MINUTES OF THE MEETING OF THE STATE OF NEVADA ECONOMIC FORUM (NRS 353.226 – NRS 353.229)

November 9, 2012

The meeting of the State of Nevada Economic Forum (created by Senate Bill 23, 1993) was held at 9:30 a.m. on Friday, November 9, 2012, in room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada, with videoconference to room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

ECONOMIC FORUM MEMBERS PRESENT IN CARSON CITY:
Ken Wiles, Chairman
Linda Rosenthal

ECONOMIC FORUM MEMBERS PRESENT IN LAS VEGAS:
Matthew Maddox
Chris Nielsen

ECONOMIC FORUM MEMBERS ABSENT:
Marvin Leavitt

STAFF:
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	Nevada Labor Market Briefing – Department of Employment, Training and Rehabilitation
Exhibit C	Report on the Forecast Accuracy of the Economic Forum for Selected Revenues – Fiscal Analysis Division
Exhibit D	Gaming Tax Charts – Fiscal Analysis Division
Exhibit E	Gaming Revenue Forecasts – Gaming Control Board
Exhibit F	Economic Forecast – Executive Budget Office
Exhibit G	Forecast Information Packet – Fiscal Analysis Division

I.
II. ROLL CALL.

Chairman Ken Wiles called the meeting of the State of Nevada Economic Forum to order at 9:34 a.m. and the secretary called roll. Members were present at the meeting, with attendance in Carson City and Las Vegas, with member Mr. Marvin Leavitt absent excused.

II. PUBLIC COMMENT.

Chairman Wiles asked for public comment from attendees in Carson City or Las Vegas. Seeing none, the Chairman proceeded with the meeting agenda.

Before moving to the next agenda item, Mr. Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau provided an explanation of the meeting materials and handouts to be utilized throughout the meeting. Mr. Guindon said the presentations by Daniel White, Moody's Analytics and Jeff Hardcastle, State Demographer were located in the Economic Forum meeting packet (Exhibit A). Meeting handouts included the presentation by Bill Anderson, Department of Employment, Training and Rehabilitation (Exhibit B); the Gaming Revenue Forecasts, Gaming Control Board (Exhibit E); the Economic Forecast, Executive Budget Office (Exhibit F); and the Forecast Information Packet, Fiscal Analysis Division (Exhibit G). Mr. Guindon pointed out that all the meeting materials were available in hard copy at both meeting locations in Carson City and Las Vegas as well as on the Legislative Counsel Bureau website. Mr. Guindon noted additional materials prepared for the meeting were also available on the website, which may be referenced during the meeting.

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

Mr. White was the Assistant Director in charge of state and local government consulting projects, and the economic outlook for the states of North Dakota, New Mexico and Nevada for Moody's Analytics. He said while Moody's Corporation owned both Moody's Analytics and Moody's Investor Service each were separate entities. He represented Moody's Analytics and nothing he said at the meeting should be misconstrued as having any bearing on any current or future ratings actions for Nevada, the United States, or any countries mentioned during the meeting.

Starting his presentation (page 4, Exhibit A), Mr. White indicated Moody's baseline macroeconomic forecast had changed considerably since he testified before the Economic Forum in May 2011. He said based on Moody's current quarterly model and the forecast for the fourth quarter of 2012 there would approximately be 2% real gross domestic product (GDP) growth in 2012 with a slow expansion to about 2.5% in 2013.

Mr. White reported that beyond calendar year 2012 into calendar year 2013 Moody's anticipated a stronger pace of around 3.5% GDP growth. He noted that Moody's 2012 and 2013 forecasts were slightly more pessimistic than the average U.S. economy forecast, but was more optimistic for calendar year 2014. Moody's anticipated job growth of approximately 3 million jobs a year over the next four years, which equated to about 12 million jobs. The reason for the expected job growth was that businesses in the U.S. had been more profitable (page 5) in terms of their corporate profit margins, noting that the corporate profit margin did not take into account non-corporations. He reported that Moody's was working with ADP to calculate its payroll survey and produce its national employment report, which Mr. White indicated to be a great opportunity for Moody's because that partnership allowed them access to a plethora of data from ADP on firm size and geographic location. One of the noticeable elements of the most recent data was that job growth was increasing at about 2 million jobs a year, with most of it from larger corporations employing more than 100 to 250 people. He said there was less growth on the smaller side of the employee distribution. However, there had been enough economic growth of corporate profits over the last few years to increase from 12% to 18%, because corporations, especially the large ones, had done a good job of streamlining their activities, including employee layoffs. Those businesses had decreased their overhead making them more profitable and the return of economic growth had resulted in record profits. Turning to page 6, Mr. White said record profits coupled with conservative outlays had made corporate business balance sheets (corporations with over 250 employees) very strong in the U.S. Moody's did not see an increase in layoffs, but instead saw a hesitancy of businesses to hire more full-time workers. He reported that in September 2012, there was a surprising drop in unemployment, which was due to the addition of a half million part-time jobs. Those jobs were filled with people who would normally be working full-time, but because their unemployment insurance benefits had expired, they were forced to take part-time work. Mr. White said even though the unemployment rate ticked down somewhat, Moody's saw it pick up again in October 2012 and expected the rate to increase slowly in the upcoming months of 2012 and 2013. Pointing out that small businesses typically were not hiring, Mr. White relayed hesitancy regarding the Affordable Care Act as the reason, especially those businesses that were very close to the 50-employee threshold. He explained that if a business had 47 employees and by hiring more full-time workers pushed the number to over 50 employees that business could potentially have both higher health care costs and a higher liability of providing health care in terms of the Affordable Care Act.

Chairman Wiles asked for clarification because Mr. White had talked about profitability being driven by operational efficiencies that would lead to hiring, but at the same time, Moody's expected unemployment to tick up in the next couple of months. He wanted to know if the difference in the statements was a timing issue

Mr. White said Moody's expected unemployment to tick up slightly and stated it was a workforce issue, but did not mean necessarily that more people would be unemployed. It meant that more people would not be looking for work or underemployed because their emergency unemployment benefits expired. He noted that possibly it was more economical for those people to stay unemployed and not look for work. As part-time jobs were offered in the job market, more people might enter the labor force for jobs that were not necessarily available. He indicated if the labor force was increased, the unemployment rate increased slightly, even though more people were not actually unemployed.

Chairman Wiles confirmed that Mr. White was implying that the labor force participation rate would go back up, which could help drive unemployment even if more people were employed.

Concurring, Mr. White said that was exactly what he meant and the impact would be marginal over the succeeding months, but Moody's did not expect unemployment to be under 7% in the next couple of months.

Returning to his presentation, Mr. White said Moody's also saw a high policy anxiety (page 7) throughout the U.S. He explained that the policy uncertainty index tried to capture all of the policy uncertainty happening in the marketplace not just from a fiscal standpoint, but also from a monetary policy standpoint. He told the members that Moody's reviewed its forecasts every year to determine their accuracy and to determine which forecasts they missed. One of the largest portions of the missed forecasts over the preceding two years was the underestimate of how much people would draw back because they were uncertain about what the policies were going to be moving forward. Some of the components included credit default spreads and the dollar amount of taxes that were set to expire in the next six months. He reported that there was some dispersion that Moody's saw from other forecasters in the inflation forecasts and the unemployment forecasts because the federal government was explicitly targeting inflation, but it also was implicitly targeting unemployment thus showing uncertainty among the forecasting groups. Mr. White expressed that many people were worried about what their 2013 costs would be in terms of taxes and health care, with the biggest portion of that uncertainty centered on the upcoming "Fiscal Cliff" (page 8). He said that the Congressional Budget Office had just released a study reporting if the entire Fiscal Cliff were to occur that the U.S. would definitely go into a recession. Moody's found the Fiscal Cliff to be very significant; if it were to occur in its entirety a 3.5% drag on real GDP growth would develop and decimate any previous growth. Mr. White said Moody's showed a 2.5% growth in calendar year 2013 and did not expect the whole 3.5% drag to hit, but there were a number scenarios that could come into action. He quoted Moody's Chief Economist Mark Zandi when he said, "We expected a reasonably graceful end to the policy mess that we are seeing." It was possibly optimistic, but Moody's thought the Fiscal Cliff might be one of those times where the situation could get resolved through a compromise between Democrats and Republicans. Mr. White proceeded to explain each piece of the Fiscal Cliff, and whether Moody's believed it would actually occur and be a drag on growth in calendar year 2013. Referring to the chart again on page 8 for 2013, he said the first yellow segment was the remainder of the Recovery Act, which shaved off 10 basis points; however, it was not a significant amount in terms of the overall growth. The green section underneath was the Payroll Tax and emergency Unemployment Insurance benefits. He said Moody's anticipated that piece to still be present at the end of 2013 even if there were to be a compromise, because it was always intended to be temporary. There was little interest from either political party for extending it unless absolutely necessary, such as the country entered into a recession. The next piece (purple) in line was Sequestration, generated by the Super Committee the previous year. It was a contentious part of the Fiscal Cliff because it equated to $100 billion in cuts to federal spending beginning in January 2013 of which half would go toward discretionary non-defense spending and the other half toward defense spending. Moody's expected for half to go away in the final agreement and did not expect that to be a 70 basis point drag as shown on the chart, but rather 30 to 35 basis points. The gray portion signified extenders, the alternative minimum tax and various non-controversial small business tax credits, which were extended nearly every year and would be eliminated from the drag in 2013. Mr. White pointed out the tan segment as the least controversial piece of the Fiscal Cliff, which represented the Bush Era tax cuts for those earning less than $250,000 and indicated that both parties in Congress and President Obama had expressed the will to not let those tax rates go back up in January 2013. Mr. White remarked that the real problem was what tradeoff Congress and the President would make in order to have a sustainable fiscal policy going forward. The last section was blue and denoted the Bush Era tax cuts for those earning over $250,000. He said in Moody's baseline scenario it was assumed that those would be eliminated because Moody's thought regardless of a compromise in January 2013 that those higher wage earners would not continue to get that tax cut. If the extended tax cut was taken away and about half of the Sequestration cuts then there would be just over a 1.5% drag on growth in 2013. If that scenario were to take place, Mr. White thought the Fiscal Cliff would not be a straight cliff and would not see all of it in effect in the first quarter of 2013, which would result in more of a fiscal hill rather than a cliff. However, over the course of four quarters it would still make a significant difference. He explained the reason Moody's forecast was 2.5% was they were counting on a 1.5% drag from the Fiscal Cliff. Overall, Moody's expected 3.5% growth in 2013 and that was how they got to a 2.5% forecast for 2013.

Chairman Wiles asked if Mr. White was planning to discuss other tax increases that were scheduled to take effect on January 1, 2013.

Mr. White responded that all the categories on the chart were the tax issues that were scheduled to go into effect as per the current law.

Chairman Wiles said there were other tax increases as part of the Affordable Care Act, such as an additional 3.8% tax on capital gains that was set to take place to help fund Medicare or Medicaid. He explained the capital gains tax rate was currently 15%, with it set to increase to 20% and then with the additional 3.8%, Mr. Wiles said it equated to a nearly 50% increase if both components were factored together. He asked Mr. White how that was evaluated in his forecast.

Mr. White concurred and said Mr. Wiles had brought up a good point. He believed the capital gains piece was included in the Bush Tax cuts for those earning over $250,000 and the Affordable Care Act was current law.

Chairman Wiles asked if Moody's forecast incorporated the other tax increases or other components that would take effect on January 1, 2013.

Replying, Mr. White said those components were included into Moody's baseline forecast, but were not explicitly shown in the chart of page 8

Moving on, Mr. White wanted to explain why Moody's thought there would be a compromise between the political parties, especially given the extremely divided nature of the election just days prior to the Economic Forum meeting on November 6, 2012. He said there were many skeptics on whether the policymakers could actually get through the process and showed a chart on page 9 depicting the context of the argument on how far apart expenditures and federal revenues were as a percentage of GDP. Mr. White said historically, there were many occasions when Congress made compromises when there were absolute consequences that would occur right away, including the Bush Era tax cuts in 2010, the government shutdown in 2011, and the Debt Ceiling in 2012, where there was less than 24 hours left before the Treasury would have had to start defaulting on debts. None of those compromises were graceful, but nonetheless the compromises were made. However, in the case of the Fiscal Super Committee, Congress tried to create a crisis, which he equated to an artificial gun to hold to Congress' head, but the gun was not scheduled to go off for 13 months so there was no incentive to make a compromise. Mr. White indicated that another financial issue would occur approximately in early April with the Debt Ceiling (page 10), which would be dependent upon what the Secretary of the Treasury could do to prolong the nation's debt payments. There were many negative connotations and negative economic concerns that accompanied the Debt Ceiling. He said Moody's did not assume that the government was going to go off the Fiscal Cliff, because the Debt Ceiling alone was going to want Congress to make a deal that would at least prolong it for a determined amount of time. However, if the Fiscal Cliff occurred in its entirety in January 2013, which it could temporarily, the U.S. would go back into a recession. Moody's assumed in its baseline forecast that the Fiscal Cliff would happen temporarily. Mr. White proposed that two possible scenarios included Congress and the President extending the current policies in the remaining weeks of 2012 until the Debt Ceiling occurred in April 2013, or the U.S. would go off the cliff in January. Even though the Treasury could lessen the impact by utilizing methods to ease the burden of a temporary Fiscal Cliff on the public, such as not taking additional withholding out of paychecks because a deal would eventually be reached, Mr. White thought it would decimate U.S. growth in the first quarter of 2013. He said the nation would see negative GDP in the first quarter of 2013 and unemployment would rise again to 9% or 10%, which would drive the nation into a recession. Economically it would not be a pleasant situation, but from a fiscal standpoint, Mr. White reasoned it might be beneficial because it would finally force all the cuts and the tax increases that had to be made in order to put the U.S. back onto a sustainable fiscal path. He projected the process would be unpleasant; however, it would get the job done quickly so there would not be any debt ceiling negotiations. On the other hand, he did not think that any of the Washington policymakers regardless of their party affiliation wanted the U.S. to go back into a recession so a reasonable outcome would be to arrive at a compromise prior to the Debt Ceiling deadline.

In order for the members to have a better idea how any potential resolution would impact Moody's growth forecast, Chairman Wiles inquired whether Moody's had an opinion about the relative benefits of closing budget deficits with tax increases versus spending cuts. He asked whether it was better to increase taxes, reduce expenditures or a combination of the two.

Referring to Moody's baseline forecast, Mr. White replied that the only tax provision it had included in a possible Congressional deal were those earners over $250,000 going back to the pre-George W. Bush tax rates. Moody's expected everything else to be on the spending side of the equation. Mr. White said another important long-term piece that needed to be addressed in the subsequent months was entitlement reform, which included the Medicaid program. He indicated that even with the Affordable Care Act there was still a structural imbalance for many states between how much money would have to be spent on Medicaid, and how much money would be generated in tax revenues to support Medicaid. Mr. White said that in actuality the details of a compromise had less of an impact on Moody's growth forecast either way. He thought the most important part would be for Congress to come to a compromise with a deal that was executed quickly and with transparency. Mr. White believed that alleviating the uncertainty of when a deal was going to happen was more significant than the actual deal.

Recalling that he had covered two scenarios regarding what actions Congress might take regarding the Fiscal Cliff, which were to have a semi-graceful conclusion or to go off the cliff and suffer economically for another four to five years in order to get back on track to fiscal sustainability, Mr. White said there was another scenario. The third scenario would be for Congress to enact a one-year extension. Politically, he thought it was the most likely of the three, but as a result, the Debt Ceiling would have to be raised. It was unclear whether all the Republicans in Congress would vote for the extension and raising the Debt Ceiling. In addition, Mr. White indicated that if Congress were to opt for the extension, Fitch Rating Service and Moody's Investor Service (not affiliated with Moody's Analytics as previously stated) ratings agencies publically stated they would downgrade the U.S. debt rating because it would show fiscal imbalance. He noted that Standard and Poor's Ratings Services (S&P) had previously downgraded the U.S. debt rating the previous year and there was some controversy whether it was correct for them to have lowered the debt rating. The action by S&P did not have a large impact because it was only one of three agencies that provided debt rating. However, if the other two agencies were to do the same it would mean all three ratings agencies had put the downgrade into effect. Mr. White said the implications of that move would be huge, as it would send a negative message to markets and the rest of the world. Many other credit instruments that were backed explicitly or implicitly by the U.S. government would conversely be affected, including Fannie Mae, Freddie Mac, some banks and numerous state and local governments. He said in Moody's opinion if Congress were to vote for an extension and the U.S. received debt ratings downgrades from Fitch Rating Service and Moody's Investor Service, the U.S. would go back into a recession. It would probably not be as deep a recession as if the government went completely off the Fiscal Cliff, but the decision would not get the U.S. anywhere closer to fiscal sustainability.

