MINUTES OF THE MEETING OF THE
STATE OF NEVADA ECONOMIC FORUM

December 1, 2010

The meeting of the State of Nevada Economic Forum (created by Senate Bill 23, 1993) was held at 9:30 a.m. on Wednesday, December 1, 2010, 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
Matt Maddox
Andrew Martin
Linda Rosenthal

ECONOMIC FORUM MEMBERS ABSENT
None

STAFF
Mark Krmpotic, Senate Fiscal Analyst, Fiscal Analysis Division
Rick Combs, Assembly Fiscal Analyst, Fiscal Analysis Division
Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division
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	Table 7 – Major General Fund Revenue Forecasts for FY 2011, FY 2012 and FY 2013 – Fiscal Analysis Division
Exhibit D	Draft Report to the Governor and the Legislature on Future State Revenues – Fiscal Analysis Division
Exhibit E	General Fund Revenue Forecasts – Department of Administration, Division of Budget and Planning
Exhibit F	Forecast Information Packet – Fiscal Analysis Division
Exhibit G	Gaming Revenue and Live Entertainment Tax Forecasts – Gaming Control Board
Exhibit H	Impact of Three Percent Room Tax Increase – Nevada Commission of Tourism

I. ROLL CALL.

Chairman Restrepo called the meeting to order at 9:57 a.m. The secretary called roll; all members were present and attended in Carson City.

II. APPROVAL OF MINUTES OF THE NOVEMBER 5, 2010, MEETING.

Chairman Restrepo asked for a motion to approve the November 5, 2010, meeting minutes included in the meeting packet (Exhibit A) on page 3.

> ANDREW MARTIN MOVED TO APPROVE THE MINUTES OF THE NOVEMBER 5, 2010, MEETING OF THE STATE OF NEVADA ECONOMIC FORUM. MATT MADDOX SECONDED THE MOTION.
>
> THE MOTION CARRIED UNANIMOUSLY.

Before moving to the next agenda item, Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, described each of the various materials (meeting packet, presentations, tables, forecasts and handouts) available for reference at the meeting. Starting with the Economic Forum packet (Exhibit A), he pointed out the inclusion of presentations by the Department of Employment, Training and Rehabilitation and Moody's Analytics, located on pages 77 and 89, respectively. Mr. Guindon noted the tables, which started on page 109 were the same tables included in the November 5, 2010, meeting packet; however, the tables contained updated information. Table 1 (page 109) showed the fiscal year-to-date history through October 2010, as well as six years of fiscal year history for each of the General Fund revenue sources. Table 3 (page 115) included the Agency, Fiscal and Budget forecasts for each of the non-major and major General Fund revenue sources. Mr. Guindon stated Table 7 (page 121) was new for the members in the 2010-2011 forecast cycle, although the Economic Forum had used it for six or seven cycles. Table 7 compared the November 5, 2010, and December 1, 2010, forecasts by forecaster for each of the major General Fund revenue sources considered by the members. Table 4 (page 199) displayed the forecast for the major General Fund revenues sources by forecaster, which was also used at the November meeting. He noted Table 7 was also provided as a separate handout (Exhibit C), in addition to being in the packet. Further, he explained that Table 7 as a separate document would make it easier for the members to use as a reference for side-by-side comparison with Table 4 in the packet. Mr. Guindon noted Table 5 (page 127) showed the Technical Advisory Committee (TAC) consensus forecast from the November 24, 2010, meeting for select non-major General Fund revenues, and Table 6 (page 129) was the TAC's consensus forecast for all the non-major revenues. Agenda Item VI called for review and approval of the Table 6 forecast as the official forecast for the non-major revenues. Mr. Guindon noted he would discuss the major issues the TAC had to consider at its November 24, 2010, meeting, including the downward revisions of the forecast, especially in FY 2011, during Agenda Item VI. Lastly, on page 135 of the packet, as requested by the Forum, were outside reviewer's comments on the economic outlook and revenue forecasts for the State. Mr. Guindon said only one response was received and included in the packet; however, other reviewers were requested to participate, but their schedules did not permit them to do so for the meeting. Brian Bonnefant and Tom Harris, who presented at the November meeting, collaborated with Mark Nichols, Brian Kaiser, Glen Atkinson and Dick Bartholet from the Center for Regional Studies at the University of Nevada, Reno (UNR), to review and comment on the forecasts prepared for the Forum for the December meeting. Mr. Guindon said in addition to the meeting packet the following handouts were also provided as reference materials:

- Gaming Control Board Charts
- Nevada Commission on Tourism Room Tax Forecast
- Budget Division Forecast
- Fiscal Analysis Division Forecast
- Draft Report to the Governor and the Legislature

Mr. Guindon finished his explanation of the meeting materials and the Forum moved to its next item for consideration.

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

This agenda item was taken out of order.

Chairman Restrepo requested an explanation of the analysis and economic overview in the preliminary draft of the Report to the Governor and the Legislature (Exhibit D) prepared by the Fiscal Analysis Division. He asked Mr. Guindon to provide background on the report, as well as address observations and questions from the members.

Mr. Guindon said for historical context the law stated the Economic Forum must present an official forecast of unrestricted General Fund revenues for the biennial budget cycle to the Governor and the Legislature on or before December 1, along with a report on the economic indicators or information considered by the Forum. Since the inception of the Economic Forum in 1994-1995, Legislative Counsel Bureau staff had prepared a draft report and presented it to the Forum members for review and changes. He explained the members would sign a letter to the Governor and the Legislature (before the meeting was adjourned), which would accompany the report and the table with the Forum's official final forecast. Mr. Guindon noted that staff did not editorialize the report, but only provided the basis of the report, including background on national and state history and statistics for some of the major economic indicators, as well as the economic outlook from the national forecasting firm and other additional forecasters. He said staff could make any changes (additions or deletions) the members thought were important for the content, but the goal was to approve the report at the meeting. Mr. Guindon explained there were several options available for the members regarding the report including the following:

- Decide immediately on any small content changes enabling staff to make the changes during the meeting.
- Recess the meeting if the changes were extensive to allow staff to make the changes at their office.
- Decide on any changes later in the meeting providing members an opportunity to listen to presentations during the meeting to consider information for inclusion in the report.
- Decide on any changes and then give staff clear direction on those changes. Provide staff time the day following the meeting to make the changes and give the Chairman the authority to approve staff's changes without the Forum reconvening.

Mr. Guindon thought the report could be streamlined, due to the different outlooks and views. He stressed it was up to the members to decide the content of the report and staff would follow any directives accordingly.

Mr. Alastuey proposed streamlining the report and suggested deleting the section titled Economic Outlook: Fiscal Years 2011, 2012 and 2013 on pages 12 through 15. He thought if this material were included in the final report, it would imply that the Forum based its conclusions on only these particular observations from these particular sources. Rather, he said the final projections for Fiscal Year 2011 and the following two years should be derived from a combination of observations and sources, or derived by the deliberations of the Forum itself. Chairman Restrepo and Mr. Martin both agreed with Mr. Alastuey regarding the deletion of the economic overview section of the report. Mr. Martin thought the report should be streamlined, so the Legislators would read it, but it was up to the discretion of the Chairman.

Mr. Maddox concurred with the other members on the deletion of the section. He also wanted the observations by the UNR professors to be included in the report. He noticed only information from Moody's Analytics was included and thought all the information which the Forum's conclusions were based should be part of the report.

Chairman Restrepo advised staff to delete the economic overview section as recommended by Mr. Alastuey, and add the observations from the UNR professors as suggested by Mr. Maddox.

Mr. Guindon said the deletion of the economic overview section on pages 12 through 15 was clear to staff, but questioned what observations from the UNR professors the members wanted to include in the report. As staff to the Forum, he was not able to make a judgment call on what to incorporate and would need more direction on the intent of the content.

Mr. Maddox suggested adding specific commentary to the report gathered from information received during the course of the meeting. He thought as the members developed ideas for the forecasts then it could be determined what information to include. Mr. Maddox wanted to consider all the available information, not just what Moody's Analytics provided

Mr. Guindon said staff would remove the Economic Outlook section of the report and would add other information as advised by the members during the meeting. He said a motion could be deferred until the letters, report, and tables were finalized, and then approved all in one motion.

III. 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 presented two topics. The first topic pertained to the state's labor markets; he wanted to update the Committee on new information the Department released for the month of October. He wanted to discuss various alternative measures of employment in Nevada and the methods used by the Research and Analysis Bureau.

Referring to Exhibit A, page 78, Mr. Anderson started his presentation. He suggested at the September 2010 Economic Forum meeting, the State was at or near a peak in terms of the unemployment rate. Referring to the unemployment rate, he stated there was positive news in the month of October 2010, when the rate declined to 14.2% in October compared to 14.4% in September. It was Nevada's first decline in nearly five years. On the surface the decline was good news; however, the Department continued to look at the overall situation and he thought at best it showed a stable environment. Mr. Anderson explained that much of the decline in the jobless rate was the result of a decline in the labor force, the number of people looking for work. He said at the November meeting, the State Demographer testified about the loss of approximately 70,000 Nevadans in the most recent estimates of the state population. Mr. Anderson noted the population loss numbers were filtered into the Departments estimates, and an evaluation on a year-over-year basis showed Nevada's labor force down about 50,000 people. An assumption could be made that if those people had continued to search for work, or if the people that moved out of Nevada had stayed, then it was likely they would be counted among the unemployed. These factors appeared to be contributors to the decline in the unemployment rate. Mr. Anderson thought it was good news only on the surface. The chart on page 79 showed Nevada's job losses were more evident than the nation as a whole. With respect to employment, Mr. Anderson said the State continued to see the long-term trend of job loss, which covered the last 15 to 18 months. He said job losses approached double-digits in 2009, but continued to ease in the last part of 2010 with a 2% to 2.5% range in the year-over-year decline. In September 2010 job levels were down 2.1%, with

October 2010 job levels down 2.4% compared to the same period in 2009. Mr. Anderson indicated the Department would be watching this trend in the upcoming months.

Moving on to page 80, Mr. Anderson said the Department's initial claims for unemployment insurance had eased from historical highs and that trend pointed to some stability. However, claims activity – about 20,000 claims monthly – remained at post 9-11 levels, which left considerable room for improvement. Referring to the chart on page 80, he said the best news was derived from the historical data in the previous calendar years, which showed a spike in initial claims for unemployment insurance in the final months of each year and carried into the first months of the next calendar year. Based on the October 2010 data, the State did not have a pronounced spike as shown in prior years; thus, pointing to some stability in the State's labor markets.

Mr. Anderson stated there were approximately 110,000 Nevadans receiving unemployment benefits. As shown in the graph (page 81), to date 45,000 people (dark blue) were on the State's 26-week regular unemployment benefits program, and 65,000 (gray and turquoise) were receiving federally funded extensions. Pertaining to the labor markets specifically, he said the best news was the Department saw many signs of stability and it appeared the worst had passed. However, a particular catalyst that would put the State on a more noticeable growth pattern could not be identified. The Department projected that employment levels would be slightly positive beginning in 2011 and would remain in the slightly positive range over the course of the forecast period. For perspective, Mr. Anderson noted that when the 2009 and 2013 projections were compared, the Department's projection was still at 5,000 jobs below the 2009 projection. He said the Department projected a very moderate uptick in employment levels and given the depths of the downturn, he said the State would not be back to pre-recession levels any time soon.

Continuing with the second part of his presentation, Mr. Anderson discussed various alternative measures of employment (page 82 and 83) and explained he was including the information at the request of the Chairman. The three measures of employment in Nevada include Quarterly Census of Employment and Wages (QCEW), Current Employment Statistics (CES) and Local Area Unemployment Statistics (LAUS). The QCEW was a complete actual count of the number of people working in Nevada establishments, based on wage records submitted by employers in compliance with various unemployment insurance regulations. He said the term census in the name denoted it consisted of a complete count. Another commonly used measure of employment was CES, which was based on a monthly survey of business establishments in Nevada. This measure of employment was a sample of 2,000 to 3,000 business establishments and was model based as opposed to an actual count. The third measure of employment was LAUS and was the least utilized. It was part of the program, which generated the unemployment rate and based on a national survey of about 60,000 households every month (1,000 households for Nevada). This measure produced an estimate and was not a complete count.

Mr. Anderson explained the QCEW and CES (page 84) were the two measures used most often and the measures over time moved closely with each other, but were not identical. At the end of every calendar year, the Department went through a benchmarking process (revisions where the analysis goes back in time) for the QCEW and the CES. Once a more complete set of year-end information was available, the CES data would be benchmarked to the QCEW data. It was expected through the revision process that the two would become more in line with each other for the last year. Page 85 showed the QCEW (complete count), measured on a year-over-year basis, with definite signs of improvement through the first half of 2010, and employment levels down approximately 2% on a year-over-year basis. Referring to the graph on page 86, Mr. Anderson said Nevada QCEW counts, in terms of absolute numbers, had bounced around in a narrow range over the past year. He noted the Research and Analysis Bureau utilized the QCEW information (page 87) because it was a comprehensive data series, based on a complete count, and the Bureau was confident in the data. The only drawback to the QCEW counts was the timeliness of the data. It was only published each quarter, which left a four to five month lag, and to date the Bureau only had data through the second quarter of 2010. The CES data was much timelier than QCEW data, with information available through October 2010. He concluded his remarks on the background of alternative measures of employment and asked for questions.

Mr. Alastuey stated that construction, and leisure and hospitality had served as the State's biggest sector of employment for many years. He asked Mr. Anderson if he thought either of those sectors would lead the State in job gains, and if not, which sector would.

