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

November 30, 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 30, 2012, in room 3138 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
Marvin Leavitt
Chris Nielsen
Linda Rosenthal

ECONOMIC FORUM MEMBERS PRESENT IN LAS VEGAS:
None

ECONOMIC FORUM MEMBERS ABSENT:
Matthew Maddox

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	Monthly Taxable Sales Charts: Statewide – Fiscal Analysis Division
Exhibit C	Quarterly Gaming Charts: Statewide – Fiscal Analysis Division
Exhibit D	Gaming Revenue Forecasts – Gaming Control Board
Exhibit E	Economic Forecast – Executive Budget Office
Exhibit F	Forecast Information Packet – Fiscal Analysis Division
Exhibit G	Economic Forum Projections – Department of Taxation
Exhibit H	Report to the Governor and the Legislature on Future State Revenues
Exhibit I	Summary of the Economic Forum General Fund Revenue Forecast
Exhibit J	General Fund Revenues – Economic Forum November 30, 2012, Forecast

I. ROLL CALL

Chairman Ken Wiles called the meeting of the State of Nevada Economic Forum to order at 9:35 a.m. and the secretary called roll. The members were present at the meeting in Carson City, with member Mr. Matthew Maddox absent excused.

II. PUBLIC COMMENT.

Chairman Wiles asked for public comment from attendees in Carson City and Las Vegas.

Christopher Corbett testified before the Economic Forum and provided the following written testimony.

> My name is Christopher Corbett. I am a self-employed insurance producer, a business owner and also the Nevada State Coordinator for PANDA, People Against the National Defense Authorization Act, the NDAA.
>
> I am here, today, to speak to the possible impact of the NDAA on Nevada's economy. I will be brief.
>
> We all know Nevada has been struggling as one of the most economically challenged states in the nation. With the decline in the gaming industry it is unlikely that Nevada will fully recover any time soon. Nevada has led the nation in unemployment, foreclosures and bankruptcies. My Nevada based business has declined by 50% since 2008.
>
> As a small business owner, the incorporation within Nevada of the unconstitutional authorizations of indefinite detention and assassination of US citizens without due process as authorized under the NDAA would only further encourage me to relocate my business elsewhere where the business climate is more robust and where nullification of the NDAA has been legislated. Adding the possibility of indefinite detention to the previous list of Nevada's woes, would leave little or no reason to remain within the State. I assume others with similar concerns may also choose to seek greener and safer pastures as well where freedom and liberty have been restored as the sovereign right of the people.
>
> As the founding document of the United States, the US Constitution has led to this nation becoming the greatest and most prosperous nation in the history of the known world. I urge the 2013 Nevada State Legislature to propose economic legislation

that would also restore our constitutionally protected right to due process for all Nevadans and encourage new business development within the State. Thank you!

There was no further public comment and the Chairman proceeded with the meeting agenda.

III. APPROVAL OF MINUTES OF THE JUNE 11, 2012, MEETING.

Chairman Wiles asked for approval of the minutes.

MR. LEAVITT MOVED FOR APPROVAL OF MINUTES OF THE JUNE 11, 2012, MEETING. MR. NIELSEN SECONDED THE MOTION.

THE MOTION WAS UNANIMOUSLY APPROVED.

IV. APPROVAL OF MINUTES OF THE NOVEMBER 9, 2012, MEETING.

MS. ROSENTHAL MOVED FOR APPROVAL OF MINUTES OF THE NOVEMBER 9, 2012, MEETING. MR. NIELSEN SECONDED THE MOTION.

THE MOTION WAS UNANIMOUSLY APPROVED.

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

Mr. Anderson intended to provide an update on the state employment outlook, which included one additional month of data from his presentation on November 9, 2012. As of October 2012, he said Nevada had an 11.5% unemployment rate (Exhibit A, page 103), which was down from 11.8% in September 2012 and down from 13.4% from the prior year. However, Nevada's unemployment rate remained relatively high compared to the nation as a whole for October 2012 at 7.9%. Mr. Anderson cited as of October 2012, the state employment levels (page 104) were up by 5,300 jobs relative to the year before and about 7,800 jobs year-to-date comparing the first ten months of 2012, versus the same period in 2011. He noted that the month of October was better than expected because based on historical trends 2,500 new non-seasonally adjusted jobs were typically added in the September to October period, but 4,700 were added, resulting in the seasonally adjusted increase of 2,200 jobs. Turning to page 105, Mr. Anderson stated that unemployment insurance claims had been trending down for more than 30 months and Nevada saw a slight uptick in October relative to the same month in 2011. He pointed out that unemployment insurance claims were up by approximately 5.5% compared to October 2011. However, he did not put too much weight on that one month of data since the state had been seeing a downward trend for 30-plus months and there were more working days in October 2012, which could have accounted for more unemployment claims filed.