Chairman Wiles asked if the expectation that it would push the economy back into recession was based upon the belief that a downgrade would drive interest rates up.

Responding to the question from Chairman Wiles, Mr. White said partially because it would drive interest rates up; however, the Federal Reserve had proven that it would take any steps necessary steps to minimize the impact (page 11). Mr. White said one of the problems in addition to the potential for interest rate increases was the loss of certainty. The economy had shown subpar growth into its third year following the Great Recession and the reason the economy had not progressed faster was mostly because people and businesses had no idea what was going happen in 2013 in terms of tax and health care costs. Businesses were going to be hesitant on hiring full-time employees until they knew their future cost structures and consumers were not going to spend until they knew their future tax rates. Mr. White said the savings rate was still high and that uncertainty coupled with the increase in interest rates would drive the nation into another recession. To highlight the activity of the Federal Reserve, Mr. White noted that Chairman Bernanke had announced that interest rates would be kept at their present rate through early 2015. It was a bold statement by the Federal Reserve, which provided some certainty and caused the anxiety measure to fall slightly in the last half of 2012; however, he expected the anxiety measure to increase in December 2012 into January 2013. Mr. White said the Federal Reserve had also announced some controversial QE3 measures that sent a message to financial markets and to investors that the Federal Reserve was going to do as much as possible to lessen any impact that would come as a result of fiscal policy.

Continuing, Mr. White said that housing had been a major impediment to economic growth since the end of the Great Recession and even before. There was a large amount of distressed property (page 12) and it was taking a long time to work through the entire inventory. He reported that approximately 1 in 83 houses in the U.S. were in some form of foreclosure and that number was only down from 1 in 88 houses in the previous months of 2012, which was not the progress Moody's wanted to see in the current fiscal environment. The good news was that housing prices were starting to come back throughout the nation, including Nevada, and one of the reasons was that the discount between a foreclosed property and a normal property was starting to shrink significantly. Mr. White noted that the latest data from Las Vegas showed no discount existed any longer. The disappearance of the discount meant that actual homeowners were taking advantage of buying the foreclosed properties, rather than just investors snapping up the cheap properties, which would increase the demand for home purchases. People buying homes again for owner occupancy was a great outlook for the economy. Another encouraging factor in housing was that vacancy rates were starting to come back down to what Moody's expected to be the historical trend (page 13) of housing demand and housing supply. Mr. White said Moody's pegged housing demand at about 1.5 million in an average year before going into the Great Recession, which consisted primarily of household formations. He cited that household formations dropped dramatically during the Great Recession because there were many 25-year-old college graduates who could not find a job that were forced to move back in with their parents, or had to live with several roommates in order to make ends meet. Those people are now 30 years old with a slightly better paying job and so Moody's expected to see some pent up demand in terms of household formations, which increased slightly above the average number of 900,000. Another part of housing demand resulted from obsolescence, which were older homes becoming unlivable due to their age or unlivable from natural disasters, such as the Hurricane Sandy on the east coast in October 2012. Mr. White reported there would be about 400,000 homes a year that had to be rebuilt or replaced because of obsolescence. A smaller, yet not insignificant part of housing demand was second homes. Moody's had not seen a dramatic drop during the Great Recession as in other household formations mostly because people who were fortunate enough to be able to afford a second vacation home probably were not greatly affected by the recession. Referring to the chart on page 13, Mr. White noted that the breakdown of housing supply was about 800,000 new homes per year. Even though housing demand had fallen during the recession, it still stayed fairly strong because of obsolescence, but housing supply had fallen dramatically with an expectation of 800,000 at the end of 2012. He said during the Great Recession home supply went down to about 500,000; however, the supply dropped off so much that in the last year there had been an increase in demand so the amount of vacant homes had decreased significantly. Moody's expected that to continue into 2013 and the first part of the year for demand to be so much higher than supply that vacancy rate would fall below trend. When that happened homebuilders would start construction again and recent data indicated there were some housing starts, an incremental increase in permits and an increase in construction employment. It was the first time there had been two consecutive months of construction employment growth in a long time. Mr. White said Moody's was concerned that wage rates in construction had not turned around as significantly as hoped, but as more activity took place then the rates would also increase. Turning to page 14, Mr. White pointed out that commercial construction had hit bottom and was at its lowest since 1960. However, he said that commercial construction had started to bottom out and beginning in about 2011 it had started to bounce along the bottom. Mr. White noted that these had been significant headwinds for recovery since the end of the Great Recession and at the very worst the numbers would become neutral with tailwinds seen in 2014 or 2015 as construction activity picked up and more construction jobs came on line.

Chairman Wiles asked how sensitive Moody's estimates were of the tailwinds beginning in 2015 and 2016 to potential increases in interest rates in light of the Federal Reserve indicating it would basically maintain a zero interest rate policy through the middle of 2015.

Mr. White said that was a good question, but he would have to look at data for the U.S. level in more detail and could provide an answer at a later time.

Chairman Wiles understood it was two years off but the members had to forecast for a longer period of time. He believed that the current federal funds target rate was between 0 and 25 basis points; however, an increase to 75 or 100 points might mean 30-year mortgage rates would increase from 4% to 5%, which might not have a big impact. He indicated if target rates went from 200 to 300 basis points then the nation could be see 30 year mortgage rates from 6% to 8% and that would certainly have an impact. Chairman Wiles noted that credit standard and lending rules also had an impact with those typically tightened as rates went up.

Mr. White remembered that he had some information in the Nevada Sales and Use Forecast on this topic (page 26), which showed Moody's forecast for housing completions in the U.S. He said the data suggested that at the end of 2014 the U.S. number flattened out and that was the impact the Chairman was referring to, but would talk about it more in the Sales and Use Tax forecast.

Moving on to page 15, Mr. White said the European financial market also had a bearing on the U.S. economy. Moody's baseline forecast indicated that the Euro Zone was not breaking up and did not see Greece leaving the Euro Zone. One of the reasons Moody's did not see either of those situations happening was because the European Central Bank (ECB) had taken extraordinary steps to insure that there was not a European bank failure, which would be very detrimental. There were a number of programs to alleviate that issue, with the most important one being the outright monetary transaction program. The monetary transaction program made the ECB the buyer of last resort for European sovereign debt, which he said in its most simplistic form was open-ended QE. There had not been any countries opting for that program because it meant the country sold its debt directly to the ECB and gave up fiscal sovereignty with the European Commission deciding the that country's fiscal policy for several years. Mr. White said that was politically unpalatable with European member countries. Just the presence of the program had helped as shown by the Spanish 10-year sovereign yields on the chart, which was similar to what Moody's saw when the U.S. government said it would implicitly backstop some of the banks after the financial crisis. He thought the fact that the program was there hopefully would keep Europe together and from going any deeper into a recession.

Mr. Matt Maddox said Europe was extremely complicated and asked Chairman Wiles if Mr. White could move on to the Nevada forecast.

Chairman Wiles asked if Mr. White's presentation on Europe was much longer and Mr. White replied he was almost finished. Chairman Wiles indicated he could continue.

Mr. White commented that Europe was not as big of a risk to the U.S. outlook as it once was, but it was still quite a significant risk.

Turning to the Nevada economic outlook (page 18), Mr. White said the state was firmly in the early stages of its recovery following a very long recession. He noted that toward the end of 2011 the pace of recovery in Nevada was actually higher than the pace of recovery in the U.S. According to the chart, there were two dips in employment in the first and third quarters of 2012, but Mr. White did not think the Nevada recovery was as weak in the first quarter as the chart depicted. He thought it was mainly due to how the U.S. Bureau of Labor Statistics (BLS) computed the employment data. Mr. White explained that the BLS in Washington centralized how employment was estimated in all states in order to make it more consistent, standard and efficient. Another purpose of the centralization was to ensure that non-seasonally adjusted data did not show seasonal patterns; however, Moody's noticed that the BLS was not catching some of the seasonal adjustments in industries such as retail and local government, which had seasonal patterns. Mr. White pointed out the current employment survey data on page 19 included Quarterly Census of Employment and Wages (QCEW) and Current Employment Statistics (CES) data for Nevada retail employment. The CES employment survey data was gathered monthly and was continually revised and those revisions were based on the QCEW data, which was much less timely, but a more complete count of jobs in the U.S. He said that every February the BLS met to release its employment revisions for the previous year for a completed total count of jobs, which then aligned the CES numbers with the QCEW data. He said when Nevada's employment numbers dipped below the U.S. average in the first quarter of 2012 was when the QCEW and the CES data were most divergent. Mr. White thought the BLS had trouble with the seasonal adjustments and incorporating the benchmark revisions into the new employment estimates at the beginning of 2012 because most of the industries received the largest revisions in February coupled with the biggest drop-offs in February in terms of CES data. He expected in February of 2013 for the BLS to revise its numbers and for the Nevada employment data to be more in line with the U.S. average for the first quarter of 2012. Mr. White said it was clear that the pace of job growth was slowing considerably in Nevada and was consistent with the slowing of recreational consumer spending in the U.S. Recreational consumption expenditures were one of the biggest drivers Moody's used in its forecasting, which had fallen off by about half from the previous year. He reported that the pace of growth and leisure and hospitality employment in Nevada the main driver of growth since the end of the recession had declined by the same amount as the U.S. Moody's used the number of monthly visitors in Las Vegas as a contrast to employment to prepare the chart on page 20, which showed Las Vegas above its pre-recession peak; however, the jobs were not there because of decreased recreational spending and uncertainty. Mr. White acknowledged that uncertainty was an impact on consumer behavior and influenced how much visitors to Las Vegas were spending, which in turn made businesses in Nevada wary about hiring more full-time employees when it was unknown if the nation would be in another recession in 2013.

Mr. White recognized that Nevada typically outpaced the U.S. in recovery periods because its economy was much more cyclical. The chart on page 21 illustrated how incredible Nevada's recovery had been to date because it had all been done without construction and housing employment gains, which had been the biggest weight on job growth in the state. Besides construction, the chart also took into consideration local government jobs because as property values declined so did revenues, resulting in job layoffs. If construction and housing numbers turned from a headwind to at least zero then Nevada could begin to see above average growth. The most important factor affecting housing employment was the number of households in the state in some stage of foreclosure. The U.S. numbers reflected that 1 in every 81 households was in foreclosure and Nevada had 1 in 40 households, which was down from 1 in 15 households the previous year. Some of the positive change in Nevada's foreclosure activity was a reflection of the economy getting stronger, but the larger portion was due to the passage of A.B. 284 (2011 Legislature), which changed the administrative requirements prolonging the period of time on a foreclosure. Nevada had one of the longest timeframes in the foreclosure process of any state in the nation so there had been a large drop in the pace of new foreclosures. However, Mr. White indicated that A.B. 284 action had been beneficial in the near term regarding home prices as shown in Moody's forecast for foreclosures in Nevada and the U.S. (page 23). He noted for the members that the chart had been mislabeled as Foreclosures started per 1,000 households when it was actually the Case-Shiller Home Price Index. Continuing, he said housing prices had started to increase because there were less new foreclosures, and the discount between a normal home and a foreclosed home had shrunk. Nonetheless, Nevada would still have delayed material increases in home prices because A.B. 284 prolonged the process of getting the foreclosures off the books, which prolonged the price weakness and a slower rebound in Nevada's home prices than the overall U.S. home price forecast. As a result, Moody's did not see home building restart in Nevada until at least the end of 2013 or into 2014.

Before starting his presentation on Sales and Gaming Revenue Forecasts, Mr. White noted that the chart on page 25 (Exhibit A) did not include the gaming numbers that had been released on November 8, 2012, but were based on previously released data. He said Moody's saw continued strong growth of sales and use taxes and had been pleased with the performance of its model in capturing the visitor numbers growth. The main driver for visitor growth was recreational spending numbers, which had been quite strong, but had tailed off into the first half of FY 2013. Mr. White said housing completions and other consumer spending measures also contributed to the sales and use tax numbers. He stated that housing was a strong number because FY 2015 encapsulated the end of calendar year 2014 and the beginning of calendar year 2015, which was according to Moody's forecast when home building was expected to start to take off in Nevada (page 26). However, Moody's did not see home building come back as quickly in Nevada as in other parts of the U.S. He said once the construction activity increased so would durable goods purchases. The housing activity was driving the outside growth in the out years, but it was still significantly lower than in past recovery cycles for sales and use taxes.

Chairman Wiles asked if Moody's was pleased with its models in terms of accuracy in forecasting sales and use taxes.

Mr. White said that was correct and Moody's forecast had been fairly accurate over the previous 12 months to 18 months. He credited it to Moody's underlying economic forecast, which meant that there was not a large divergence in performance between the tax model and the underlying economic models.

Mr. Maddox questioned whether Mr. White thought Moody's forecast presented to the Economic Forum 20 months prior had been fairly accurate. Mr. Maddox remembered a forecast of 8% and 9% growth with a lot of "hockey stick" style growth, because a lot of the growth Nevada experienced was due to the stimulus programs and the purchase of one-time items.

Mr. White acknowledged that Moody's forecast was overestimated at that previous meeting because of its underlying macro forecast, which was much more significant. He recognized that Moody's discounted the impact of the policy uncertainty on business behavior and consumer behavior. Moody's forecast for 2014-15 projected 3.5% to 4% growth, which equated to the 2012-13 projection.

Mr. Maddox speculated that Moody's forecast for 2012 and 2013 would now be the forecast for 2014 and 2015.

Mr. White stated Moody's lowered the out year forecast considerably so it was not as much of a "hockey stick" as it were in May 2011. Looking back in the previous year, Mr. White pointed out that Moody's sales and use tax forecast had been fairly accurate; however, its gaming tax forecast was not accurate. He said Moody's assumed and banked into the baseline forecast of the tax model that gaming percentage fees were going to behave the same way as in the late 1990's and early 2000's, which were the last periods of economic recovery. One thing that had become clear to Moody's, and Mr. White gave Mr. Maddox credit for pointing it out at the May 2011 meeting, was the historical relationship between economic activity in Nevada and gaming activity in the state, which was different than in past recoveries. Mr. White indicated not allowing for that relationship was the reason for Moody's overestimate. He said gaming percentage fees were becoming increasingly difficult to forecast because of the changing relationships and the lack of historical precedent for a forecasting base, as well as the amount of volatility that was inherent in the gaming win forecast. Another reason for the challenge in forecasting was that dollar amounts were limited to a smaller number of players who were playing more high limit and volatile games, such as baccarat. Mr. White said that Moody's had rebuilt the model and tried to capture the different relationship that now existed and to take into account the share of Nevada gaming as a share of global gaming. It also took in account the share of Nevada gaming as a portion of U.S. gaming where more economic activity did not necessarily translate into dollars on the casino floor. He pointed out the difference in the sales and use tax forecast and the gaming percentage fee forecast. The increase in visitors meant there was increased spending which helped growth in sales and use taxes, but it did not have an impact on gaming percentage fee taxes. Mr. White noted Moody's gaming percentage fee forecast was much more conservative than in the past and especially the FY 2013 and FY 2014 forecast. He said FY 2015 was actually a higher number than he was comfortable with in normal circumstances. Mr. White provided the 2015 forecast with the caveat that that there was downside risks because the forecast assumed status quo for online gaming, which was unlikely to be the case by 2015. The reason Moody's did not explicitly account for it in the model was because it would be too difficult to predict the different possibilities that could transpire with online gaming and how it could be taxed within an individual state. In conclusion, Mr. White said one of the main drivers of the gaming forecast was the overall U.S. employment rate (page 28) because it tied itself closely with recreational spending indicators.

Mr. Chris Nielsen wanted to confirm there would be time later in the meeting to address comparing forecast accuracy in more detail. Chairman Wiles said there would be a chance for that discussion.

Mr. Maddox commented that the gaming business model was changing. He explained that at Wynn Las Vegas over half the casino revenues came from China and Brazil. The domestic market was still very flat and all of the business was coming from a small amount of high-end customers from outside the U.S. Nevada had become increasingly reliant on these customers and he attributed the small increase in gaming revenues to this segment of the business.

