on actual mining activity for calendar year 2012 with potentially no true-up occurring. The FY 2013 forecast was an estimate of the mining activity and the amount companies would pay. The estimate assumed gold prices would be less than $1,500 per ounce because the assumption was that the economy would be improving and prices for precious metals would start to decline from the current levels.

Chairman Restrepo asked if the $69.0 million forecast was based on a particular assumed price per ounce for gold.

Mr. Guindon responded the forecast was based on historical taxation records and anticipated mining activity. There was not an assumed gold price because that would be too difficult to forecast, but he thought $69.0 million was a reasonable estimate of what would occur for the Net Proceeds of Minerals Tax.

Chairman Restrepo inquired if the Forum needed to make a motion to accept the tax forecast as presented by the TAC from its meeting on April 26, 2011, including the new information regarding the Net Proceeds of Minerals revenue of $23.8 million.

Mr. Guindon said the Forum might consider a motion to accept the TAC forecast as it appeared in Table 6, except for Net Proceeds of Minerals for FY 2011, which could be adjusted by adding revenue of $23.8 million.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ACCEPT THE TECHNICAL ADVISORY COMMITTEE FORECAST FOR THE MINOR GENERAL FUND REVENUES AS PRESENTED IN TABLE 6, WITH AN ADJUSTMENT TO INCREASE THE NET PROCEEDS OF MINERALS FORECAST IN FY 2011 BY $23.8 MILLION. THE MOTION WAS SECONDED BY MR. MARTIN.
>
> THE MOTION CARRIED UNANIMOUSLY.

VIII. REVIEW AND APPROVAL OF MAY 2, 2011, FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2011, FY 2012, AND FY 2013.

- **A. Gaming Percentage Fee Tax**
- **B. Live Entertainment Tax - Gaming**
- **C. State 2% Sales Tax**
- **D. Insurance Premium Tax**
- **E. Modified Business Tax**
  - **Non-Financial Institutions**
  - **Financial Institutions**
- **F. Real Property Transfer Tax**
- **G. Room Tax**

GAMING PERCENTAGE FEE TAX

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board (GCB) presented an update on gaming win and Gaming Percentage Fee collections since the December 2010 meeting of the Economic Forum. He said gaming win information through February 2011 was available, leaving three months of gaming win and tax collections to complete the fiscal year. Referring to the State Gaming Control Board Fiscal Years 2011-2013 Gaming Revenue Forecast handout (Exhibit C), Mr. Lawton noted that gaming win was currently down 0.6% fiscal year-to-date through the first 9 months of FY 2011 after declining 5.4% in the same period in FY 2010. Taxable Gaming Revenue (TGR) was up 0.5% fiscal year-to-date after declining 8.6% in the same period in FY 2010. Fiscal year-to-date Gaming Percentage Fee collections are up 1.8%, or $8.2 million, after declining 5.2% in the same period in FY 2010. Collections were 2.5% fiscal year-to-date, or $11.7 million below the Economic Forum's December 2010 forecast.

Mr. Lawton explained that Gaming Percentage Fees were made up of the following two components: collections from TGR, which rose 0.35%, or $1.6 million; and collections from the Estimated Fee Adjustment (EFA), which rose $6.5 million, but were -$14.5 million fiscal year-to-date in FY 2011 compared to -$21.2 million in FY 2010. This explains why total Gaming Percentage Fee collections were up 1.8%. He expected the EFA would continue to increase even more by year end, but it was difficult to forecast the amount of the increase.

Mr. Lawton said the ratio of TGR to total gaming win was currently 92.5% fiscal year-to-date. The current ratio was a full percentage point higher than in the same period in FY 2010. He also expected that number to increase by the end of the fiscal year, because some of the credit issued for Chinese New Year was beginning to be paid off over the next couple of months. Due to this information, he was forecasting that the ratio would be 94% for FY 2011.

Mr. Lawton referred to the charts beginning on page 4 (Exhibit C) which showed slot win, game and table win, and baccarat win. He noted that slot win had been more stable than game and table win, because there were not large swings in growth rates. Fiscal year-to-date, slot win was down 0.5% in FY 2011, compared to -10.2% during the same period in FY 2010. Slot wagering volume was down 2.5% fiscal year-to-date, compared to -10.1%, during the same period in FY 2010. The state experienced 33 consecutive months of decline in slot wagering volume, but in October 2010, that streak finally ended, and there have been two months of positive growth in FY 2011. It was the GCB's opinion that this was the most important metric available to truly measure the health of the industry. It revealed what the mass market was doing. When there was consistent growth in slot volume, baccarat would begin to complement the numbers as opposed to determining the outcome every month.

Referring to the slot win forecast on page 5 of Exhibit C, Mr. Lawton said the GCB adjusted the current growth rate downward from 0.34%. to -0.18%, with $6.7 billion in slot win. To meet the forecast, slot win would need to increase by 0.81% over the remaining three months of FY 2011. The FY 2012 growth rate was adjusted upward slightly from 1.64% to 1.84%, with $6.8 billion in slot win. The FY 2013 growth rate was adjusted up slightly from 3.91% to 4%, with $7.1 billion in win.

Moving to the topic of games and tables (page 6, Exhibit C), Mr. Lawton reported that win was down 0.8% fiscal year-to-date in FY 2011, compared to 4.3% growth through the same period in FY 2010. On a positive note, gaming table wagering volume was up 6.2% fiscal year-to-date during the same period in FY 2011. During the same period in FY 2010, gaming table drop was up 3.1%. Unfortunately, the win was down because the hold percentage for FY 2011 was 12%, compared to 12.82% in FY 2010.

Mr. Lawton said results were mixed for revenue from other games. With baccarat excluded, the game of twenty-one was down slightly at 0.25%; craps was up 16.7%; and roulette was up 1%. A key measure was how the games were doing without baccarat. There was good news – gaming table win without baccarat was up

1.5% fiscal year-to-date. Gaming table drop without baccarat was up 3.6% fiscal year-to-date. In FY 2010 at this time, win was down 14.1% and 18.3%, respectively in these two categories.

For the game and table forecast (page 7, Exhibit C), Mr. Lawton said the gaming win was adjusted from 2.99% in the December forecast up slightly by .86%, or to $3.7 billion in FY 2011. To meet the GCB forecast, table win would need to increase by 6.44% over the remaining three months of FY 2011. For FY 2012, the growth rate was adjusted down from 3.29% to 2.45%, or $3.8 billion in win. For FY 2013, the growth rate was left nearly unchanged from the previous forecast from 6.44% to 6.43%, with $4 billion in win.

For the baccarat forecast, Mr. Lawton said the baccarat-based recovery that the state experienced was very unpredictable. There were a limited number of $25,000 per hand baccarat players in the world. Baccarat was down 5.3% year-to-date, after increasing an astonishing 70.4% in FY 2010 during the same period. The baccarat drop was $8.5 billion, which was an increase of 12%, or $105.2 million. Baccarat win was down because of the volatility of the game; the baccarat hold percentage fiscal year-to-date was 10.7% compared to 12.66% in FY 2010. To further illustrate the volatility of baccarat, Mr. Lawton said that through the first five months of the year, baccarat win was up 21.4%, but for the last four months, which included New Year's Day, the Super Bowl, and Chinese New Year, baccarat win was down 23.6%. As a result, the GCB FY 2011 forecast for baccarat has been decreased from 10% to -3.5%, or $1.1 billion in win. To meet the forecast, baccarat would need to increase by 7% over the remaining three months of FY 2011. For FY 2012, the GCB forecast was increased from 1.5% to 5%, with $1.14 billion in win. For FY 2013, the growth rate was unchanged at 2%, with $1.2 billion in win.

Mr. Lawton said the Las Vegas Strip gaming win fiscal year-to-date was up 1.4% (page 10, Exhibit C). For the same period last year, gaming win was down 1.2%. He said there were positive metrics across the board when considering the increases in visitation, convention attendance, passenger traffic at McCarran International Airport, room rates, and occupancy. However, as had been mentioned before, it appeared more people were visiting, but they were spending less, as the visitors' gaming budgets were still well below what they were a couple of years ago. This information was highlighted in the 2010 Las Vegas Visitor's Profile study, which found that the portion of visitors that came to Las Vegas to gamble was 80%, which was down significantly from the 87% figure of 2006. Additionally, the study revealed that the average gambling budget for 2010 was $186 below the 2006 level: $466 in 2010 versus $652 in 2006.

Mr. Lawton said, after taking all that into consideration, the GCB growth rate for the Las Vegas Strip was adjusted downward from 4.36% to 2.67%. As for the other markets in Clark County, the Downtown area was down 4.3%, however, that market had 27 consecutive monthly declines, and has experienced two positive months in FY 2011. Last year at this time, the Downtown market was down 7.6%. The Laughlin gaming win was down 0.7%, while last year for the same time period, the rate was -12.1%. The

Las Vegas locals combined market gaming win (page 11, Exhibit C), fiscal year-to-date was down 2.8%; the Boulder Strip market was down 2.7%; North Las Vegas was down 3.2%; and the balance of Clark County was down 2.8%. He noted in FY 2010 at this point, the combined markets were down 8.7%. Although the markets were showing signs of improvement, and the declines were smaller, the GCB has theorized that the recovery of the local market would lag behind the recovery of The Strip, and would not occur until there was increased slot volume on The Strip. Baccarat volume and win on The Strip would not put people back to work in the local casinos.

For Washoe County (page 12, Exhibit C), Mr. Lawton said gaming win was down 5.5% in FY 2011, compared to a decline of 10.7% for the same period in FY 2010. Washoe County continued to struggle due to many of the same factors that affected the Las Vegas locals market. In addition, there was competition from tribal gaming in California. Gaming win in Elko was down 1.9% in FY 2011, compared to 7.9% for the same period in FY 2010. South Shore Lake Tahoe gaming win was down 4.4% in FY 2011 compared to -21.3% for the same period in FY 2010. The South Shore Lake Tahoe reporting area narrowed its losses due to soft comparisons in FY 2010, when gaming revenues were at levels the market had not seen before. Additionally, South Shore Lake Tahoe was competing with tribal gaming and decreased capacity.