Chairman Wiles asked if the seasonal adjustments were based on historical seasonal patterns as opposed to the absolute. He also inquired if the additional job growth was relative to the seasonally adjusted numbers and if it had been consistent.

Mr. Anderson indicated historical trends were utilized to gauge the health of the economy. Using retail trade as an example, he said as the holiday season drew near many additional retail trade workers would be hired to handle all the shopping demands. Mr. Anderson acknowledged that alone did not mean the economy was better, but when that information was considered and how it measured historically, the underlying trend could be seen.

Chairman Wiles asked if over the previous three to six months if Nevada's seasonally adjusted number had been higher than anticipated, or higher than prior years.

Mr. Anderson replied that Nevada's seasonally adjusted number was very volatile and the end result was that the monthly job numbers went up and down. In presenting that information, he preferred to look at other factors in addition to the month-to-month changes on a year-over-year basis. Citing the 7,800 year-to-date jobs (Exhibit A, page 104), Mr. Anderson said that was a key number, which represented job growth during the first ten months of 2012 versus 2011. He explained the underlying trend was up, but upon a month-to-month review, much volatility was revealed.

Referring to Exhibit A, page 107, Mr. Anderson stated the state unemployment rate was trending down after coming off a peak of approximately 14% in October 2010, and was currently at 11.5% for the first ten months of 2012, with an average rate of 11.9%. He reported that the overall trend was down by nearly 2 percentage points noting the rate was 13.7% for the same ten-month period in 2011. As shown on page 108, the state's lowest unemployment rates were in the rural counties, with many of them benefitting greatly from positive trends in the mining sector. Mr. Anderson said the graph on page 109 displayed a trending up in employment since the beginning of 2011 and the state had started to see signs of a pickup in hiring. As he previously stated, Nevada was up by approximately 7,800 jobs from January to October 2012. In the private sector, the state was up by slightly more than 11,000 jobs compared to 2011, which was in addition to about 12,000 jobs that were created in the private sector in 2011. Although he hesitated to delve into a technical topic, Mr. Anderson thought the 7,800-job figure he had referenced several times during his presentation would be revised up by 2,000 or 3,000 jobs at the end of 2012, when the revision and benchmarking process in partnership with the U.S. Department of Labor was performed. He suggested that employment had been improving since early 2011.

Chairman Wiles asked what dynamic would cause the jobs number to be adjusted by 2,000 or 3,000 jobs.

Responding to Chairman Wiles question, Mr. Anderson explained that the Department of Employment, Training and Rehabilitation (DETR) performed a monthly survey of business establishments and released the state unemployment rate and monthly employment numbers based on that information. However, the information was generated on a lag basis after a census of employment was created from unemployment insurance wage records submitted by employers. DETR only had information through the first six months of 2012 and relative to the same period in 2011, the complete count of employment showed growth in excess of 17,000 jobs in the private sector. Mr. Anderson said that during the first half of 2012, based on the estimates, Nevada's jobs were up approximately 14,000 compared to 2011, and at the end of 2012, DETR would adjust Nevada's estimated numbers to conform to the actual counts.

Continuing his presentation, Mr. Anderson said Nevada had increased employment for 16 straight months (Exhibit A, page 110) and every month since the beginning of 2011, with the exception of one month. Historically, Nevada had outperformed the nation in terms of job growth, but Nevada was hit hard by the recession, which narrowed the gap between the state and the rest of the nation. He pointed out that Nevada was now performing much more in line with the national averages (page 111). Regarding private sector trends by establishment size (page 112), Mr. Anderson recalled that he reported at the November 9, 2012, meeting how small employers had held up relatively well during the recession compared to larger employers who had to cut their payroll and shed more than 60,000 jobs. He said Chairman Wiles requested to have actual numbers to support that information and Mr. Anderson directed the members to page 113, which showed those figures. He said that jobs were evenly distributed across establishment sizes in terms of their share of employment, with approximately 250,000 jobs in each size category. Mr. Anderson noted that over the 2006 to 2012 period, as shown on page 114, the state's largest establishments with at least 500 employees declined, and the number of smaller establishments with less than 20 employees had grown. Furthermore, he said Nevada had in excess of 70,000 private sector worksites (page 115), with the vast majority of them employing less than 20 workers.