Chairman Wiles asked if that was just from the gaming component. Mr. Maddox concurred and said the mix was still about the same with non-gaming at 60%. The nightclub end of the business had grown immensely, which was a good generator of sales tax for the state. Mr. Maddox expressed that there had been a change in behavior of the domestic customer and most domestic spending was going to the nightclubs, whereas the international customer spent more time in the casino.

Chairman Wiles asked if the domestic customer was likely to visit Nevada more frequently or to spend additional funds relative to gaming.

Mr. Maddox said from a domestic standpoint it seemed that everyone had a casino nearby as 42 states had casinos in which to play blackjack or a slot machine. In his opinion, the domestic traveler came to Las Vegas for everything but the casino and that was why lower and mid-tier properties struggled on the gaming floor. Las Vegas has had to continue to invest a lot of capital and reinvent itself as an entertainment destination with casinos, as opposed to a casino destination with entertainment.

Mr. Nielsen asked if there would be forthcoming information, regarding what percentage Nevada was as a portion of U.S. gaming, compared to other states.

Mr. White did not have that data available. He thought another presenter at the meeting would have it, but offered to make it available at a later date if necessary.

Chairman Wiles thanked Mr. White for his presentation.

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

Mr. Anderson intended to keep his remarks focused on the state's labor markets and said that looking at the state's labor markets and the economy as a whole there would be continued modest improvement in the 2013-15 biennium. He indicated that although the labor markets had not improved since the beginning of 2011 and the state had not fully recovered from the recession there had been an upswing. Mr. Anderson said that an upward trend going forward was expected. He started with the national economy (page 1, Exhibit B) and indicated it had been growing for the previous 10 to 12 quarters. Although there was volatility from quarter to quarter, the nation had been hovering around 2% growth per quarter, which was modest growth. He reported that the nation's unemployment rate (page 2) had peaked at about 10% in the latter part of 2009 and since then there had been some gradual improvement, with the unemployment rate at just a tick under 8%. Nationwide job growth (page 3) was very volatile from month to month, but still positive. The chart showed a gain of slightly more than half of the jobs lost during the recession, but there was volatility even in the first ten months of 2012. Mr. Anderson pointed out that during the first quarter 250,000 jobs were added per month; however, that growth fell to about 60,000 jobs per month in the second quarter and then rose again to 175,000 new jobs per month in the third quarter. Even though there was considerable volatility when the numbers were averaged, the data showed modest job growth. He said nationwide there was also improvement in job openings (page 4) with numbers on the rise since mid-2009, but it still remained below pre-recession peaks. In addition, layoffs and discharges had come down and leveled off at historical norms. Mr. Anderson stated that the rapid rate of job loss had passed, which was evident in the national graph on page 5 depicting gross job gains and losses. At the height of the recession the U.S. lost about 2.5 million jobs in a quarter and the gains were now starting to offset the losses, showing positive growth on a net basis. He said the rate of job loss at the declining establishments had returned to historical levels; therefore, in terms of the labor market the current problem was hiring and jobs growth, rather than jobs lost. In Nevada, Mr. Anderson said the labor market indicators showed improvement in the previous two years, but still would be a long way back as was displayed by the income data. Mr. Anderson stated that personal income in Nevada (page 6) fell for seven consecutive quarters during the recession and had been on the rise for eight consecutive quarters; which was a positive reversal trend. However, the growth lagged national averages and Nevada was not on track with pre-recession rates. During the recession, Mr. Anderson noted there were two years of decline in average weekly wage growth, mostly due to the loss of high paying construction jobs. Nevada was finally starting to see growth of wages (page 7) and to date for 2012 the state was up in excess of 2.5% compared to 2011. As indicated by employers participating in the unemployment insurance program, he said Nevada employers had also been on the rise after declining for ten straight quarters (page 8), which was another sign of recovery. Moving to unemployment (page 9), Mr. Anderson reported the September 2012 unemployment rate was at 11.8%, down from September 2011 when it was at 13.6%. Nevada peaked at a record 14% unemployment in October 2010, but despite improvement in the rate, Nevada continued to maintain the highest rate in the nation (page 10). Rhode Island and California were second and third in the nation and North Dakota was the lowest with only a 3% jobless rate.

Mr. Maddox asked if more people were working, or had more people left the state or had decided to stop looking for a job.

Mr. Anderson said Nevada had been adding employment since 2011, but indicated it was a combination of both in what he called a stagnant labor force coupled with a modest growth in employment. He understood that the overall population numbers were holding steady as was school enrollment, both which would translate into a steady labor force.

Continuing, Mr. Anderson stated there were various measures of the unemployment rate (page 11), consisting of the official rate, which had been in existence nationwide since 1940, and U-1 through U-6 rate designations. He explained the U-3 measure was similar to the official nationwide rate and the U-4 measure was a combination of the U-3 measure, with the addition of the discouraged workers who were no longer looking for a job. Adding in the discouraged worker added an additional percentage point to the U-3 measure. Mr. Anderson noted that the bulk of Nevada's increase in the unemployment rate was in the U-6 measure. The U-6 grouping incorporated people who would rather be working full-time, but due to the economic times had taken a part-time job involuntarily. Currently, there were 16,000 discouraged workers in Nevada (page 12) who had given up their search for work because they thought there were no available job opportunities. Mr. Anderson said the number of discouraged workers peaked at 18,000, but with modest improvement in the state's labor markets it was now trending down. Referring to the chart on page 13, he noted that the lowest unemployment rates were in rural Nevada, which was primarily driven by a healthy mining sector. The highest unemployment rates were in the "bedroom communities," neighboring counties next to the metro areas, such as Nye County and Lyon County. Since the unemployment rate was based on where people lived and not where they worked, those two counties suffered from job loss due to the large number of construction workers who lived in those areas.

Moving to information regarding the employment outlook (page 14), Mr. Anderson said job levels had been trending up. As of September 2012, Nevada was 6,000 jobs higher than the same month in 2011, and 7,000 jobs higher than in August 2012. Total employment had been growing for 15 consecutive months (page 15), with approximately 25,000 jobs added from 2011 to 2012 in the state's private sector. Nationally, Nevada had about twice the job loss as the national average after growing at four times the national average prior to the recession. Fortunately, that gap had narrowed and Nevada was less than a percentage point behind the nation in employment growth. Mr. Anderson said page 17 showed the business employment dynamics in Nevada of gross job gains and losses. The level of job losses at establishments cutting back on employees had decreased and stabilized at a historical level; however, the level of job growth in expanding establishments had not recovered, which suggested the problem with the labor market was a relative lack of hiring. Page 18 displayed job loss and gains by establishment size. During the early part of the recession, the largest employers had to cut jobs quickly, whereas smaller employers grew until 2008 until their payrolls had to be reduced. Mr. Anderson pointed out that smaller establishments had added about 6,000 jobs in the state, but larger establishments with 500 or more employees had lost 60,000 jobs. In terms of establishments by size (page 19), he said the larger establishments shrunk in overall numbers at the start of the recession; however, the number of smaller establishments continued to grow.

Chairman Wiles asked if there was information indicating the total number of employees in each one of those segments.

Mr. Anderson said the smaller establishments had realized a gain of about 6,000 employees versus a loss of 60,000 employees for larger establishments from 2006 through 2012. He indicated to have more data at his office and offered to provide the members with more detailed information later in the meeting.

Chairman Wiles said he would appreciate the information and thought it might be helpful to know what percentage of the labor force was comprised of the small firms.

Mr. Anderson related that most of the private sector industries were growing (page 20), including Nevada's largest sectors leisure and hospitality; trade, transportation and utilities; and professional and business services. Construction and the private sector were holding the state back and manufacturing was only making lateral movement. He reported that through the first three quarters of 2012 leisure and hospitality was up by 7,000 jobs compared to 2011; and trade, transportation and utilities, and professional and business services were both up in excess of 2,000 jobs (page 21). Unfortunately, the construction sector continued to experience job loss with 3,700 jobs lost in 2012. Mr. Anderson said initial claims for unemployment insurance (page 22) in Nevada peaked during the recession in excess of 36,000 and was down to 13,900 in August 2012, the lowest in five years. Referring to the graph on page 23, he noted that 57,000 people submitted unemployment claims in September 2012 and 31,500 were receiving benefits through the state's regular unemployment insurance program. Mr. Anderson cited 25,500 of the claims were people receiving benefits under various federally funded extension programs. Earlier in 2012, an unemployed worker could receive 99 weeks of unemployment insurance benefits with state benefits combined with federal extensions. However, because of structural changes in some of the federal extension programs that timeframe was decreased to 79 weeks and would soon be decreased again to 73 weeks. Mr. Anderson said the unemployment rate outlook was for modest improvement (page 24) over the next several years. To date in 2012 the unemployment rate was 12% and by the end of the year it was expected to be at 11.8%, with 10.6% predicted for 2013 and falling to 10% in 2014. He said Nevada's job or employment forecast (page 25) was even more important because the state lost 100,000 jobs in 2009. The state continued to lose jobs into 2010 and started to rebound in 2011 with the addition of 7,000 jobs. It was expected that 13,000 jobs would be added in 2012, with similar growth in 2013. By the end of the forecast period the data would show a 2% year-over-year job growth, which he said was a welcome change compared to 9-plus% loss in 2009. Page 26 listed the notable industry trends over the 2011 to 2015 period. Leisure and hospitality and retail trade had been leading the way in job growth and were expected to continue. In reference to earlier comments by Mr. White from Moody's Analytics regarding the U.S. Bureau of Labor Statistics benchmark revisions due in February 2013, Mr. Anderson did not think the revisions would affect Nevada very much. He expected only a slight increase to Nevada's total historical numbers. Industries that would continue to see job growth were health care and social assistance; transportation and warehousing; and mining. It was hoped that the hardest hit industries of construction, finance, and manufacturing would see sideways movement after bottoming out during the recession, but without a significant rebound in housing and other building activity there would not be much growth. Mr. Anderson also expected the public sector to have sideways movement with a projected loss of 1,500 jobs. He concluded his presentation on Nevada's labor markets.

Ms. Linda Rosenthal asked if there were any known large projects, possibly federally funded, that would be ending or coming on board in the 2013-15 biennium, which would change the unemployment figures dramatically.

Mr. Anderson did not know of any significant projects that were slated to come on line, such as the mega-resort projects. The trend in tourism, gaming and entertainment lent itself to more boutique properties, smaller properties that served a specific market segment. However, he was not aware of any commercial projects.

Ms. Rosenthal inquired is there was anything outside of gaming, for example, large freeway infrastructure, mining or energy projects.

Mr. Anderson indicated he was not privy to that type of information; however, there were smaller projects scheduled to start. He noted with the loss of approximately 100,000 construction jobs the projects he was referring to would not put a significant dent in that problem.

Chairman Wiles thanked Mr. Anderson for his presentation and providing information to the members.

V. PRESENTATION ON THE STATE POPULATION OUTLOOK.
Jeff Hardcastle, State Demographer, Nevada Small Business Development Center, University of Nevada, Reno

In starting his presentation on the state population outlook, Mr. Jeff Hardcastle said that he would be covering context, model alternatives, projections and age structure as noted on pages 32 to 33 of Exhibit A. Detailed population projections by county were also included on pages 49 to 56 of Exhibit A for reference, although he would not be covering that specific information. Mr. Hardcastle reported that since presenting the state population outlook to the Economic Forum in May 2011 the process of the projections (page 32) had changed. He stated that the *Nevada Revised Statutes* had been modified to include a population projection from the State Demographer on October 1 and March 1 each year. Mr. Hardcastle also noted that a five-year projection was required on March 1 and that information would be available on March 1, 2013. For his projections he used a number of sources including the REMI model developed by the Regional Economic Models Inc. company located in Amherst, Massachusetts, which related each county in Nevada to each of the other counties in the state (consisting of 17 counties) and then to the nation as a whole. The model allowed for a view of the dynamics between the national economy, local economy and the county. It also showed the changes in population including birth rates, migration, and employment and consumer consumption rates. In preparing the projections, Mr. Hardcastle used information gathered from local governments, the Nevada Department of Employment, Training and Rehabilitation, www.moodys.com, the Southern Nevada Regional Water Planning Coalition and other miscellaneous sources. To finalize the projections he rebased the information to the most current estimate and then disseminated the information. He pointed out the maps on page 34 denoted the percentage change in population by state and by decade (1980-1990, 1990-2000, and 2000-2010) provided from the 2010 census reports from the U.S. Census Bureau. The maps showed Nevada as the fastest growing state in the country from 2000 to 2010 and among the fastest growing the prior two decades. Mr. Hardcastle stated prior to 2006 estimates by the Census Bureau indicated Nevada had experienced the fastest growth year-over-year, while in the 1960's Nevada was even with the population growth in both Arizona and Colorado. He said when thinking about population dynamics there was a natural increase of in and out migration. In the population estimates done as a state, Nevada saw a large amount of in migration, which peaked around 2007; however, the Census Bureau estimates showed a plateauing of that growth or leveling off. Mr. Hardcastle said the Census Bureau had underestimated Nevada's estimates and he was still trying to reconcile the data to determine how many people came into the state and how many people stayed. Page 35 showed Nevada's growth compared to the nation as a whole. He pointed out that Nevada far exceeded the nation and those growth rates were considered to be normal behavior. Prior to 2007 the state assumed the idea that "build it and they will come," which included shopping centers, homes, recreation vehicle parks, casinos and malls. As the chart of page 36 denoted, the components of how the state had grown had changed over the 1990 to 1999 decade in comparison with the 2000 to 2009 decade. The information from the most current decade showed growth that was driven by natural increase, rather than domestic migration as in the 1990 to 1999 decade. He added that Nevada would also see an increase in international migration as a larger component of change in the future. Mr. Hardcastle said Nevada had grown and changed over the years, but how the state had grown and changed had been modified over time with natural increase taking a lead role especially as a main driver in 2010 and 2011. Page 37 showed the U.S. Census Bureau's estimates for those two years, which explicitly estimated international and domestic migration. He stated that Nevada's population growth was driven by employment (page 38) and in 2000 to 2010 there was a dramatic change where the latest estimates showed population was out reaching job growth. There was not as much out migration as one would expect during that time period and several factors could have contributed to it, such as people had more of an investment in the community or there were no job opportunities in other states. Mr. Hardcastle noted that starting in 2006 Nevada was hit with the housing bust, rising energy prices and the financial crisis. Page 39 compared the pre-housing and post-housing bust growth rates. He said the state had a fairly aggressive population growth, unemployment growth and total employment growth, but it was a fairly substantial employment growth without construction. If construction was taken out then Nevada's employment growth was holding up well overall, but the construction industry had been the biggest drag on the economy. In Mr. Hardcastle's annual estimates for the state, he found housing vacancy rates also factored into the change in population growth (page 40). He looked at the data for occupied units and vacant units noting that the 2000 census in Clark County showed a 92% occupied rate; however, the 2010 census reported 124,000 vacant units or an 82% vacancy. Nevada had suffered a substantial loss in occupancy rate and a substantial increase in housing units. He said the method the U.S. Census Bureau used to determine counted an occupied unit made some of the numbers on the chart questionable, but it showed the percentage change from each decade and percentages could be deceiving at times. There were a number of factors that could affect the percentages such as homeowners strategically defaulting, foreclosures, and speculators continuing to come into the market.

Moving on to page 41, comparison of employment projections with the REMI model from 2012 to 2031, Mr. Hardcastle said when the model came out of the box (OOB) only one trend line based off of history from 2009 was depicted and then an update of the national employment based off the Bureau of Economic Analysis could be done. He pointed out the two top lines on the chart that overlapped was the OOB with the adjustment for national employment and showed where Nevada would be trending over the subsequent 20 years. If the chart were updated with local employment by county, it would start dropping that trend line down because Nevada was underperforming for some reason. Population projections from the REMI model OOB with the employment update and all the changes for 2012 through 2031 (page 42) population growth shifted the rate down for the long term. The table on page 43 provided information on the breakdown of employment in the major sectors by decade from 1990 to 2030 and the table on page 44 showed the change in total employment from year to year. Mr. Hardcastle pointed out the biggest gains were in accommodation and food services, which was the hotel and gaming sector. He noted that there were also gains in health care and social assistance, with upcoming growth in professional and technical services and administrative and waste services. The final Nevada population projections from 2011 to 2031 (page 45) indicated a 1.1% average growth for the next 20 years and a 1.2% growth for the next 5 years, a potential gain of 175,000 in 5 years and 650,000 over the next 20 years. Looking at Nevada's history of population makeup by age (page 46), Mr. Hardcastle said the state's population in 1990 was young and in the 20 to 34 year age range, but going forward that population was aging. Breaking out that data by county showed that the population in the smaller rural counties were aging faster and had a higher median age. The percentage distribution shown on page 47 signified an aging distribution statewide, with potential changes for consumption patterns. As people aged, their spending habits changed and that could have an impact on sales tax. Concluding his presentation, Mr. Hardcastle said Nevada would continue to see an again population.