Mr. Lawton said that the GCB forecast for total win (page 13, Exhibit C) for the current year was adjusted down from 1.28% to 0.19%, with $10.4 billion in total win. To meet the forecast, win would need to increase by 2.6% over the remaining three months. Early indicators showed that this growth rate would be met for March 2011. For FY 2012, the rate was adjusted down slightly from 2.24% to 2.06%, with $10.6 billion in total win. For FY 2013, the growth rate was increased slightly from 4.83% to 4.87%, with $11.1 billion in total win.

Moving on to the corresponding Gaming Percentage Fees forecast (page 14, Exhibit C), Mr. Lawton said the GCB adjusted its FY 2011 rate down from 4.49% to 2.72%, with $647.9 million in total collections. The GCB anticipated that in the remaining three months, gaming win would grow 2.6%, with an associated increase in Gaming Percentage Fee collections. For the last three months of FY 2011, the baccarat growth rate was much softer, at 4.57%, which was compared to a growth rate of 108.7% in the preceding four months. Additionally, the comparison for total win was -3.7% for the last two months of the fiscal year. To meet the forecast, collections would need to increase by an average of 5% over the remaining three months in FY 2011. The comparison for the final three months was also flat. For FY 2012, Mr. Lawton said the growth rate was adjusted down from 4.21% to 3.5%, with $670.6 million in total collections. For FY 2013, the growth rate was adjusted down slightly from 6.29% to 6.25%, with $712.5 million in collections.

Mr. Alastuey asked if anything was expected to happen in the next three months to turn the growth rate around to meet the GCB forecast. Mr. Lawton said there would be money coming in from the payments on Chinese New Year. In May 2011, there was a big fight in Las Vegas, in addition to some baccarat tournaments. None of those events were expected to shatter records, but they would be positive.

Chairman Restrepo asked how the GCB forecasts for FY 2012 and FY 2013 factored in the growth in Macau, and the emergence of Singapore as a major market. Mr. Lawton said when the baccarat forecasts were prepared, the GCB reached out to those properties that were experts in baccarat and had relationships with Macau. The GCB had been told that its forecasts were within reason for volume and win. There were only a few hundred baccarat players, that was why the game fluctuated so much. Mr. Lawton had been told by the properties that there was a relationship between Macau, Singapore and Las Vegas. Some of the visitors wanted to experience something different, so they come to Las Vegas.

Mr. Lawton explained that if the baccarat hold percentage level had been at a more reasonable rate, the GCB forecast would not have changed as much. He said that when there was slot volume growth, baccarat would compliment, but not determine, the forecast.

Chairman Restrepo asked if the GCB had analyzed win-per-visitor, excluding baccarat. Mr. Lawton said the GCB did not use visitor counts in its model. However, the convention authority provided growth information and there was feedback from all of the different markets in the state.

Janet Rogers, Chief Economist, Division of Budget and Planning

Janet Rogers, Chief Economist, Division of Budget and Planning, referred to page 1 of the General Fund Revenue Forecasts handout (Exhibit D) to a table that showed recent statistics for economic indicators for the United States and Nevada. The highlight was that, in some areas, the state was no longer the worst in the nation. There could be an argument that Nevada had the worst economy in the nation, but the state was starting to move away from the bottom in some important indicators.

Ms. Rogers said Nevada employment was the most important variable in the Budget Division forecast model. She said her employment forecast was a bit more robust than the DETR forecast. She forecast 1.2% growth in FY 2012, and just over 2% growth in FY 2013 as illustrated in Figure 1 (page 1, Exhibit D). The other revenue sources' response to employment seemed to be a bit weaker, and were not translating into growth in the other areas as they had in past periods, according to her model. Figure 2 (page 2, Exhibit D), compared the change in employment from March 2006 to March 2011. The growth was primarily in leisure and hospitality. The jobs were coming disproportionately from food service and drinking places. The state was still losing jobs in construction and government.

Ms. Rogers used an econometric model for her forecast that included total gaming win, without separating slots and table games, except for baccarat. The model was based on various measures of economic wellbeing in the state and the nation, such as personal income, new casino hotel rooms, world and gross domestic product, consumer spending, wealth and income, and the number of states with casino style gaming.

Ms. Rogers referred to The Silver Sage overview that was part of the Budget Division handout (page 21, Exhibit D). The overview did not include a forecast, but it displayed the state's gaming results in various ways. She noted that the overview included the average Las Vegas gaming win per visitor. On an inflation adjusted basis, that average had been declining for decades.

Ms. Rogers said page 4 (Exhibit D) showed recent statewide average daily gaming activity. She said slot win has been declining, and the Budget Division forecast a continued decline. Games, excluding baccarat, had been negative, but were now mostly positive.

Ms. Rogers said baccarat play made up about two-thirds of the total game win, and 16% of total activity. Slots accounted for about 68% of total activity. The downward historical change in drop for slots was problematic for the overall forecast. She said baccarat had a number of downside risks, and not much upside. There was competition from Singapore and Macau. There were no new properties to draw visitors to Las Vegas in the near term.

Ms. Rogers referred to page 6 (Exhibit D) to explain the components of the Budget Division forecast. She said total drop would continue to decline by small amounts through the biennium. The increase in unemployment nationally and in Nevada, would hurt the drop. Consumers did not have discretionary funds, and consumer confidence was low. The competition from other states was quite real. She noted that Pennsylvania, which was not considered a big state for gaming, had a win amount that was almost 20% of Nevada's win. Pennsylvania brought in $1.9 billion compared to Nevada's $10.4 billion. She expected win to be flat due to casinos adjusting slightly for lack of drop, and the luck of the play. The baccarat win would drop from record FY 2010 amounts. She said there would be very slight increases in win over the biennium of roughly 2% per year.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, referred to the Fiscal Analysis Division Forecast Information Packet (Exhibit E). He explained that charts with "A" in the title referred to dollar amounts, and charts with "B" in the title referred to growth rates.

Referring to page 1 (Exhibit E) Mr. Guindon said Chart 1A was seasonally adjusted Nevada total employment. He noted that the data provided by U.S. Bureau of Labor Statistics (BLS) and U.S. Bureau of Economic Analysis (BEA) had been revised. He reported that the Fiscal Division's forecast from December was accurate for the first quarter of calendar year 2011. Based on this information and evaluating the outlook over the forecast horizon, the Fiscal Division had not revised its employment forecast.

The Fiscal Division concentrated on the Modified Business Tax (MBT) for the employment forecast. The financial and non-financial wages, plus government, made up the total employment forecast. Mr. Guindon said the Fiscal Division expected employment to fall a little in the second and third quarters, and start to come back in the fourth quarter of calendar year 2010. The first quarter numbers for calendar year 2011 were up very slightly compared to the fourth quarter of calendar year 2010, but the numbers were still down compared to the same quarter in calendar year 2010. He noted that the Cosmopolitan in Las Vegas was online for the full first quarter of calendar year 2010, so the change in jobs, accommodations and leisure and hospitality was no surprise, but some sectors were still falling. The Sahara Hotel and Casino closed in the second quarter, and jobs were lost in that sector.

Mr. Guindon noted that there was a gap on the chart on page 1 (Exhibit E) between the Fiscal Division forecast and the DETR forecast caused by adjustments to uncovered employment data provided by BLS. He explained that the DETR forecast was developed differently than the Fiscal Division forecast as it considered employment covered under the unemployment insurance law under Chapter 612 of NRS. The DETR forecast would be above the Fiscal Division May 2011 forecast (red line) when the covered employment was added and seasonally adjusted.

Mr. Guindon said that the Fiscal Division expected total employment to decline 1% in FY 2011, increase 0.2% in FY 2012 and 1.3% in FY 2013.

Referring to Chart 2A, which showed total average wage per employee equal to total wage and salary disbursement divided by total employment (page 3, Exhibit E), Mr. Guindon said he was perplexed by the BEA revisions to the wage and salary disbursements data. He explained that the actual had been the thin orange line and Fiscal Division forecast was the thick orange line, but the actual was now represented by the blue line. Wages and salary disbursements were revised upward significantly, and thus the average wage per employee rose. He wondered whether it would be revised downward in the next benchmark. The indicator rose fairly significantly through the four quarters of calendar year 2010, with a bit of an inflection point in the fourth quarter. He said the Fiscal Division forecast growth to be flat, then as the economy improved, growth would increase in the last half of the forecast horizon.

Mr. Guindon said Chart 4A on page 7 (Exhibit E) showed the Nevada nonwage component of total personal income. He noted the Fiscal Division forecast was revised for the latest data, so the December 2010 (orange line) and May 2011 (red line) forecasts were parallel. There did not seem to be much revision to this series by BEA.

Mr. Guindon referred to Chart 5A on page 9 that showed the Nevada wages and nonwage component of total personal income. He was concerned that with the revised data, total wages (blue line) were now above the nonwage component level. He said the upward revision to wage and salary disbursements resulted in an upward revision to personal income. Referring to Chart 6A on page 11 (Exhibit E), Mr. Guindon said that the forecast has not changed much in terms of shape, but it has been adjusted due to revisions to historical data by BEA.

For construction employment (Chart 7A, page 13), Mr. Guindon said the forecast was revised in response to new data. In the first quarter of calendar year 2011, the Fiscal Division forecast (orange line) overlapped the actual (blue line). Construction in the state was settling into a new equilibrium. The level of building permits was flat and stable, so there would be no growth in construction employment. He noted the latest actual data was very close to what the Fiscal Division projected at the previous meeting in December 2010.