Mr. Anderson said neither construction or leisure and hospitality were considered future engines of growth as they historically had been in previous years. He indicated the largest and most notable sector to withstand the economic downturn was the health services area. It was important to put the forecasted gains into perspective because he thought the main catalyst for the rebound was due to the comparison of such weak numbers from a year ago. Mr. Anderson said for the short term there was not a pronounced growth engine; rather, there was a minimum level of employment in the economy, and the State would slowly grow from those weak numbers.

Regarding the drop in the unemployment rate from 14.4% to 14.2%, Mr. Martin asked Mr. Anderson to comment on the basis of the reduction. Mr. Martin hypothesized if the State was working off a lower base employment number and 70,000 people (according to the State Demographer at the November meeting) left the State or stopped looking for work, then by logic, if for example the number were 500,000, the unemployment rate might be 7% instead.

To help answer Mr. Martin's question, Mr. Anderson provided some historical context. He said in terms of population, Nevada had been the fastest growing state in the nation for the two preceding decades. The State was able to absorb all the new residents that moved to Nevada, and the economy at that time was able to generate employment opportunities; therefore, driving the unemployment rate down to a low of about 4% in 2005 and 2006. He commented that was a remarkable accomplishment for the State's economy. However, now that the state's economy was weak, the attraction to move to Nevada was gone and the State lost approximately 70,000 residents over the previous year. The weak employment levels directly correlated to high unemployment and the State was no longer as desirable for people considering a move. Mr. Anderson said the labor force numbers for the month of October showed a decline of 50,000, which meant people either left the State or had given up the search for work. It was difficult to discern how the numbers were broken down, had all those people stayed in the State and/or continued looking for work they would have been most likely counted amongst the unemployed. That was why he stressed it was good news, but just on the surface, because when delving deeper beneath the number there was not any sign of strength.

Referring to the chart on page 81, Chairman Restrepo asked about the various types of unemployment claims programs, and if the inability of the U.S. Congress to pass extended unemployment benefits affected some of the numbers on the chart.

Mr. Anderson explained that the peaks and troughs of the two upper areas on the chart coincided with earlier decisions by the U.S. Congress regarding extending benefits. There were 65,000 Nevadans collecting extended benefits; however, those people would discontinue receiving benefits between December 2010 and March 2011, and be impacted by the elimination of the extension if Congress failed to extend benefits.

Chairman Restrepo said he found the chart on page 84 concerning QCEW versus CES employment interesting, because the latest data on QCEW was only through the end of June 2010, and the CES from the Department's press release showed a climb in employment of almost 5% year-over-year from October 2009 to October 2010.

Mr. Anderson said the correct number for the climb in employment was 2.4%, not 5%, and approximately 28,000 jobs were lost during that period. He indicated Chairman Restrepo was looking at the LAUS and the Department did not focus on those numbers, but instead used the better measure of employment, the QCEW and then the CES.

Chairman Restrepo wanted to know if the QCEW and the CES tended to trend in the same direction. He asked when the most current information was available for the QCEW, if the QCEW would be closer to the CES, or would the CES be revised to the QCEW, or the other way around.

Mr. Anderson said the QCEW would be closer to the CES. He reminded the members the QCEW was an actual count, so the CES numbers were benchmarked to the QCEW.

Chairman Restrepo thanked Mr. Anderson for his presentation.

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

Dan White, Economist, Moody's Analytics started his presentation on the Regional and State Economic Outlook (Exhibit A, page 89). His presentation consisted of three different parts: 1) a brief overview on any changes in the Nevada Regional Outlook from November 2010 to December 2010 (since his testimony at the November 5, 2010, meeting); 2) the Sales and Use Tax forecast; and 3) the Gaming Percentage Fee forecast. Mr. White asked the Chairman if he should go through all three parts together, or present the Sales and Use Tax forecast and the Gaming Percentage Fee forecast during Agenda Item V.

Chairman Restrepo asked Mr. White to present the latter two during Agenda Item V.

Mr. White prefaced his presentation with information that Moody's Analytics was a separate company from Moody's Investor Service, and none of his comments were to be related in any way to ratings activities.

Mr. White said Moody's had seen a number of different changes in the month since the last Economic Forum meeting. However, in terms of expectations none were surprising, with some good and some bad. Starting with the bad news, he stated housing continued to be considerably depressed in Nevada (page 90). The October 2010 construction completion and permit numbers were disappointing. Due to the extraordinary amount of distress relative to foreclosures, anything to do with residential construction also remained low. Nevada led the nation in foreclosures for the preceding 12 months; 1 new foreclosure for every 75 households was started every month, which was an unprecedented length and breadth of foreclosures in a housing market. He said as a result, Moody's had seen foreclosure inventories at record highs and extraordinary levels. In terms of inventory, at the end of October (according to RealtyTrac), 74 houses were foreclosed upon for every 1000 households in Nevada (1 foreclosure property for every 13.5 households), which was much higher than anywhere in the country. There was a period of time when the state of Florida had similar difficulties, but it saw early signs of recovery while Nevada continued to decline. He noted until foreclosure inventories were drawn down Nevada was not going to see much growth in residential construction. Permits were going to remain extremely low and housing starts were only about one-tenth of the 2006 level. Mr. White indicated that even with the expected growth in employment and the local economy over the next two to three years Moody's did not see foreclosure inventories coming down for at least another year and one-half, or two years. The foreclosure inventory was contingent upon a lag on housing prices (page 91), and prices were expected to continue to fall. Statewide prices were down about 60% from the peak; Moody's expected to see the Carson City and Reno areas hit bottom by the end of calendar year 2011 and Southern Nevada about mid-2012.

Mr. White said visitor numbers were showing some positive signs of recovery (page 92) with a month over month increase 12 of the previous 13 months, after 15 months of declines. At the end of the third quarter, Las Vegas monthly visitor numbers were about 4.8% below the 2007 peak, which he said was encouraging that the State was moving in the right direction. However, the hotel occupancy rates were still lower than desired, but those had stabilized as well. He noted the positive improvement in the last months of 2010 in gaming win per visitor (page 93) was very encouraging. As indicated by Mr. Maddox at the November meeting, Mr. White said conventioneers and business travelers were returning to Las Vegas and were spending more gaming money per visitor than other visitors that boosted the numbers over the summer of 2010. He said statewide gaming win was up 2.5% from the previous year and gaming win per visitor was up 2%, an uptick, which was hoped would continue to rise. Mr. White thought the U.S. employment rate and gaming win per visitor would be a very important relationship going forward, and would explain why it was one of the more important variables in Moody's forecast for gaming.

Continuing on page 94, Mr. White stated employment in general remained flat; however, leisure and hospitality employment had started to stabilize with the huge layoffs of the past subsiding. Over the second and third quarters, Las Vegas leisure and hospitality employment increased by about 1,000 jobs, which was a minimal amount in a workforce of 300,000, but at least it was a positive number rather than a negative number. He said Moody's expected to see leisure and hospitality and construction jobs leading the way into a transition to recovery in 2011, with leisure and hospitality to increase statewide by 7,000 jobs. Although, 7,000 jobs or a 2% to 2.5% increase was not outstanding growth, it was growth and a welcome change from the previous few years. He concluded his presentation on Nevada's economic outlook and asked for questions.

Mr. Maddox asked if the chart on page 95 represented 7,500 additional jobs in the leisure and hospitality sector. Mr. White responded that was correct. Mr. Maddox said he was curious how Moody's determined that the workforce would increase by 7,500 jobs

Mr. White said the data was derived from Moody's macro model and factored appropriately for leisure and hospitality. However, he said Moody's was not forecasting additions to employers in the Las Vegas area, but rather hiring back workers who were already displaced during the recession.

Mr. Martin questioned Moody's forecast regarding the increase in construction employment on page 95. He wondered what Moody's was projecting to be built considering the glut of foreclosed homes and the relatively low occupancy at the casinos. When the State had so many other unresolved problems, he asked what was driving the drastic turnaround in construction jobs.

After discussing the employment data at the November meeting, Mr. White said he rechecked the construction employment number. The reason Moody's saw an increase in construction was due to public works projects. He indicated the projects were not necessarily financed with state money, but rather with federal stimulus money that had not yet been spent. Moody's determined the money had been committed to projects; however, the projects thought to be "shovel ready" really were not moving along as expected. Nationally, an increase in public infrastructure spending was anticipated, but the money was not released as quickly as first thought.

Returning to the 7,500 gain in leisure and hospitality jobs, Mr. Maddox wanted clarification on why companies were going to be hiring more people, especially when no new properties in Las Vegas were scheduled to open.

Mr. White stated Moody's saw an increase in visitor numbers, which meant more occupancy at the hotels. He also said nationwide companies had been hoarding cash for the last 12 to 18 months and not hiring, so would now undertake those types of expenditures again. He thought hiring 7,500 people in a workforce of 305,000 was a reasonable estimate given the increase in visitor volume Moody's expected.

Mr. Maddox clarified it would be the increase in occupancy that would require 7,500 more workers to service the guests. Mr. White concurred.

Chairman Restrepo asked what Moody's assumptions were relative to wages and earnings statewide.

Mr. White said Moody's thought Nevada had held up better than expected regarding average income. Unfortunately, the latest available data was two years old, but it showed the median household income in Nevada at about $4,000 more than the national average. Wages had maintained relatively steady over the last six months in the major growth driving industries of Nevada. Moody's anticipated wage growth to stay at the same levels until there was an increase in hiring, and more educated workers were brought into the workforce. He said one of the issues that Nevada struggled with and particularly in Southern Nevada was low educational attainment. There would be improvement in wages in the next five to ten years, but it would not be considerable over what had happened in the past.

Chairman Restrepo asked Mr. Anderson the same question regarding wage growth and to comment on the trends and patterns he saw for Nevada.

Mr. Anderson said he discussed trends for average hourly earnings in his presentation at the November 2010 meeting, and recapped that the peak was in 2008 with a slight decline since that time. The main reason offered for the decline was the disproportionate impact the downturn had on the construction industry, which on average were high paying jobs of about $59,000 per year versus $43,000 average annual wage all other industries. Looking at the personal income numbers released by the Bureau of Economic Analysis, Nevada had the most pronounced year-over-year declines in the nation as a whole. Given that the Department of Employment, Training and Rehabilitation was not forecasting growth for the construction industry, he thought the trend for decline in total personal income would continue.

Chairman Restrepo asked if the numbers released by the federal government were adjusted by inflation. Mr. Anderson said these were nominal dollars in terms of average annual wages, but if looked at in real terms the results would be more pronounced.

Mr. Maddox commented on what he thought was different for the leisure and hospitality industry in Nevada, particularly in Clark County, compared to national trends. He estimated the net profit for the leisure and hospitality industry in Nevada would be a loss of $1.5 billion. Companies at a loss of $1.5 billion would be very reluctant to expand their expense base and hire many employees.

Chairman Restrepo agreed with Mr. Maddox. He said it was not just an issue of job growth, but also an issue of wealth, wages and earnings, and debt load that had to be considered. He also thought it was an issue of consumer spending, which caused him concern.

Chairman Restrepo asked Mr. White to continue with the second and third part of his presentation, instead of waiting until Agenda Item V, as originally decided.

Mr. White stated Moody's Sales and Use Forecast (page 97) had not changed much since the November meeting. The only changes Moody's saw were in FY 2011 and that strength was due to actual collections. Actual receipts were up 3.6% year-to-date and the forecast was for 3.71%. He said the levels in FY 2012 and FY 2013 were a little higher because of the higher base in FY 2011. Page 98 charted Nevada retail sales and U.S. recreational services expenditures showing spending would boost near-term revenues. Calendar year 2010 presented a large increase, with the expectation for both to maintain growth of about 5% to 6% in the following two years. Housing, on page 99 would continue to be a near-term drag. Because housing made up a large amount of durable goods consumption in Nevada, the large inventory of foreclosures and the lack of residential construction was hurting the Sales and Use Tax forecast. As discussed earlier in the meeting, Mr. White said Moody's expected the foreclosure inventories to be drawn down by the end of calendar year 2012. The chart reflected an annual percentage change in housing; however, since housing starts were only one-tenth of what they were in 2006, a jump from 7,000 to 14,000 looked significant on a percentage chart.

Continuing, Mr. White said that Nevada was going to lag the U.S. overall (page 100) in Sales and Use Tax receipts in FY 2011 and FY 2012, mostly due to the drag from the housing industry. In FY 2013 Nevada would finally see housing starts and housing completions increase slightly from the draw down in the foreclosure inventories. He said the risks (page 101) were unchanged from the November 2010 meeting and included weak discretionary consumer spending because of the lack of industrial diversity, a slowdown in national recovery, and the prolonged foreclosure crisis.

Moving on to the third part of his presentation, Mr. White stated Gaming Percentage Fees (page 103 and 104) presented the most change from the November meeting because of a minor revision to the U.S. unemployment rate forecast. He said there was an uptick in FY 2011 of 4.71% based on indicators that have been actual so far in 2010, and FY 2012 and FY 2013 showed a slight reduction of 1% or 2%. The revision to the forecast, Mr. White explained was made because Moody's had not seen unemployment as high as expected; although, there was an increase in consumer confidence, labor market confidence and more people entering the workforce. The higher rate meant that Moody's expected more people to enter the workforce who were otherwise displaced during the recession, by leaving the workforce completely or leaving the State. That small change equated to an annual percent of 4.71% in FY 2011, 7.17% in FY 2012 and 12.34% in FY 2013. Mr. White reported that the U.S. Recovery would drive the bulk of the growth (page 105) with U.S. disposable personal income expected to continue to be strong and U.S. recreational expenditures expected to tick up. The risks (page 106) were the same as the November forecast and included the slowdown of the national recovery, with the chances of a double-dip recession at a ratio of 1 in 3. Moody's December forecast was being finalized and it was expected the chance of a recession would decrease slightly to 1 in 4. Lastly, he said increased competition from Indian gaming and International properties were also risks.