Turning to page 116 (Exhibit A), Mr. Anderson stated the state's three major employers, leisure and hospitality; trade, transportation and utilities; and professional business services were all trending slightly positive; however, construction continued to lag. In numerical terms (page 117), he indicated that leisure and hospitality led the way with 6,000 to 7,000 new jobs in the first ten months of 2012. Although retail/trade was not in the top three employers in the state it had sizable job growth with 1,700 new retail/trade jobs added in October 2012. That growth suggested the hiring of temporary holiday workers had started strong in October and his department would also be watching the November and December numbers. Referring to initial claims for unemployment insurance (page 118), Mr. Anderson said at the peak of the recession Nevada had approximately 36,000 unemployment insurance claims a month, and as of October 2012 there were 18,500 claims. There were 55,000 Nevadans (page 119) in October 2012 claiming unemployment insurance benefits, with 30,100 regular claims and 24,900 claims that fell under a variety of federally funded extension programs, many of which were slated to expire at the end of 2012.

Moving to the Nevada Market Outlook (Exhibit A, page 121), Mr. Anderson said there were no significant changes, even though one more month of data was added from his previous presentation at the November 9, 2012, meeting. To date, the state had an 11.9% to 12.0% unemployment rate and a continued moderate decline was expected. Mr. Anderson thought the state could also expect to see modest employment growth (page 122), with slight strengthening of about 2% year-over-year by the end of the biennium, which was good news compared to the dip in 2008, 2009, and 2010. However, the rate of growth came up short from the kind of growth seen prior to the recession. He noted that almost all the state's industries were expected to show modest job growth (page 123). The industries that had been weak over the course of the recession such as construction, finance, and manufacturing would move sideways in the coming years and the public sector was expected to continue shedding jobs, with a projected loss of 1,500 positions over the 2011 to 2015 period. In conclusion, Mr. Anderson said the projected employment growth in the second quarter of 2012 was 1.2%, the actual growth was 1.3%, and the total industrial employment was 900 jobs higher than anticipated, so a revision was not warranted.

Chairman Wiles thanked Mr. Anderson for his presentation and commented that learning there was no change in his forecast was informative. Chairman Wiles appreciated the inclusion of information about the worksite size and number of employers. He thought looking at the total number of private sector worksites by size further emphasized the importance of Nevada's small business community and an additional hire for each of those companies would have a significant impact on the economy.

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

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, presented the gaming and taxable sales charts (Exhibit B), which staff had prepared and kept updated with the latest information for the Economic Forum members. Starting with the chart on page 1, Statewide Monthly Taxable Sales, Mr. Guindon said the latest figures through September 2012 from the Department of Taxation were included in the chart. He noted the blue line was actual monthly sales, the black line was the 12-month moving average and the red line was the growth rate. Mr. Guindon stated the chart showed a relatively dramatic increase in statewide taxable sales since the trough. He remembered discussions at the November 9, 2012, meeting about what had been driving that rise and noted when reviewing the charts it was important to look at the slope of those lines in terms of the recovery. Turning to page 2, Clark County Monthly

Taxable Sales, he said Clark County had recovered quite a bit since the trough. He thought some of the categories driving the increase were food and drinking establishments and nightclubs along with clothing and clothing accessories, which were driven by visitors as well as citizens of Nevada. Another category driving the taxable sales was automobile sales, which was up double digits at 13% statewide in September 2012, compared to the same month in 2011. Referring to the chart on page 3, Washoe County Monthly Taxable Sales, Mr. Guindon said the county had recovered in a sense, but not as dramatically as Clark County. Carson City Monthly Taxable Sales (page 4) showed the start of a recovery, yet there was an inflection point where it was increasing, but at a decreasing rate initially seen coming out of the recovery. Mr. Guindon indicated that the Douglas County Monthly Taxable Sales (page 5) continued to go down longer and in terms of where the trough was further out before it started to come back, but not as much as Clark County. Turning to the chart on page 6, Elko County Monthly Taxable Sales, Mr. Guindon said the mining industry was a contributing factor of taxable sales in the smaller counties due to large equipment purchases and hiring of mining workers. He explained that those purchases could cause hundred to thousand percent increases so it was difficult to keep both axis on the same chart. Page 7 showed the increase in Nye County Monthly Taxable Sales and page 8 referred to all the other counties that were not listed separately. Mr. Guindon said the charts showed where the increases in taxable sales had been coming from, but there was an inflection point in the last few months where the 12-month moving average had made a turn and flattened out. Pointing out that the rest of the state counties only accounted for approximately 6% to 7% of the total statewide taxable sales, a relatively small portion of the overall taxable sales; he said that percentage was helping pull up the taxable sales numbers.

Mr. Nielsen asked to return to the total state chart (Exhibit B, page 1).

When flipping the pages of the charts in rapid succession, Mr. Guindon said the slope across the counties could be viewed as what was driving the statewide taxable sales. He reiterated that the 6% to 7% taxable sales from the rest of the counties was helping to pull up the statewide numbers; however, Clark County accounted for approximately 75% to 77% of the total statewide taxable sales. Although there had been an inflection point in the rest of the state with a flattening out, it did not appear in the Clark County chart or the statewide chart.