Mr. Guindon noted that new vehicle registrations shown on Chart 8A (page 15, Exhibit E) tied into the Fiscal Division's expectations for taxable sales. He said single-family home sales on Chart 9A (page 17, Exhibit E) followed a similar pattern to what Mr. Smith and others had presented to the Economic Forum; activity would settle down in the last actual quarter, and then be relatively flat over the forecast horizon with just a bit of improvement. Chart 10A (page 19, Exhibit E) showed single-family home completions being flat, with a bit of growth at the end of the forecast horizon.

Chart 11A (page 21, Exhibit E) was a comparison of actual historical data and forecasts for Case-Schiller House Price Index for Nevada. Mr. Guindon said that the Fiscal Division expected the level to fall, but not to the level expected by Moody's, and would come back at the end of the forecast horizon.

Mr. Guindon said the visitor forecast was important for forecasting the Gaming Percentage Fee, the Live Entertainment Tax, and taxable sales. The Fiscal Division forecast was revised upward primarily because the actuals were stronger than what was forecast at the December meeting. Mr. Guindon said the March visitor count reported by the Las Vegas Convention and Visitors Authority (LVCVA) was very good, and that was factored into the Fiscal Division forecast. The forecast was running above the December 2010 forecast in terms of the actual number of visitors. The occupancy rate (Chart 13A, page 25, Exhibit E) was a little stronger than what had been expected. With the closure of the Sahara Hotel and Casino, those rooms would be taken out of the calculations, as this property may have been pulling the average occupancy rate down because the rooms were underutilized. For that reason, he expected the occupancy rate to go up.

Moving on to the gaming forecast, Mr. Guindon said Chart 1 on page 31 (Exhibit E) illustrated statewide total win, slot win and game win per Las Vegas visitor. He said the chart served as a metric as to what was happening in Clark County. The forecast for slot win per visitor was pretty flat (orange line). There was a little growth on the game side. Chart 2 on page 32 showed statewide total win, slot win, and game win per statewide employee. He noted there was a little bit of growth in the slot win and the game win per employee. It was not surprising because there were more visitors, and the gaming win number was being divided by a smaller number of employees.

Chart 3 (page 33, Exhibit E) was the Clark County forecast for total win, slot win, and game win per Las Vegas visitor. Slot win was flat with a little bit of growth in the game win, which affected the total win. Chart 4 (page 34, Exhibit E) showed the Clark County forecast for total win, slot win, and game win per statewide employee. He noted that the statewide growth was coming from the Clark County market, according to his forecast.

Mr. Guindon said the Fiscal Division forecast for Gaming Percentage Fee collections was on page 35 (Exhibit E). Fiscal Year 2011 was expected to be basically flat across the board: slot win, 0% and games win .1%. The games win forecast was the most dramatic change from the December 2010 Fiscal Division forecast of 3.2%. He said the actual current history was much worse. There was some wagering activity, but the hold was atrocious. The state needed the hold percentage on the gambling activity as much as the casinos did. The TGR was up .9%, because the ratio would be 94% versus 92.3% one year ago. Fiscal year-to-date, the ratio was a bit above the same period in FY 2010. The Fiscal Division forecast for the EFA was \$5.1 million versus \$2 million at the December 2010 meeting. He thought there was some risk to his forecast for the EFA, especially in light of the information presented by the GCB. The EFA was a critical thing in play. Normally, at the last part of the fiscal year, credit came back in, and the EFA would become a net positive. There was a fairly decent probability that the revenue would reach \$5.1 million, but knowing that the next month the Gaming Percentage Fees from TGR would decline, there could be a risk to this forecast.

Mr. Guindon said the charts in the meeting packet made it look as if the state's economy was stabilizing. For example, the Clark County coin in per unit may have reached the bottom. The Fiscal Division expected that there would be some growth in the slot win. The closure of the Sahara Hotel and Casino would affect the coin in per slot, because those devices would be removed from the calculation. He expected the average hold to increase. Mr. Guindon reported that he learned from Mr. Maddox that the hold on the slot machines was increasing, and the handle going through the slot machines was going to decline. Mr. Maddox said there was a changing dynamic in the type of visitor to Las Vegas. The visitors could gamble in their local area, but Las Vegas offered the conglomeration of properties and nightclubs, and that was where the visitors were spending.

Ms. Rosenthal noted that the EFA adjustment was very volatile, and asked Mr. Guindon how that was forecast. Mr. Guindon said the EFA forecast was more complicated when there was a new property opening. He explained that in a market with the same properties from year-to-year, the EFA would be based on the last three months of the previous fiscal year and the last three months of the current fiscal year, because the EFA was based on payments made three months in advance. Ms. Rosenthal asked if the assumption was that the play levels and credit risk was similar. Mr. Guindon said the big credit houses' EFA could fluctuate widely. There could be months with lots of gaming win, but not lots of TGR, because the TGR was paid three months later.

Ms. Rosenthal asked if the Fiscal Division forecast assumed that the amounts were the same. Mr. Guindon agreed and said he viewed it as an aggregate market.

He considered the win for the quarter, how much of it was TGR, and the average effective tax rate. He compared that to the same period in the prior fiscal year. It was complicated when there was a new casino, because the aggregate EFA forecast could be distorted if the new casino was "cannibalizing" other markets. He noted that the EFA fiscal year-to-date through March 2011 was -$14.7 million compared to -$21.2 million one year ago. That was a $7 million net positive impact, and it would not be impossible for the EFA to move tens of millions of dollars in the last three months of a fiscal year.

Ms. Rosenthal asked what was driving the EFA lower in FY 2012. She noted that win and revenue were both increasing. Mr. Guindon said he thought the outstanding credit would come back in. He thought the average TGR to win ratio, would be higher in FY 2012 than FY 2011. Even though there was a little growth, it still pulled down that year, so there was a net positive EFA that was smaller in magnitude to the prior year.

Ms. Rosenthal asked Mr. Lawton about the low baccarat hold resulting in a decline in the GCB's forecast. She asked how the hold percentage was forecast in the out years. Mr. Lawton said he used a growth rate for the drop, consulted with the properties, and used a historical hold percentage to calculate win. There were still a few more months in the year, so it would be possible for the EFA to reach that level.

Ms. Rosenthal noted, the actuals were abnormally low, and the future was being forecast based on a historical rate, if things were to normalize, there would be some upside. Mr. Lawton agreed and said the GCB baccarat forecast for December 2010 was off $275 million and the current forecast was $375 million below the December forecast. That was almost all due to one game.

Mr. Alastuey clarified that the Fiscal Division's EFA forecast was $5.1 million and fiscal year-to-date it was -$14 million, and is expected to swing to $5.1 million net by year end and Mr. Guindon agreed. Mr. Alastuey clarified that the Budget Division forecast a wash for the year for EFA and Ms. Rogers agreed.

Mr. Lawton added that the EFA for March 2010 was $18.5 million. He explained that the December taxable revenue was low compared to March.

Chairman Restrepo noted that the Budget Division forecast for gaming win was the lowest of the forecasts. He asked Ms. Rogers for an explanation of the assumptions driving the forecast. Ms. Rogers explained that she expected gaming drop to continue to be very weak. Because of that, win would also be very weak. The visitor forecast was starting to pick up, but visitors were not spending money on the casino floor. She thought there was a bit of pent up demand, which was going to move things up a little bit in FY 2012, but then demand would fall off again. The Budget Division used the same basic mathematical computation as the Fiscal Division to forecast the EFA. If revenues were low three months ago, then, it would have to increase. She expected continued declines in drop, and the baccarat play would not be at the levels of the previous two fiscal years.

Chairman Restrepo agreed that visitors were shifting away from gaming spending to other types of spending, job growth on the local and national level was very anemic, and there was competition from other states, Macau, and Singapore. He believed that the risk of overestimating was significantly higher than the risk of underestimating.

Mr. Alastuey asked if the Economic Forum should first consider the very near term of FY 2011, then discuss the out years.

Mr. Alastuey asked the Economic Forum members about the likelihood of an increase in the EFA. Ms. Rosenthal observed that the forecasts were very close, but the Budget Division method was a bit more holistic, and there was not as much detail as the GCB or the Fiscal Division. She preferred the additional granularity of the GCB and Fiscal Division forecasts, especially in FY 2011 where the numbers were so close together.

Chairman Restrepo asked Mr. Lawton if the EFA adjustment was factored into the GCB forecast of 2.8%. Mr. Lawton said that early indications were that the EFA was going to move into positive territory after May 2011.

Mr. Guindon noted that collections may be down, but the EFA would be positive. He noted that fiscal year-to-date through March 2010 the EFA was -$21.2 million, but the next month it was -$2.7 million, which was a swing of almost $18 million. In order for the EFA to be positive in FY 2011, there would need to be a swing of over $14 million in one month, which was possible. He said the cumulative EFA going back ten years showed regularity in that the EFA came back at the end of the fiscal year.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ACCEPT THE GAMING CONTROL BOARD'S FORECAST FOR GAMING PERCENTAGE FEES FOR FY 2011 OF $647.926 MILLION. THE MOTION WAS SECONDED BY MR. ALASTUEY.
>
> THE MOTION CARRIED UNANIMOUSLY.

Regarding the Gaming Percentage Fee forecast for FY 2013, Mr. Alastuey expressed concern regarding the GCB forecast. He did not know how the revenue would reach that level of growth. He noted the other two forecasters estimated growth in the 2% to 3% range. If he were a banker considering a business's strategic position, business model, and the manageability of the debt load, he would project very modest growth of not more than 3%.

Mr. Martin did not believe that the economy would increase significantly. He agreed with Chairman Restrepo that the Economic Forum should move cautiously. He noted the Budget Division forecast the least amount of increase at 2.3%, and he thought the Economic Forum should adopt that forecast. There was much going on in the world economy that would affect FY 2013, however, he did not think the numbers would move up that quickly, but rather, would remain somewhat flat.