Chairman Restrepo observed that Moody's unemployment chart showed 6% at the U.S. level, which equated to a 38% reduction from the current position and Mr. White agreed. Chairman Restrepo said if the 38% were to be applied to the 14.2% unemployment to date in Nevada, based on the assumption that the unemployment rate would be 10.3% at the end of 2013, that would be nearly double the State's historical average. He thought Nevada was destined for a period of high unemployment at possibly 10% to ``12% for the next 4 to 5 years, even as the recovery started.

Mr. Maddox said even after the revision, the Moody's forecast returned Las Vegas back to almost peak levels in gaming fee collection within the next 24 months. He stressed the Forum should be very careful when looking at those projections for the official forecast. Even though there was a massive expansion in gaming, both domestically and internationally, consumers were spending less money in Las Vegas on gaming, and more on entertainment. Mr. Maddox said visitors to Las Vegas travel there to participate in activities they cannot do at home, and they can go to a casino at home.

Referring to construction, Mr. Alastuey said there was some concern from those in the industry that the level of stimulus funding that was expected had not been received in terms of execution of actual projects. He reported there was only one large commercial project scheduled to open in Las Vegas in the spring of 2011, and the workers would be displaced when it was completed. In addition, there were two other significant public works projects in Clark County and a performing arts center under construction. He noted that even though there were gains in the construction industry coming with stimulus funding, the sector would still sustain losses.

Chairman Restrepo asked Mr. Alastuey if he was suggesting the net might not be on the positive side regarding construction; Mr. Alastuey said yes.

Responding to Mr. Maddox, Mr. White admitted that 12% was a high growth rate for Gaming Percentage Fees in FY 2013; however, the rate was less than the peak of the State's rebounds in the past. In FY 2006 gaming revenues were up almost 15% and he estimated that in 1998 or 1999 there was another uptick of 15% year-over-year growth. He noted that this peak of growth was significantly lower than in the past.

Mr. Maddox pointed out that in 2006 many new resorts opened, including the first year of Wynn, Las Vegas. In FY 2013 nothing new was scheduled to open, so essentially, the capacity in Las Vegas in FY 2013 would be the same as it was to date. Moody's was forecasting a significant increase in revenue without any increase in supply and Mr. Maddox said that had never happened in Las Vegas.

Chairman Restrepo noted it was very difficult sometimes to use historical metrics and benchmarks to judge the current economic situation, especially in Las Vegas where the conditions were materially different in 2006 compared to December 2010. He thanked Mr. White for his time.

V. REVIEW AND APPROVAL OF 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
F. Nonfinancial Institutions
G. Financial Institutions
H. Real Property Transfer Tax
I. Room Tax

Items A through F were taken out of order by request of the Chairman, and agreed upon by the Forum members.

Mr. Guindon asked Chairman Restrepo and the members to allow each presenter to make his complete tax presentation and forecast for all three fiscal years. At the conclusion of the presentations, the members could ask questions, discuss the forecasts, and decide on the FY 2011, FY 2012 and FY 2013 forecasts.

STATE 2% SALES TAX

Brody Leiser, Deputy Executive Director, Department of Taxation

Mr. Leiser focused on the Department's forecast changes since the November 5, 2010, meeting, because the Department obtained revenue collection data for September that was not available at the November meeting. An estimate of the September collections was made for the November meeting, but actual receipts came in approximately $1.2 million higher than the estimate. The revenues from September were placed into the Department's forecasting model, which produced a $30 million increase over the 2012-13 biennium, compared to the figures presented at the November meeting. He said it was important to include the actual collections from September; however, the Department felt a $30 million increase was too aggressive. Mr. Leiser pointed out that there was data in the September statistical report published by the Department, which was important to have taken into consideration for the adjusted forecast presented to the members at the December 1, 2010, meeting. He said in September the Department saw a 2.1% increase overall in taxable sales statewide; however, Clark County was at -0.9%. It was very rare to have a 3% gap between taxable sales in Clark County and statewide taxable sales, especially since Clark County accounted for almost 75% of statewide sales in a normal month (based on prior analysis). He indicated the Department took into consideration the adverse impact the decline in the construction industry had on Clark County, more than other counties. Using a breakdown of three different North American Industry Classification System (NAICS) categories included in the construction industry, there was a 36% decrease for Clark County; although, for the same classification in the other 16 counties there was 26% positive growth, compared the same month in the prior year. The magnitude of the NAICS categories for construction and the volume of taxable sales it represented helped to explain why there was a 0.9% decrease in Clark County for September 2009 compared to September 2010; but an overall 2.1% growth statewide. Mr. Leiser also pointed out that it did not take much for the smaller counties with $10 million in overall taxable sales to show a large or significant growth, or a large or significant decrease. In the September statistical report many of those counties showed growth of 20%, 30%, 40% or 50%, compared to September 2009; however, the statistical report from September 2009 showed many of those same counties with 10%, 15%, 20% or 30% declines, compared to September 2008. He stated it was important to consider the September statistical data, but the information also raised questions for the smaller counties. The September data for the smaller counties showed significant growth in the manufacturing categories, which could have included large purchases of machinery or equipment contributing to the taxable sales. Those types of purchases had the ability to swing the taxable sales by 20% or 30% if a purchase of the same magnitude did not occur in the same month of the prior year.

Mr. Leiser concluded there were three straight months of positive growth in sales tax from July to September 2010, after relatively flat growth in June 2010. The increase was a positive sign in sales tax collections. He said based on the data from July to September the Department thought it was appropriate to increase the forecast from the November meeting; however, a conservative approach was taken with updating those figures. The Department used the actual collection figures from September in the forecasting model, but thought the growth shown in the model was too aggressive. Mr. Leiser said instead the September figures were averaged with the November forecast to obtain the December forecast, and was as follows for the Forum's consideration (Exhibit C, Table 7, page 1): 2.7% growth in FY 2011, 1.0% growth in FY 2012 and 1.1% growth in FY 2013.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the Budget Division's forecast for Sales and Use Tax started on page 15 (Exhibit E). She directed the members to page 1 of the packet for some background on what she envisioned for the future of Nevada's economy. Table 1 showed some of the recent economic indicators using numbers reported from various agencies. It illustrated that although there had been recent improvements in Nevada on a monthly basis, the State was still the weakest in the nation in terms of these general measures. She explained Figure 1, also on page 1, was the employment forecast used in all of the models presented at the meeting and the models were not built from the bottom up, nor were the models started with individual sectors. She pointed out the model reflected an unusual flat period of employment. Ms. Rogers stated her reason for not seeing improvement, but not seeing a decline either, was the Division's view that Nevada was going to see a major downward drag in construction, leisure and hospitality, and local and state government, three of the State's largest sectors. Those sectors would present the downward drag, which would be partially offset by improvements in other sectors. Page 3 showed employment ordered by size of the sector for Nevada's economy and presented the following year-over-year data:

- Leisure and Hospitality – 3.3 thousand jobs lost
- Trade Transportation and Utilities – 4.3 thousand jobs lost
- Local Government – 3.8 thousand jobs lost
- Construction – 14.7 thousand jobs lost

Ms. Rogers stated she did not see a turnaround in any of those sectors anytime soon; however, there was growth in Professional Services, Education and Health Care. The other sectors would push up the employment and Nevada would end up with a 2% decline. Ms. Rogers explained that all of the models were heavily influenced by the state employment forecast; which had an effect on the Division's forecasts since those numbers were significant.

Table 6 on page 18 presented actual numbers for statewide taxable sales by industry, which included the numbers presented by the Department of Taxation on the top of the page. She reiterated what Mr. Leiser said in his presentation regarding positive growth in taxable sales for the months July through September 2010, after June showed a slight decrease. Ms. Rogers wanted to provide some guidance on the individual sectors and whether the recent changes had a statistically significant bias, either plus or minus. Although only a small amount of data was available, there was a statistical test to determine if a revenue had a positive slope over the preceding seven months, and either yes or no was noted at the bottom of each sector on page 18. She agreed with Mr. Leiser that very small changes in some of the categories could appear to be significant outliers, which meant there was something included in the data that was not expected based on historical data.

Moving on, Ms. Rogers said page 16 showed a graphical presentation of the Budget Division's forecast. She pointed out the Nevada employment by level was shown in Figure 7, and showed the number of jobs in Nevada as relatively flat through the end of the 2009-11 biennium, which translated into relatively flat inflation-adjusted average 2% sales tax revenue (shown in Figure 8, page 16). The forecast on page 17 (Table 5) showed the Nevada Employment yearly and quarterly, the 2% Sales and Use Tax and the 2% Sales and Use Tax excluding amnesty amounts. She assumed the amnesty amount was a one-time number and would not reflect an ongoing increase in the amount of sales tax revenue the State would collect. The Division's forecast showed that sales tax would increase with the rate of inflation and presented a 1.9% growth rate in FY 2011, an increase of 1.2% in FY 2012 and an increase of 2.0% in FY 2013.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon directed the members to the Fiscal Analysis Division Forecast Information packet (Exhibit F) for his presentation. Utilizing the 14 charts (starting on page 1), he intended to explain the Division's view of the economy, and the major economic indicators or drivers, which flowed through the different General Fund revenue forecasts. Mr. Guindon indicated the charts with an "A" in the title showed the levels, and the charts with a "B" in the title showed the percent change of the variable. Chart 1A on page 1 showed historical data on Nevada's total employment (blue line) and in 2010 connected with Moody's Analytics forecast (black line), which utilized data gathered from Current Employment Statistics (CES) numbers. The Division's forecast (red line) was based on Quarterly Census of Employment and Wages (QCEW) data; the information (first quarter QCEW) was used to drive all the Division's forecasts and generate the wage forecasts to determine personal income. Mr. Guindon pointed out the green line on the chart was the Department of Employment, Training and Rehabilitation's current employment forecast and the orange line represented the Division's November 5, 2010, meeting forecast. He said the CES data was more current than the QCEW data so it proved difficult to read the QCEW data relative to the CES data. From analyzing the data, the sectors where the QCEW number for the second quarter was stronger than the CES growth rate for the same timeframe was Mining, Information, Education and Health Care, Leisure and Hospitality, and Retail Trade and Transportation Warehousing. The sectors that were revised down by analyzing the CES growth rate compared to the QCEW was Construction, Manufacturing, Financial Activities and Professional Business Services, and Wholesale Trade and Utilities. He explained the forecasters utilized the available information set in order to determine the forecast, but it was a difficult task. There were some known facts taken into consideration for determining the forecast, including the opening of the Cosmopolitan in Las Vegas and potential American Recovery and Reinvestment Act of 2009 (ARRA) projects. He noted The Cosmopolitan would add some Leisure and Hospitality jobs as well as Retail jobs. The ARRA projects would also add jobs, but it was questionable how many jobs would be gained through these projects. Mr. Guindon stated that even though there were some positives for the next few quarters there were going to be bigger negatives ending with a negative position until the third quarter of

2011. He said in terms of the outlook for employment, the Division had not changed its forecast of where the trough would be, but did not think it would be as deep. Furthermore, one of the downside risks of some of the Division's forecasts was that the employment outlook was revised upward too much.

Moving on, Mr. Guindon turned to Chart 2A on page 3, the Nevada average wage per employee. He said the average wage per employee was difficult to forecast because there was limited data using the QCEW, which included BEA reported wages only through the second quarter. Because the first and second quarter of the QCEW data could be revised, he likened it to forecasting with moving pieces. The chart showed the Division revised its forecast down (red line), compared to the forecast presented at the November meeting (orange line), with Moody's Analytics forecast represented by the black line. The reason the forecast for average wage per employee was revised down was due to the type of jobs that were anticipated to be added to the employment outlook. He explained Leisure and Hospitality and Retail jobs were lower paying, resulting in less average wages per employee, versus Construction or Financial Activity and some of the other categories. The Division found a comfort level in the decision to revise the average wage per employee down.

Continuing, Chart 3A on page 5 showed total wages. Mr. Guindon said the employment changes offset the Division's change in the average wage per employee so there was a slight upward revision in the total wages forecast represented by the red line, compared to the orange line on the chart. Chart 4A on page 7 showed the non-wage component of total personal income, which included transfer payments and unemployment insurance benefits. There was a lot of uncertainty in this area especially if Congress decided not to extend unemployment insurance benefits; therefore, the Division did not change its outlook other than truing-up the take-off point in the first quarter (orange line). Mr. Guindon said looking at Chart 5A on page 9 the non-wage component of personal income was higher than the wage income. He thought it was a telling factor for the state of the economy when the forecast for people working and generating wages was less than other labor income, such as transfer payments. Mr. Guindon wondered if it was a risk to pull down wages too much, or if transfer payments were forecasted too high, or a combination of factors. He explained Chart 6A on page 11 showed a small upward revision in total personal income because of the wage forecast, but there was no change in the non-wages. He said the other charts on pages 13 through 28 included some of the variables such as construction employment, single-family home sales, and vehicle registrations used as background to prepare the Division's taxable sales forecast, which started on page 63 of the packet.

Mr. Guindon stated for the November meeting the Fiscal Division had forecast for the quarter (July, August and September); however, only actual data for July and August was available at the time. The Division had forecast September falling 1% statewide, but when the actual data for September was available, the report showed the State up 2.1%. He knew the forecast was too low for the first quarter of FY 2011 and since it was under forecast, an adjustment needed to be made for the December forecast.

Mr. Guindon reiterated that it was difficult to forecast when counties, which were not usually large contributors in the share of sales tax were up millions of dollars, including:

- Elko County – up almost $20 million or 25%
- Humboldt County – up almost $10 million or 25%
- Nye County – up almost $28 million or 80%
- White Pine County – up almost $11 million or 78%

Mr. Guindon said Ms. Rosenthal's question regarding equipment purchases at the November meeting prompted staff to look at those types of purchases as a contributor to the smaller counties taxable sales. An equipment purchase was advantageous when it occurred because it generated sales tax revenue, but it proved difficult to know whether those types of purchases would continue, since equipment was a durable good. The Division looked at the 17 NAICS categories, which made up about 82% of the total taxable sales and found that for the first two months of FY 2011 there was an increase of 2%. The other NAICS categories made up about 18% of taxable sales and were up approximately 14.5%. Utilizing this information, the Division tried to determine which category included the equipment purchases. He said primarily mining and its support activities; computer and electronic product manufacturing; telecommunications; and professional, scientific and technical services were examined.