Moving to Exhibit C, Mr. Guindon started on page 1, Statewide Total Gaming Win, Slot Win and Game and Table Win, which was a quarterly depiction of the relationship of total win, slot win and table win statewide. Total slot win was shown on page 2 and total coin in was on page 3. Mr. Guindon explained that the machines were changing slot play so the coin in was not as strong; however, the win from those machines was improved due to the better hold percentage, which was shown on page 4, Statewide Slot Win Percent. He noted for the members that the hold percentage had been increasing since the trough and as an economist, he looked at the hold percentage as the price of playing slot machines. Page 5 showed the Total Slot Count Statewide, which he stated had been falling for many years. Mr. Guindon indicated that slot machine technology allowed one device on the floor to offer a multiple number of games; therefore, he said casinos had been taking slot machines from the floor and converting some of that space to nightclubs, eating establishments and other non-gaming types of amenities. The chart on page 6 (Exhibit C) showed the Win per Slot per Day, which was increasing more than the Coin in per Slot per Day (page 7) because of the hold differential. However, Mr. Guindon thought what was driving it more significantly than the actual coin in or the win was pulling the devices off the casino floor; therefore, it was the denominator more than the numerator that was causing the increase in win per slot. The Total Game and Table Win chart on page 8 displayed a quarterly historical record of game and table win. The chart included a blue line, which was shown as spiked during certain periods. Mr. Guindon thought the spikes in game and table win were driven by baccarat play; however, the spikes shown in the third quarter of 2012 were not at the normal seasonal cycle (December, January, and February) for baccarat play by high-end players. He said it appeared that baccarat players were coming to Nevada at other times of year, as well as the seasonal cycle, causing a change in the statistical nature of the series. Mr. Guindon pointed out the Total Game and Table Drop chart on page 9 and the Game and Table Win Percent chart on page 10, which were driven by baccarat play. The Total Game and Table Count was shown on page 11 and Mr. Guindon commented that the historical average number of games and tables could be affected by new gaming properties, which could open with more games initially and then pulling back from that level as time progressed. Page 12, Total Game and Table Count, showed the volatility of that series and he noted there was much more volatility than on the slot side statewide. The last chart presented by Mr. Guindon was the Drop per Game and Table per Day on page 13, which demonstrated dramatic increases because of baccarat play.

Mr. Leavitt read in the press that construction sales tax had increased substantially in September 2012 and asked Mr. Guindon if there was an indication of where it was derived. He was curious if it came from a mining area or as a result of something in the larger counties.

Although he did not have a chance to go through the entire report to study each of the counties, Mr. Guindon speculated the rise in construction sales tax was related to mining or utility, geothermal, and renewable energy projects. He said given the volatility in that series and the low base in 2011 provided an opportunity for a large increase one month, with the possibility of a large decrease the next, depending upon what happened the year prior. Mr. Guindon offered to go through some of that pertinent information during the sales tax portion of the presentation.

Chairman Wiles thought it would be helpful to address the rise in construction sales tax to provide an additional indication of whether the growth came from key economic based drivers, or if it was more dispersed.

Before moving to Agenda Item VII, Chairman Wiles expressed that the citizens of the state of Nevada were living in a period of great economic uncertainty. He said the members of the Economic Forum were tasked with providing forecasts for each of the major and minor revenue components for the state at the same time when there were significant discussions in Washington D.C. that would affect tax policy, spending policy, and budgetary policy at the federal level. Chairman Wiles was concerned those federal decisions would have a significant effect on Nevada's state budget, along with affecting consumer confidence and consumer spending, which in turn would affect any of the ultimate outcomes projected by the Economic Forum. He asked for comments from the other members.

Mr. Nielsen concurred with the comments made by Chairman Wiles regarding the uncertainty of the overall economic and fiscal climate, along with the variety of considerations that might affect the state and spending in Nevada.

Mr. Leavitt noted that part of the federal decisions related to the "Fiscal Cliff" was an increase in taxes, which caused people to spend less on items that made up Nevada's principal revenue sources such as sales tax, gaming tax and entertainment tax. He thought there was a direct and significant relationship between what happened to tax levels on a federal level and spending in Nevada by the citizens of the state and its visitors.

Chairman Wiles appreciated that Nevada would have approximately 42 million visitors in 2012; he hoped there would as many in 2013, with discretionary income to spend on the state's major revenue drivers.

Turning to the next item, the Economic Forum's Report to the Governor and the Legislature on Future State Revenues, November 30, 2012 (Exhibit H), Chairman Wiles pointed out that the members would review the draft report and suggest any changes that might be necessary. He stated the members would approve the final version during Agenda Item IX. He asked Mr. Guindon to begin the discussion on the report.