Ms. Rosenthal agreed in general that the Economic Forum should be conservative in the growth rate because times were uncertain and FY 2013 was a long way out. She noted that the GCB and Fiscal Division forecasts were driven from very detailed data that she believed was conservative in terms of the rate of growth in population and spending. She was comfortable with the GCB forecast for FY 2012 of 3.5% growth. For FY 2013, she thought 6.2% seemed high, but both the GCB and Fiscal Division forecasts were near $700 million, and the Budget Division and Moody's forecasts were outliers for that period.

Chairman Restrepo tended to agree with Mr. Martin in that he was concerned about increased competition, both foreign and domestic. He was also concerned about the anemic job growth and flat wages. He leaned toward a more conservative forecast of a bit below 2% for FY 2012, and 2% in FY 2013.

Mr. Alastuey said if the Economic Forum expected a steady, low rate of growth, he would be comfortable carrying that throughout the biennium rather than adopting the Budget Division's forecast for FY 2013 of 1.8%. He would not be averse to the percentage increase proposed by the Fiscal Division or the Budget Division for FY 2012, and then carrying that forward at the same level for FY 2013.

Chairman Restrepo asked for comment on a forecast of 2.3% in both FY 2012 and FY 2013. Ms. Rosenthal noted that growth rate would be lower than the Economic Forum's forecast for FY 2011, even though there were signs of gradual improvement.

Mr. Alastuey agreed with that observation. He said the growth rate approved by the Economic Forum for FY 2011 was 2.8%, and to go to 2.3% growth for the following two fiscal years would be a reduction in the rate of growth. If the Economic Forum were to adopt that growth rate, it would mean there would be a very small spike of recovery, followed by a subsidence in that level of recovery. He suggested a growth rate of 2.7% in both FY 2012 and FY 2013.

Mr. Guindon provided the dollar amounts.

Chairman Restrepo said he would not want for the forecast to be any closer to 3% growth per year, but thought 2.7% was reasonable.

> MR. ALASTUEY MOVED THAT THE ECONOMIC FORUM FORECAST GROWTH OF 2.7% FOR GAMING PERCENTAGE FEES FOR FY 2012 AND FY 2013, OR $665.420 AND $683.386, RESPECTIVELY. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION CARRIED UNANIMOUSLY.

LIVE ENTERTAINMENT TAX – GAMING

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mr. Lawton referred to the GCB forecast for the Live Entertainment Tax (LET) on page 15 of the State Gaming Control Board Fiscal Years 2011-2013 Gaming Revenue Forecast handout (Exhibit C). He reported that the forecast was revised upward from the December 2010 meeting. He said LET collections were currently up 4.3%, fiscal year-to-date and 2.8% above the December Economic Forum forecast. A recent survey conducted by the *Las Vegas Advisor* revealed that the Las Vegas show prices were at the highest level ever recorded in the 20-year history of the survey. Additionally, the forecast considers the impact of the new shows and associated prices, along with continued growth in base collections. Based on that information, the GCB has adjusted its forecast as shown on page 16 (Exhibit C). For FY 2011, the growth rate was adjusted upward from 2.3% to 4.92% with $113.5 million in collections. To meet the forecast, collections would need to average a growth rate of 6% over the remaining months of the fiscal year. The comparison for the final four months of the fiscal year was 1.6%. Early indicators show that the March 2011 collections would exceed this growth rate. For FY 2012, the growth rate was unchanged at 2.75%, with $116.7 million in total collections. For FY 2013, the growth rate was unchanged at 3.25%, with $120.5 million in total collections.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers referred to pages 7 and 8 of the General Fund Revenue Forecasts handout (Exhibit D) to the Budget Division's forecast for the LET. She said the LET revenue depended heavily on visitor volume (page 8). The Budget Division believed that the visitors were spending more of their money on shows rather than gaming. Thus, the forecast for LET was revised upward. The Budget Division forecast 4.5% growth for FY 2011, and 4.8% for FYs 2012 and 2013.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon referred to pages 53 and 54 of the Fiscal Analysis Division Forecast Information Packet (Exhibit E), which showed the Fiscal Division's forecast for LET revenue. He noted that the forecasts for LET were displayed on page 2 of Table 7 (Exhibit F). He said the Fiscal Division's forecast was also revised upward significantly, because actual collections were very strong since the December 2010 meeting. For the first two months of the third quarter of FY 2011, LET collections rose 11%: January's LET collections were up 9.5% and February's collections were up 12.8%. Between talking with Mr. Lawton and peeking at the Controller's Office financial reporting system, it appeared to him that March 2011 would be a very strong month for LET collections. He understood Celine Dion would be performing in June 2011. Elton John would be performing as well.

Mr. Guindon said the Fiscal Division forecast was for growth of 5.2% in FY 2011. Collections would be strong in FY 2012 and FY 2013, with growth of 3.2% and 3.6%, respectively.

Mr. Martin said the case has been made that there were more visitors coming to Las Vegas, but they were attending the shows rather than gaming. He thought that the Fiscal Division forecast showed the most steady rate of increase.

Chairman Restrepo noted that many of the Las Vegas shows offered discounted tickets. He assumed that the discount was driving demand, and increasing the number of tickets sold.

Mr. Guindon said that discounts may be offered at the end of a show's run to sell the tickets that were not already sold. He concurred with Chairman Restrepo that the tax was attached to the price of the ticket.

Mr. Alastuey said there was at least one major property that did not have a policy of discounts or dealing with ticket resellers.

> MR. MARTIN MOVED THAT THE ECONOMIC FORUM ADOPT THE FISCAL DIVISION'S FORECAST FOR GROWTH IN THE LIVE ENTERTAINMENT TAX–GAMING OF 5.2% IN FY 2011, OR $113.889 MILLION. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION CARRIED UNANIMOUSLY.

Chairman Restrepo asked for a motion on the LET revenue for FY 2012 and FY 2013.

> MR. MARTIN MOVED THAT THE ECONOMIC FORUM ADOPT THE FISCAL DIVISION'S FORECAST FOR GROWTH IN THE LIVE ENTERTAINMENT TAX–GAMING OF 3.2% IN FY 2012, OR $117.526 MILLION, AND 3.6% IN FY 2013, OR $121.708 MILLION. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION CARRIED UNANIMOUSLY.

STATE 2% SALES TAX

Brody Leiser, Deputy Executive Director, Department of Taxation

Brody Leiser, Deputy Executive Director, Department of Taxation, said the methodology used by the Department of Taxation (Taxation) to forecast the revenues presented today was the same methodology used for the December 2010 forecast. He said the majority of the emphasis was on actual revenues collected and the amounts distributed for each of the individual taxes. Taxation has reviewed the revenues over the past several fiscal years, and given the direction of the economy, for a number of the revenues, the focus was narrowed to recent periods of collections. In addition, Taxation identified any one-time revenues or anomalies in the forecast. A regression analysis was then completed to come to the forecast.

Mr. Leiser said there have been eight straight months of growth in the State 2% Sales Tax when compared to the same month in the prior year. Since July, in comparison to FY 2010, there has been growth each month. Fiscal year-to-date, the State 2% Sales Tax revenue was approximately 4.5% above FY 2010 collections through the same timeframe. Taxation recently released its February 2011 figures, and the forecast on sales tax was based on collections through that period. In February and over the past several months there were positive signs of stabilization within the tax. Some of the major indicators that Taxation tracked in terms of sales tax have been up for several months in a row. Some examples were merchant wholesalers, durable goods, motor vehicles and parts, clothing and accessory stores, and accommodations. Mr. Leiser said construction continued to struggle and decline.

Mr. Leiser said that when Taxation provided its projections at the December 2010 meeting, figures through September 2010 were available. Now there were five additional months of collections available on which to base the forecast. Actual collections for those five months were approximately $5.5 million above Taxation's December 2010 projections. Based on those amounts, he adjusted the forecast presented to the Economic Forum.

Mr. Leiser noted the Ruby Pipeline Project had a significant impact on December collections. That project was a natural gas line that ran across the entire northern part of the state, and there was impact on taxable sales in Elko County, Humboldt County and Washoe County. Mr. Leiser said the dollar amounts associated with that project have been identified to the best of their ability. There were a number of contractors and business entities associated with the project, and without going through each and every return that was filed and reported sales for those three counties, it was impossible to identify each and every dollar that was associated with the project. Approximately $6.48 million of State General Fund revenue was received and distributed in the December period. The project was set to be completed in July of 2011, so the amounts that could be identified were removed from the projection model to forecast the future years, and added back into the figure for FY 2011. Adjustments were made to the December forecast for each of the three fiscal years as follows: FY 2011 was adjusted by 1.2%; FY 2012 was adjusted by 0.6%; and FY 2013 was adjusted by 1.4%.

Mr. Leiser said General Fund collections to date for FY 2011 were about 4.5% above the Taxation forecast. The main reason was that when the Ruby Pipeline Project and the amnesty program were accounted for, the General Fund growth dropped from 4.5% to about 2.3%. He said 11 of the 12 months in FY 2010 showed a decline in collections in comparison to the same month in FY 2009. The only month with growth in FY 2010 was April. He said for the first three quarters of FY 2010, the average decline was approximately 13% for each of the months in those first three quarters when compared to FY 2009. The last quarter of FY 2010, the average decline was 0.3% when compared to FY 2009. The reason that was important to Taxation was that they did not believe that the 4.5% growth could continue. To reach the FY 2011 number, Taxation projected 4% growth in the March period, and 2.8% growth in the final three months of FY 2011.

Mr. Leiser said Taxation projects 3.9% growth for FY 2011, or $784.806 million; 1.6% growth for FY 2012, or $797.274 million; and 2.5% growth for FY 2013, or $816.848 million,

Mr. Alastuey asked how much of the State 2% Sales Tax deposits had been scheduled for FY 2011 by Taxation.