Mr. Guindon stated the seven NAICS categories examined made up about 6% of the total taxable sales through the first quarter of FY 2011 and were up 42%. The problem with forecasting was knowing that information and deciding whether it should be built into the forecast or not. He said the beginning point for the Division's forecast started on page 65 of the packet, and included linear regression against personal income, Las Vegas visitors, single-family home sales, and new car registrations. The forecast was built on a per employee basis, but the last three quarters of 2010 were significantly under predicted, which signified there were other underlying factors that had nothing to do with employment and income that were driving the taxable sales during that period.

Mr. Guindon indicated the Division looked at the residual pattern, not the regression equation, to determine what was missing in the equation, and then made decisions for adjustments to the path of the forecast based on that pattern. He thought it could be argued that what was added back to the forecast accounted for equipment and other factors not tied to personal income. Based on all the factors, the Division's forecast showed an increase of 0.2% in taxable sales, compared to -1.5% at the November meeting, which was a dramatic increase primarily due to bringing up the employment, consequently followed by an increase in personal income. He said if nothing was added back into the forecast and no adjustment was made there would have been a -2.2% decline in taxable sales in FY 2011. After adjustments were made and the amnesty added, a 0.2% forecast was derived for taxable sales for FY 2011, 1.3% for FY 2012 and 3.7% for FY 2013. Translated into sales tax collections with amnesty, the forecast showed 0.3% compared to -0.5% in the previous year, which added about $13.1 million to the FY 2011 forecast; 1.3% growth in the second year, compared to 0.1%, which was about $22.2 million higher; and 3.7% growth in the out year compared to 3.3%, which added about $26.6 million. Mr. Guindon said the downside risk to the Division's forecast was not capturing factors counted in taxable sales and making a decision to add that into the forecast. He said the Division's final check was to look at the forecasted 0.3% growth. With that growth rate the State would have to average a decrease of 0.8% over the upcoming nine months of the fiscal year, compared to an average of a -6.6% decrease over the last nine months of FY 2010. Mr. Guindon said because the first quarter of FY 2011 was so strong with amnesty and the month of September was so strong with equipment there would need to be a little less than a 1% decline over the following three quarters of FY 2011, without the amnesty, to achieve the Division's forecast.

Chairman Restrepo asked if the Fiscal Division's FY 2011 forecast of 0.3% included the amnesty, and if it was included in FY 2012 and FY 2013 as well. Mr. Guindon replied the Division's FY 2011 forecast for sales tax in Table 7 (Exhibit C) and Table 4 (page 119, Exhibit A, Economic Forum packet) included the amnesty. He referred the members to Table 1A and Table 1B on page 65 of the Fiscal Division packet (Exhibit F) and indicated there was no amnesty in FY 2012 and FY 2013. Mr. Guindon explained the right side of Table 1B showed what the growth rates for taxable sales and sales tax collections would be without amnesty and that it became a pure number. The Division's forecast showed 1.6% in the third quarter of 2010, a decline of -1.2% in the fourth quarter of 2010, -0.2% for the first quarter of 2011, and 0.3% in the second quarter of 2011. Continuing, he noted the third quarter of 2011 (FY 2012) showed 0.9%, and on the left side of the table with amnesty, a decline of -1.2% was forecast. He explained there was amnesty in the second and third quarters of 2010 and that was why the chart reflected the changes in growth rates between the sales tax collections with amnesty and without amnesty.

Ms. Rosenthal asked if the Department of Taxation or the Budget Division forecasts factored out the abnormal sales tax results statewide in September, or just included the actual results. She used the Fiscal Division forecast information as an example, looking at the numbers without it and then making a positive adjustment to the forecast by adding some taxable sales back into the estimate.

Ms. Rogers asked Ms. Rosenthal if her question referred to accounting for the large equipment purchases. Ms. Rosenthal said she presumed that large equipment purchases were a major reason for the change in the statewide sales tax increase, versus a decline in Clark County.

Ms. Rogers responded the Budget Division's forecast did not separate out individual counties, but utilized the State as a whole. Statistically, she said that was the law of large numbers; therefore, did not try to estimate very small components with a high variability. The Division's model did not look at Clark County in particular to try to figure out why it looked different from the rest of the State; rather it looked at the State as a whole.

Ms. Rosenthal asked if the actual results in September were a surprise and if they varied from Ms. Rogers forecast. Ms. Rogers said she did not think so but would have to go back and look at the results.

Ms. Rosenthal asked if there were adjustments made in the Budget Division's forward-looking forecast because the actual results were strange, and if it were based on all the other inputs.

Ms. Rogers said that was correct, the forecast was adjusted for end points similarly to what Mr. Guindon had done for the Fiscal Division forecast. She stated the model had a tendency to overestimate what the revenues were going to be so brought the Budget Division's estimate down a little bit. Ms. Rogers added that a small statistical adjustment was made, based on the residuals at the end point, if there was a large discrepancy where the model was tracking.

Responding to Ms. Rosenthal's question, Mr. Leiser said the actual figures from September were included in the Department's model in updating the projected amounts; however, were not included entirely. He explained that beyond what showed in the manufacturing categories, which were likely large equipment purchases, the seven out of the nine major indicators that the Department reported on a monthly basis showed a positive increase. He used motor vehicles as an example and a large indicator for the State, which showed positive growth for 14 of the 17 counties in September 2010, compared to 2009. Answering Ms. Rosenthal's question, Mr. Leiser said when the actual figures from September were entered into the Department's forecasting model, in comparison with the figures presented at the November meeting, it would have been a $30 million increase in the figures presented for FY 2012 and FY 2013 combined. The Department thought that amount was too aggressive and decided to average those updated forecasts with the forecasts and figures presented at the November meeting to arrive at the December forecast.

Ms. Rogers said she looked at her forecast from November, and the first quarter of FY 2011 had a 1.5% increase to $189.9 million and the December forecast was a 1.5% increase to $188.7 million; thus, the September numbers did not have an influence.

Ms. Rosenthal noted that in Table 7, even with the large increase in the Fiscal Division budget numbers between November and December it was still markedly below the other forecasts. She asked Mr. Guindon if he had any sense of underlying data that caused the disparity and if the difference of the forecast was because of the Division's projection of employment, or just the way the models came out.

Mr. Guindon said the difference was most likely the equations and the view of the world. The Division brought its employment outlook up and the difference between the red and orange line in Chart 1A on page 1 of the Fiscal Division packet (Exhibit F) equated to 14,000 jobs a quarter and that was an uncomfortable number. The Division looked at the last three quarters of actual data, which the equation was underpredicting. He said the Division used the same equation in terms of the starting point, but the decision was made based on unknown factors with the taxable sales that the equation could not pick up using personal income and other variables, so a positive adjustment was made. Mr. Guindon pointed out that Ms. Rogers probably had a slightly different structural model, which would provide different paths for the end result. Furthermore, different forecasts could be derived because different assumptions could be made and how to translate those assumptions into the revenue.

Mr. Alastuey gathered from the graphic representations in the Fiscal Division packet, and from the narrative in the Budget Division packet that the bottom of the job losses were at a different point. He noted the Fiscal Division's point on the job loss bottom was somewhere in the third quarter of calendar year 2011 and the Budget Division's forecast was mid-calendar year 2012. The Forum had to take into account three quarters difference in time and a steep decline before the bottom was reached, which he thought was significant. He said that unless he missed it there was no discussion about the depth to the difference in spending patterns of future visitors to the State. At the November meeting, the members heard from Mr. Maddox that there might be an indication to the nature of the visitor in Southern Nevada, which might show an improved change. Mr. Alastuey said that there were externals in the Budget Division model, but it did not include a change in consumer attitude, which might be evident in the near future, even if that were an intangible factor.

Ms. Rogers said the model included the number of visitors, so when visitor numbers increased the taxable sales forecast would also increase. Even though the number of visitors was an intangible factor, there was a statistically significant correlation between visitors going up and an increase in taxable sales.

Mr. Alastuey noticed Ms. Rogers used changes in consumer spending on restaurants and accommodations as a sales tax driver in the room tax forecast, but he did not see the estimation procedure for Sales and Use Tax. Ms. Rogers responded it was in the Sales and Use Tax forecast as well.

Mr. Guindon pointed out that visitors were part of the equation, but was not sure if there was enough available history for the coefficient to adjust the current spending patterns of visitors. He said it was difficult for a forecaster to capture the impact of a visitor by determining the relationship between the visitor and the translation into taxable sales. He questioned whether the coefficient would fully capture if the visitor might bring less disposable income or a have a lower propensity for discretionary spending while in Las Vegas. Addressing Ms. Rosenthal, he said there was a difference between the forecasters. The Fiscal Division had the lowest forecast for Sales and Use Tax at the November meeting and is the lowest again at the December meeting; however, the numbers were brought up significantly. He thought the Division's upward revision was due to having had more time to look at the numbers, thus increasing the outlook for employment. He thought the Division's forecast might be too low at the November meeting, but that was where the Division was comfortable at the time. Mr. Guindon explained there would still need to be negative growth of about -0.1% statewide over the second, third, and fourth quarters of FY 2011 in order to hit the Division's forecast. There were a couple of unusual factors in the -0.9% actual numbers in September for Clark County, but not as much as some of the other counties, which made it hard to read. He wondered if the equipment purchases that were included in the equation were finished, which would lower the growth rate for FY 2012, or would the purchases repeat themselves and materialize again in FY 2012 and FY 2013. Mr. Guindon said the Division's forecast was definitely lower than the Department of Taxation and the Budget Division; however, that was where the comfort level was at the time given the Division's view of the world.

Mr. Martin agreed with Mr. Guindon and pointed out the state sales tax base was $755 million in FY 2010 (Table 7) and that the Fiscal Division's revised forecast was $757 million for FY 2011. Because Sales and Use Tax was the largest piece of the puzzle, he urged an extreme amount of caution in choosing a forecast. He cited that people were leaving the State in the tens of thousands, unemployment insurance benefits were expiring for tens of thousands more, construction was stalled, foreclosures were abundant, people were spending less money, people had lower wages, and general deleveraging were all reasons to use caution. He thought there would be some offset with increasing convention traffic, people returning to the casinos, and increasing occupancy rates, but would not be enough to counteract the negatives. He felt the State was most vulnerable in the area of Sales and Use Tax.

Mr. Maddox asked if Mr. Guindon had any sense of how much sales tax was generated by tourists, versus locals.

Mr. Guindon said there were estimates sometime ago; however, he did not remember the numbers. He doubted the estimates would be valid to date in terms of productivity given the current economic conditions

Ms. Rogers thought the Las Vegas Convention Authority used to report the amount of sales tax generated by tourists versus locals, but stopped providing the information because it really did not have any basis.

Chairman Restrepo said all the information presented at the meeting and questions from the Forum members, regarding retail sales tax, was evidence there were levels of uncertainty and poor visibility through at least FY 2011. He thought there should be continued concern about the changes in consumer behavior and spending patterns, primarily because of the nature of this recession not seen in previous recessions. This was a modern times Great Depression and could dramatically change the way people spend money, what they spend money on, and the availability of credit. He wanted the members to further consider and discuss the 0.3% increase forecast by the Fiscal Division; however, he was still concerned that some of that included the amnesty.

After listening to the information and points made by the Forum members, Mr. Alastuey stated he was gravitating toward the Fiscal Division's forecast. He appreciated the rigor that all the estimators had gone through and the depth of consideration when forecasting.

Chairman Restrepo asked for a motion for FY 2011 first and then FY 2012 and FY 2013.

> MR. ALASTUEY MOTIONED TO ACCEPT THE FISCAL DIVISION FORECAST OF 0.3% FOR 2% STATE SALES TAX FOR FY 2011. MS. ROSENTHAL SECONDED THE MOTION.

Mr. Martin commented he was uncomfortable even with the lowest projection, which was the Fiscal Division's $757 million. Although, he could probably be convinced to vote for it since it was almost a flat line, but would not want to see it any higher. He praised the forecasters for a fantastic job at compiling the information. He asked that his comments not be taken as they did not do their job; however, he saw so much downward pressure and many external factors that showed uncertainty in the variables.

Chairman Restrepo suggested a discussion and asked Mr. Martin if he had a particular forecast number in mind. Mr. Martin asked for more background and the thought process on the Economic Forum's choice of the original forecast ($705 million). He was the only member that was not on the Forum at the time of that decision and wanted to know what drove the members to increase the forecast by $50 million.

Ms. Rosenthal pointed out the original forecast was from January 2010 when the economy was falling drastically, but nearly a year had passed and several year-over-year increases had been shown in the actual revenues. She thought that was the reason behind the $50 million increase. Chairman Restrepo said there had been some level of stability; however, it was a challenging task because it was unknown factor how sustainable the stability was going to be in the future. Mr. Maddox said when the January 2010 forecast was selected, the forecasters and the members did not know about the federal stimulus program, which helped to drive the sales tax. He thought many one-time events through the stimulus program caused the Forum to have a lower forecast in January 2010, versus what was presented at the December 2010 meeting.