Chairman Wiles thanked Mr. Hardcastle for his presentation.

VI. REPORT AND DISCUSSION OF FY 2012 ACTUAL COLLECTIONS COMPARED TO FORECASTS APPROVED BY THE ECONOMIC FORUM AT ITS DECEMBER 1, 2010, AND MAY 2, 2011, MEETINGS, INCLUDING ADJUSTMENTS FOR ACTIONS APPROVED BY THE LEGISLATURE.

Mr. Guindon referred to Table 1, page 57 of Exhibit A, which displayed the Fiscal Year 2012 actual collections compared to the December 1, 2010, and May 2, 2011, forecasts for FY 2011 and FY 2012. He stated that the tables for the meeting were provided for the public on the Economic Forum webpage. Table 2, page 63, showed the FY 2012 actual collections for all revenue sources compared to the forecasts for 2012 that the Economic Forum prepared for the December 1, 2010, and the May 2, 2011, meetings. He noted that the information for FY 2011 on Table 1, page 57 was presented to the Economic Forum at its December 2011 meeting. The table on the chart showed the actual collections for each revenue source, the Economic Forum's forecast, and the alternative forecasts that were presented to the Economic Forum when a decision was made to approve the consensus forecast. The alternative forecasts included the agency forecast, which was the agency responsible for collecting and administering the tax, Fiscal Division forecast, Budget Division forecast, and the Global Insight/Moody's Analytics forecast. Mr. Guindon stated that he would concentrate on the May 2011 forecast because it was closely tied to the legislatively approved budget from the 2011 Legislative Session and the budget under which the state was operating in the current biennium. Mr. Guindon stated the Moody's Analytics forecast provided the most accurate sales and use tax forecast for FY 2012, which was the one-year ahead forecast from the May 2011 forecast meeting. Actual collections for sales and use tax for the Economic Forum forecast came in approximately $41 million above the forecast. The Moody's Analytics forecast for percentage fees tax collections missed the FY 2011 forecast by the most and the Economic Forum's projection was approximately $11.7 million above the actual amount. Mr. Guindon said Table 1, page 60 of Exhibit A displayed the May 2, 2011, total General Fund revenue forecast by the Economic Forum for FY 2012, which was approximately $98.8 million below actual collections. He indicated that it was important to note that $98.8 million was only slightly over 3% of the total General Fund revenue sources. He said that the 3% forecast from the Economic Forum was probably an acceptable result given the uncertainty with the economy that still existed in May 2011 and the forecasts that were prepared for the different revenue sources,

Mr. Maddox stated that he thought there were a number of one-time stimulus items, particularly in Northern Nevada related to mining and the purchase of heavy equipment that helped drive the forecast and there was not a full recovery like predicted. His recollection was that the large increase in the forecast was from the mines purchasing heavy equipment, Cash for Clunkers stimulus program, and various other items that caused spikes, which he thought was half of the increase and the rest was underlying growth. He wanted to ensure that the Economic Forum took into consideration the one-time items, large projects, or stimulus items when they meet in December 2012 to prepare the forecast.

Mr. Guindon believed when the forecast was done in April 2011 there was the Ruby Pipeline project and mining was strong, and the charts showed some large growth spikes in taxable sales. He believed that the forecasters and the Economic Forum were thinking about the projects that were occurring and provided an accurate forecast, but the actual underlying growth was a little stronger than what was thought, in addition to the one-time items, which were possibly even stronger in terms of why the actuals came in above the forecast.

Mr. Guindon stated that concluded his brief presentation. He realized there was a lot of detail and data in the tables in the meeting packet, which were part of the Economic Forum's record.

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

Mr. Guindon stated that Agenda Item VII, Report of the Forecast Accuracy of the Economic Forum for Selected Revenues, Exhibit C, was not included in the meeting packet but was available on the Economic Forum webpage. He said the report was difficult to get through but valuable for tracking the Economic Forum's historical forecast record for the major revenue sources. He noted the report was presented at the Economic Forum's June 2012 meeting and has been updated to include actual collections for FY 2012. He said that the Forum tended to look at the biennial forecast errors because it was related to the state's budget period. He said FY 2012 was the first year of the current biennium so there was no new statics in terms of how the forecast errors compare for the biennium. Mr. Guindon stated that historically the report has been part of the Economic Forum's public record and included on the agenda.

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

Mr. Guindon noted that the historical taxable sales and gaming charts were sent to the members and available for public viewing on the Economic Forum webpage under the November 9, 2012, meeting.

Mr. Maddox asked if a legislative change was made because the mining and sales tax collections made up approximately $98 million, which was approximately 80% of the total General Fund revenue.

Mr. Guindon replied that there were legislative changes during the 2011 Session and adjustments were made to some of the deductions that the mining industry received in calculating their net proceeds. In addition, an adjustment was done to the forecast to bump it up based on the estimated impact of eliminating the deductions. However, in this case Mr. Guindon thought that gold prices and the net proceeds of the industry based on that and their operations was significantly higher than what was thought when

Fiscal staff was doing the analyses with the Department of Taxation and Budget Division in preparing the forecasts. He noted that the mining tax was hard to forecast because the forecasters were looking at what the net would be, and as gold prices were high, that does not always translate into a higher net. His understanding of the industry was with very high gold prices, the mining industry could go after the more marginal gold, and perhaps the margins were lower but the gold price at that level allowed them to go after extracting the marginal gold. Mr. Guindon believed the forecasters were not as optimistic as what actually ended up occurring because of the uncertainty of the economic recovery and the gold prices.

Mr. Maddox agreed with Mr. Guindon. Given that mining was the most profitable industry in the State of Nevada, and significantly more profitable than casinos in terms of the bottom line, he thought it would be helpful to understand what the mining industry actually thought its outlook would be over the next two years.

Mr. Guindon was aware that there was a lot of information in the historical taxable sales and gaming market statistic charts and hoped the members had time to review the charts. The charts showed that there was a recovery in taxable sales in most of the counties, but clearly there was a significant upward trend in taxable sales in some of the rural counties when looking at the 12-month moving average. However, there was an inflection point over the last few months and he wondered if that was a signal or just noise, and what it meant for the year-to-year comparison once it was annualized. In addition, there were taxable sales charts for the North American Industry Classification System (NAICS) codes, and clearly the food and drink code was doing well. Visitor growth was coming back because of the state demographics – the economy has gotten a little better and there was some employment growth, but there was no ability to break down visitor growth and how much of it was attributable to what was going on with the nightclub activity in terms of generating taxable activity in some of those categories. Mr. Guindon said that the charts were beneficial to get a read of what was going on. The gaming charts had a set with baccarat play and showed the relative importance that baccarat had over the last year with what was going on with total gaming win, but especially from games win. It was clear looking at the charts that a lot of baccarat play was in the December and January period because of the holidays that brought in the "high rollers", but over the last 12 to 18 months, baccarat play had spikes in June or September and it was a totally different series.

Mr. Wiles called for a recess of the meeting at 11:57 a.m. The meeting reconvened at 12:42 p.m.

Chairman Wiles asked Mr. Guindon to review the Economic Forum's legislative responsibilities for the meeting.

Mr. Guindon explained the under NRS 353.226, the Economic Forum was required to approve a forecast on or before December 3 of even numbered years to be used by the Governor in developing The Executive Budget, which was the only statutory requirement of the Economic Forum. He noted that it would be difficult to provide a forecast in one meeting because there was a lot of information, so the current meeting was to review the preliminary forecasts. He added that sometimes the Economic Forum approved a consensus forecast as a preliminary forecast at their first forecast meeting. He noted it was up to the Forum to decide whether they wanted to adopt a preliminary forecast or just collect information and decide on a forecast at the meeting to be held on or before December 3.

Chairman Wiles recommended that the current meeting be used as an information-gathering meeting and defer the Economic Forum's final forecasts for the next meeting. He said so many things changed in the last week, with the Presidential election, and there was a significant amount of information, and any updates on what would happen with the "fiscal cliff" and sequestration over the next two weeks would enhance the Economic Forum's ability to forecast what would happen over the next year. He asked for input or comments from the Economic Forum members and there were none.

IX. REVIEW AND DISCUSSION OF PRELIMINARY FORECASTS OF MAJOR GENERAL FUND REVENUES FOR FY 2013, FY 2014, AND FY 2015.

Mr. Guindon referred to Tab IX, page 71 of Exhibit A, which contained the tables for the preliminary General Fund revenues. He noted that the tables have historically been provided to the Economic Forum since its inception in 1994. He explained that Table 1, page 71 provided history for five years for every General Fund revenue source, as well as fiscal year-to-date through September for FY 2012 and FY 2013. Table 3 page 77 showed the forecasts by fiscal year for every major General Fund revenue source for the agency responsible for collecting the revenue, and included the Fiscal Division and Budget Division forecasts. He noted that all the other revenue sources on the charts were the forecasts from the Technical Advisory Committee (TAC) considered at its meeting on November 1, 2012. Mr. Guindon said that Table 4 on page 83 would be the easiest for the Economic Forum members to utilize and showed the major General Fund revenue sources, as well as the Economic Forum's May 1 forecast for FY 2013 and each forecast that has been prepared for consideration.

GAMING PERCENTAGE FEE TAX

Mike Lawton, Senior Research Analyst, Gaming Control Board

Mr. Lawton directed the committee to the State of Nevada Gaming Control Board – Fiscal Years 2013-2015 Gaming Revenue Forecasts (Exhibit E). He explained that in forecasting percentage fee collections, the GCB forecast gaming win for the applicable fiscal years and then converted the forecast to percentage fees. The GCB projected growth rates for each of the state's 16 individual markets, such as the Las Vegas Strip, downtown Las Vegas, Las Vegas locals, South Lake Tahoe, Reno, and Elko, etc., and incorporated any new property openings or expansions, and known or anticipated closings into their models. The GCB models were built through a review of historical trends and more importantly through interviewing some of the individual properties in the various markets. In addition, the GCB received input from several of the Wall Street analysts and from the Research Department of the Las Vegas Visitors Convention Authority. He stated that the sum of the individual market forecasts produced an estimate of total statewide gaming win and within the markets he also forecast slot win and game and table win separately. The first chart on page 1 of Exhibit E outlined the total revenues the GCB was forecasting for statewide gaming win, and page 2 showed the Clark County gaming win forecast. Starting with the base year in FY 2013, the GCB forecast gaming win to increase approximately 2%. There were no new gaming properties coming online for FY 2013; however, two major Las Vegas Strip properties would have completed room remodels and upgrades, and one property would have finished a complete makeover of its dining and entertainment options. The GCB projected Clark County gaming win increasing approximately 2.4% and unlike prior forecasts, not all the growth in Clark County was necessarily coming from the Las Vegas Strip, although he was forecasting the Strip to grow about 3.3% for the fiscal year.

Mr. Lawton said the GCB forecast for the combined Las Vegas locals market would be up about 2% for gaming win and the assumption was that as employment growth continues, the carryover that has been occurring between the Las Vegas Strip and Las Vegas locals markets would also persist. As for the balance of the state, the GCB forecast slight declines and a decrease of approximately 0.5% for the balance of the state. Reno, Sparks, and South Lake Tahoe were still facing pressures from competition due to Tribal gaming in California; however, the decreases were definitely narrowing. After discussions with many operators throughout the state, Mr. Lawton said the consensus of 2% growth rate was a realistic number and could be achieved for the fiscal year. Currently, with four months reported, statewide gaming win was up 2.7%. Looking further into 2014, the GCB forecast statewide win to increase to approximately 3.4%. Mr. Lawton said that the GCB was anticipating one property to come online during FY 2014 in the downtown Las Vegas market. In addition, Zappos will have officially located its corporate headquarters to the new City Hall in downtown Las Vegas, along with approximately 2,000 employees. Also, Caesars Entertainment will have completed its dining and entertainment district, Project Linq in addition to the renovation of several core Las Vegas properties. Mr. Lawton said that the GCB had Clark County growing 3.8% and continued to see escalation on the Strip with projected growth of 4.3%. In addition, the GCB continued to foresee growth in the other submarkets, which made up Clark County, including the Las Vegas locals market and a 3.2% increase was projected. As for the balance of the state, Mr. Lawton said that FY 2014 had potential for those markets to show a growth rate of approximately 0.5%. As discussed in prior presentations before the Economic Forum, there has been a theme of flat would be a good thing and the GCB felt that some of the larger submarkets within the state would finally reach bottom and begin to see some growth. For FY 2015, the GCB was forecasting the statewide gaming win to increase about 4.5%; Clark County up 5%, and the balance of the state up about 1.2%. The GCB was anticipating one property to come online on the Las Vegas Strip during FY 2015. The GCB continued to believe the Strip was going to expand at a rate of approximately 5.3%

and the other markets that make up Clark County, the Las Vegas locals would continue to benefit and would see an increase in gaming win of approximately 5%.

Continuing, Mr. Lawton stated that when the GCB forecast gaming win they also forecast individually for slot win and table win (page 3, Exhibit E). Statewide slot win was anticipated to grow very conservatively each fiscal year. He said a 2.1% increase was seen in FY 2012, and slot win for FY 2013 would decelerate some with a slight increase of 0.6%; a 2.5% increase was forecast for FY 2014; and a 3.9% increase was forecast for FY 2015. The average growth rate for slots the last ten years was about 1.2% and slot win was growing at a higher rate in FY 2014 and FY 2015 due to anticipated spending patterns improving. For spending patterns, Mr. Lawton stated that in FY 2012 slot volume recorded its first increase since FY 2007 and was up about 1.1%. Unfortunately, slot volume has recently lost traction and with the exception of October 2012, the Strip has recorded five consecutive declines in slot volume after registering 11 increases in the prior 13 months. As a result, the GCB was looking at slot volume to decline slightly in FY 2013, down approximately 0.3% and then ramping up in FY 2014 to 2.4%, and 3.7% in FY 2015. At the same time, the GCB also projected that the slot win percentage would continue to increase over the same period. Currently, fiscal year-to-date slot win was down 1.9% with four months reported, and slot volume was down 1.1% fiscal year-to-date.

Moving to page 5, Mr. Lawton said that after increasing 2.8% in FY 2012, game and table win had a projected growth rate of 4.4% in FY 2013, approximately 4.9% growth in FY 2014, and 5.3% growth in FY 2015. The average growth rate for game and table win for the last ten years was approximately 2.8%. Fiscal year-to-date game and table win was up 10.9% June through September.

Statewide game and table volume, page 6 of Exhibit E, drop was projected to grow about 3% for FY 2013, 4.9% in FY 2014, and 5.2% in FY 2015. The average growth rate from the game and table drop for the last ten years was approximately 4.4%. Fiscal year-to-date game and table volume was up 5.4% June through September.

Mr. Lawton explained that the higher growth rate seen in game and table win as opposed to slot win was due to what was the state has been experiencing the past three fiscal years as game and table win has definitely outpaced slot win, which was due to the continued expansion of baccarat. He stated that the Wynn, MGM Grand and the Sands operated properties in Macau, which has created a synergy between the Las Vegas businesses and the properties in China and every indication by the operators was that the baccarat business was very healthy and the Macau to Las Vegas correlation would continue. He said that fiscal year-to-date baccarat win was up 32% and drop was up 23.1%, although that could change fast. He added that currently the state was playing with “house money” which was good. On the other side of the equation, Mr. Lawton stated that fiscal year-to-date total gaming win excluding baccarat was down 1%. Fiscal Year 2012 through September, gaming win excluding baccarat was up 1.5% and spending patterns by the Las Vegas mass-market customers have recently lost traction. However, the GCB anticipated with continued job creation, visitation growth in addition to increased convention attendance during the mid-week periods, the mass-market customer would begin to compliment the baccarat business.

Mr. Lawton stated that after the GCB forecast gaming win there was an assumption that was made regarding how much of the forecasted win was going to become taxable gaming revenue. The difference between gaming win and taxable gaming revenue was credit play. Straight gaming win included all waging activity from cash, chips, and wagers made through the issuance of credit. The wagering activity through credit does not become taxable until the credit was paid off, which could be months later and some credit would go uncollected. Looking at the chart on page 7, taxable gaming revenue to gaming win ratio averaged approximately 95.3% the past ten years. In Fiscal Year 2012 that ratio was approximately 92.04%, which was the lowest ever recorded and below the record low of 93.04% in FY 2011. He noted that the 1% drop cost the state $100 million in taxable gaming revenue and about $7 million in percentage fee collections, which was why the GCB forecast was off.