Mr. Leiser clarified that Taxation received the largest amount of collections that were directly related to the Ruby Pipeline Project in December 2010. To date, Taxation has calculated that approximately $7.1 million has been collected and distributed to the General Fund as part of that project. It was not known how much more money would come in due to the project. If the project continued through the end of July 2011, there would be revenues, but Taxation removed it completely from its projection model. Part of that $9 million increase in the projection from the December 2010 meeting was impacted by the Ruby Pipeline Project, but Taxation did not have a dollar amount that was anticipated in future periods that could be tied directly to that project.

Mr. Alastuey said when the Taxation forecast for 2012 was adjusted by $7.1 million, the 1.6% would only be a 2.6% increase year over year. It was still a very conservative forecast, following a 3.9% increase, which without the $7.1 million, would mean basically that sales tax was flat. He asked if that was Taxation's anticipation of general taxable sales.

Mr. Leiser said Mr. Alastuey's calculations were correct, but Taxation still anticipated growth in FY 2012. He explained that the growth would be completely unrelated to that project.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said that the Budget Division's forecast was on pages 9 and 10 of the General Fund Revenue Forecasts handout (Exhibit D). In addition, on pages 2 and 3 of The Silver Sage overview behind the forecast was a summary of taxable sales and use by industry. She noted that the amount for natural resources was due to spending for the Ruby Pipeline Project, which was an anomaly. She noted there was also lots of fluctuation in other industries, and it was very difficult to find out what was going on. She explained that the Budget Division forecast for State 2% Sales Tax was influenced predominantly by the Budget Division forecast for employment. The amnesty and the Ruby Pipeline Project amounts have been subtracted out, and the out years were forecast as if those amounts had not been collected. They were then added back to FY 2011.

Ms. Rogers said the Budget Division forecast continued growth in the State 2% Sales Tax revenue of around 6%. She said there was pent up demand, and as employment improved, consumers would make purchases that they had put off for several years. She said the Budget Division forecast was for 4.8% growth for the year in FY 2011, 3.9% in FY 2012, and 3% for FY 2013.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon noted that the Fiscal Division's sales tax collections forecast was on page 63 of the Fiscal Analysis Division Forecast Information Packet (Exhibit E). He said the forecasters have been struggling with this forecast since the fall of 2010 because several of the components were growing quickly. He has been looking at taxable sales per employee to find out what was driving that increase, particularly for December 2010. It was determined that the gas pipeline project was driving some of the activity. He noted the NAICS utilities category was up 108.5% July through February 2011 compared to the same period in FY 2010, which equaled $515 million in taxable sales for that period in 2011 compared to $247 million for the same period in FY 2010. The 17 major categories of the North American Industry Classification System (NAICS) that were tracked in the Fiscal Division charts were up 3.7% for the first eight months of FY 2011 compared to the same period in FY 2010. The other NAICS, which only make up about 17.8% of total taxable sales, were up 12.6%. He thought the Ruby Pipeline Project and the strong activity of the mines were causing this growth. The activity was causing an increase in the sales tax revenue, and the project was hiring employees. In Elko, all of the hotel rooms were booked for the workers, resulting in an increase in the Room Tax revenue. A tent city was constructed in northern Washoe County to house 200 to 300 workers. He noted that the 42" pipeline ran across northern Nevada, and there were two compressor stations: one in the northeast corner and another in the northwest corner of the state. Mr. Guindon noted that the project had to pause for Sage Grouse mating season, and would not continue work until May 15, 2011.

Mr. Guindon said Table 2B on page 66 (Exhibit E) showed the growth rate in the sales tax revenue with and without the amnesty and Ruby Pipeline Project amounts. He noted the growth rates were much different without those amounts. He said there was growth in FY 2012, but it would flatten in the first and second quarters before it picked up. He was comfortable with that because it would be annualized against the Cosmopolitan in Las Vegas as a new property. Because of the difficulty in forecasting with the amnesty and Ruby Pipeline Project affecting collections, he used an econometric model with an add factor to determine the path of the forecast.

Mr. Guindon said the Fiscal Division forecast growth of 4.9% in taxable sales or 4.6% growth in collections for FY 2011, 2.2% taxable sales and 2.4% collections in FY 2012, and 4.3% in both taxable sales and collections in FY 2013. He said if the amnesty and Ruby Pipeline Project were removed from the FY 2011 collections, the growth would be 3.6%.

Mr. Guindon referred to Chart 4 on page 72 (Exhibit E) to the statewide taxable sales per non-farm establishment employees, or total employment. The trough was in the first quarter of FY 2010. It came back because of some equipment purchases and the

Ruby Pipeline Project, which did not directly involve people working, earning wages and purchasing. He said Chart 5 (page 73) showed statewide taxable sales per $1,000 of statewide personal income. The growth per employee was not quite as dramatic, but it was up from the trough in early FY 2010. Chart 6 (page 74) showed statewide taxable sales per Las Vegas visitor, which again was not quite as dramatic.

Chairman Restrepo noted that for FY 2013, Taxation's forecast was revised upward by about half, the Fiscal Division forecast was revised to double the increase, and the Budget Division revision was for a slight decline. He asked the forecasters to comment on what they thought caused that difference.

Mr. Leiser said the FY 2013 adjustment was based in part on the increases in collections in the previous five months. Although a portion of the collections could be tied back to the temporary project, there were eight straight months of positive growth.

Ms. Rogers said the Budget Division model showed a slight decline in the growth rate. She forecast fairly healthy growth, compared to the growth rate in the recent past. She felt there would be a fair number of purchases made in FY 2011 and FY 2012 that had been previously put off, and that would result in a slight decline in purchases in FY 2013.

Chairman Restrepo asked if that was in anticipation of moderate increases in job growth, and therefore increased spending, and Ms. Rogers replied that was correct.

Mr. Guindon said the Fiscal Division visitor forecast was higher, and that would translate into more dollars. He said the visitors were not gambling, rather, they were dining, shopping and going to shows. He expected the revenue collections to dip, then come back stronger in the second half of the forecast period. He was not surprised that clothing and accessories sales in Clark County were particularly strong; he thought that may be due to sales in shops located in the properties.

Mr. Martin asked the forecasters for their opinion on the purchase of heavy consumer durables. He noted that people were not buying houses, and that might affect those sales. In addition, the locals did not have as much discretionary funds to spend in restaurants.

Mr. Guindon noted that the Fiscal Division Tax Team had discussed that topic. In addition, Mr. Smith testified that homes were being purchased as investment properties. That was good for the Real Property Transfer Tax (RPTT), but it did not lead to the typical economic household that would purchase durable goods and clothing. He hoped that an econometric equation that included personal income and employment would capture the change in taxable sales per employee. He did not know if the Fiscal Division forecast appropriately accounted for that, but it was considered.

Mr. Leiser said his experience was similar to the Fiscal Division's in that Taxation did not directly input that into its model, but indirectly it was incorporated because the collection timeframe that they focused on was after FY 2010. Those recent purchases were reflected in the actual collections.

Ms. Rogers said the Budget Division forecast considered that indirectly.

Mr. Guindon noted that if an investor bought a house that would be a rental, the renters may be an economic unit that would generate taxable sales. That would not be the case if the investors purchased the houses to flip after the market improved.

Chairman Restrepo asked the members to forecast FY 2011 first, then forecast FY 2012 and 2013 together. He asked them to consider what was currently going on in the economy, keeping in mind there had been somewhat of an uptick because of the Ruby Pipeline Project. He found Mr. Leiser's testimony particularly compelling in terms of how the forecast for the rest of the year was calculated after extracting of the Ruby Pipeline Program and amnesty estimates. He asked the members to discuss Taxation's forecast of 3.9% growth for FY 2011.

Ms. Rosenthal said for FY 2011 she was comfortable with Chairman Restrepo's comments, and noted that the forecasts were very close. For FY 2012 and FY 2013, she was not comfortable with the higher percentages of growth that were presented by Moody's. She felt more comfortable with the econometric models used by the Fiscal Division and the Budget Division. She noted the Taxation approach emphasized actual collections with one-time adjustments taken out. That did not seem as detailed, and did not incorporate employment growth or population growth. She said the Fiscal Division and Budget Division forecasts for FY 2013 were very close. She thought the question was about what would happen in FY 2012, and the timing of the pent up demand related spending. She would feel more comfortable with a forecast that showed a gradual increase in growth.

Mr. Alastuey agreed that both forecasts ended up in the same place, but one entailed a more drastic jump in growth. He would be more comfortable choosing moderate growth from year to year.

Chairman Restrepo asked Mr. Alastuey if he was suggesting gradual growth, for example, 3.9% for FY 2011, 2.2% in FY 2012, and 3% in 2013.

Mr. Alastuey said based on Taxation's forecast for FY 2011, 3% would be $830 million by the second year in FY 2012. He would be hesitant to forecast solid 3% growth for both years.

Chairman Restrepo agreed and said he would be comfortable with growth in the 2% range for FY 2012, and 3% in the outer year as the economy healed a little more and the employment picture unfolded at the national level.

Mr. Martin said he would prefer to adopt the more conservative Taxation forecast for all three fiscal years. He did not think there was much pent up demand. Gasoline cost

$5.00 per gallon, and the world economy was not settled, which would affect visitor volume. However, he noted that the weak dollar could make Las Vegas a travel bargain. He would yield on the point, but urged a forecast toward the lower end.

Mr. Alastuey said he would be comfortable with Taxation's forecast for growth of 3.9% in FY 2011 and then growth of 2.2% in FY 2012, and 3% in 2013.

Mr. Guindon said that forecast would amount to revenue of $784.806 million in FY 2011, $802.072 million in FY 2012, and $826.134 million in FY 2013.

Ms. Rosenthal said she was comfortable, and Mr. Martin agreed as well.