Mr. Guindon thought Mr. Maddox brought up good points about not being aware of the stimulus program and furthermore the sales tax decreasing at an increasing rate at that time, without knowing where the bottom was going to be. When determining the January 2010 forecasts it was thought the bottom was much deeper and further out, but that view was different now. Mr. Guindon stated that Ms. Rogers made a good point about the $705.4 million being the forecast for FY 2011, prepared in January 2010 based on the forecast for FY 2010 adopted at that meeting of the Economic Forum. He explained that in January 2010, $729.8 million was forecast for FY 2010 and the actual came in at $755 million, due to the last six months of FY 2010 being stronger than forecast. The strength was most likely due to some of the points raised by Mr. Maddox regarding the federal stimulus money. Mr. Guindon noted the bottom line was the $755 million forecast for FY 2011, shown in the tables for the Economic Forum, was the Forum's January 2010 forecast and was included only as a reference point to display the current official Economic Forum forecast for FY 2011.

Chairman Restrepo said the January forecast could be considered a budget number so when the actual revenue numbers came in for the rest of the year it increased due to external factors such as the stimulus programs.

Mr. Maddox said based on the convention business, which was expected to show growth, and a probable correct estimate from the University of Nevada, Reno (27% of taxable sales was based on tourist travel), then the convention business should offset some of the declines that would be evident in the rest of the Nevada economy. He thought that justified the Fiscal Division forecast number.

Mr. Guindon stated the original January 2010 forecast for the State 2% Sales and Use Tax was $729.8 million for FY 2010, a 13.4% decline from the previous forecast. The actual revenue for FY 2010 came in at $755 million or only a 10.3% decline, which was much stronger and assumed to be tied to the stimulus program. The $705.4 million for FY 2011 that was projected in January 2010 to be a 3.3% decline, compared to the January 2010 forecast for FY 2010, now was a 6.6% decline because FY 2010 actually came in higher than forecast. He said the original projections in January 2010 were for declines of 13.4% in FY 2010 and 3.3% in FY 2011.

Chairman Restrepo asked the members if all were in favor of the motion.

THE MOTION PASSED UNANIMOUSLY.

Mr. Guindon stated that the Fiscal Division forecast of $757.383 million would become the official forecast for FY 2011. He asked if staff could carry out the digits to three decimal places instead of just one decimal place (.3), because if just one decimal place were used the amount would become a different number.

The meeting recessed at 12:14 p.m.

The meeting reconvened at 12:26 p.m.

Chairman Restrepo wanted to discuss the recommended forecast for the State 2% Sales Tax for FY 2012 and FY 2013. He said constrained consumer spending, particularly on retail products; constrained discretionary spending; an elevated unemployment rate; and continuing job losses should be factored into the discussion. Although it was unknown if tourist spending would increase, the state of California's economy should also be considered because approximately 30% to 35% of Nevada's visitors were from the neighboring state.

Mr. Alastuey was inclined to narrow the discussion between the Agency, Fiscal Division and the Budget Division forecasts noting the projected sum of each of the entities fell within a narrow spread.

Chairman Restrepo reminded the members that the Forum had the authority to choose its own number, or take an average or any combination of the forecasts presented.

Mr. Maddox asked Ms. Rogers if the Budget Division forecasting model would adjust the growth rate at 1.2%, or would the growth rate be a different figure since the Forum set the base amount for FY 2011 at $757 million.

Ms. Rogers said the same 1.2% growth rate would be used on the lower number.

Mr. Maddox said in that case the Fiscal Division and the Budget Division forecasts were almost identical using $757 million as a base.

Mr. Martin pointed out the numbers looked flat for FY 2012, but there were some diversions between the rate of change for FY 2013 – Agency at 1.1% and Fiscal Division at 3.7%. He favored using the base established for FY 2011 of $757 million from the Fiscal Division and a 1.1% growth rate to extend it outward.

Ms. Rosenthal recommended staying with the Fiscal Division's budget number of $767 million for FY 2012, which when based on the Budget Division's growth gets the forecast to the same number. She would then entertain any of the forecasts for FY 2013 (Agency, Fiscal or Budget); in terms of absolute dollars there was only a slight difference between each forecast. If the member consensus was to take a conservative approach, she said the Agency budget number of $791 million could be adopted. Ms. Rosenthal did not see any reason to diverge and come up with a unique number. She recommended $767 million for FY 2012 (Fiscal) and $791 million for FY 2013 (Agency).

Chairman Restrepo requested the recommendation separated into two motions.

Mr. Alastuey asked for clarification of the amount for FY 2013. Mr. Maddox said it was $15 million higher for FY 2013 than Mr. Martin was suggesting. Just to be clear, Mr. Maddox asked Mr. Martin if he suggested a 1.1% increase of the $767 million. Mr. Martin said that was correct and he was satisfied with the motion for FY 2012, but was suggesting a change for the FY 2013 number.

> MS. ROSENTHAL MOVED TO ACCEPT THE FISCAL DIVISION FORECAST OF $767.444 MILLION FOR THE STATE 2% SALES TAX FOR FY 2012. MR. MARTIN SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

Ms. Rosenthal said the forecast numbers were somewhere between $775 million and $791 million for FY 2013 and asked what the logic was behind the application of a 1.1% increase. Mr. Martin said he looked at the rate of changes proposed, took the latest revision, as of December 1, 2010, which was 1.1% from Agency, and then applied it to the lowest FY 2012 number. He did not see any kind of growth and would actually opt for 0%, but 1.1% seemed consistent with the rest of Table 7, and allowed for some optimism. Mr. Martin thought a 3.7% increase was too aggressive.

Mr. Alastuey said if the number for FY 2013 was only 1.1% above $767 million the Forum would have approved a smaller percentage increase in the second year than in the first year. He wondered about the comfort level of the Forum with that particular approach because it amounted to a declining level of increase followed by a slight recovery. He thought more discussion was necessary to process that information.

Mr. Maddox agreed with Mr. Alastuey. He looked at the historical numbers in 2004 and derived that $775 million of sales tax was collected. If the Forum adopted a 1.1% increase it would be projecting that by FY 2013 the State would be back to 2004 levels, but all the metrics showed the State was exceeding the FY 2004 levels in employment, total jobs, and gaming revenues. He was not sure why sales tax would be an outlier if everything else indicated growth in FY 2013. Mr. Maddox was inclined to adopt Ms. Rosenthal's recommendation to have a little more growth in FY 2013 since the underlying assumptions in the models pointed to growth.

Mr. Guindon commented there might be a difference in thinking about where or how deep the trough might be; however, the Department of Employment, Training and Rehabilitation, the Fiscal Division and the Budget Division forecast employment recovering in FY 2013. He suggested the members decide on a reference point and then settle on whether employment would pick up in FY 2013, because an increase in employment was a driving factor in all the forecasts in Table 7.

Ms. Rosenthal said there was divergence in the forecast for FY 2011 and FY 2012 based on the timing of the recovery, the deepness of the downturn, the employment, and all the different factors that went into the models. She thought FY 2013 was far enough away that the models would converge and agree on the revenue collections at that point in time. She stated there were three different groups, which presented similar forecasts; therefore, she supported choosing one of the numbers presented.

Mr. Alastuey asked Ms. Rosenthal if she wanted to adopt the $767.444 million number in FY 2012 toward the percentage increase the Budget Division suggested, as opposed to the 1.1% suggested by the Agency.

Ms. Rosenthal explained her decision was not based on the percentage change. It was based on her support of the $767 million in FY 2012 followed by acceptance of the Fiscal Division's forecasting model, and that a similar number was derived when the percentage change suggested by the Agency was applied to the lower base. She said this method of calculation gave her comfort.

Mr. Maddox said the $791 million represented a 3% increase in FY 2013 off the figure for FY 2012, which was derived from the use of $767 million as a base, not on a percentage change.

Mr. Martin said FY 2013 was far enough in the future that the numbers would be variable and thought the Forum would end up revising it anyway. He acknowledged being uncomfortable with the number. Even if he was outnumbered in choosing a forecast number for FY 2013, he would accept what the majority decided.

Chairman Restrepo recognized another possibility was to consider a number between $775 and $791 million, which would be approximately $784 million, a 2.3% increase.

Mr. Martin said he respected everyone's opinions. In his experience, the inherent bias in any financial model was that the out years tended to contain optimistic scenarios, which was seen in this case. He expressed interest in Chairman Restrepo's compromise number of $784 million.

Ms. Rosenthal voiced staying with her previous motion of $791.769 million (Agency) for FY 2013. Mr. Maddox added that based on FY 2010 collections of $755 million and then going all the way out to FY 2013 would be less than a 4% total increase. He thought the Forum was being quite conservative with the forecast.

> MS. ROSENTHAL MOVED TO ACCEPT THE AGENCY FORECAST OF $791.769 MILLION FOR THE STATE 2% SALES TAX FOR FY 2013. MR. MADDOX SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

GAMING PERCENTAGE FEE TAX

Mike Lawton, Senior Fiscal Analyst, Nevada Gaming Control Board

Mike Lawton, Senior Fiscal Analyst, Nevada Gaming Control Board said the Board's forecast on Gaming Percentage Fees was only revised slightly from the November 2010 Economic Forum meeting, because nothing had come to the Board's attention that necessitated major adjustments. Since the November meeting, however, the Board incorporated the September 2010 gaming win numbers into the forecast model, which showed an increase in gaming win of .73% for September 2010, versus an 8.98% decrease in September 2009. The September 2010 numbers broke down as a 3.2% drop off in slot spending accompanied by a 2.4% decrease in slot win. He explained it was offset by a 6.8% increase in games and table win, which was due to a 29.68% increase in baccarat win for the month. The month of September showed the largest amount of baccarat win ever recorded by the State at $128.3 million. Mr. Lawton said after entering the September results into the models the slot win forecast decreased $4.5 million, which grew at a modest rate of .27% for FY 2011 compared to the Board's initial projection of .34%. On the game side, he pointed out the results for September had increased the Board's projections by $5.6 million with growth of 3.14% for FY 2011, which was up from the original amount of 2.99%.

Mr. Lawton said the Board's forecast projected an increase in statewide gaming win of 1.29% for all of FY 2011. The first quarter of FY 2011 showed a statewide 2% increase and a 2% increase in Clark County, with all the growth generated on the Las Vegas Strip. The forecast included continued declines for all the other submarkets in Clark County including the Las Vegas Locals market, due to the high unemployment rate and negative equity many citizens of the State were experiencing. He indicated it would be difficult to compare the fourth quarter of calendar year 2010 because baccarat win was up 100% for the period October through December 2009, versus October through December 2008, with games drop up an astounding 40% for the same period. Preliminary results showed the month of October 2010 to be positive in gaming win and collections, which would mark three consecutive months of positive growth since April through June 2007. The positive gaming growth along with increased visitation and passengers at McCarran International Airport for only the third time in three years was a good sign. He said the second half of FY 2011 would contain challenging comparisons with gaming win flat during the second half of FY 2010, baccarat win up 45% in January through May 2010, and drop up 30%. There was still data to support growth including the opening of the Cosmopolitan in Las Vegas on December 15, 2010, with approximately 2,008 new hotel rooms, 83 table games and 1,479 slot machines. Furthermore, the Las Vegas Convention and Visitors Authority forecast 8% to 9% growth in large trade show bookings for FY 2011 in addition to the 1% to 2% growth in overall visitation, with modest gains in the number of flights and seats at the McCarran International Airport.

On Gaming Percentage Fees for FY 2011, Mr. Lawton said fiscal year-to-date the State was up 2%, and the Board projected an increase of 4.95%, with $661.9 million in total collections. He pointed out that the Board was only forecasting gaming win to increase 1.29%, but there would be a large swing in the estimated fee adjustment (EFA) as gaming win started to grow and pushed Gaming Percentage Fee collections to a higher rate. The EFA in FY 2010 was -$7.5 million compared to $3.2 million EFA forecasted for FY 2011. Additionally, for FY 2012 the Board forecast statewide gaming win to increase 2.24%; although, there would still be declines in the Clark County submarkets, including the Las Vegas Locals market. However, as those declines became smaller, a carryover between the Las Vegas Strip and the Las Vegas Locals market was projected to form. He thought a flat trend would be good, but increased growth would take shape as visitation continued to increase and positive national trends finally started to impact the State with increased business travel and consumer spending. The Board's forecast for FY 2012 was a 4.2% projected growth in Gaming Percentage Fees, with

$689.9 million in collections. Lastly, for FY 2013 the Board forecasted a 4.83% increase in statewide gaming win and 6.28% growth in Gaming Percentage Fees, with $733.2 million in collections.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the Budget Division forecast for Gaming Percentage Fees started on page 5 of the Division's packet (Exhibit E), with the actual forecast on page 6. Historical data was included in Table 3 on page 6, which also showed the huge changes in baccarat drop over the past several years. The Division's forecast showed drop in the following two segments: 1) drop excluding baccarat for Clark County and then the rest of the State, and 2) baccarat as a separate forecast. The table on page 9 showed baccarat play contributing huge increases even as the drop from all other games and activities declined. The Division's forecast showed that gaming drop would increase just at the rate of inflation, partly based on the Division's weak forecast for baccarat. Although the drop and the win from the amount played was highly variable she said it did seem to improve things. She did not see a high percentage of baccarat play in FY 2012 and FY 2013, which came out of the model. However, it would not go back to historically low standards, but did not show increased growth either. Ms. Rogers pointed out there was a large component of the EFA that produced the final forecast, which included a 1% increase over the November 2010 forecast. The Division projected 1.8% growth in FY 2011, 1.9% growth in FY 2012 and 2.3% growth in FY 2013, mostly just due to inflation.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon said the Fiscal Division's Gaming Percentage Fees forecast information began on page 29 of the Division's packet (Exhibit F) with Charts 1 through 4 showing total win, slot win and game win for Clark County and statewide per Las Vegas visitor and per statewide employee. The Division's actual forecast was located in Table 1 on page 35 and any projected growth came from the games side, not the slot side. He indicated the forecast did not change much from the November meeting with about three-tenths of a percent growth in the first year or $1.5 million, primarily because there was a downward adjustment on both slots and in games. Mr. Guindon said Table 1 reflected the Division's December 2010 slot win forecast of -0.7% (-0.5% in November), with games win at 3.2% (3.3% in November). He explained the downward adjustment for FY 2011 of $1.5 million was based on win/loss on both games and slots, but the assumptions had not changed about the ratio of the taxable gaming ratio (TGR) to win, or the average tax rates. He said losing a little bit of that win caused a subsequent loss in the amount of the estimated fee adjustment. Table 1 showed the Division's forecast of $2.8 million in November and approximately $2.0 million in the December forecast, with a net loss of $800,000 in the EFA for FY 2011. Moving to FY 2012, he said the growth rate shown was the same in both November and December for percentage fees; however, there were no changes to slot win. Game win was revised down by about a half percent so only growth of 4.9% showed, versus 5.4% in November, because it was thought the State would not be able to repeat the high level of baccarat a year later.