In reference to the Economic Forum's November 30, 2012, Forecast, Mr. Guindon said the actual forecast would be formally considered and approved under Agenda Item IX. Historically, he explained if the members approved a forecast at the meeting it would be entered into a table, presented to the members for final review, and then attached to the Report to the Governor and the Legislature on Future State Revenues (Exhibit H), which would be sent to the Governor and the Legislature. Mr. Guindon said the report had been written and subsequently provided to the members for review; he asked the members if they had any suggestions or changes to the report.

Mr. Nielsen requested for the word "large" on page 5 to be removed from the report in the sentence that read, "The improving economic conditions that began nationally in late 2009 and early 2010 occurred in large part due to the unprecedented monetary and fiscal stimulus programs." With regard to the nature of the drivers of the recovery, he thought use of the word large in that respect was subject to debate.

Mr. Guindon said if the members agreed to modify the report with the removal of that one word, then staff would make the change. The report and the forecast would be presented for final approval under Agenda Item IX. He suggested for the members to make the modification a formal motion.

> MR. NIELSEN MOVED TO STRIKE THE WORD "LARGE" ON PAGE 5 IN PARAGRAPH 3 OF THE ECONOMIC FORUM'S DRAFT REPORT TO THE GOVERNOR AND LEGISLATURE ON FUTURE STATE REVENUES (EXHIBIT H). MS. ROSENTHAL SECONDED THE MOTION.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

Ms. Rosenthal commended staff on a very well written and comprehensive report. Chairman Wiles concurred that the report was well done.

With no further discussion, Chairman Wiles moved to Agenda Item VII, Major General Fund Revenue forecasts.

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

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

Beginning the discussion of the Major General Fund Revenue forecasts, Mr. Guindon reviewed the meeting materials to be used in the forecasting presentations, including handouts from the Gaming Control Board (Exhibit D), Executive Budget Office (Exhibit E), the Fiscal Analysis Division (Exhibit F), and the Department of Taxation (Exhibit G). He indicated that several tables were included in the meeting packet (Exhibit A) and would be referenced during the presentations. Mr. Guindon explained that Table 1 (page 125, Exhibit A) provided five years of fiscal year history along with a FY 2012 (October) comparison to FY 2013 (October) to provide information related to year-to-date state revenues. Table 3 (page 131) showed the forecasts for every unrestricted General Fund revenue source for each of the fiscal years the Economic Forum was considering. Mr. Guindon said the Economic Forum would formally consider six major General Fund revenue sources at the meeting. The forecasts for the remaining revenue sources were prepared by the Agency, the Fiscal Analysis Division and the Budget Division, with consideration by the Technical Advisory Committee (TAC) on November 26, 2012. He said Table 4 (page 137) displayed the major General Fund revenue sources and the forecast by each of the forecasters for FY 2013, FY 2014 and

FY 2015. Table 4 also included the actual revenues in each of the categories for FY 2012. Mr. Guindon stated that Table 8 began on page 139 and for easier reference was also a separate printed handout on green paper. For the six major General Fund revenue sources, Table 8 illustrated the forecast presented at the November 9, 2012, meeting, by each forecaster, along with the forecast presented for consideration by the members at the current meeting. He said the percent change in terms of dollars and the percent change in growth rate were also included in Table 8. Mr. Guindon indicated Table 9 (page 143) was created by staff for consideration by the members based on discussion and questions by Mr. Maddox and other members. For each major General Fund revenue source, he noted Table 9 depicted the actual revenue amount fiscal year-to-date for FY 2011, FY 2012, FY 2013 (July to September), as well as the actual revenue amount for FY 2011 and FY 2012, with the forecast for each forecaster highlighted in green. Mr. Guindon also pointed out the other components of Table 9, which included the growth rate over the last nine months of FY 2012 compared to the last nine months of FY 2011 as it applied to the State Sales and Use Tax. He said the growth rate reference periods varied depending on whether the General Fund revenue source was reported monthly or quarterly. Last, highlighted in yellow was the average growth required over the remainder of FY 2013 to achieve the FY 2013 forecast. Mr. Guindon said Table 9 was generated to provide context for the members on forecasts from the different forecasters.