Chairman Restrepo said that Mr. Martin's points were well taken. He noted that the $826.134 million level in FY 2013 was at the lower end of the range.

> MR. ALASTUEY MOVED THAT THE ECONOMIC FORUM FORECAST THE 2% STATE SALES TAX REVENUE OF $784.806 MILLION IN FY 2011, $802.072 MILLION IN FY 2012, AND $826.134 MILLION IN FY 2013. THE MOTION WAS SECONDED BY MR. MARTIN.
>
> THE MOTION CARRIED UNANIMOUSLY.

INSURANCE PREMIUM TAX

Brody Leiser, Deputy Executive Director, Department of Taxation

Mr. Leiser said Taxation's December 2010 forecast was based on revenue that was collected and distributed through the first quarter of FY 2011. The revenues that were received for the second quarter of FY 2011 were approximately $3 million below the amount of the Taxation forecast for that quarter. However, the collections reflected a third straight quarter of increase in comparison to the same quarter prior year. Based on actual collections, Taxation thought it was appropriate to revise the forecast downward for the FY 2011, however, the amounts forecast for FY 2012 and FY 2013 were increased. The updated forecasts showed a decrease of approximately $1.86 million in FY 2011 and an increase of approximately $1.4 million for FY 2012 and $5.1 million for FY 2013 compared to Taxation's December 2010 figures.

Mr. Leiser said Taxation's forecast for the Insurance Premium Tax was 1.1% for FY 2011, 1.7% in FY 2012, and 2.3% in FY 2013.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers noted that the Budget Division's forecast for the Insurance Premium Tax was on pages 11 and 12 of the General Fund Revenue Forecasts handout (Exhibit D). She explained that she used inflation adjusted insurance premium tax collections per employee as the dependent variable, and average wage for the explanatory variable.

She thought this was a bit more crude, but there was not much relevant econometric data.

Ms. Rogers said the FY 2011 collections were down almost 3%. The Budget Division forecast a decline in FY 2011 of 1.2%, modest growth in FY 2012 of 1%, and in FY 2013 growth of 2.4% would reflect the improving economy and higher employment numbers.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division, referred to page 75 of the Fiscal Analysis Division Forecast Information Packet (Exhibit E) for the Fiscal Division's forecast of the Insurance Premium Tax. He noted that the yellow highlighted section of the table on page 76 showed actual collections for the first two quarters for FY 2011. The exception was the "Surplus Lines" category, which was not reported by Taxation. The information was obtained from the Controller's Office, as reported by the Insurance Division of the Department of Business and Industry. The $5.9 million amount was current as of April 27, 2011. The forecast was very similar to the $7 million forecast for FY 2011 for that category due to the later cutoff date. The Fiscal Division considered all of the different pieces separately. The forecasts for the quarter ended periods 9/30, 12/31, 3/31 and 6/30 were made using a regression equation with the starting point of seasonally adjusted collections as a function of Nevada total employment, Nevada personal income, and Nevada single-family home sales that Mr. Guindon showed in the economic overview. He noted that the net increase in the Fiscal Division forecast for FY 2011 was approximately $1.4 million, which reflected a slight increase in personal income and single-family home sales. In December 2010, the Fiscal Division forecast the third quarter would be flat, and the fourth quarter would be up 0.1%. The Fiscal Division was now forecasting an increase of 0.5% in the third quarter and 1% in the fourth quarter. The increases in FY 2012 and FY 2013 were forecast to be $2.5 million and $2.1 million for largely the same reasons.

Mr. Alastuey said the FY 2011 year-to-date forecast was for a general decline. He asked the Fiscal Division and Budget Division staff how those declines were taken into account, when there was a net increase for the year.

Mr. Nakamoto said collections increased for the second quarter by 1.6% against the December 2010 forecast of 1.5%, a difference of about $22,000. He could not specifically account for any shortfalls that were being shown in the revenue source. The Fiscal Division analysis was that the collections were tracking to the Fiscal Division forecasts, so staff did not feel uncomfortable with increasing the forecast slightly for the year.

Ms. Rogers explained that the Budget Division's forecast for the Insurance Premium Tax on page 12 of the General Fund Revenue Forecasts handout (Exhibit D) reflected $54.1 million in collections in the second quarter, which represented a decline of 3.1%. She would compare her forecast to the Fiscal Division's forecast to find the discrepancy.

Ms. Rosenthal noted that the Economic Forum's December 2010 forecast was within one or two million dollars of the revised forecasts of all three of the presenters for this revenue. Without any compelling reason to change, she would suggest leaving the forecast for December 2010 unchanged for this revenue.

Mr. Martin said he would support that.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM FORECAST INSURANCE PREMIUM TAX REVENUE OF $235.6 MILLION FOR FY 2011. THE MOTION WAS SECONDED BY MR. ALASTUEY.
>
> THE MOTION CARRIED UNANIMOUSLY.

Chairman Restrepo asked the Economic Forum members for their thoughts on the Insurance Premium Tax revenue for FY 2012 and FY 2013.

> MR. ALASTUEY MOVED THAT THE ECONOMIC FORUM FORECAST INSURANCE PREMIUM TAX REVENUE OF $239.9 MILLION FOR FY 2012 AND $243.3 MILLION FOR FY 2013. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION CARRIED UNANIMOUSLY.

MODIFIED BUSINESS TAX

Brody Leiser, Deputy Executive Director, Department of Taxation

Chairman Restrepo asked to begin with the Modified Business Tax (MBT) Non-Financial forecast.

Mr. Leiser said the Economic Forum was aware that the MBT Non-Financial was calculated at a tiered rate, which was, by law, set to sunset on June 30, 2011. Therefore, Taxation's approach to this particular revenue source was slightly different than other revenues in that Taxation projected wages, and from that, the tax rate was applied to get to the revenue forecasts.

Mr. Leiser said Taxation focused on what happened in the Nevada economy since the fourth quarter of FY 2009. With the additional quarter of data, those figures were incorporated into Taxation's projections, and changes were made to each of the fiscal years compared to the forecast presented at the December 2010 meeting. Actual collections were approximately $1.7 million above Taxation's projections for the second quarter of FY 2011. Based on that additional data, minor revisions were made to the forecast for each of the three fiscal years.

Mr. Leiser said for FY 2011, Taxation projects a 1.4% decline, in FY 2012, a 39.1% decline, which was a result of going from the tiered rate to the single rate, in FY 2013, Taxation forecast slight growth of 1.4%.

Mr. Leiser clarified that actual collections were known through December 2010.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the Budget Division forecast for the MBT Non-Financial was shown on pages 13 and 14 of the General Fund Revenue Forecasts handout (Exhibit D). She said the Budget Division forecast was prepared using the same method as the other forecasters. The wage was computed, and the amount being deducted from the wage for health insurance premiums, which were not taxed, was modeled. She expected wages to increase by a very small amount, but the amount of money the employers were paying for health benefits was going to decline. The coupling of those two effects was reflected in the forecast.

Ms. Rogers said the Budget Division modified its forecast to show a decline of 2.2% in FY 2011, a huge 39.8% decline in FY 2012 due to change in the tax rate, and modest growth of 1.8% in FY 2013.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division, referred to page 88 of the Fiscal Analysis Division Forecast Information Packet (Exhibit E) to MBT Chart 1A to the Fiscal Division's employment forecast. He said that the Fiscal Division's employment forecast had not changed much from the December 2010 meeting. There was a slight upward revision based on the benchmark adjustment to employment showing a bottoming out in the third quarter of calendar year 2010, with slight improvement in employment in the last two quarters. He noted that wages were driving the change in the Fiscal Division employment forecast (MBT Chart 2A, page 90, Exhibit E). Wages for the second quarter of FY 2010 was revised by approximately $1,000 per year, and growth continued to increase to just above $44,000 average wage per employee, according to actual BEA data. The Fiscal Division forecast had been for a slight decline of about $42,000 throughout the forecast.

Mr. Reel said the Fiscal Division forecast was adjusted to the new wage level. The wage per employee growth went from 2.5% for FY 2011, with moderate growth for FY 2012 and FY 2013 of 0.3% and 0.9%, respectively. For total wages and salary disbursements, there would be a slight increase in FY 2011 of 1.9%, and, FY 2012 of 0.8%, and a little stronger growth in FY 2013 of 2.2%.

Referring to page 86 (Exhibit E), Mr. Reel reported that the Fiscal Division forecast collections of -0.5% in FY 2011, which was $8.9 million higher than the Fiscal Division forecast presented in December 2011. With the tax rate change, collections would decline 39.4%, but would be $7.6 million higher than the forecast presented in

December 2010. For FY 2013, the forecast was $8.8 million higher than the December 2010. The changes were a result of the higher wage assumption; wages were fairly flat, but were increasing throughout the forecast period.

Mr. Alastuey noted that Mr. Guindon testified previously that there was a steep increase in total average wage per employee, which could be subsequently revised downward. He recalled that Ms. Rogers reported that the Budget Division's jobs count was a bit more robust than the DETR forecast. He recalled that the employment numbers used by the Fiscal Division tracked with DETR's numbers relatively closely. He asked if there were more jobs in the Budget Division model than in the Fiscal Division model, what were the wage assumptions used, and whether there were other differences between the Budget Division and Fiscal Division model.

Ms. Rogers said the Budget Division total wage assumptions were shown on page 14 of the General Fund Revenue Forecasts handout (Exhibit D). The number was growing according to the change in employment, and adjusted for inflation. It was not real wage growth per employee.

Mr. Alastuey clarified that the Budget Division was not using average wage multiplied by the jobs count, rather, it was an aggregate. Ms. Rogers agreed, she explained that the percentage on page 14 (Exhibit D) was not the average wage, rather it was the average wage multiplied by the jobs count. Mr. Alastuey said the difference between the two estimates was not that great, but one was proportionately higher than the other. He noted that if the Budget Division assumed there would be more jobs, the assumption for wage growth must be lower than the Fiscal Division's. Ms. Rogers agreed that she estimated average wage growth to be lower than that of the Fiscal Division.