The Division's forecast showed the same 3.2% growth rate for FY 2012 because of the interaction of the net EFA between FY 2012 and FY 2011. He said there was no change in the growth in games or slot win so the EFA was about the same at $5.0 million in FY 2013. The Division projected the same growth rate in FY 2013 of 3.3%, but there was still some loss in revenue because of rolling forward the downward adjustment in the FY 2011 forecast.

Mr. Maddox wanted to understand the total win increase for FY 2011, FY 2012 and FY 2013 from Ms. Rogers and Mr. Guindon. The figures looked off to him with the EFA percentage collection, and thought the Fiscal Division showed total win as basically flat in 2011, up 2.3% in 2012 and 2.7% in 2013. Mr. Maddox commented that the Budget Division's EFA was much lower than the Fiscal Division forecast and asked if the Budget Division forecast was flat. Ms. Rogers said the total win forecast was for a decrease of 0.8% in FY 2011, an increase of 1.6% in FY 2012, and an increase of 2.8% in FY 2013.

Chairman Restrepo wanted the members to keep Mr. Maddox's earlier comments in mind relative to constrained consumer spending on gaming, because of the spread of gaming both nationally and internationally, particularly in Asia. He thought the Forum needed to understand how that impacted gaming revenues, as well as constrained discretionary spending by Nevada residents who were struggling with unemployment and the job market downturn.

Chairman Restrepo provided the following quick overview of the forecasts for Gaming Percentage Fee of the projected growth from FY 2011 to FY 2013:

- Agency – 11%
- Budget Division – 4.3%
- Fiscal Division – 6.7%
- Moody's Analytics – 20.4%

Chairman Restrepo reminded the members none of the forecasts had to be accepted. The Forum could instead decide on a forecast based on professional experience and anticipation of where the future was heading. He asked for a motion.

Mr. Martin motioned to accept the Budget Division's December 1 forecast for FY 2011.

Mr. Maddox said based on Mr. Martin's motion to accept the Budget Division's forecast the Forum would be saying actual gaming win was flat and it was going to decrease by almost 1% over the next nine months. He asked Ms. Rogers to clarify that she said a 0.7% decrease over the next nine months of FY 2011. Ms. Rogers confirmed that figure was correct and explained part of the logic was based on the huge baccarat numbers, which skewed the amounts. Mr. Maddox countered that the baccarat numbers would continue to skew up and said that recent Macau gaming revenues showed an increase of 40% for November, the second largest month on record and in history. He said tracking Macau and Singapore and then comparing it with Las Vegas has proven to be a good proxy for how baccarat revenue was going to perform in Nevada. There were no indications in Wynn's Far East operations that showed baccarat revenue to be abnormal; however, he agreed it was next to impossible to forecast.

Mr. Guindon added for Mr. Maddox that the Fiscal Division had forecasted total win increasing only 0.7% for FY 2011. In order to achieve that forecast, gaming win would need to average about 1% over the remaining months of the fiscal year, and for reference in the same months of FY 2010, there was a decrease of 1.5%.

Mr. Lawton said the Gaming Control Board required a 1.82% rate of growth to get to its forecast amount.

Chairman Restrepo repeated that Agency's rate of growth showed an increase of 1.82%, the Fiscal Division showed an increase of 1%, and the Budget Division showed a decrease of 1%. He said there was a motion on the floor to accept the Budget Division's forecast of an increase of 1.8% in FY 2011. He asked if there was a second on the motion.

Mr. Maddox said based on what the industry was seeing at present, knowing what was coming in the future regarding the convention business and subsequent spending, and the higher room rates, he thought the Fiscal Division's 1% increase was a more likely scenario versus decreasing gaming revenues over the remainder of FY 2011.

Chairman Restrepo clarified the 1% increase in gaming revenues would result in $685 million in FY 2011, and Mr. Maddox agreed with that amount. Hearing no second to the motion Chairman Restrepo said it appeared that Mr. Martin's motion failed.

> MR. ALASTUEY MOVED TO ACCEPT THE FISCAL DIVISION FORECAST OF $658.556 MILLION FOR GAMING PERCENTAGE FEE TAX FOR FY 2011. MS. ROSENTHAL SECONDED THE MOTION.

Mr. Martin was compelled by Ms. Rogers' testimony on the baccarat revenues and the general economy as a whole, especially for FY 2011.

> THE MOTION PASSED WITH ALL MEMBERS IN FAVOR, EXCEPT MR. MARTIN AS OPPOSED.

Chairman Restrepo called for a motion for the Gaming Percentage Fee forecast for FY 2012. Mr. Alastuey asked to hear the Fiscal Division's total win forecast again. Mr. Guindon replied the total win was 2.3% for FY 2012 and 2.7% for FY 2013.

MR. MADDOX MOVED TO ACCEPT THE FISCAL DIVISION FORECAST OF $679.529 MILLION FOR GAMING PERCENTAGE FEE TAX FOR FY 2012. MS. ROSENTHAL SECONDED THE MOTION.

Mr. Martin said given the positive convention outlook, a 3.2% increase did not seem unreasonable with the acceptance of $658 million as the base number. He thought it was a good mid-point.

THE MOTION PASSED UNANIMOUSLY.

Chairman Restrepo asked for a motion for FY 2013.

MR. ALASTUEY MOVED TO ACCEPT THE FISCAL DIVISION FORECAST OF $702.158 MILLION FOR GAMING PERCENTAGE FEE TAX FOR FY 2013. MR. MADDOX SECONDED THE MOTION.

Mr. Maddox clarified that all the motions for gaming win meant that the Forum voted for less than a 1% increase in FY 2011, a 2.3% increase in FY 2012 and a 2.7% increase in FY 2013. He thought it was a very realistic approach to gaming revenues.

THE MOTION PASSED UNANIMOUSLY.

MODIFIED BUSINESS TAX

Brody Leiser, Deputy Director, Department of Taxation

Mr. Leiser started his presentation with the Department of Taxation's adjustments to the financial institutions figures and forecasts. He said the Department's approach to the financial institutions did not change; however, there was an additional quarter of collections included in the December forecast, compared to the forecast for the November 5, 2010, meeting. Due to the additional information, the Department revised its forecast. The model from the November meeting showed a projected amount for the September quarter, which was $350,000 higher than what was actually collected for the Modified Business Tax (MBT) Financial Institutions. Mr. Leiser explained the actual collection figures were incorporated into the forecasting model along with adjustments for amnesty collections from the September quarter, and a small amount from June 2010 to get the revised forecast. For MBT Financial Institutions, the Department showed a 2.9% decrease in FY 2011 compared to FY 2010, a 0.8% increase in FY 2012, and a 0.1% decrease in FY 2013 compared to FY 2012.

Mr. Maddox said all the forecasts on the financial side were less than 10% of the total and were all the same exact number of $20 million; therefore, the Forum should focus on the non-financial in terms of the discussion, and the financial would follow.

Chairman Restrepo asked Mr. Leiser to present information on the MBT Non-Financial.

Referring to the MBT Non-Financial, Mr. Leiser said the Department's focus was to look at wages collected or reported since the fourth quarter of FY 2009. With the additional quarter of data, the Department incorporated the wage information into the projections, and adjustments were made to the forecasting amounts for FY 2011 and FY 2012, compared to the forecast presented at the November meeting. He explained the rate change and the sunset for that rate change were also included in the forecasting model, as well as the collection of past due taxes for FY 2012. The Department's methodology included forecasting wages first and then converting it to revenue. With the tiered tax rate expiring at the end of FY 2011 the forecast showed a significant drop in the revenue for FY 2012 compared to FY 2011. Even as the tiered rate disappeared for the non-financial institutions in FY 2012, the Department anticipated the collection of some past-due revenues that were from periods at the tiered rate. Mr. Leiser pointed out the forecast was within approximately $1 million of what was actually collected versus what was projected in November; however, the impact of the amnesty collections was not incorporated. Once the amnesty collections were taken into consideration it was realized that the projection for FY 2011 and FY 2012 needed to be revised. He said the Department's December forecast included a 2.7% decrease in FY 2011 and in FY 2012; with the rate change it went down to a 39% decrease in the revenue, which translated into a 0.5% to 1% decrease in wages. He said the Department was comfortable with the $220 million figure from the November meeting for FY 2013, based on information from presenters in relation to unemployment and labor force, so it was not revised.

Ms. Rosenthal asked Mr. Leiser to repeat the decline in the wage base for FY 2012 and FY 2013.

Mr. Leiser said net wages were forecasted at roughly $33.760 billion for FY 2011, $33.281 billion for FY 2012 and $34.782 billion for FY 2013.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel directed the members to page 88 of the Fiscal Division packet (Exhibit F), which showed the Division's assumptions for employment growth and non-financial industry employment. He said the Division adjusted its path up slightly over the forecast period and Table 2 on page 86 specifically showed the forecast for non-financial both with and without amnesty. The approach the Division used for forecasting this revenue was on the right side of the table, which contained data without amnesty. The first quarter data for FY 2011 came in without amnesty at -2.7% and since the original forecast from November was at -1.1% it was $1.5 million lower for the first quarter. Because of the impact on the first quarter figures, the first quarter of the Division's fiscal years estimates went down; however, the Division increased the employment path over the course of the forecast. He explained the Division increased its forecast slightly in the first year of FY 2011 and that increased the original forecast approximately $329,000 to $352.600 million or a 3% decrease when the amnesty was added back. About $1.0 million was added to the FY 2012 forecast due to the change in employment. That translated into taxable wages with -3.3% for the first year, -0.2% in the second year and then growth of 2.1% for the third year; thus, over the entire forecast period $1.3 million in tax collections was added to the December forecast. For FY 2013 the Division's forecast was lowered by about $40,000 because of the change in the employment path.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the Budget Division's forecast for the MBT Non-Financial was on page 22 of the Division's packet (Exhibit E). She pointed out the Table was divided into the following categories: non-financial payroll by quarter, non-financial payroll by year, wages, health care payments, modified business tax with and without amnesty, and total amnesty. Ms. Rogers explained that the forecast was close to the same as the November meeting. However, adjustments were made to lower the overall employment and subsequently the wages, in addition to accounting for the first quarter revenues of FY 2011, which were not available previously. Her methodology included forecasting the non-financial payrolls, the health care and modified business tax as if the two-tiered tax rate, which was actually in effect, was not in effect. From that information, the forecast was computed with an effective tax rate, which accounted for the fact that some people's tax rate went down and some went up. The changes made to the Division's forecast were dependant on the additional quarter of data.

Mr. Alastuey asked if the reason the projected declines of 37% to 42% were not the equivalent of the 46% decrease in the tax rate plus the percentage decrease in taxable wages was because of the change in effective rate due to the removal of the cap on the small employers. He wondered why the percentage declines were not higher and was trying to understand the offsetting factor.

Ms. Rogers said some tax rates for businesses were going up and some were going down, and the amount of deducted health care payments was declining. She noted if that amount was not being paid then the collected revenues were increased since there was not an offsetting amount.

Mr. Alastuey asked if the Fiscal Division model had taken those particular things into consideration and if that was the reason the Division was not at 46% plus.

Mr. Reel referred to FY 2012 on Table 2 (page 86) of the Fiscal Division packet. Heexplained that even though the State was reverting back to the 0.63% tax rate for the first quarter of FY 2012 the tax rate was actually 0.651% and then gradually decreased.

The Fiscal Division expected some of the collections in FY 2012 would come from prior periods in FY 2011 so there would be taxable wages that were at the 1.06% rate, which would spill into FY 2012 to drive the average tax rate up beyond the normal 0.63%.

Mr. Alastuey asked if the Fiscal Division included health care in the calculation.

Mr. Reel said yes and the estimated percentage of health care collections were the same as FY 2010. Page 94 of the Division packet showed the factor for health care as 6.5% and it was assumed it would remain constant through the forecast.

Mr. Guindon added that the Fiscal Division phased in the tax rate at the lower rate, but if 1.06% was used and then moved to 0.63% it would be equivalent to about a 40.6% decline in rate. Since the Division had total wages declining 0.2%, which was almost flat, the 40% decline in rate was consistent with the average rate going from 1.06% down to a flat rate of 0.63%.

Mr. Alastuey said he was comparing maximum rate of 1.17% versus the composite rate of 0.63%.

Ms. Rogers said the effective rate used in calculating the Budget Division's forecast resulted in about a 1.58 multiplier toward the constant rate of the 0.63% that had been historically used. That would only account for a 37% decline, except that wages and everything else was also declining.

Mr. Maddox asked if he needed to take wages less the health care payments of roughly $2.8 billion in the Budget Division forecast to have an equal comparison of the non-financial wages in the Fiscal Division's forecast.

Ms. Rogers responded the Budget Division forecast took the total wages minus the health care to determine what was taxed. Mr. Reel said the Fiscal Division forecast used the total wages less the health care.