GAMING PERCENTAGE FEE TAX

Mike Lawton, Senior Research Analyst, Gaming Control Board

Referencing the Gaming Control Board (GCB) handout (Exhibit D), Mr. Lawton said the GCB's forecast for Gaming Percentage Fee Tax was revised slightly from the meeting on November 9, 2012. He reported that nothing had occurred since that meeting, which necessitated any major adjustment or changes. However, since the November 9, 2012, meeting the GCB had incorporated the September 2012 gaming win numbers into the models. Mr. Lawton noted the September 2012 gaming win (pages 1 and 2) increased by 3.3% against a 5.9% decrease in 2011. The month also included a 1.2% increase in slot win that was accompanied by a 7.2% increase in games and table win, due to a record amount of win recorded by Nevada's sports books, in which football won a record $43.5 million. Mr. Lawton indicated that after those results were entered into the GCB models, the state's slot win forecast was basically unchanged (pages 3 and 4) with an increase of $432,000, and a growth rate increase from 0.64% to 0.65%. The September results for statewide game win and game volume (pages 5 and 6) increased the GCB's projections for game and table win by $17.6 million, and it increased the growth rate from 4.4% to 4.9%. He said fiscal year-to-date slots were down 1.9% and games and table win was up 10.9%. Mr. Lawton stated the GCB forecast gaming win for all of FY 2013 to increase 2.2%, and he noted the state was currently up 2.7%. The GCB anticipated Clark County growing at 2.6%, the Las Vegas Strip growing at 3.3% and the forecast for the combined Las Vegas Locals Market to continue to accelerate due to the sustained recovery on the Las Vegas Strip, with those markets growing at 2.6%. Mr. Lawton thought that the calendar fourth quarter of 2012 would have difficult comparisons due to baccarat. He said baccarat win for the fourth quarter of 2011 was up 25.3% and the volume was up 17.4% for that same period. In addition, total gaming revenue for the fourth quarter of last year was up 5.7%. He thought the second half of FY 2013 would have softer comparisons as gaming win was up just 1.3%, baccarat win was flat and wagering was up 5.9%.

Moving to Percentage Fees for FY 2013 (page 8, Exhibit D), Mr. Lawton said the GCB projected an increase of approximately 2.9% with $672.4 million in collections, which compared to the initial projections at the November 9, 2012, meeting, of a 2.7% increase with $672.3 million in collections. He pointed out that Percentage Fee collections fiscal year-to-date were up 14.0% or $27.1 million. However, he noted that of the $27.1 million, $20.3 million of it was coming from estimated fee adjustment (EFA) and a $16.3 million increase in the EFA was recorded last month. According to Mr. Lawton September 2011 provided easy comparisons for the EFA in September 2012, but he thought October 2012 would be a difficult comparison month. He said gaming win was up 8.1% in October 2012, which was due to baccarat being up 73.2% in October 2011. Mr. Lawton projected Percentage Fees would also be difficult to compare in October 2012 because Percentage Fees were up 8.6% in October 2011 and the EFA was 49.6%. Preliminary results indicated that the month of October 2012 would be slightly positive in terms of gaming win; however, collections were going to be down primarily due to a decrease in the EFA. He said the average growth required over the last eight months of FY 2013 to achieve the GCB forecast was a -1.8%. Meanwhile, the growth over the last eight months of FY 2012 compared to the last eight months of FY 2011 was 3.0%. Mr. Lawton said the forecast for FY 2014 called for statewide gaming win to increase 3.4%, with the Clark County forecast to grow at 3.8%, and continued growth on the Las Vegas Strip with a growth rate of 4.3%. Growth was also forecast in the other submarkets making up Clark County, including the Las Vegas Locals Markets, which were anticipated to grow at 3.2%. Mr. Lawton noted that in FY 2014, the GCB forecast Percentage Fees growth rate at 3.6% with $696.7 million in total collections. He concluded his presentation with the GCB forecast for FY 2015, with statewide gaming win increasing 4.5% and Percentage Fees growing at 5.4%, with $734.5 million in total collections.

Ms. Rosenthal asked for more insight on the GCB's conservative estimate for Gaming Percentage Fee Tax for FY 2013 provided that only -1.8% growth for the remaining eight months was needed to meet its forecast for the full year.

Responding to Ms. Rosenthal's question, Mr. Lawton said the EFA was not as it should be and there were $12.1 million in collections in September 2012. He stated the GCB was up against a -$4.2 million comparison and collected $16.0 million on what he referred to a collections anomaly, because the state taxable gaming revenue (TGR) to win ratio for September 2012 was 100%. He reported that there was also a collections anomaly in June 2012 so it was the timing of the collections, which skewed the numbers. The preliminary results showed the EFA as positive; however, a significant amount would be given back in October 2012. Citing those situations as the reason for the conservative forecast, Mr. Lawton said it was the opinion of the GCB that the EFA was currently skewed toward the positive, but would even out by the end of the fiscal year.

Ms. Rosenthal thanked Mr. Lawton for his explanation and asked Mr. Guindon and Ms. Rogers if their forecast represented a similar situation.

Mr. Guindon responded that he and Ms. Rogers would address Ms. Rosenthal's questions during their presentations.