Mr. Alastuey still did not understand the difference in the two forecasts. Ms. Rogers explained the difference between the forecasts was due to the econometrics of the model that went into her forecast for wages.

Chairman Restrepo noted that DETR forecast job growth of 0.7% in FY 2011 and about 1% in FY 2012 and FY 2013. He asked if the Budget Office forecast for the end of the fiscal year a 2.2% decline in the Non-Financial MBT, and a 1% increase in FY 2013 and Ms. Rogers agreed.

> MR. ALASTUEY MOVED THAT THE ECONOMIC FORUM ADOPT TAXATION'S FORECAST FOR GROWTH IN THE MODIFIED BUSINESS TAX NON-FINANCIAL OF $358.476 MILLION FOR FY 2011. THE MOTION WAS SECONDED BY MR. MARTIN.
>
> THE MOTION CARRIED UNANIMOUSLY.

Chairman Restrepo asked the Economic Forum members for a discussion on the Non-Financial MBT forecast for FY 2012 and FY 2013. Mr. Alastuey noted that forecasts were all pretty close together. He recalled that DETR forecast .75% to 1.5% growth. He did not think the forecast should be for growth over 1.5%.

Chairman Restrepo suggested that the Economic Forum adopt the average of the three forecasts for FY 2012, and then for FY 2013, tie the MBT Non-Financial to the forecast for jobs growth of no more than 1.5%.

Mr. Martin thought that approach made sense for FY 2012. For FY 2013, he asked if the growth would be based on the FY 2012 number. Chairman Restrepo suggested that the growth in the revenue would track with the growth of jobs. Mr. Martin asked if that would tie-in with the growth in wages. Chairman Restrepo said it could be argued that while employment may grow 1%, wages could stay flat. Employers could decide to not hire, or not provide any wage increases, and there would be relatively low increase in the CPI. He said the Economic Forum could remain with the 0.6% forecast, because it was so close.

Ms. Rosenthal said she was comfortable with Chairman Restrepo's proposal.

Mr. Guindon provided the dollar amounts for that growth rate.

> MR. ALASTUEY MOVED THAT THE ECONOMIC FORUM FORECAST GROWTH IN THE MODIFIED BUSINESS TAX NON-FINANCIAL OF $217.236 MILLION FOR FY 2012 AND $219.408 MILLION FOR FY 2013. THE MOTION WAS SECONDED BY MR. MARTIN.
>
> THE MOTION CARRIED UNANIMOUSLY.

Brody Leiser, Deputy Executive Director, Department of Taxation

Mr. Leiser presented Taxation's forecast for the MBT Financial revenue. He said that the forecast was revised from the December 2010 meeting based on an additional quarter of collections. Taxation's projections from December 1 were approximately $220,000 higher than actual collections for the quarter ending December 2010. The actual receipts were incorporated into the Taxation model, and as a result, the forecast was revised slightly downward.

Mr. Leiser reported that Taxation's revised forecast for the MBT Financial was for a 4.5% decline for FY 2011, a 0.8% increase in FY 2012, and a 1.4% increase in FY 2013.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said her methodology for the Financial MBT was the same as for the Non-Financial MBT. With the additional quarter's data, the Budget Division forecast was revised from December 2010 based on the employment changes and the wage model. This resulted in a slight revision of the forecast to -6.9% in FY 2011, and -2% in FY 2012, and an increase of 1% in FY 2013.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel said employment in the financial sector continued to decline. Based on that, the Fiscal Division path for employment was moved down a bit. Similar to employment, the wage per employee was revised upward a bit, but that did not change the Fiscal Division forecast path much. The result of the decline in employment and slight increase in wage per employee resulted in a downward revision to about $150,000 below the December 2010 forecast. For FY 2012, the forecast was lowered by about $120,000. For FY 2013, it was lowered by about $128,000.

> MR. MARTIN MOVED THAT THE ECONOMIC FORUM ADOPT THE BUDGET DIVISION'S REVISED FORECAST FOR THE MODIFIED BUSINESS TAX FINANCIAL OF $20.2 MILLION FOR FY 2011. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION CARRIED UNANIMOUSLY.

Chairman Restrepo requested a motion for the forecast for FY 2012 and FY 2013.

> MR. MARTIN MOVED THAT THE ECONOMIC FORUM ADOPT THE BUDGET DIVISION'S REVISED FORECAST FOR GROWTH IN THE MODIFIED BUSINESS TAX FINANCIAL OF $19.8 MILLION FOR FY 2012 AND $20 MILLION FOR FY 2013. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION CARRIED UNANIMOUSLY.

REAL PROPERTY TRANSFER TAX

Brody Leiser, Deputy Executive Director, Department of Taxation

Mr. Leiser said Taxation focused on recent activity when preparing the forecast for the Real Property Transfer Tax (RPTT). The projections were based on revenues that were received through the third quarter of FY 2011. Based on collections to date, it was estimated that actual distributions to the General Fund for the RPTT were about $1.5 million below Taxation's December 2010 projections. With the updated figures, the Taxation forecast was revised downward in each of the fiscal years. For FY 2011, Taxation predicted a decrease of 5.3%, in FY 2012, the revenue was expected to be fairly flat, with a slight decrease of 0.3%, and in FY 2013, Taxation forecast an increase of 2.8%.

In response to a question from Chairman Restrepo, Mr. Leiser said that Taxation had actual numbers for the quarter ending December 2010. However, revenues come into the General Fund throughout the year, not just at the end of a quarter.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the Budget Division forecast for the RPTT was shown on pages 17 and 18 of the General Fund Revenue Forecasts handout (Exhibit D). She noted there were also some related graphs at the end of the document in The Silver Sage section. The Budget Division forecast considered home price index and the value of new and existing homes in its econometric model. The Budget Division forecast RPTT revenue of $50.4 million in FY 2011, which represented a 5.5% decline; $49.9 million in FY 2012, which was a 1% decline; and a 4.6% increase of $52.2 million in FY 2013.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto referred to the Fiscal Division's forecast for RPTT on page 103 of the Fiscal Analysis Division Forecast Information Packet (Exhibit E). He said the data for the forecast was shown on page 104. He said that in December 2010, the Fiscal Division's forecast had actual information for the first quarter, and an estimate for the second quarter based on information from the Controller's Office system.

Mr. Nakamoto said the Fiscal Division made its forecast based on the expectation that the revenue would be down 16.4% in the second quarter, and 18.2% in the third quarter. The actual revenue was -8.3% in the second quarter, and 12.7% in the third quarter. The $12.7 million amount was based on activity that has been reported by the State Controller for collections in all 17 counties in the state for this particular quarter. He noted that Clark County, which made up 78.4% of that amount came in at 11%, Washoe County, which made up 14.1% of the amount, came in at 23.3%, and the other 15 counties of the state, which made up 7.5%, was 11.9% for this quarter.

Mr. Nakamoto said the problem with looking at this tax was that the only information that had been received with respect to the collections were the collections themselves and the county in which the collection occurred. No information was received on the actual activity that generated the revenue, or whether it was residential or commercial. The forecasters took into account the various anecdotal evidence that was reported in the news, and information from people who tracked this activity in Southern and Northern Nevada on a regular basis. The Fiscal Division staff came to a conclusion that this spike in activity that has resulted in the beginning of this calendar year was primarily attributable to an increase of residential homes that were sold, primarily to investors. It has been reported in the news in Clark County that somewhere in the neighborhood of 53% of single-family home sales in the Las Vegas area were being purchased with cash, which could be a function of people not being able to receive credit, or that people were looking for something to invest in because prices were low. This behavior could continue as long as there was a glut of housing in the market, and prices were low.

Mr. Nakamoto recalled that Mr. Guindon's overview noted that single-family home sales would hit a level similar to the current level, rise a bit, then settle as some of the availability cleared out. When that was taken into account, with the decrease in prices, as shown on Chart 1 on page 105 (Exhibit E) collections would settle so that the four-quarter moving average was somewhere around $12.5 million to $13 million per quarter, and stay there for the forecast period. The Fiscal Division's December forecast had that floor being a little lower and a little later, but based on the information available, it appeared we have reached that floor, and would stay on the floor.

Mr. Nakamoto said the net result of the Fiscal Division forecast was an increase of $6.8 million in FY 2011, $8.9 million in FY 2012, and $8.3 million in FY 2013. He noted that to reach the $6.8 million increase in the forecast for the remainder of FY 2011, the fourth quarter would need to be -2% compared to the same quarter at the end of FY 2010. He noted that Mr. Bonnenfant had mentioned earlier the commercial auction that would occur in May 2011, and the resulting collections. The Fiscal Division forecast did not specifically take that into account, but that may result in collections being a little higher.

Chairman Restrepo noted the auction was scheduled for May 17 through 19. It would be interesting to see what the transaction values would be, particularly on some of the larger commercial projects in Southern Nevada. He recalled that Mr. Smith expected an increase in investor activity and transactions, primarily on the residential side, but with commercial transactions as well. He wondered if that investor activity would continue. He noted that Mr. Leiser seemed to think the activity would level off a bit. The Fiscal Division and Budget Division forecasts were close together in FY 2013, and relatively close in FY 2011 and FY 2012.

Mr. Alastuey agreed with Mr. Nakamoto that this was not a function of observing economic activity, but it was about dollar throughput in property that had fallen out of the normal market. He wondered if the dollar throughput was based upon a planned release of these properties by financial institutions. It was anybody's guess as to how much the dollar amount of this revenue would be.