Mr. Maddox wanted to determine who was forecasting wage increases, but it was hard to tell because the forecasts looked relatively the same.

Mr. Guindon said the Fiscal Division was definitely not forecasting the wage increase in the first year and the second year because it was consistent with the trough of employment and wages out two or three quarters.

Mr. Maddox thought that sales tax and gaming tax would be bolstered by tourism with 25% to 35% of the base coming from people visiting the State. However, MBT Non-Financial was solely based on Nevada hiring and he said based on that he would be more conservative on this forecast.

Chairman Restrepo suggested the members keep in mind some of the themes from the meeting, including the hiring binge that was hoped would come, but may not because of elevated unemployment and a very low propensity or desire by employers to rehire. That being the negative side, the positive side was those employers would cut back on employee benefits like insurance, which would result in a slightly increased MBT. He thought the State would struggle related to payroll tax issues, so the Forum should err on the side of conservatism. Chairman Restrepo asked for a motion for FY 2011.

Mr. Martin agreed about being conservative given the issues with the State's economy.

Ms. Rosenthal asked Mr. Guindon if the motion and vote needed to be separate for MBT Financial and Non-Financial or if it was acceptable for the Forum to vote in total if one particular forecast was going to be followed for both.

Mr. Guindon said it was acceptable for the Forum to approve in total one forecaster's forecast for all three years, otherwise, each piece needed to be approved separately because sunsets were involved that would need to be taken into consideration during the 2011 Legislative Session.

> MR. MARTIN MOVED TO ACCEPT THE BUDGET DIVISION FORECAST OF $351.500 MILLION FOR MODIFIED BUSINESS TAX NON-FINANCIAL FY 2011. MS. ROSENTHAL SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

Mr. Maddox said the Budget Division forecast for FY 2011, FY 2012 and FY 2013 seemed like a good forecast. He proposed for the Forum to adopt the Budget Division forecast for all three years for the MBT to alleviate going through each financial and non-financial, even though there had just been a motion for FY 2011.

> MR. MADDOX MOVED TO ACCEPT THE BUDGET DIVISION FORECAST OF $21.3 MILLION FOR FY 2011, $21.0 MILLION FOR FY 2012, AND $21.5 MILLION FOR FY 2013 FOR MODIFIED BUSINESS TAX FINANCIAL AND NON-FINANCIAL OF $351.5 MILLION FOR FY 2011, $203.8 MILLION FOR FY 2012 AND $208.9 MILLION FOR FY 2013. MR. MARTIN SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

The meeting recessed for lunch at 1:38 p.m.

The meeting reconvened at 2:20 p.m.

INSURANCE PREMIUM TAX

Brody Leiser, Deputy Director, Department of Taxation

Mr. Leiser presented the Department of Taxation's forecast for Insurance Premium Tax. He said the Department utilized the same forecasting methodology as the other taxes, but took into account the additional quarters of data available from the September distributions. The actual revenues came in higher than the initial forecast for the quarter presented at the November meeting. Based on those collections for the quarter the Department thought it was appropriate to revise the forecast up slightly. Mr. Leiser provided the following forecast for Insurance Premium Tax: a 1.9% increase in FY 2011 compared to FY 2010; a 0.4% increase in FY 2012 compared to FY 2011; and a 0.7% increase in FY 2013 compared to FY 2012.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers directed the members to page 16 of the Budget Division packet (Exhibit E) for the Division's Insurance Premium Tax forecast. She said the Division did not change methodology for the forecast from the November meeting, but made adjustments based on the available collection data for the first quarter of FY 2011. The forecast was based on the Insurance Premium per employee so when the employment forecast was adjusted it had an effect on the forecast for this tax. She indicated revenues for the Insurance Premium Tax came in differently than previously forecast. The Division revised its forecast to the following: a 0.7% increase in FY 2011, with a $1.2 million amnesty collection in FY 2010 taken into account (without the amnesty it would be a 1.2% increase); a 1.8% increase for FY 2012; and a 1.4% increase in FY 2013.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto began his presentation on Insurance Premium Tax on page 75 of the Fiscal Division's packet (Exhibit F). He indicated the Insurance Premium Tax forecast was derived from forecasting all the individual pieces separately by using the quarterly collection as a regression equation with those taxes as a function of employment, personal income and existing single-family home sales. The Division increased its forecast based on the increase in employment and total personal income mentioned in earlier meeting presentations, as well as actual tax collection data from prior fiscal years and surplus lines that were trending above the forecast. Mr. Nakamoto said the forecast included an increase of $3.7 million in FY 2011, an increase of $3.4 million for FY 2012 and an increase of $3.6 million in FY 2013.

Mr. Alastuey suggested adopting the Budget Division's forecast for all three fiscal years.

Mr. Martin said he supported Mr. Alastuey's suggestion because he did not see vast differences between any of the forecasts.

Mr. Maddox noted the Insurance Premium Tax had been resilient and only down 7% in FY 2009 and 2% in FY 2010. He thought it was the reason the members were comfortable with it being able to trend itself out and up.

Mr. Nakamoto referred to the chart on page 79 of the Fiscal Division packet, which showed the quarterly premium tax collections per employee. He pointed out even though the tax had been less productive throughout FY 2007, FY 2008 and FY 2009 it was increasing per employee. He said the tax seemed to hold up well in regard to the metric.

> MR. MADDOX MOVED TO ACCEPT THE BUDGET DIVISION FORECAST OF $235.6 MILLION, $239.9 MILLION AND $243.3 MILLION FOR INSURANCE PREMIUM TAX FOR FY 2011, FY 2012 AND FY 2013. MR. ALASTUEY SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

REAL PROPERTY TRANSFER TAX

Brody Leiser, Deputy Director, Department of Taxation

Mr. Leiser said the projections for Real Property Transfer Tax presented at the November meeting did not include the first quarter of FY 2011. The Department's forecast was approximately $4.1 million above the actual collections for the quarter. The Department revised its forecast for the December meeting to include a 1.1% decrease for FY 2011, a 0.8% increase in FY 2012 and a 0.8 decrease in FY 2013.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto said the Real Property Transfer Tax forecast for the Fiscal Division started on page 103 of the Division's packet (Exhibit F). Since the November forecast incorporated most of the first quarter of FY 2011, the Division calculated the December forecast by reviewing changes in the forecast for single-family home sales, completions, and home prices. He pointed out there was very little change in the forecasts with the exception of the Division's existing single-family home sales forecast. Mr. Nakamoto reported the Division's forecast as an increase of $100,000 in FY 2011, an increase of $109,000 in FY 2012, and an increase of $1,000 in FY 2013. He reiterated that the

December forecast was based upon the actual collections information previously known for the November forecast, without the inclusion of any additional information.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the forecast for Real Property Transfer Tax was on page 26 of the Budget Division packet (Exhibit E). She thought the Division's forecast was too optimistic on the anticipated revenue for the first quarter and when that quarter was lowered, it lowered the out years. She pointed out the Budget Division's forecast was the same as the Fiscal Division's forecast and then optimistic in the two out years. There was no change in the methodology of the forecasting, just application of the new data.

Mr. Maddox asked at the levels currently forecasted how far back in time someone would have to look to see when the State was collecting $10 or $11 million a quarter in Real Property Transfer Tax.

Mr. Nakamoto said the graph on page 105 of the Fiscal Division packet showed the actual and forecasted General Fund Real Property Transfer Tax collections. Historically, he indicated the tax had never been at $10 or $11 million per quarter since the tax was initiated during the 2003 Session. However, there were implied collections based on the countywide tax collected, when taken into account showed levels of $10 or $11 million in 1999 or 2000.

For a point of reference, Chairman Restrepo explained the Real Property Transfer Tax was part of the 2003 Session tax package, passed at a time of high growth in real estate. He thought FY 2004 and FY 2005 was probably the peak of real estate value growth in Nevada for housing, commercial, and land. It was a known fact that the real estate industry experienced boom and bust periods; however, the Real Property Transfer Tax was a way to capture growth at that time, although it did not factor in a bust real estate cycle that would ultimately come. With the passage of this tax, the State was anticipating huge growth in the real estate industry on a semi-permanent basis; however, the bust period arrived with dramatic declines in Real Property Transfer Tax collections. He thought the prospect of the State returning to a more abundant real estate market and pricing, should be a factor in future forecasts for the Real Property Transfer Tax.

Mr. Alastuey acknowledged the State was still seeing declines in the average sales price of existing single-family homes in Nevada, especially in Southern Nevada, where existing home closings outnumbered the closings of new homes by about ten to one. He thought the Forum members were surprised by projections of reduced collections in FY 2012, with a small rebound in FY 2013. It seemed the real estate market was still trying to bounce off the bottom and had shown lower levels in the last months of calendar year 2010. On the residential side of the real estate market, he felt there was reason to consider a decline at least in the first year. With low values and sales of commercial property, the commercial side of the market was also questionable.

Chairman Restrepo agreed that transactions on commercial properties and development, as well as sales on land were minimal, with very low values throughout the State

Mr. Martin said he would support the lowest forecast, which was the Fiscal Division. His decision was based on information provided at the Forum meetings regarding the condition of the real estate market. Although there was some hope for an uptick in FY 2013 and beyond, he thought it was best to leave those forecasting decisions to future Forum members.

> MR. MARTIN MOVED TO ACCEPT THE FISCAL DIVISION FORECAST OF $44.804 MILLION, $42.590 MILLION AND $45.843 MILLION FOR REAL PROPERTY TRANSFER TAX FOR FY 2011, FY 2012 AND FY 2013. MR. ALASTUEY SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

LIVE ENTERTAINMENT TAX – GAMING

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mr. Lawton said the Gaming Control Board revised its forecast for Live Entertainment Tax (LET) from the November meeting, The forecast was revised accordingly after Wynn, Las Vegas announced it would raise ticket prices by $110.00 for its Garth Brooks concert. Mr. Lawton said phone calls to others in the industry to see there would be price increases for other shows on The Las Vegas Strip indicated there would not be any additional price increases. The Board revised its forecast for stronger growth over the period based on the improving economy, with increased volume and revenue from the large venues offering live entertainment and facilities with a maximum occupancy of at least 7,500. In FY 2010, this category, large entertainment venues, was down 32.21% from its peak in LET collections. The increase in the Garth Brooks tickets alone boosted the forecast by about 1%. He said year-to-date LET collections were down 0.8% with only three months worth of data. The Board forecasted a 2.3% increase, with $110.7 million in collections for FY 2011; a 2.7% increase, with $113.8 million in collections for FY 2012; and a 3.2% increase, with $117.5 million in collections for FY 2013.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the Budget Division's LET forecast was on page 14 of the Division's packet (Exhibit E). She noted that the November forecast was too high for the first quarter so revenues were adjusted down accordingly; however, the rest of the models and assumptions were the same. The LET forecast reflected the new forecast for visitors coupled with the declining numbers from the base.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon pointed out the Fiscal Division's LET forecast began on page 53 of the Division's packet (Exhibit F). He said the analysis for LET was driven from the visitors forecast and the available information regarding performers in Las Vegas. The Division forecasted on a quarterly basis for LET and the change in the forecast from November resulted in a decrease of $370,000. Mr. Guindon stated that he over forecast actual September 2010 LET collections by approximately $369,000 and adjusted his forecast for FY 2011 based on this information. After making this adjustment to FY 2011 and applying the growth rates from the previous forecast for FY 2012 and FY 2013, he was uncomfortable with the results produced from this exercise. Based on his view of the entertainment market and visitor forecast, a slight upward adjustment was made to the growth rate for FY 2012 to 2.4%, compared to 2.1% in November, and the same growth rate of 3.6% was used for FY 2013. Thus, the Fiscal Division's December forecast for the LET over the forecast period is only slightly lower than the November forecast.

Chairman Restrepo asked Mr. Maddox if there was any upward pressure on additional types of entertainment at Wynn or its other properties. Mr. Maddox said the Garth Brooks concerts were unique in that there was a high demand for that show. However, he thought that Wynn's other shows, as well as shows throughout Las Vegas were struggling, so ticket prices would not increase.

Chairman Restrepo asked for the members to factor in constraint in consumer spending to the deliberations on choice of a forecast for LET.

Mr. Martin was impressed that the numbers produced by all three forecasters were very close based on the ticket sales. Although he did not think the forecasters were working together, in order to be comfortable with the forecasting, he asked to be enlightened on the forecast process. He wanted to know whether the forecast was based only on ticket sales and how accurate the forecasting had been in the past.

Mr. Guindon remarked there was definitely no collusion going on amongst the forecasters. He thought one of the reasons for the similar forecast was that LET was not as volatile as the other previously discussed taxes (Sales and Use, Gaming Percentage Fee, Real Property Transfer or Modified Business). The only information available (reported to the Gaming Control Board) for forecasting LET was collections; no information was reported on the shows, the attendance, or the average price. Where more volatility came into play was when new properties were opening with new shows offered, or celebrities like Garth Brooks who were able to drive up prices. He remarked not much of either of those happened during the 2009-11 cycle. The forecasters took a conservative approach for those reasons, but he did not think it was unreasonable to consider some growth, especially since visitor numbers had increased in most of the forecasting outlooks.

Mr. Martin said he was still impressed that even on the larger taxes, covered earlier in the meeting, that three independent groups of people approaching the forecasting in various ways using different variables could come up with numbers so close to each other.

Ms. Rosenthal reasoned that given the forecasted increase in visitation along with the comments that Las Vegas visitors were spending money on entertainment other than the gaming tables she was in favor of a slight increase in the 2010 actual revenues. She felt there was not much to discuss because all the forecast numbers were so close.