Mr. Leavitt surmised that the portion of the total revenue from slot machines, which was generally the highest, most stable, and subject to the least volatility was now showing decreases. Conversely, he thought the state was seeing increases in the portion of the total state revenue that had shown the most volatility and continued to be very volatile, which was the baccarat play. Mr. Leavitt assumed that the current ability to forecast versus forecasting historically was somewhat diminished because of the volatility.

Mr. Lawton agreed the increase in baccarat in the total percentage of gaming win had caused more volatility. There were traditional months where baccarat play was evident, but currently baccarat was occurring in random months never experienced before, which made forecasting and the gaming numbers volatile each month. He explained that only certain resorts had baccarat with limited tables, yet it was such an important part of the total. Mr. Lawton indicated Nevada's mass market customer had decreased somewhat and baccarat had lifted up the gaming numbers, but at the same time it made those gaming win numbers very volatile from month-to-month.

Mr. Leavitt expressed that if there were 150 people worldwide who decided to change their habits and play baccarat in a location other than Nevada it could drastically affect the state's numbers.

In conversations he had with Mr. Maddox, Mr. Lawton learned that many operators in Las Vegas were building relationships with customers in Macau. Due to the presence of Las Vegas based properties in Macau, he said the GCB was comfortable that those relationships would continue; there was no indication they were going to cease.

Mr. Leavitt hoped those relationships did not change, but it concerned him when a major revenue source, which the state depended on, reached such a height of volatility that could move in and out so rapidly and even month-to-month.

Chairman Wiles asked if the GCB, over the last five years to ten years, looked at the correlation between baccarat win and economic conditions in the United States. It was known that baccarat players were almost exclusively international players who may or may not be sensitive to domestic economic conditions. He thought if the numbers were separated into baccarat and slots there might be a better indication of the correlation between U.S. economic activation, visitations to the state, and the amount of slot machine activity.

Mr. Lawton said ever since some of the Las Vegas companies began operating properties and developing relationships in Macau, baccarat had expanded at a dramatic rate. The correlation between Macau and Las Vegas was that those new customers desired to have a different experience than what they could have in Macau. Mr. Lawton indicated none of that activity tied into activity occurring in the U.S.

Chairman Wiles observed there was a predictable correlation between domestic activity and slot play with a link between domestic economic activity, consumer confidence and spending, and visitor activity. He noted that baccarat play was becoming a bigger and more volatile component month-to-month, which was less dependent on U.S. economic conditions. Chairman Wiles wondered if that was good or bad for the state; however, he thought it was an interesting component that could be a buffer for state revenues, even though it was more volatile.

Mr. Lawton stated the GCB preferred for those components to blend evenly to include growth from the mass-market customer and the baccarat business, which would take the volatility out of the month-to-month numbers. However, the mass-market customer had lost traction and when baccarat fiscal year-to-date was removed from the equation Nevada was down 0.8%, which had been a positive number without baccarat at the same time the previous year. Mr. Lawton expressed that the GCB was concerned with the fact that without baccarat the state would be down fiscal year-to-date.

Mr. Guindon said the members had good observations on this issue. He thought that Mr. Lawton, Ms. Rogers, and he all had the same ideas when trying to forecast the Gaming Percentage Fee Tax. He recalled asking Mr. Maddox at the November 9, 2012, meeting if the resorts could grow the 150 to 200 people playing baccarat, how frequently that population visited Las Vegas, and if the players won or lost. As an economist, he was initially concerned when Nevada started expanding gaming throughout the nation because he thought there would be a substitute good for the state and for Las Vegas. History had proven him wrong and he realized that when gaming was taken to other locations it created an interest in gaming from latent gamers. The properties were very good at marketing their products and entertainment, and when a market was good in one area then the properties could bring those gamers into Las Vegas. Mr. Guindon said in economics it was called “bundling.” He thought that with the development of the Macau properties the resorts were developing latent gamers, with bigger budgets than the average slot player. The latent gamers also seemed to be less sensitive to the economic conditions and although they might visit Las Vegas less frequently, they had a large amount of disposable income. Mr. Guindon expressed that the properties were doing a great job of developing players in Macau and then bundling that market with their Las Vegas properties. However, there was still uncertainty about sustaining those players, but as Mr. Maddox pointed out at a previous Economic Forum meeting, the properties were committed to this type of gaming for the long term, and they did not look at baccarat play on a month-to-month basis. Conversely, Mr. Guindon said the state of Nevada had to look at baccarat play in a 12-month period called the fiscal year.