Mr. Lawton said the chart on page 8 of Exhibit E showed the taxable gaming revenue to win ratio forecast. The ratio of taxable revenue to win ratio continued to decline to approximately 91.95% in FY 2013, declining to 91.8% in FY 2014, and was up slightly at 92.05% in FY 2015. He indicated that the analyses for why the ratio has decreased revealed that it was not because the state saw a material trend in the non-payment of credit, but was attributed to baccarat play. The recent surge in baccarat play has resulted in a higher percentage of credit play coming from baccarat – the two trends correlate with each other as the interaction of credit play and baccarat play had a larger impact on the percentage fee collections than ever before.

Chairman Wiles asked for clarification and the fact that there was more credit play with baccarat the state was heading for the same default rate but it was just that there was more credit play as opposed to cash play. Mr. Lawton stated that Mr. Wiles was correct. He added that it was all credit play and the baccarat players were not coming in with millions in cash, but with credit.

Mr. Lawton said that baccarat pit credit issued compared to total pit credit issued through 2012, and for the nine-year period from FY 2001 through FY 2009, baccarat percentage of total pit credit issued averaged about 25.2%. For the period of FY 2010 through FY 2012, baccarat's percentage of the total pit credit issued averaged 48.2%, an increase of approximately 2,230 bases points, so things have changed in the credit issues of table games.

Beginning in FY 2010, Mr. Lawton stated that baccarat play surpassed 21 win for the first time as the state's dominant table game, which continued in FY 2011 and FY 2012, and he believed would happen in FY 2013, FY 2014 and FY 2015. To provide a perspective, Mr. Lawton said that baccarat represented 32% of total game and table win in FY 2012 and 12% of total gaming win. Looking back to FY 2003, baccarat represented 13.6% of total game and table win and only 4.6% of gaming win. In FY 2012 there were 267 baccarat tables and 2,767, 21 tables, so clearly it was a very narrow game at few resorts. He believed that the two trends were obviously related to each other as the baccarat surge came at a cost as it relates to taxable gaming revenue, due to the large amount of credit play that was associated with baccarat and the subsequent discounts and settlements on player loses that were often offered to customers in order to attract the world's largest players to Las Vegas.

Lastly, Mr. Lawton said that the baccarat win forecast projected business to continue to grow 5.17% in FY 2013, 1.42% in FY 2014, and 2.47% in FY 2015. In FY 2013, percentage fee collections would have $671.3 million in collections, an increase of approximately 2.7%; currently fiscal year-to-date with four months reported, percentage fee collections were up about 13.6%, collections were projected in FY 2014 at $695.6 million, an increase of 3.6%, and percentage fee collections for FY 2015 were projected at $733.4 million, an increase of 5.4%.

Concluding his presentation on percentage fee collections, Mr. Lawton said the GCB forecasts were built on the assumptions that there would be sustained growth for the forecast period, and games and table play would grow faster than slots, which was due to the baccarat expansion. In addition, the spending patterns by customers shifted and the growth in revenue mix was being dominated by non-gaming amenities as opposed to gaming. For FY 2011, which was the most recent data from the Nevada Gaming Abstract, gaming revenues accounted for 38% of total revenues on the Strip as opposed to 62% in non-gaming, which represented rooms, food and beverage, retail, spa and entertainment. Mr. Lawton said that people could gamble anywhere but could not do the other things that were being offered in Las Vegas and even Reno, Nevada, as far as the amenities that were being offered to the customers. He stated that 1998 was the inflection point and it was only getting larger. Mr. Lawton said the GCB did not see the spending patterns changing anytime soon; however, the GCB did feel that as customers balance sheets continue to improve with the gradual national economic recovery, he anticipated that the baccarat revenue would be complimented more instead of dominated by the slot medium that they have built the tourist-based economy on.

Chairman Wiles asked if there has been a redeployment of slot floor space to table games or were there the same number of slots. Mr. Lawton noted that the slot space counts were declining, which was not taken up by table game space, but by the other non-gaming amenities. He stated that the casinos have gotten smarter and realized that more on the floor was not better and the establishments could be more efficient with their boxes – boxes offered more games and dominations for the players and there was not the need to have as many games on the floor as once thought. Accordingly, floor space was being replaced by retail space, food and beverage, and clubs.

Chairman Wiles said that Las Vegas floors were getting more concentrated in terms of table games and baccarat, but more diversified because there was a broader range of revenue sources within the casinos.

Mr. Lawton said he had concerns with how narrow the baccarat numbers were and how volatile play was. He said that typically baccarat play used to be seen in December, January and February during holiday time, and now there were spikes in June, and it was a different world which he did not think would change.

Mr. Maddox stated that the Las Vegas Strip has been helped by the casinos marketing to the high-end international customer. He stated that the upside for Las Vegas was when the housing market catches in the United States, the mid-tier property slot product would start to win more money in the domestic table games, but without that the casinos were overly reliant on the international customers – approximately 150 people willing to wage millions.

Mr. Maddox stated that the Wynn Resort was removing slots from their floors all the time and still only running at 30% utilization on the floors. He asked if the actual number of slots decreased overall since new products were opened in FY 2009 and FY 2010, such as Cosmopolitan and CityCenter. He requested to see the numbers for win per unit per day at the next Economic Forum meeting to understand if Las Vegas was winning more in the current capacity on the floors as compared to FY 2008 and FY 2009 before the new properties opened.

Mr. Lawton replied that win per unit was up but it was because the units were continually decreasing every month. He could provide the current capacity on the floors compared to FY 2008 and FY 2009 when the new products came on-line but the trend was win per unit was definitely up but the number of units were going down every month.

Mr. Guindon added that he looked at the quarterly charts for the Las Vegas Strip and the slot count peak in FY 2000, which has been falling since. He agreed with Mr. Lawton that it was boxes but the boxes could probably run just as many or more games than one box running one game versus multiple games. His opinion was floors needed less boxes but still provide diverse electronic gaming devices to the customer. He said it was another place where technology played its roll with regard to what can be done using technology and electronic gaming devices to offer a product.

Mr. Lawton stated that currently slot counts were down 2.9% for the first four months of FY 2013. In September 2010, the state had 165,994 slot machines on the floor and there were 158,788 machines in September 2012, which was the direction the casino floors were going. He interviewed properties on the Strip in all the markets and the properties believed they had reached a point where they were probably not able to take that much off the floors and be more efficient, which was reflected in the models. He said Las Vegas was seeing a point where slot counts might flatten out.

Mr. Maddox said it was definitely not about the number of units because the Wynn only had approximately 30% to 35% utilization on the slot floor. He said the units could keep coming down and it was just about getting the customers and how long they were playing. As the machines were holding more people were tightening up relative to the regional markets, so the win was actually more important than the volume metrics because $100 does not last as long.

Mr. Guindon directed the Forum to the chart titled Gaming Market Statistics for Las Vegas Strip – Quarterly Data displayed on the Economic Forum webpage under the November 9, 2012, meeting date.

Chairman Wiles said that baccarat was relatively unpredictable month-to-month and slot play was less volatile, so excluding all other games, a relative shift from slot play to baccarat play provided more volatility month-to-month. How asked how volatile the non-gaming revenue sources were because they were currently 62% of total Las Vegas Strip revenue.

Mr. Maddox replied that slot pay was clearly not as volatile as baccarat play. He said that non-gaming was a little softer in July and August because of the room rate fluctuations and slightly less non-gaming business, but it has been steady to growing on a month-to-month basis for the Wynn. He stated that FY 2013 looked better than FY 2012 and casino win in FY 2012 was $775 million at the Wynn, which was the highest grossing revenue in the State of Nevada's history. He said that FY 2013 looked like it would be better and the non-gaming revenue was growing. He said it was not a fast comeback, but he felt better looking forward than he did at the same time in FY 2012. However, if the United States economy plummeted, it was discretionary play and it could fall fast as experienced in FY 2009.

Mr. Nielson clarified on a comment made earlier in the meeting about the number of Zappos' employees that would be moving into the City Hall in downtown Las Vegas. He said that Zappos had about 1,200 employees but expected to bring about 2,000 employees downtown when the company moves to its new location, although they may not have 2,000 employees when it relocates.

Janet Rogers, Chief Economist, Division of Budget and Planning

Ms. Rogers stated that she had a slightly different approach than Mr. Lawton in her revenue forecast for gaming percentage fee tax. She referenced the handout, Executive Budget Office Economic Forecast, November 9, 2012, (Exhibit F). She directed the members to page 2, which was data from 2011 that showed Nevada's dependence on leisure and hospitality. Nevada had the largest proportion of employment in the leisure and hospitality sector of any state and almost higher than the next highest states combined. She said that 22% of Nevada's retail sales were in the food services and drinking places and Nevada's dependence on visitors was very extreme. Ms. Rogers said that the Budget Division forecast was econometrically driven so she would not go into a forecast for slots but a visitor forecast. She said the chart on page 3 showed the visitor volume, and in March of FY 2012, Las Vegas visitor volume surpassed the previous high. She said her assessment was that the national economy was still shaky and Las Vegas was not going to see large increases in visitor volume into the next biennium. The Budget Division forecast was 1.3% growth in FY 2013, 1.2% growth in FY 2014, which was basically corresponding to the natural increase of population in the United States. She said there were no properties opening which was a variable that was highly correlated with upticks in visitors, and without that and the struggling national economy, she was not seeing a big uptick in visitor volume and growth was only up 1.8% in FY 2015. The visitor forecast that she used was very important and directly contributed to the Budget Division gaming forecast and was an input variable from her employment forecast. Page 4 showed total employment, which would feed into the retail sales more than gaming. She said the visitor volume was important because when she did the revenue forecast for gaming, she divided the gaming numbers into three parts – baccarat, Clark County, and all the rest of the state. When she forecast for Clark County she used national economic measures like the national employment growth rates and the percentage of spending on recreation. The Clark County forecast was done per visitor and measured how much visitors were spending and made an assumption that a visitor comes in with a fixed pot of money and would play slots, games, shop, and go to live entertainment, but their pot of money was somewhat fixed, so she did not try to break out what an individual was going to play on slots. Ms. Rogers said that she did not calculate baccarat per visitor, and forecast just on a straight level without adjusting for visitors and the rest of the state. The forecast was done on an inflation-adjusted basis, which allowed her to look at the series without having the influence of inflation impacting the numbers. Moving to page 5, Exhibit F, the slide showed inflation-adjusted gaming drop per million visitors for the whole state and showed a downward trend that has been occurring since the late 1980s where the amount of money played in the casino per visitor has been falling. Page 6 showed gaming drop not per visitor and not adjusted for inflation and a 0.7% increase was projected for FY 2013, a 2.1% increase was projected for FY 2014, and a 3.1% increase was projected for FY 2015 in the amount that was played in the state taking into account the increase in visitors and inflation.

Chairman Wiles asked Ms. Rogers what she used for her estimated inflation rate. Ms. Rogers replied that her estimated inflation rate was approximately 2%, which was Moody's Analytics national forecast for inflation.

Ms. Rogers said that the slide on page 7 of Exhibit F showed the gaming percentage fees without the estimated fee adjustment (EFA), and the EFA was basically the difference between the month's percentage fees due and the amount that was due three months ago. She said it was the result of adjusting for the marker credits and win percentages, the percentage fees were projected to increase by 1.4% in FY 2013, up 1.9% in FY 2014 and 3.2% in FY 2015. Page 8 showed actual gaming percentage fee collections, which were far more volatile from the effect of the EFA. The Budget Division forecast showed an increase in gaming percentage fee collections of 1.8% in FY 2013, 2.3% in FY 2014, and 3.5% in FY 2015.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon referred to the Fiscal Division packet – Fiscal Analysis Division, Forecast Information Packet, Exhibit G. He indicated that the charts in the Fiscal Division packet with “A” in the title showed the levels, and the charts with a “B” showed the growth rate for the corresponding A chart. He said Chart 1A on page 2 was the Fiscal Division outlook for Nevada total employment. Mr. Guindon said that after looking at the forecast from Mr. Anderson, DETR, the Fiscal Division was comfortable with the DETR forecast. The chart showed the DETR forecast and the Fiscal Division forecast, which was translated into a smooth seasonally adjusted forecast. In addition, the Moody’s baseline forecast was shown on the chart. Chart 1B showed slightly increasing average employment growth rates of approximately 1% for FY 2013, 1.4% in FY 2014, and 1.7% for FY 2015. Since the goal was to get personal income, total wages and salaries forecast because it went into some of the equations that were used for the forecasts, he had to forecast an average wage per employee. He said the Fiscal Division forecast showed that average wage per employee would increase approximately 1.5% in FY 2013, 1.9% in FY 2014 and 1.9% in FY 2015. He noted that the Fiscal Division also utilized the base forecast from Moody’s Analytics for Consumer Price Index (CPI) and the forecast was 2.1% growth in FY 2013, 2.5% in FY 2014, and 2.7% for FY 2015. Therefore, when looking at the Fiscal Division average wage per employee it was running below inflation which he did not think was an uncomfortable position looking at what was going on in the economy and the ability for employees to go to an employer and get a pay increase. The total wages forecast, page 6, Chart 3A showed the total wage and salary disbursements forecast of approximately 2.6% growth for FY 2013, 3.3% growth for FY 2014, and 3.7% growth for FY 2015.

Mr. Guindon added that the nonwage component of personal income had to be forecast, which was growing slightly, and tough to forecast because it included interest, dividends and rent and also included the transfer payments, which included the unemployment insurance (UI) payments. Moving to page 12, Chart 6A, the Fiscal Division forecast for personal income was projected to grow approximately 2.7% in FY 2013, 2.8% in FY 2014 and 3.0% in FY 2015, staying slightly above the inflation rate and on average there would a little growth in inflation-adjusted terms in total personal income.

Continuing, Mr. Guindon noted that page 24, Chart 12A showed the Fiscal Division forecast for total Las Vegas visitor volume, and 1.2% growth was projected in FY 2013, 1.9% in FY 2014 and 2.4% in FY 2015. Chart 13A, page 26 showed the assumption of room occupancy and in FY 2012 the average occupancy rate was approximately 83.8%. The Fiscal Division forecast projected average occupancy rates going up about 1.0% a year to 84.9% in FY 2013, 86% in FY 2014 and 87.1% in FY 2015. He stated that it was hard to get growth in visitors without the occupancy rate increasing because capacity was not being added. Without adding the capacity, if Las Vegas did not get the occupancy rate up then it was hard to get visitor growth and the growth in spending would have to come from the visitors with bigger budgets. Chart 14A on page 28 showed the comparison of actual historical data and forecasts for the U.S. Consumer Price Index.

Mr. Guindon said the Fiscal Division forecasts gaming percentage fee collections to increase by 2.6% in FY 2013, 4.4% in FY 2014, and 3.5% in FY 2015. Chart 1 through

Chart 4 on pages 33 thorough 36 showed the actual and forecast total win, slot win and game win per Las Vegas visitor. Chart 2 showed total win, slot win and game win per statewide employee. Chart 3 on page 35 showed Clark County total win, slot win and game win per Las Vegas visitor. Chart 4, page 36 showed Clark County total win, slot win and game win per statewide employee and Clark County was the vast majority of the state's gaming win. Page 37 showed the Fiscal Division's summary page forecast for percentage fee tax collections for FY 2013, FY 2014 and FY 2015. He said that the Fiscal Division forecast Clark County, Washoe County and the rest of the state on the slot and game and table side. Mr. Guindon noted that he put the tables in the packet because there was quarterly and fiscal history, which would provide historical data for the new members. He mentioned that Mr. Lawton from the GCB was nice enough to share some of the information that he tracked, because as the regulatory agency, the properties would talk to him.

Mr. Guindon said that the Fiscal Division showed a slight growth in slot win in FY 2013, and as heard previously in the meeting, the game side was where the growth was coming from.

Mr. Maddox asked how much the state was down in the first four months of FY 2013 in percentage fees collected. Mr. Lawton replied that percentage fee collections were up 13.6% for the first four months of FY 2013, and collections were very good for October 2012.