> MS. ROSENTHAL MOVED TO ACCEPT THE FISCAL DIVISION FORECAST OF $109.863 MILLION FOR FY 2011, $112.502 MILLION FOR FY 2012, AND $116.571 MILLION FOR FY 2013 FOR LIVE ENTERTAINMENT TAX – GAMING. MR. ALASTUEY SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

ROOM TAX

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers said the Budget Division's forecast for Room Tax was on pages 27 and 28 of the Division's packet (Exhibit E). Figure 10 on page 27 showed the room inventory as flat throughout the forecast period. She noted the opening of Cosmopolitan was included, but nothing else throughout the biennium. The Division's forecast took into consideration an increase in visitors and the adjusted room rate, which resulted in an increase of 7.1% of $104.7 million compared to the $97.7 million collected in FY 2010.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon said the Fiscal Division's Room Tax forecast was on page 107 of the Division's packet (Exhibit F). The change in the forecast was based on having one more month of information on visitor occupancy, occupied rooms, and the average daily room rate. He pointed out that the collections information used for forecasting lagged the information supplied by the Las Vegas Convention and Visitors Authority. The Division over forecast the level of visitors for September and he explained it was difficult to figure out how to translate rooms occupied into visitors, and then rooms occupied into taxable room revenue. He said the biggest difference for the Division's forecast was the assumption the average room rate would be approximately $93.92 in September and the actual number was $97.25, so the rate was under forecast. He said the Division increased the average daily room rate a little and then had to think about the properties on The Las Vegas Strip, such as the new Cosmopolitan, and other large resorts where the 3% tax applied. The amount of rooms in the city of Las Vegas where only the 2% tax was applied also had to be calculated. All those factors increased the Fiscal Division's forecast by $774,000 to $104.120 million.

Mr. Guindon directed the members to Exhibit H, Impact of Three Percent Room Tax Increase – Nevada Commission of Tourism, prepared David Peterson from the Commission on Tourism. Although Mr. Peterson was not able to attend the meeting, Mr. Guindon thought the handout with the Agency forecast for Room Tax was self-explanatory. The Commission increased its forecast by approximately $700,000 and utilized the same information as the Budget Division and the Fiscal Division. Mr. Guindon said one of the issues between the Commission's forecast and the Fiscal Division's forecast was the assumption that translated the number of rooms occupied times the average daily room rate, which was not received at 100%. The Commission assumed that figure to be 80% and the Fiscal Division assumed it to be 82%. Even if both forecasts had the exact same revenue, the Fiscal Division would end up with a higher forecast overall because Mr. Peterson used a lower ratio and the Fiscal Division assumed a higher ratio. Mr. Guindon said he would answer any questions specific to the Fiscal Division's forecast.

Mr. Maddox said Room Tax was the one segment where there was clarity due to the forward convention bookings so room occupancy was getting better. He thought the 7% to 8% increase for FY 2011 made sense, based on the assumptions.

> MR. MADDOX MOVED TO ACCEPT THE FISCAL DIVISION FORECAST OF $104.120 MILLION IN FY 2011 FOR ROOM TAX. MR. MARTIN SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

VI. REVIEW AND APPROVAL OF FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2011, FY 2012 AND FY 2013 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE AT ITS NOVEMBER 24, 2010, MEETING.

Mr. Guindon said the Technical Advisory Committee met on November 24, 2010, and considered all the non-major General Fund revenue forecasts. The Committee's consensus forecast was on page 131 (Table 6) of the Economic Forum packet (Exhibit A). Pages 127 and 128 (Table 5) showed some of the larger non-major revenues and he explained the following revisions to the forecast:

- Mining Claims Fee (page 129) – Revised down to $18.75 from $25.7 million based on information from the Minerals Division regarding this new fee. Based on year-to-date information the $25.7 million was unattainable.
- Notice of Default Fees (page 130) – Revised down approximately $1.0 million in FY 2011, $1.0 million in FY 2012 and $500,000 in FY 2013. Trending down based

on fiscal year-to-date information and analysis to clear out some of the foreclosure inventory by sending out notice of defaults.

- Insurance Verification Fees (page 131) – Placed in the General Fund for FY 2010 and FY 2011, with the law stating there would be $6.0 million transferred to the General Fund. After analysis, that amount was expected to be unattainable so a downward revision of $2.5 million was made to the forecast, which was more realistic.
- Supplemental Account for Medical Assistance to Indigent Persons (page 131) – Tied to a 2.5 cent property tax rate and forecast revised down from October 2010 by about $2.6 million, based on the FY 2011 estimate for property taxes.

Mr. Guindon said there were other non-major General Fund revenues that were revised, but the net result from all the revenues showed a decrease of $13,791,211 in FY 2011, a decrease of $440,600 in FY 2012, and an increase of $219,400 in FY 2013. Mr. Guindon explained it was within the Forum's authority to change any of the forecasts. However, there was a great amount of analysis by staff and much deliberation by the Technical Advisory Committee so he thought the forecasts of the non-major General Fund revenues were good estimates at that point in time. He said the Technical Advisory Committee would reconvene in April 2011 to prepare for the May 2, 2011, Economic Forum meeting.

Mr. Alastuey said the only variances of note were associated with revenues scheduled to sunset, actions taken during the 2009 Session and the 26th Special Session, which did not have historical data to use for projecting future revenues. He asked if the non-major General Fund revenues forecast numbers could be trued-up at the Technical Advisory Committee meeting in April 2011 after receipt of additional actual revenue numbers.

Mr. Guindon said the Mining Claims Fee was from the 26th Special Session. Analysis was done on the fee and the estimate was prepared, but with the available information, the revenue collections were estimated too high. Now with actual data on the fee to analyze the forecast could be trued-up. The Supplemental Account for Medical Assistance to Indigent Persons from the 2009 Session was dependent upon the forecast for property tax so it could decrease or increase based on actual collection data. Also from the 2009 Session was the Notice of Default Fees, which would be trued-up once more actual collection data was received. Mr. Guindon agreed with Mr. Alastuey that there was not a lot of history to draw upon for many of the fees.

MR. ALASTUEY MOVED TO ACCEPT THE TECHNICAL ADVISORY COMMITTEE'S FORECASTS FROM THE OCTOBER 24, 2010, MEETING, AS PRESENTED, KNOWING THAT THE SAME INFORMATION ON THE NON-MAJOR GENERAL FUND REVENUES WOULD BE AVAILABLE AT THE MAY 2, 2011, ECONOMIC FORUM MEETING. MS. ROSENTHAL SECONDED THE MOTION.

THE MOTION PASSED UNANIMOUSLY.

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.

Mr. Guindon directed the members to page 135 of the Economic Forum packet (Exhibit A) to comments provided by outside reviewers on the economic outlook and revenue forecasts for the State. He thanked the professors and staff from the Center for Regional Studies, College of Business, at the University of Nevada, Reno, for taking the time to review, comment and prepare a summary of conclusions on the forecasts prepared for the Economic Forum. Although it was not a common procedure, Mr. Guindon said the Forum could consider asking outside reviewers to provide written general comment on the state of the economy for the May 2011 meeting.

VIII. INSTRUCTIONS TO TECHNICAL ADVISORY COMMITTEE CONCERNING THE NEXT MEETING.

IX. SCHEDULING OF FUTURE ECONOMIC FORUM MEETING.

Agenda Items VIII and IX were discussed together.

Mr. Guindon said the next Economic Forum meeting would normally be scheduled on May 1, 2011; however, since that date was a Sunday, by law the meeting could be conducted on the next business day. He wanted to get a firm commitment from the Economic Forum members to hold the next meeting on Monday, May 2, 2011. He explained once the Economic Forum meeting date was confirmed, the Technical Advisory Committee meeting could then be scheduled during the last week of April. It would be a tight forecasting schedule for both meetings since the latest information regarding sales tax and other pertinent tax collections would only be available sometime in the last week of April.

Chairman Restrepo indicated the members would look forward to May 2, 2011, as the next meeting date. He asked if the Fiscal Division could provide updates of revised data from the various sources, either monthly or quarterly. Chairman Restrepo also requested it to be sent to the members on a flow basis until the next meeting so the information could be analyzed in smaller increments rather than having it all at once right before the May meeting.

Mr. Guindon said the Division's intent was to provide the members with updated taxable sales and gaming charts, and tracking of the revenue collections. He said keeping the numbers updated proved challenging during the legislative session, but staff would do the best job possible to keep the members informed. He suggested e-mailing staff if there were any questions regarding data and revenue collections.

Ms. Rogers said the Budget Division updated its statistics on a regular basis and the information could be found on the Budget Division webpage under General Fund.

Chairman Restrepo requested that Ms. Rogers e-mail the link to the webpage to the members. Ms. Rogers indicated she would also send an e-mail notification each time updated information was available, including basic economic and revenue data.

X. PUBLIC COMMENT.

Chairman Restrepo asked for public comment and no one came forward.

Mr. Guindon asked the Chairman not to adjourn the meeting in order to give staff time to put the official Economic Forum forecast numbers into the report. Based on earlier discussions, Mr. Guindon explained that staff took out the section of the Forecast of Future State Revenues Report titled Economic Outlook: Fiscal Years 2011, 2012 and 2013, as requested by the members. Staff rewrote another section adding the observations by the University of Nevada, Reno professors and provided it to the members for consideration of inclusion in the report. He indicated the members had the option to approve the changes as written, or make additional changes to be made by staff after the meeting. If further changes were requested by the members then the finished document would be provided to the Chairman for final consent. The report, letter from the members, and forecast table would be compiled and sent to the Governor and the Legislature.

Chairman Restrepo reviewed the newly written material for the report and gave his approval. He said the other members had also approved the changes enabling staff to proceed with the compilation of the report.

Chairman Restrepo said the Economic Forum would recess so staff could prepare the report, letter and table.

Chairman Restrepo recessed the meeting at 3:12 p.m.

The meeting reconvened at 3:49 p.m.

Mr. Guindon provided copies of the official December 1, 2010, forecast table and the Forecast of Future State Revenues report to all the members. He noted the table included the forecast decisions made by the members at the meeting; however, the first two pages of the table consisted of the summary without any detailed information. The official forecasts by the members for each revenue source were located on page 3 of the table. The summary forecasts included information such as the commissions for the Sales and Use Tax calculated using a formula based on the Economic Forum's growth rates. Mr. Guindon directed the members to the FY 2012 column on page 3 to point out that the Local School Support tax (LSST) went down by 12.3%, when everything else was growing at a 2% rate. For the record, he explained the LSST changed from a

2.6% rate for FY 2011 to 2.25% for FY 2012. This was an instance where a sunset affected the forecast produced by the Economic Forum; however, it was not taken into consideration for the December 1, 2010, Sales and Use Tax forecast because the 2% rate was not changed. Instead, the Legislature increased the rate from 2.25% to 2.6% so it appeared in the table as a miscalculation even though it was not, but was necessary with the sunset on the increased LSST rate. He said since the tax was annualized the numbers trued-up in FY 2013 and the growth rates became the same.

Mr. Guindon said page 1 and page 2 of the Forecast Table were included with the report sent to the Governor and the Legislature, but the detail would only be provided upon request. Most parties were only really interested in the totals. He explained that the forecast was the official estimate, which the Governor must use by law to build The 2011-13 Executive Budget. On January 22, 2010, the official Economic Forum forecast was approximately $3,008,278,000 and the official December 1, 2010, forecast was $3,087,840,000, an increase of $79 million for FY 2011. Mr. Guindon explained how the Economic Forum's forecast for FY 2011 still played a role in the 2011-13 biennium budget because it would be used to calculate the ending fund balance for FY 2011 that could be balanced forward into FY 2012.

In addition, Mr. Guindon pointed out the added language in the Forecast of Future State Revenues report, as requested by the members. He suggested the members approve the report contingent upon any verbiage (not substance) or formatting changes staff deemed necessary in order to produce the report. Staff would send any changes to Chairman Restrepo for approval before the report was sent to the Governor and the Legislature. He informed Chairman Restrepo the Forum would need a motion to approve the final forecast, and the motion should also include approval of the report contingent upon non-substantive changes, with the Chairman's approval.

For the benefit of Mr. Martin, who was serving on the Forum for the first time, Chairman Restrepo asked Mr. Guindon to provide a short recap on the expectations of the May 2, 2011, meeting.

Mr. Guindon explained that Governor Gibbons would build The 2011-13 Executive Budget using the Economic Forum's forecast numbers. Governor-elect Sandoval would be sworn in as Governor in January 2011 and he had the ability to revise Governor Gibbons' budget. In the 2011 Legislative Session (February 2011), the legislators examined The Executive Budget in order to make budgetary decisions to produce the legislatively approved budget, using the May 2011 Economic Forum forecasts. On May 2, 2011, the Forum members would have the ability to approve a revised forecast and the Legislature would use the revised forecast numbers for the legislatively approved budget. If the Governor or the Legislature wanted a budget larger or smaller than the Forum's forecasts then actions had to be approved to generate the change in revenue to fund the budget. The Economic Forum's official forecast numbers play a very important role in the budgetary process for both The Governors 2011-13 Executive Budget and the legislatively approved budget produced by the 2011 Legislature.

Chairman Restrepo entertained a motion to approve the Forecast of Future State Revenues for FY 2011, FY 2012 and FY 2013.

> MR. ALASTUEY MOVED TO ACCEPT THE FORECAST OF FUTURE STATE REVENUES PURSUANT TO THE FINDINGS OF THE ECONOMIC FORUM AND THE REPORT GENERATED, WITH ONLY SUCH CORRECTIONS THAT MAY BE REQUIRED TO TAKE CARE OF TECHNICAL ISSUES, NOT SUBSTANTIVE ONES. MR. MARTIN SECONDED THE MOTION.
>
> THE MOTION PASSED UNANIMOUSLY.

XI. ADJOURNMENT

Chairman Restrepo adjourned the meeting at 3:58 p.m.

Respectfully submitted,

____
Patti Sullivan, Committee Secretary

APPROVED:

____
John Restrepo, 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.