Ms. Rosenthal agreed and suggested that the revenue be viewed in terms of numbers rather than percentages. The numbers were so small that a percentage change could change the number dramatically.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ACCEPT THE TAXATION FORECAST FOR REAL PROPERTY TRANSFER TAX REVENUE OF $50.492 MILLION FOR FY 2011 AND $50.360 MILLION FOR FY 2012, AND THE BUDGET DIVISION FORECAST OF $52.200 MILLION FOR FY 2013. THE MOTION WAS SECONDED BY MR. ALASTUEY.
>
> THE MOTION CARRIED UNANIMOUSLY.

ROOM TAX

Steve Woodbury, Deputy Director, Nevada Commission on Tourism

Steve Woodbury, Deputy Director, Nevada Commission on Tourism (Tourism), referred to a one page handout of information on the impact of the 3% Room Tax increase and Tourism's forecast for this revenue (Exhibit G). He said the forecasts were developed using monthly visitor and room related data starting with the 3/8 of 1%, which funded the Nevada Commission on Tourism, and adjusting the figures out to whatever percentage was applicable by area under Initiative Petition 1 (IP 1). For Clark County, Tourism used actual data through February of FY 2011, including Las Vegas Convention and Visitors Authority (LVCVA) numbers for visitor volume, room inventory, room nights occupied, and occupancy. Tourism assumed cash room nights of 80% of the total room nights occupied, a 3.4% increase in visitation; a 1.8% increase in average monthly room inventory; a 4.3% increase in room nights occupied; and a 1.9% increase in occupancy.

Mr. Woodbury said Tourism was also forecasting an average daily room (ADR) amount of $97.47, which was a 4.4% increase from FY 2010.

Based on that methodology, and using a ratio of actual collections to spread the revenues between various recording authorities, Mr. Woodbury said Tourism's forecast for Room Tax for FY 2011 for Clark County, excluding Boulder City and Mesquite, was $105.9 million, which was a 10.5% increase. For Mesquite, similar assumptions and methodology were used, the projection was $512,000. The same approach was used for Washoe County, and the forecast was adjusted downward by 10% to account for an administrative fee that was imposed by the Reno-Sparks Convention and Visitors Authority (RSCVA). Mr. Woodbury anticipated a decrease in visitation, room nights occupied, occupancy, and a slight increase in cash ADR for a Room Tax projection of $1.27 million.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the Budget Division forecast for the Room Tax revenue was shown on pages 19 and 20 of the General Fund Revenue Forecasts handout (Exhibit D). In addition, on page 6 of The Silver Sage section there was some historical data on visitor volume and inflation adjusted room rates. Ms. Rogers expected a slight uptick in the number of visitors and the room rate, and as a consequence she forecast an increase of 8.2% in the overall forecast for the Room Tax in FY 2011.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon referred to the Fiscal Division's forecast for Room Tax in the Fiscal Analysis Division Forecast Information Packet (Exhibit E) page 107. Table 1 (page 110, Exhibit E), showed the actual forecast, and the following charts showed what was driving the forecast.

Mr. Guindon said the Fiscal Division forecast was not much different than the other forecasts, and was particularly close to Tourism's forecast. He said that David Peterson of the Nevada Commission on Tourism was able to provide some information on the Clark County market indicating that the visitor numbers could be up close to 5% in March 2011. The ADR could be up close to 16%, and that was considered in the Fiscal Division forecast. Mr. Guindon said his original forecast for Room Tax collections for that month had been about $9 million. Information from Mr. Peterson indicated that collections could be over $11 million, which would be close to 30% growth for the month of March. He noted that there were several big events in March 2011, including a NASCAR event, COMDEX, which brought about 150,000 visitors, March Madness, and a new casino opening. He did not feel comfortable assuming that kind of occupancy and visitor growth would continue, so he kept the Room Tax collections in the 2% to 3% range to the end of the year.

Mr. Guindon said the Fiscal Division forecast for Room Tax for FY 2011 was $108.519 million, or 11.1% growth. He said the Room Tax collections in Clark County, excluding Boulder City and Mesquite, were up approximately 15% in the first seven months of FY 2011. To achieve the Fiscal Division forecast, there would need to be only 9.7% growth over the last five months of the fiscal year, and he knew that one of the months would have 30% growth.

Chairman Restrepo asked Ms. Rogers about the difference between her forecast and the other two forecasts. Ms. Rogers stated she used a more holistic model, with room rate growth of 5% to 6% over the next biennium, and visitor volume increases of 3% and 4%. She could not specifically say that what she was seeing was different than the other forecasters.

Mr. Martin noted that the Economic Forum had discussed a great many things in terms of the economy and projections. He was curious about the potential NFL lockout, and how that might affect the revenues for gaming, sales, and rooms.

Mr. Guindon was not certain, but in terms of gaming win, the affect would be small relative to other factors. He noted the Super Bowl generated quite a bit more wagering.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ACCEPT THE FISCAL DIVISION FORECAST FOR ROOM TAX REVENUE OF $108.519 MILLION FOR FY 2011. THE MOTION WAS SECONDED BY MR. ALASTUEY.
>
> THE MOTION CARRIED UNANIMOUSLY.

Mr. Guindon said the Fiscal staff would compile and check the forecast and put it into a format to be presented to the Governor.

Mr. Alastuey noted that the TAC recommendations were made in dollar amounts. He asked if those recommendations would be adjusted to incorporate the decisions made by the Economic Forum.

Mr. Guindon said that the letter would state that the Economic Forum approved the TAC recommendations, and added $23.8 million for net proceeds.

Chairman Restrepo called for a recess of the meeting at 4:35 p.m.

The meeting reconvened at 5:41 p.m.

Mr. Guindon distributed the Economic Forum May 2, 2011, forecast (Exhibit H) to the members for their review and signature. The letter would be sent to the Governor and members of the Legislature and would be posted on the legislative website under the State of Nevada Economic Forum committee page.

Mr. Guindon said the total General Fund revenue forecast for FY 2011 was $3,185,802,035, which was $97,961,321 higher than the December 1, 2010, forecast. The FY 2012 forecast for total General Fund revenue was $2,664,418,019, which was $59,188,113 higher that the December 1, 2010, forecast. The FY 2013 forecast for total General Fund revenue was $2,793,521,094, which was $60,544,076 higher that the December 1, 2010, forecast. The total difference for the three years was $217,693,510. The total difference for the 2011-13 biennium was $119,732,189.

Mr. Guindon pointed out that there have been questions as to whether the FY 2011 forecast mattered, because the Legislature was budgeting for the 2011-13 biennium. Mr. Guindon said it did matter because the current revenue numbers for FY 2011 would go into the fund balance calculation for FY 2011, and could be balanced forward as revenue for FY 2012. There were other factors that went into the fund balance calculation, but assuming all those other pieces were constant, the $98 million was funding to be used for budgeting purposes for FY 2012.

Chairman Restrepo asked for the primary driver for the $98 million difference between the December 2010 forecast of the Economic Forum and the May 2, 2011, forecast.

Mr. Guindon said the difference was shown on the Economic Forum General Fund Revenue Forecast Comparison (Exhibit I). The State 2% Sale Tax forecast was the major positive revision to the forecast. The Gaming Percentage Fee forecast was revised downward. The LET forecast was revised up by approximately $4 million to $5 million. There was no revision to the Insurance Premium Tax forecast. The MBT Non-Financial forecast was revised up by approximately $7 million in the first year, $13 million in the second year and approximately $10.5 million in the third year. The MBT Financial forecast was revised down by approximately $1.1 million to $1.5 million across the three years. The RPTT forecast was revised upward by approximately $5.7 million in FY 2011, $7.8 million in FY 2012, and $6.4 million in FY 2013. Because of the sunset, the Room Tax was forecast for FY 2011 only, and that forecast was revised up by approximately $4.4 million.

Mr. Guindon said for the non-major General Fund forecast from the TAC, adding the $23.8 million was the major change, because of the Net Proceeds of Minerals along with changes to Unclaimed Property amounts. Approximately $12.3 million was added by all other General Fund revenue for FY 2012 and $23.1 million for FY 2013. General Fund sales tax commission was broken out separately, because there were formulas that calculated the amounts. It was much easier to track and reconcile by breaking it out separately.

Chairman Restrepo asked if the $27 million difference in the retail sales tax was largely driven by the mining activity, purchases of equipment and the Ruby Pipeline Project. Mr. Guindon said that seemed to be correct from the testimony provided about the strength in mining equipment purchases, and the Ruby Pipeline Project, and the fact that there has not been a negative month of taxable sales this fiscal year. There seemed to be an indication that there was some stabilization. The big debate for the forecasters and the Economic Forum was whether a recovery was taking place.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM APPROVE THE FORECAST AS PRESENTED IN THE GENERAL FUND REVENUES MAY 2, 2011, FORECAST. THE MOTION WAS SECONDED BY MR. ALASTUEY.
>
> THE MOTION CARRIED UNANIMOUSLY.

Chairman Restrepo noted that all members have signed the letter to the Governor. He asked if all of the members approved the letter as it was written.

> MR. MARTIN MOVED THAT THE ECONOMIC FORUM APPROVE THE LETTER TO THE GOVERNOR AS WRITTEN. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION CARRIED UNANIMOUSLY.

Mr. Alastuey asked if the comparison sheet (Exhibit I) would be included in the material that would be published after the meeting. Mr. Guindon said that was not the intention of staff. However, if the Economic Forum preferred, it would be included and posted on the committee website. As an alternate, it could be posted on the committee website without being forwarded to the Governor and Legislators.

Chairman Restrepo and Mr. Alastuey agreed that there was no need to include the comparison sheet in the report to the Governor and the Legislators, but asked that it be posted to the committee website.

X. PUBLIC COMMENT.

There was no public comment.

XI. ADJOURNMENT.

The meeting was adjourned at 5:54 p.m.

Respectfully submitted,

____
Patti Sullivan, Committee Secretary

____
Becky Lowe, Committee Secretary

APPROVED:

____
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.