Mr. Guindon added that the month that was just reported, which was the fourth month of the fiscal year, was 38.2% against a -8.9% a year ago. He said that the estimated fee adjustment (EFA) drove that and was a $16 million net plus impact and accounted for almost 2% of the actual collections reported in October.

Mr. Maddox asked what was projected for the last eight months of FY 2012 to end up with 1.7% growth if the state was up 13.6% fiscal year-to-date for percentage fees collected.

Mr. Guindon replied that the 13.6% in FY 2013 was against a minus -5.5% a year ago in FY 2012, and over the last eight months of FY 2012, percentage fee collections were up 3%, so the last eight months were stronger than the first four months. Therefore, to hit the Fiscal Division forecast of 1.7% in percentage fees from taxable gaming revenue (TGR) the state had to average about 1.6% against the 2.1% a year ago. To hit the total percentage fee collections of the 2.6%, the state had to average 1.9% against an average of 1.6% in FY 2012. He said in the Fiscal Division forecast the EFA was a net negative drag in FY 2012, but now forecast in FY 2013 to be $3.4 million, adding a net positive impact of $5.6 million, which was adding 0.9 of a percent to the growth for the Fiscal Division forecast of 2.6% because of the EFA. He said when looking at the actual growth in October of 38.2% and the state was up 13.6% fiscal year-to-date, but the 13.6% was against an average of -5.5%, and on average over the last eight months up 3%, so the forecast would be bouncing around that or a little above 3%. Therefore, his forecast would be a little better average than the growth posted over the last eight months of FY 2012. He said if they took the 38.2% and the EFA was removed, the month was up 6.1%, which showed how much the EFA could move month-to-month.

Mr. Maddox stated that the forecasts for percentage fee collections growth for the Fiscal Division and Budget Division were almost the same, and Mr. Guindon thought the remaining eight months in FY 2013 would average between 1.5% to 2% growth over last year. He said the first quarter (January, February, March) for FY 2013 looked very strong and he wondered if the state was coming off tough comparisons.

Mr. Lawton added that there was an 8% increase on total win in October 2012 and a 7% increase in November 2012, so the comparisons were tough to finish the year. He noted that the second quarter of calendar year 2013 would be easier comparisons.

Mr. Guindon said that looking back at March 2012 collections, which were based on February activity, there was a 69% increase compared to a 11% increase a year ago. Therefore, the percentages bounced around and it was hard not to react too much to one month; the forecasters had to look where the state was year-to-date and a year ago, and then figure out what the state would have to do against those numbers.

Mr. Maddox said it was hard to say the state was up 13% in the first four months of the fiscal year and only a 1.6% increase was projected in the last eight months of the fiscal year. He thought the forecasters needed to understand how difficult the comparisons were when they were looking at the forecasts.

Mr. Guindon said that his intent was to look at the numbers to see what the state would have to grow, but the other forecasters, as well as Moody's Analytics, did not always have the most current information. He noted that he could go into the Controllers system to see what the GCB was posting in the most recent month so he had a good idea if it was going to be a big month or not. Mr. Guindon stated that even after looking at the forecast he did not know if he would come back with a significantly different forecast unless there was something unusual in the month. He said he looked at his games forecast, which was where he had the most reservations because baccarat play was one of the most unique elements of a very complex industry, so if it was truly a population of approximately 150 people, he had no idea if they brought in 100 people or 150 people in a year and how the people were rotated in to keep the market growing. In addition, do the people bring in bigger budgets each year, or do they bring in more in one year versus another year, but remembering that the house or the player could win and that was the volatility. Mr. Guindon said that as he looked at his forecasts for games win – it was not that he did not think games and baccarat play could grow, but it was hard to think how to keep that growing if there was a limited number of people, and did the people have larger budgets or do they bring in more people per year.

Mr. Maddox replied it was more than 150 people, but the 80/20 rule, and a 150 people generated a vast majority of the win. Mr. Maddox stated it was a macro call on China and South America, and interpreting the Chinese economy, and if it was a hard landing the number gets crushed, if they accelerate, the number would get bigger.

Concluding, Mr. Guindon said that the Fiscal Division forecast the ratio of TGR to win falling in FY 2013 compared to FY 2012 and then starting to recover some. He believed that was the bottom and would start to recover, but the first quarter was horrendous with only 90.6%, one of the lowest ratios seen in the first quarter of a fiscal year. He said the Fiscal Division forecast had things improving over the rest of FY 2013 to get to the 91.9% for TGR to win ratio. The Fiscal Division forecast had TGR growing 1.6%, but the ratio falling, and the average effective tax rate was coming up a little because he could see where it was at currently, so there was 1.6% growth in the percentage fees from TGR. He added that the EFA was projected to be a net positive so they actually get another 0.9% of growth.

Mr. Guindon clarified that the Budget Division forecast was 1.8% for FY 2013, Fiscal Division forecast was 2.6%, agency forecast was 2.7%, and Moody's Analytics forecast was 4.2% for the growth rate for total percentage fee collections, shown on Table 4, page 83 of Exhibit A.

LIVE ENTERTAINMENT TAX – GAMING

Mike Lawton, Senior Research Analyst, Gaming Control Board

Mr. Lawton said the Live Entertainment Tax (LET) revenue forecast was based on a forecast of taxable casino entertainment activity, an examination of historical growth patterns, and most importantly, through interviews with the various properties. He said the forecast also incorporated expected increases in taxable activity due to the opening of new properties, or changes in entertainment venues at existing properties, which has been happening a lot in the last few months.

Mr. Lawton said the LET was one of the more difficult taxes to forecast, because charges for admissions, beverage and food were not consistent from year to year, nor was the entertainment itself. Making it even more difficult was the addition of large venues with 7,500 seats or more, whereby the revenue was derived primarily from concerts. The pricing of concert tickets was hard to predict, and it was difficult to know which acts were coming to town from year to year.

Referring to page 14 of the handout provided by the State of Nevada Gaming Control Board, Fiscal Years 2013-2105 Gaming Revenue Forecasts (Exhibit E), Mr. Lawton said for FY 2013, after consecutive years of growth, the GCB forecasts a decline in growth of -1.5%, or $123.5 million in collections. The decline was due either to shows going dark and not being replaced in the fiscal year, or shows being replaced later in the fiscal year, so the state would not get the benefit of the entire year of revenue.

Mr. Lawton said this trend has been happening for the past year. Fiscal year-to-date, LET collections were down -3.3%, and calendar year-to-date, down -3.7%. He said the

LET revenue spiked for a while, but because of the show rotations, revenues have declined recently.

Mr. Lawton said that in FY 2014, the GCB expected an uptick in LET of 3.7% to about $128 million in collections. He explained that the shows that had been dark would come online and would be annualized. He said the show at the Mandalay Bay Hotel and Casino in Las Vegas was being replaced by the Michael Jackson show, which would be online for the entire FY 2014. Mr. Lawton said for FY 2015 a growth rate of about 1.5% was projected, with $129.9 million in collections.

Mr. Lawton said the average growth rate for casino LET collections over the last five years was about 1.8%, with a ten-year average of 7.2%. He felt the projections were fairly conservative as the forecasts were below the high average of the last ten years.

Chairman Wiles asked if there was an analysis that showed the LET detail by component, for example, large venues versus small venues.

Mr. Lawton affirmed that the GCB had a metric to compare large venue versus small venue. He said the large venues had a very strong year, with growth of about 34.5% in FY 2012. The operators of the large venues felt comfortable that they had a strong event calendar for FY 2013. The smaller venue shows were closing, and, because the showrooms needed to be revamped for a different show, the shows were not replaced immediately and the showrooms were dark for a period. He noted the Aria Resort and Casino in Las Vegas was replacing its Elvis show; the Lion King show at the Mandalay Bay Hotel and Casino has been dark for a year; two shows at the Venetian Hotel and Casino were being replaced, but the shows would not come online until later; and, the showroom at the Wynn Resorts was going dark due to the Garth Brooks show closing, with no reopening date set for the showroom.

Mr. Lawton said the LET revenues did not come to the GCB with lots of data points; rather, the GCB received a raw number, and must investigate to find out what was driving it.

Mr. Nielsen asked what types of events were taxable under the LET. Mr. Lawton said approximately 76% of the LET revenue was from show admissions. He said sales of food and beverage and retail sales related to the show added to the revenue. He noted nightclubs and the related activity that was generating a great deal of revenue for the properties were not taxable under the LET.

Mr. Nielsen asked how a show was defined. Mr. Lawton said any of the shows on The Las Vegas Strip, such as the Cirque de Soleil "O" at the Bellagio, generate LET revenues for sales of tickets, food and beverage, and merchandise.

Chairman Wiles said the LET was a fairly complex process as it depended upon where the drinks were sold. He said lots of the properties' retail stores were located outside of the main venue, which meant they were not subject to LET. If the retail sales took place inside the venue beyond the admission doors, they were subject to LET, because the items for sale could only be accessed as part of the show experience. He said show operators had the ability to adjust the amount of LET they paid based on the location of the retail outlets, bars and restaurants.

Mr. Guindon added that the LET was complex because there were certain exemptions, and the tax rate was driven by seat thresholds. He explained that the rate for a venue with over 7,500 seats was taxed at 5%, which was not attached to food, beverage, or merchandise. A venue with between 200 and 7,500 seats was taxed at a rate of 10%, which included food, beverage and merchandise. He said the tax was bifurcated, and the two rates were attached to different bases.

Chairman Wiles asked if the portfolio was moving toward big events due to the different tax rates. Mr. Lawton said the majority of the LET revenue was not generated by the large venue tax on shows with over 7,500 seats.

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers said the Executive Budget Office forecast for the LET revenue was also econometrically driven. Referring to the Executive Budget Office Economic Forecast for LET per million visitors (Exhibit F), page 9, she said the assumption was that the bulk of the revenue would come from the Clark County area, therefore a per-visitor inflation adjusted forecast made sense. She forecast the inflation adjusted LET per million visitors for FY 2013 to decline -.7%; grow 2.1% in FY 2014; and, grow 1.9% in FY 2015.

Referring to the Executive Budget Office Economic Forecast for LET gaming on page 10 (Exhibit F), Ms. Rogers said she expected growth of 3.3% in FY 2013; 6.0% in FY 2014; and, 6.5% in FY 2015. She said that compared to a 10% compound average annual growth rate from FY 1999 through FY 2007.

Ms. Rogers said her forecast reflected the belief that the venue operators would be aggressive in trying to get non-gaming dollars from the visitors. She did not think the operators would be quite as successful as in the recent past, but growth would be stronger.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon referred to the LET revenue forecast on page 55 of the Fiscal Analysis Division Forecast Information Packet (Exhibit G). He noted the GCB shared information from operators about the status of the shows for the Fiscal Analysis Division staff to use in its forecasts. He said the forecast was prepared on an inflation adjusted per visitor basis.

Mr. Guindon said for actual collections for the first quarter of FY 2013, revenue was down -3.2%, compared to being up 21.4% in the same period in FY 2012. He said the first quarter was down, and the second quarter of FY 2013 would be compared against another strong quarter of growth in FY 2012.

Mr. Guindon said his LET revenue forecast for FY 2013 was a decline of -1.9%. To meet that forecast, the LET would have to decrease an average of -1.3% over the last nine months of FY 2013, compared to an average increase of 1.0% over the last nine months of FY 2012.

Mr. Guindon agreed the LET was a difficult revenue to forecast. However, although he did not know which shows would be opening, because non-gaming revenue was so important to the operators, he expected the casinos to get shows online to generate revenue. Therefore, he forecast growth of 3.2% in FY 2014 and 3.9% in FY 2015.

STATE 2% SALES TAX

Sumiko Maser, Deputy Director, Nevada Department of Taxation

Ms. Maser said she would describe the methodology used to develop the forecast. She said the methodology was consistent with that of prior estimates for the Economic Forum; a simple linear regression analysis was applied to prior years' revenue.

Ms. Maser said there have been 26 months of continuous growth in the State 2% Sales Tax revenue. She said fiscal year-to-date collections were up $8.3 million, or 6.17%, as of the August period compared to the same period in FY 2012. She said there was continued recovery in several industries, such as the motor vehicle and parts dealers sector, which was up 17.9% fiscal year-to-date compared to the same period in FY 2012. She said the food service and drinking establishments sector was up 1.1% fiscal year-to-date compared to the same period in FY 2012. The general merchandise sector was up 10.3% fiscal year-to-date compared to the same period in FY 2012.

Ms. Maser said that the forecast took into account historical events, such as the amnesty programs in 2008 and 2010. In addition the Ruby Pipeline Project, the natural gas line that was built across the northern part of the state, occurred over FY 2010 and FY 2011. Those effects of those events on past collections were considered so that the forecast would not be over projected.

Ms. Maser said the Department of Taxation's forecast for the State 2% Sales Tax was 2.9% growth, or $867.7 million for FY 2013; 3.8% growth, or $900.4 million in FY 2014; and, 3.6% growth or $933.04 million in FY 2015.

Ms. Maser said the Department of Taxation expected the recovery from the recession to continue in a conservative manner.

In response to a request from Chairman Wiles, Ms. Maser said she would provide a hard copy of the Department of Taxation's forecast presentation.

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers said the Executive Budget Office forecast for the State 2% Sales Tax was shown on the Executive Budget Office Economic Forecast handout (Exhibit F), pages 11 and 12. She said the forecast was prepared using an econometric model using various measures to determine the health of the national and state economy, and the level of gaming activity in the state, because that would obviously play into the retail sales activity.

Ms. Rogers directed the members to the chart on page 11 (Exhibit F) titled Inflation Adjusted 2% Sales and Use Tax per Million Jobs. She said sales dropped to a historic low during the recession, and picked up with fairly reasonable actual growth of 1.9% in FY 2012. She reiterated that the information on the chart was per million jobs and adjusted for inflation, so it was less than the actual of almost 6% that was recorded in current dollars in FY 2012. She said the recent uptick was due to pent-up demand, which was the purchase of necessary replacement items that had been put off over the course of the recession. She said that was a one-time period of consumer activity that would not continue. She noted that the information on the chart took into consideration the amnesty periods and the Ruby Pipeline activity.

Referring to page 12 (Exhibit F), Ms. Rogers said the chart reflected continued healthy growth. The forecast was based on her forecast for employment growth, which was very similar to DETR's forecast of almost 2% in FY 2015, coupled with the inflation forecast. She said the Executive Budget Office expected the State 2% Sales Tax to grow 4.5% in FY 2013; 4.4% in FY 2014; and, 4.9% in FY 2015.

Mr. Maddox noted all of the forecasters missed the May 2011 forecast for the State 2% Sales Tax by at least $40 million. He asked how much of that was one-time purchases or pent-up demand that cannot be replicated.

Ms. Rogers said she could not tell on a dollar for dollar basis. She explained that the model did not include Ruby Pipeline and the amnesty periods, but she did not try to quantify what portion of the retail activity appeared to be one-time activity, and what portion seemed to be ongoing.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon referred to the Fiscal Analysis Division Forecast Information Packet, page 65 (Exhibit G), to the State 2% Sales Tax revenue forecast.

Mr. Maddox observed that in FY 2012 the State 2% Sales Tax revenue returned to FY 2009 levels of $842 million (page 71, Exhibit A). He asked if there were any legislative issues in FY 2008 that resulted in collections of $966 million in State 2% Sales Tax.

Mr. Guindon replied that increase was due to the economy. There were no legislative changes to the rate of tax on sales; in fact, the state's 2% tax rate cannot be amended without a vote of the people.

Mr. Maddox noted the projection was for FY 2013 revenue to be 9% below FY 2008 actual collections.

Mr. Guindon noted that the peak was not in FY 2008 with collections of $966 million; rather, it was in FY 2007 with collections of over $1 billion. He considered that comparison in the forecast, as noted in the narrative on page 66 of the Fiscal Analysis Division Forecast Information Packet (Exhibit G).

Mr. Maddox said he would hate for this forecast to be low again. He noted that in the Wynn organization non-gaming aspects have recovered more quickly than gaming. Therefore, it seemed the State 2% Sales Tax revenues would recover faster than Gaming Percentage Fee revenues.

Mr. Guindon said that the only information available to the forecasters was the taxable sales reported by the NAICS (North American Industry Classification System) codes. He said that sometimes it was obvious that something happened to cause a blip in taxable sales, but it was difficult to know what caused it, and whether it would be sustainable. He noted that if the growth was annualized against these levels of taxable sales, but it was truly a one-time purchase, then the growth would be impacted one year later. He said the forecasters knew the Ruby Pipeline was a one-time project, and how many months it would affect the revenue. It was usually assumed that unaccounted for large increases in the revenue were due to mining, but it was not clear whether the activity was due to one-time purchases, or whether it reflected underlying sustainable growth.

Mr. Maddox noted that in FY 2007 and FY 2008 there were several multi-billion dollar construction projects in Las Vegas. He asked how that activity impacted the revenue. Mr. Guindon said that revenue cannot be itemized, because that information was not provided to the Department of Taxation.

Mr. Guindon said the data for the State 2% Sales Tax revenue forecast was cleaner so a regression equation was used for the forecast. He said his forecast for visitors, employment and personal income were reflected in the equation.

Mr. Guindon referred to the Fiscal Analysis Division Forecast Information Packet, page 67 (Exhibit G), to Table 1 which showed taxable sales growth of 5.1% in FY 2013 compared to growth of 7.6% in FY 2012. Mr. Guindon said actual collections were up 6.1% for the first two months of FY 2013 compared to 5.2% for the same period in FY 2012. He did not know if that reflected growth in the underlying economy, or whether some of the growth was due to large one-time purchases.

Mr. Guindon said the Fiscal Analysis Division forecast for State 2% Sales Tax revenue was for growth of 6.4% in FY 2013; 4.6% in FY 2014; and, 4.2% in FY 2015. He noted that growth was increasing over the forecast period, but at a decreasing rate. He was not bothered by that, because there were one-time purchases reflected in the collections for FY 2012, and some of that was carrying over to FY 2013, so growth would taper off a bit in FY 2014 and FY 2015.

Chairman Wiles said one-time events were important, particularly recurring events.

Mr. Guindon agreed, and said if he knew they were one-time purchases he might use dummy variables to isolate those purchases econometrically. He said the regression equation showed that the underlying economic variables of visitors, construction employment and personal income could not predict the recent levels of taxable sales activity. He concluded that the activity affecting taxable sales was not being driven by visitors, construction employment or personal income. He did not know what the activity was, and if he did know, he would not have historical data to use in the forecast.

Mr. Guindon said it was possible that the forecast could be a little low, but he would not increase the forecast unless someone could convince him that the increased activity was not due to one-time purchases. He was comfortable with the forecast.

Mr. Guindon said he would explain some details of his forecast. He said, for FY 2012, taxable sales grew 7.6%, but sale tax collections grew only 6%, leaving a fairly significant 1.6% gap. He explained that his forecast for taxable sales for FY 2013 was for growth of 5.1%. He then multiplied the $45,158.8 billion estimate by 2%, and adjusting for the taxpayer collection allowance, that resulted in 6.9% growth. He noted that the gap was created by two programs for economic development for which taxable sales were reported, but the State 2% Sales Tax was not fully paid due to abatements. He identified one program as a renewal energy tax abatement program, which paid a portion of the sales tax, so it appeared as taxable sales, but not as State 2% Sales Tax collections. Based on analysis by the Department of Taxation, the 1.6% gap was equal to about $14 million, $11.2 million of which could be attributed to the renewable energy abatement program. He said $3.6 million was attributable to the STAR (Sales Tax Anticipated Revenue) bond program, which also paid taxes on a portion of sales, but a portion was also not recorded in the state's tax collections.

Mr. Guindon expected to present the Economic Forum with a revised forecast for collections at the next meeting. He explained that the renewable energy abatements were only in affect for three years, and he would need to investigate the abatements used in FY 2011. He noted that if the abatement amount was $11.2 million in FY 2012, and only $2 million in FY 2013, that would amount to over a $9 million positive swing in FY 2013 compared to FY 2012.

Mr. Guindon referred to Table 2 on page 68 (<u>Exhibit G</u>) which showed the actual collections that were reported and deposited in the state's General Fund. Imputed collections were the amount that would have been collected had the reported taxable sales generated tax collections. He noted some of the collections were late payments, or audit collections that included penalty and interest, so those other collections could have created the gap. He pointed out that for the second quarter of FY 2012 there was a -5.4% difference in imputed collections versus actual collections.

Chairman Wiles asked if those types of abatements would be in effect in FY 2013 and FY 2014. Mr. Guindon said he would contact the Nevada State Office of Energy to request that information. He noted the abatements expired three years from the date of approval, whether the projects were completed or not.

Chairman Wiles asked if the revenue would be affected by other economic development programs that offered abatements, deferrals or waivers to attract businesses to the state.

Mr. Guindon was not certain, but he believed most of the abatement programs did not allow "double-dipping." If a business qualified for one program, it cannot then qualify for another program.

Chairman Wiles was referring to the incentive that was offered to Apple Corporation that would affect sales tax or other revenue to the state.

Mr. Guindon said economic development plans required that you give something to get something. Whether the costs outweighed the benefits would depend on whether the abatement was viewed from an economic development perspective or an economics perspective. He noted that Apple Corporation's abatements were for both sales and property tax.

Chairman Wiles said those kinds of abatements were one-time events that occurred every year. He said, with the focused economic development effort, it would be helpful to know whether there were significant projects to which aggressive incentives would be provided that would affect the Economic Forum's ability to forecast.

Mr. Guindon did now know if that kind of information could be explicitly used in the forecast, because the Governor's Office of Economic Development cannot discuss upcoming projects. Even if the projects were identified, it would be difficult to estimate the timing of the projects and the impact of the abatements. He said the best way to account for those projects was to keep in mind during forecasting that the projects may generate taxable sales, but those sales may not generate collections.

Mr. Maddox noted that the Fiscal Analysis Division forecast was significantly higher than the other forecasts. Mr. Guindon said he expected to reduce the forecast to the 6.0% range. He would continue working with the Department of Taxation to identify the data before the next forecast.

INSURANCE PREMIUM TAX

Sumiko Maser, Deputy Director, Nevada Department of Taxation

Ms. Maser said the Department of Taxation used the conservative approach of a simple linear regression analysis applied to prior years' revenue to produce the forecast for Insurance Premium Tax revenues.

Ms. Maser said the forecast was for a decline of -3.79%, or $227.8 million in FY 2013; -1.81%, or $223.6 million in FY 2014; and -1.84%, or $219.5 million in FY 2015.

Chairman Wiles asked whether Ms. Maser had identified outliers in the data set that might bias the forecast. He noted that a single outlier could significantly bias a linear regression model's projections.

Ms. Maser said, similar to the sales tax, certain events occur that should not be taken into account in the forecast, or future results would be skewed. However, for the Insurance Premium Tax, she did not know of anything that would have called for removal.

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers referred to pages 13 and 14 of the Executive Budget Office Economic Forecast packet (Exhibit F) to the Insurance Premium Tax revenue forecasts. She said there was not much detailed data available for this forecast. She used total private wages as a proxy for the activities that would produce Insurance Premium Tax. Page 13 showed collections per million total private wages from FY 2005 to FY 2012. She noted there was a bump in FY 2010, for which she did not have a good explanation. She thought it was reasonable to show a slight decline in FY 2013 and very modest increases in FY 2014 and FY 2015.

Ms. Rogers said the Insurance Division of the Department of Business and Industry expected the Patient Protection and Affordable Care Act (PPACA), to increase revenue by about $3 million in calendar year 2014, and she added half of that amount to the FY 2014 forecast. For calendar year 2015, the Insurance Division anticipated approximately $10 million. She included half of that, plus the other half of the $3 million in calendar year 2014 to arrive at $7.5 million for FY 2015.

Ms. Rogers said her forecast for Insurance Premium Tax revenue on a non-inflation adjusted basis was for growth of 1.6% in FY 2013; 4.5% in FY 2014; and, 5.7% in FY 2015. She noted the increases in FY 2014 and FY 2015 were due to the policies sold due to the PPACA.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto pointed out that the Insurance Premium Tax numbers shown on Table 4 on page 83 of the meeting packet (Exhibit A) for the agency forecast are higher than the numbers stated by the Department of Taxation. He explained that the Insurance Premium Tax was collected by two different agencies: the Department of Taxation collected the vast majority, about 97%; the other 3% was collected by the Insurance Division of the Department of Business and Industry. He said the additional revenue collected by the Insurance Division was approximately $7.1 million per year, which was correctly reflected on the table.

Mr. Nakamoto noted that the Fiscal Analysis Division's Insurance Premium Tax forecast began on page 77 of the Fiscal Analysis Division Forecast Information Packet (Exhibit G). He said a summary of the forecast was displayed on the table on page 78. He noted there were a number of categories for this revenue that were reported by the Department of Taxation and the Insurance Division. He said it was unfortunate that the information on the table was the only information available to the forecasters. There was no indication as to the type of insurance being written. It cannot be determined how much of the $236.8 million collected in FY 2012 from this tax across the various categories was generated from the sale of life insurance, health insurance or auto insurance.

Mr. Nakamoto said the four quarter-ending categories made up somewhere between 95% and 96% of the annual collections consistently from year-to-year. The Fiscal Analysis Division forecast looked specifically at those quarterly collections and performed a regression model of those collections per employee, as related to single-family home sales per employee (page 18, Exhibit G), and Nevada personal income per employee. Taking all of that into account, and performing a trend analysis on the other parts of the forecast resulted in projected increases of 3.1% in FY 2013 to $244.1 million; 2.8% in FY 2014 to $250.9 million; and, 3.1% in FY 2015 to $258.8 million.

Mr. Nakamoto referred to further Insurance Premium Tax information on pages 79, 80 and 81 of the Fiscal Analysis Division Information Packet (Exhibit G). He said the chart on page 79 showed annual collections going back to FY 1992. He noted the peak was in FY 2007, with close to $260 million in collections. The Fiscal Analysis Division forecast for FY 2015 was just below that level at $258.87 million. He said the chart on page 80 compared actual collections and the forecast to personal income growth and employment growth. The chart on page 81 involved quarterly Insurance Premium Tax collections for which a regression forecast per Nevada employee was performed. He said, even though the revenue fluctuated, especially over the last few years, the collections per employee had increased fairly consistently. He said the chart on page 81 illustrated that trend continuing throughout the forecast period.

Mr. Guindon noted that information on first quarter actual collections that could affect the forecasts would be available shortly before the next meeting of the Economic Forum.

MODIFIED BUSINESS TAX

Mr. Guindon explained that the forecasts for Modified Business Tax (MBT) were divided into nonfinancial and financial sectors to provide consistency in the forecasts. He explained that the MBT for the nonfinancial sector was subject to a sunset provision approved during the 2011 Legislative Session. He explained that nonfinancial and financial cannot be lumped together, because if a sunset were removed or extended, the two sectors could not be separated easily by staff. Further, he explained that the Economic Forum must consider its forecast using current law, without considering whether the Governor or the Legislature might extend or remove a tax sunset.

Mr. Guindon noted that this was another of the quarterly revenue sources for which more information would be available shortly before the next meeting of the Economic Forum.

NONFINANCIAL INSTITUTIONS

Sumiko Maser, Deputy Director, Nevada Department of Taxation

Ms. Maser said, currently, the MBT for nonfinancial institutions was a two-tiered rate. The tiered rate was scheduled to sunset effective the end of FY 2013. The Department of Taxation approached this forecast a bit differently than the other revenues. She explained, because the tiered rate was to sunset, and this tiered rate came into effect a couple of years ago, the revenue was not historically consistent, because of the changes in tax rates. Rather than use the historical revenue to forecast future revenue, the Department of Taxation considered the wages reported on the MBT returns and forecast taxable wages into the future, then applied the current tiered rate for FY 2013. For FY 2014 and FY 2015 the .63% tax rate was used.

Ms. Maser said the forecast for MBT nonfinancial institutions revenue was for growth of 2.9%, or $359.2 million in FY 2013. The .63% tax rate was applied to arrive at the FY 2014 and FY 2015 forecasts, for a decline of -27.9%, or $259.18 million in FY 2014; and, growth of 3%, or $266.9 million, in FY 2015.

FINANCIAL INSTITUTIONS

Ms. Maser said the tax rate for the MBT Financial Institutions has historically been consistent, so it was forecast using historical revenues in the simple linear regression methodology. She said historical events that might affect the forecast were accounted for, such as the amnesty.

Ms. Maser said the forecast for revenue was for growth of 4.2%, or $21.5 million, in FY 2013; a decline of -0.1%, or $21.56 million, in FY 2014; and, a decline of -0.1%, or $21.55 million, in FY 2015.

NONFINANCIAL INSTITUTIONS

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers referred to page 15 of the Executive Budget Office Economic Forecast (Exhibit F). She explained that her forecast began with a forecast of nonfinancial private employment, which was up 1.7% in FY 12. She forecast an increase of 1.2% in FY 2013; 1.6% in FY 2014; and, 2.1% in FY 2015, which reflected strengthening in the economy. She said the MBT nonfinancial forecast was a bit different than her earlier employment forecast, because this forecast involved private employment, whereas the overall forecast was weighted down by the loss of jobs in the government sector.

Ms. Rogers said she then forecast nonfinancial average monthly wage on an inflation-adjusted basis as shown on page 16 (Exhibit F), which was falling. She said the two forecasts were combined, resulting in total monthly wages for nonfinancial institutions, which rose 1.7% in FY 2012. She forecast an increase of 1.4% in FY 2013; 2.3% in FY 2014; and, 1.3% in FY 2015. Ms. Rogers said approximately 17.8% of those wages fell below the $250,000 per year limit on which there are no taxes, and the remainder was taxed at a rate of 1.17%.

Ms. Rogers said the Executive Budget Office forecast for MBT nonfinancial revenue was for growth of 1.7% in FY 2013; a decline of -31.9% in FY 2014, as the rate of tax drops to .63% for all tiers; and, growth of 3.5% in FY 2015, which then corresponds to the rising total wage in the nonfinancial sector.

FINANCIAL INSTITUTIONS

Ms. Rogers referred to page 20 of the Executive Budget Office Economic Forecast (Exhibit F) to her forecast for financial private employment. She said financial private employment had been declining, and was expected to continue declining during the forecast period, although at a slower rate. She said wages in the financial sector have been rising, resulting in the average monthly wage rising between 3% and 4% for the three years of the forecast period. She said total wages would rise 1.6% in FY 2013; 3.8% in FY 2014; and, 3.3% in FY 2015. These percentages were used to compute the forecast for MBT financial institutions.

Ms. Rogers said the monies collected for the MBT include collections from previous quarters, so there was not a 100% correlation between taxable wages and the forecast. She said the Executive Budget Office forecast for MBT financial revenue was for growth of 2.0% in FY 2013; 2.3% in FY 2014; and, 2.8% in FY 2015.

NONFINANCIAL INSTITUTIONS

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Reel said the Fiscal Analysis Division MBT nonfinancial revenue forecast began on page 83 of the Fiscal Analysis Division Information Packet (Exhibit G). The table on page 89 showed the wage forecast for the nonfinancial sector. He explained that the Fiscal Analysis Division forecast was based on the DETR employment forecast information.

Mr. Reel noted that the employment nonfinancial column showed four years of decline for FY 2008, FY 2009, FY 2010, and FY 2011. For FY 2012, there was a 1.9% increase over the previous fiscal year. He said the Fiscal Analysis Division forecast nonfinancial employment growth of 1.2% in FY 2013; 1.7% in FY 2014; and, 1.9% in FY 2015. He said the assumption for average wage for employee showed growth, after two years of decline in FY 2009 and FY 2010. The average wage increased 2% in FY 2011; 0.6% in FY 2012; and it was assumed that the average wage would increase 2% in FY 2013, which was just below the rate of inflation, which was reflected as a decline in real terms in inflation adjusted annual wage.

Mr. Reel said the Fiscal Analysis Division forecast for nonfinancial wages was for growth of 3.3% in FY 2013; 3.7% in FY 2014; and, 4.0% in FY 2015.

Mr. Reel noted that page 88 showed taxable wages reported to the Department of Taxation. He explained that additional revenue of $2.5 million was reported in FY 2011, which was related to the amnesty program. He explained that the collections were shown with and without the amnesty amount so that the forecast would not include the one-time event.

Mr. Reel said the taxable wages reported by the Department of Taxation showed the same trend reported by the Bureau of Economic Analysis. He said there were declines in FY 2009 and FY 2010, but there was growth in FY 2011 of 0.5%, and in FY 2012 actual collections grew 4.8%. He pointed out that the forecast in the growth rates for wages were up and down because of the difference in the tax rates associated with this revenue. He said FY 2011 and FY 2012 are not comparable in revenues because of the tax rate change. He noted the average effective tax rate was 1.045% for FY 2011 based on a tax rate of 0.5% on the first $62,500 of taxable wages and 1.17% over $62,500, and for FY 2012, based on tax rate of 0.0% on the first $62,500 in taxable wages and 1.17% over $62,500. He said most of the decline experienced in FY 2012 was due to the change in the tax structure, because wages actually grew 4.8%. He said FY 2013 essentially adopted the same effective tax rate that was in place in FY 2012, but it was a bit different at .966% compared to .97%.

Mr. Reel noted the effective tax rate was a little higher at .633% due to the prior periods' collections that came in late. He said 95% of the wages and collections belonged to the current quarter, and the remaining 5% was from prior quarters. Since the rate was higher in the prior years, there was some revenue reported in the FY 2014 collections that was based on an effective tax rate that was a bit higher. He said the 3.5% growth in collections in FY 2015 matched the growth rate for taxable wages.

FINANCIAL INSTITUTIONS

Mr. Reel said there was a similar table for the MBT financial revenue on page 99 of the Fiscal Analysis Division Information Packet (Exhibit G). He noted there were five years of declines. Comparing the Quarterly Census of Employment and Wages **(**QCEW**)** data to the monthly series, it appeared that things were perhaps a bit stronger. Following the DETR forecast, the Fiscal Analysis Division expects growth of 0.3% in FY 2013; 0.8% in FY 2014; and, 1.3% in FY 2015.

Mr. Reel said, regarding the assumption for the average wage per employee, in FY 2010, FY 2011, and FY 2012 there was some wage growth for the financial sector that was in many cases outstripping inflation. He expected that to continue, but to a slightly lesser extent so that wages would grow 1.5% in FY 2013; 2.6% in FY 2014; and, 2.8% in FY 2015.

Mr. Reel said the growth rates for wage and salary disbursements were 1.7% in FY 2013; 3.5% in FY 2014; and, 4.1% in FY 2015, as shown on Table 3 on page 99 (Exhibit G). He explained there was no distortion in the results, because the tax rate was fixed at the same 2% rate.

Mr. Reel said the Fiscal Analysis Division forecast for MBT financial revenue was for growth of 1.6% in FY 2013; 3.5% in FY 2014; and, 4.1% in FY 2015.

REAL PROPERTY TRANSFER TAX

Sumiko Maser, Deputy Director, Nevada Department of Taxation

Ms. Maser said that with the Department of Taxation used a simple linear regression to estimate the future Real Property Transfer Tax (RPTT) revenue using prior fiscal years' revenues.

Ms. Maser said the forecast for RPTT revenue was for a decline of -3.24%, or $46.8 million in FY 2013; -4.31%, or $44.7 million in FY 2014; and, -4.51%, or $42.7 million in FY 2015.

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers referred to pages 25 and 26 of the Executive Budget Office Economic Forecast (Exhibit F). She said page 25 showed the home price index as forecast by Moody's for a decline of -5.2% in FY 2013; an increase of 1.2% in FY 2014; and, an increase of 3.1% in FY 2015. That information, as well and the number of homes that would be sold and the number of new single-family home permits issued, were variables in the econometric model.

Ms. Rogers said the Executive Budget Office forecast for RPTT was shown on page 26 (Exhibit F), for a decline in FY 2013 of -2.0%. She explained that the first quarter numbers were down fairly significantly from last year; however, she believed it had hit the bottom, because there was almost no discount for buying a foreclosed home. Her forecast showed activity picking up. Although home prices were not rising much, the number of home sales was starting to increase. For FY 2014 she expected a fairly healthy increase of 9.5%. She said those who had been waiting for the bottom of the market would start buying, and that activity cannot be predicted in an econometric model. She expected the market to cool off in FY 2015, with growth of 4.7%.

Mr. Maddox asked if A.B. 284 was calculated in the forecast. Ms. Rogers said she did not use a specific variable, but it was considered in her forecast. She said A.B. 284 would delay the sale of homes that had been foreclosed, and would produce lower home prices, but that would be made up for in activity.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Referring to pages 18 and 19 the Fiscal Analysis Division forecast packet (Exhibit G), Mr. Nakamoto said Charts 9A and 9B showed Nevada's total existing single-family home sales. He said Chart 9A showed a ramping up followed by a big drop off when the housing boom ended, and then there was a significant take off, primarily driven by investors, as foreclosures began to enter the market. In fact, there was a point at which 53% of the homes being sold in Clark County were cash sales. The Fiscal Analysis Division forecast expects that activity has settled. He explained that, as an implicit effect of A.B. 284, there was a "shadow" inventory that was not making it to the market, because the properties were not true foreclosures. Therefore, the cash sales and investor property purchases were tapering off, and the market would flatten out. For single family homes for FY 2013 the average growth rate was forecast to be -8.7%; for FY 2014, -1.3%; and, for FY 2015, 2.2%.

Mr. Nakamoto said on pages 20 and 21 (Exhibit G), Charts 10A and 10B showed Nevada's total single family home completions, or how many houses were actually being built. The number of single family home completions were projected to increase in FY 2013 by 10.4%; in FY 2014 by 6.1%; and, in FY 2015 by 7.5%. He said that might seem like lots of growth, but when the number of starts had been 5,600 houses built per year, and the expectation was for 6,700 houses per year statewide in FY 2015, there was not as much growth as those percentages would necessarily indicate.

Mr. Nakamoto said Charts 11A and 11B on pages 22 and 23 (Exhibit G) showed the forecasts for the Case-Schiller House Price Index for Nevada. He said the Fiscal Analysis Division expected growth to return a little quicker than Moody's estimated, but not at an appreciable rate. He recalled that in his presentation, Mr. White of Moody's pointed out that the forecasted index value 100 level had not occurred since calendar year 2000, and the Fiscal Analysis Division expected that it would barely get to that level by the end of the forecast period. He said the growth rates were forecast to be 2.8% in FY 2013; 1.6% in FY 2014; and, 2.7% in FY 2015. He noted there was a bit of growth in home prices, and gap in prices between the foreclosures and the regular home sales was shrinking. He explained there were fewer foreclosures on the market, and a more buyers entering the market, but not an appreciable number of buyers.

Referring to the Fiscal Analysis Division's forecast for the RPTT on page 107 (Exhibit G). He said this was the only one of the major taxes that was not actually collected by the Department of Taxation or the Gaming Control Board; rather, it was collected by the county recorder when a new title was recorded to transfer real property in the county from one person to another. The county recorder would then distribute the revenue to the state on a monthly or quarterly basis.

Mr. Nakamoto said there was good information on the first quarter for the RPTT, based on the fact that all 17 counties have posted their information for this particular tax in the Controller's system. For the first quarter, the RPTT collections were $11.9 million, which was a -12.2% decrease compared to the first quarter of FY 2012. In Clark County, $8.6 million was collected, a decrease of -18.9% and the $8.6 million represented about 72.9% of the total collections. In Washoe County, about $2.1 million was collected for the first quarter, an increase of 30.5% compared to the first quarter of FY 2012. He said Washoe County made up about 17.8% of the total collections for the first quarter. Washoe County and Clark County comprised over 90% of the collections.

Mr. Nakamoto said the Fiscal Analysis Division used a regression equation that compared the RPTT collections to the three variables shown on the charts: single family home sales; new home completions; and, the Case-Schiller House Price Index. Mr. Nakamoto said growth in the RPTT revenue was forecast by the Fiscal Analysis Division to be $44.2 million, or -8.7%, in FY 2013; $44.7 million, or 1.2% in FY 2014; and, $47.7 million, or 6.7%, in FY 2015. He said RPTT was one of the taxes for which there was good information for collections for the first quarter, barring any late payments or refunds. For the Fiscal Analysis Division to achieve its forecast in FY 2013, he said the remaining three quarters must decrease by -7.3% compared to FY 2012. In the last three quarters of FY 2012, RPTT collections were about $34.8 million, a decrease of -10.6% compared to the last three quarters of FY 2011. Revenue growth was expected to decrease, but at a slower rate. He said for the last few Economic Forum cycles, the forecasters have been waiting for the bottom of the market, which was getting close.

Mr. Maddox asked whether the 18% decrease in the revenue in Clark County was due to an issue with collections. He noted that Moody's indicated a recovery in housing in Nevada.

Mr. Nakamoto said part of the problem in forecasting revenue for this tax was that, while information was provided by county, there was no indication as to what was actually driving the activity. There was no real way to determine whether the sale of residential or commercial property, or vacant land was driving the revenue. He said that for the last couple of years a significant amount of investors bought foreclosure property. Now, with fewer properties available due to the shadow inventory, that activity that resembled growth had fallen off.

X. REVIEW AND DISCUSSION OF PRELIMINARY FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2013, FY 2014, AND FY 2015 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE AT ITS NOVEMBER 1, 2012, MEETING.

Mr. Guindon directed the Economic Forum members to the Technical Advisory Committee (TAC) November 1, 2012, forecast tables beginning on page 85 of the Economic Forum meeting packet (Exhibit A). He prefaced his comments by saying the major General Fund revenues discussed under Agenda Item IX comprised about 75% of the state's General Fund resources, and this percentage would change due to the upcoming tax sunsets.

Mr. Guindon said Table 5 (page 85, Exhibit A) provided detail on the some of the more significant minor General Fund revenues that were forecast by the TAC as well as the forecasts recommended by the agency, the Fiscal Analysis Division, and the Executive Budget Office. He said Table 6 on page 87 was the preliminary forecast for every revenue source for which the TAC developed a consensus forecast for FY 2013, FY 2014 and FY 2015 at its November 1, 2012, meeting. He noted the major revenue source forecasts to be developed by the Economic Forum were not yet included on the table.

Mr. Guindon said Table 7 on page 93 was requested by the TAC. The table showed the FY 2012 actual collections; TAC forecasts for FY 2013, FY 2014 and FY 2015; and, a biennium comparison. He noted that the difference in the TAC forecast for the two biennia was $479 million. He explained that the sunset provisions for the Net Proceeds of Minerals tax caused a switch from the current tax structure to the old tax structure, creating a gap in FY 2014, which was why the Net Proceeds of Minerals forecast was zero for that year. Mr. Guindon pointed out that the TAC had not lowered its forecast for Net Proceeds of Minerals very much for FY 2015 compared to the forecast for FY 2013.

Mr. Maddox asked why the TAC forecast for the FY 2014 Net Proceeds of Minerals was zero. Mr. Guindon explained that under current law, the taxes paid in a fiscal year were based on estimated taxes for the current calendar year of mining operations. After the sunset effective July 1, 2013, the taxpayer would pay on a fiscal year basis based on the preceding calendar year's actual activity. He said FY 2013 taxes were being paid based on the old law, on the estimate for calendar year 2013, then adjusting the tax payment when the actuals were available. Since, under the sunset law, FY 2014 taxes were based on the actual activity for FY 2013, and the proceeds from FY 2013 were already collected under the old law, there would be no revenue shown for FY 2014.

Mr. Guindon reported that the TAC has requested staff to explore the sunset issue. He said staff from the Executive Budget Office, the Fiscal Analysis Division and the Department of Taxation would meet in the coming weeks to sort out the details as to which deductions were subject to the sunset provisions.

Mr. Guindon said the TAC forecast on quarterly fees for restricted and non-restricted slots took into account that the law requiring that $1 be diverted to the Problem Gambling Fund would sunset. Under the new law, beginning in 2014, the amount would return to $2.

Regarding the Governmental Services Tax, Mr. Guindon said the law changed in 2009. For the first four years it was dedicated to the General Fund. Under current law, it is dedicated to the Highway Fund beginning in FY 2014, which was why the estimated General Fund revenue was zero for both FY 2014 and FY 2015.

Mr. Guindon said the annual Business License Fee of $200 would revert to $100 for FY 2014 and FY 2015 under current law. He said that explained the large declines in the forecast for these two years compared to FY 2013.

Mr. Guindon said the GST commissions and penalties was a one-time revenue enhancement provision that was approved by the Legislature and signed by the Governor during the 2011 Legislative Session. Those provisions would expire in FY 2014 and FY 2015.

Mr. Guindon said the Supplemental Account for Medical Assistance to the Indigent would expire under current law for FY 2014 and FY 2015.

Mr. Guindon explained that $405 million of the $479 million gap was accounted for by the sunset provisions.

Returning to the table on page 93, Mr. Guindon said the Unclaimed Property forecast required explanation. He said there was no sunset, but the effect of the law caused the collection of $97 million in FY 2012, which would then fall back to the $30 million range. He said the All Others category accounted for the remaining $74.5 million.

XI. DISCUSSION AND RECOMMENDATIONS REGARDING OUTSIDE REVIEWERS VOLUNTARILY PROVIDING INFORMATION TO THE ECONOMIC FORUM.

Mr. Guindon said it has been customary for representatives from the universities or the private sector to provide information to the Economic Forum at its organizational meeting at the beginning of the forecasting cycle in September. This effort has not always been successful because of scheduling difficulties. He explained that since, A.B. 332 (2011 Legislative Session), added two meetings of the Economic Forum to review current economic conditions, the September meeting was not scheduled in 2012.

Mr. Guindon said that if Chairman Wiles would like for the Economic Forum to attempt to schedule outside reviewers, staff would work to arrange the individuals to provide comments for consideration at the next meeting.

Chairman Wiles noted that if someone wanted to provide comments to the Economic Forum, there would be a public comment period to do so. Given the time constraints, he did not think it was a good use of staff time to solicit presentations. He invited anyone watching online or in the audience to attend the upcoming meeting and make comments during the public comment period.

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

Mr. Guindon advised Chairman Wiles that at his prerogative, revenues that had been forecast as minor revenues by the TAC could be moved to the major revenues to be forecast by the Economic Forum, or vice versa. For example, the Real Property Transfer Tax has become a smaller revenue source, and the Chair may direct the TAC to forecast that as a minor revenue.

Chairman Wiles said, at this point, given the tight timeframe, he was not sure that any changes would be warranted. He asked the other members of the Economic Forum if they had any comment and there were none.

XIII. SCHEDULING OF FUTURE ECONOMIC FORUM MEETING.

Mr. Guindon explained that staff would prefer to have the next meeting on Monday, December 3, 2012. He understood that the meeting might be scheduled earlier to accommodate the members' schedules. He asked that the meeting be scheduled no earlier than November 29 or November 30 to allow staff time to collect and consider information that becomes available in late November.

Chairman Wiles preferred to meet on November 29 or 30 with a 9:30 a.m. start time. He said it would be difficult for him to meet on December 3. In addition, he would prefer not to prepare the forecast on the day of the statutory deadline in case there was a situation where the Economic Forum requested more research from staff. He asked the Economic Forum members if there was a conflict with any one of those three days and there was not.

Chairman Wiles said he understood it would be helpful for staff to have the weekend to work on the forecasts. He noted the objective was to provide the best forecast possible. He asked staff whether having those extra days on the weekend would improve the quality of the forecasts provided to the Economic Forum.

Mr. Guindon replied that he did not know whether having those two weekend days would result in a better forecast, but it would allow staff more time to prepare the material. He added that if the meeting was scheduled for November 30, staff would make it work. He cautioned that the open meeting law requires that the meeting agenda be posted at least three full business days before the meeting. If the Economic Forum meets on November 30, and requests more research from staff and another meeting, the agenda for the December 3 meeting would have to have be posted before 9:00 a.m. on November 28, 2012.

Mr. Maddox asked if the Economic Forum could schedule meetings for both November 30 and December 3, and then cancel the second meeting if it was no longer needed. Mr. Guindon said that could be arranged. Chairman Wiles asked the Economic Forum members if they were amenable to this proposal and there were no objections.

In response to a question from Chairman Wiles, Mr. Guindon suggested that the members attend the upcoming meetings in Carson City.

Mr. Guindon said he would contact Chairman Wiles to finalize the meeting schedule.

XIV. PUBLIC COMMENT.

Maud Naroll, Department of Administration, said she has been involved with the Economic Forum for many years as staff of the Executive Budget Office. She said as difficult as some of the decisions were, the Economic Forum has always been able to forecast the major General Fund revenues in a one-day meeting.

Chairman Wiles said he hoped that the Economic Forum would be able to complete its work on November 30, 2012.

V. ADJOURNMENT.

The meeting was adjourned at 3:37 p.m.

Respectfully submitted,

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Patti Sullivan, Committee Secretary

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Becky Lowe, Transcribing Secretary

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Donna Thomas, Transcribing Secretary

APPROVED:

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Ken Wiles, Chairman

Date:__________________________

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