Mr. Lawton said baccarat win was up 32.0%, and drop was up 23.1% fiscal year-to-date; the GCB preferred to remove baccarat from the equation to show the activity they were seeing. He also reported that fiscal year-to-date, baccarat win was down 0.8% and last year it was up 1.5%. Game and table win without baccarat, fiscal year-to-date, was down 2.4%, and the previous year it was up 7.8%. Mr. Lawton said if baccarat volume was removed, but slot play and table games were included, the Las Vegas Strip was down 2.7%, and the previous year it was up 5.9%. The GCB was concerned with those numbers and for a better balance wanted a blend of healthy baccarat business, coupled with a comeback of the mass-market customer.

Chairman Wiles commented that on an international basis, the discussion, to some extent, was whether Nevada was shifting the demand curve or moving along the curve. He said there were factors that affected the demand for gaming on an aggregate basis, which was seen in the U.S. The numbers showed there were more people gaming nationally, and Las Vegas was a destination site for people involved in gaming. However, he questioned whether that was a bundling effect, because the percentage of revenue from the Las Vegas Strip properties was divided into 38% gaming, and 62% entertainment and other components. Chairman Wiles wondered if Nevada was losing gaming revenue, but gaining revenue in other areas. He said sales tax revenue had continued to rise so the available per person gaming budget might be less, but there was money being spent in other areas besides gaming. Chairman Wiles thought from a gaming revenue perspective that was worrisome and the various components, as well as the volatility of those components, made it difficult to forecast. On a cumulative basis though, he said the question was whether all those components were still driving cash flow.

As shown in a gaming abstract published by the GCB, Mr. Lawton said rooms, food and beverage, and other components were growing at a faster rate than gaming win, which indicated people were visiting Nevada properties and spending, yet people were spending differently.

On the gaming side of the component (38% of revenue), Mr. Leavitt said it appeared Nevada was becoming less dependent on the national economy. However, regarding non-gaming (62%), he said the state was definitely dependent on what was occurring in the national economy. Chairman Wiles commented that it was a visitation driven and direct correlation to what was happening in the state. Mr. Leavitt thought it became a give and take situation.

Janet Rogers, Chief Economist, Executive Budget Office

Referring to the Executive Budget Office Economic Forecast (Exhibit E), Ms. Rogers said the forecast had not changed dramatically from the November 9, 2012, meeting. Due to questions posed by the members at the last meeting, Ms. Rogers wanted to provide a picture of how she derived her forecast, in order to make it clearer.

On page 1 of the handout (Exhibit E) was a simple explanation of how she saw the Nevada economy when preparing the revenue forecast. She said visitors to the state both from the U.S. and internationally were critical, but the economic factors surrounding whether visitors came to Nevada were outside of the state's control. When visitors traveled to Nevada, Ms. Rogers stated they spent money in businesses and on leisure activities, which directly impacted the state's economy. Ms. Rogers moved to the model on the bottom of page 1, Primary Economic Variables from Moody's Analytics, which provided some estimates for U.S. and world economic factors that she used to forecast visitors to Las Vegas. Since numbers for the whole state were not available she used visitors to Las Vegas as the proxy, and that variable was the strongest driver to her full economic forecast. Ms. Rogers indicated that once her visitor forecast was developed it pooled into gaming drop, retail activity and Nevada employment, which were tightly linked in her model. Once all those components were determined then the General Fund revenue sources discussed by the Economic Forum were derived from that information. Ms. Rogers said the graph on the top of page 2 showed the year-over-year percent change in visitor volume for Las Vegas. The yellow highlighted portion of her forecast showed the year-to-date visitor volume up 0.8%, and the forecast for October through June 2013 up 1.7%. The graph at the bottom of page 2 depicted actual visitor volume showing that the state had exceeded the peak achieved prior to the recession, with modest growth throughout the ten-year period from 1997 to 2007. Ms. Rogers forecasted two years of growth at 1.5% and 1.7% for FY 2013 and FY 2014, respectively, with a 2.2% growth rate for FY 2015.

Ms. Rogers thought it was important to have a variety of methodologies when considering the forecast and her forecast was strictly econometrically driven. Turning to page 3 (Exhibit E), Gaming Percentage Fees, she said the top of the page showed the drop, which was the amount of money that people came to Las Vegas to play. She explained there was a win percentage, which was a variable number. As people gambled, the win percentage determined what win was; therefore, win was more volatile to the state than drop. The win also had an adjustment consisting of marker credits, payments from previous months, and returned checks, which led to taxable gross revenue. The taxable gross revenue then was hit by the tax rate, which varied by the amount of money that was being spent. Ms. Rogers said the taxable growth rate provided the percentage fees and then the estimated fee adjustment (EFA) added. She explained that the middle chart on page 3 represented the mathematics of the EFA, in which the percentage fees for the current month were compared to the amount paid three months earlier, and became the adjustment to determine the amount of collections to be made in a later month. The bottom of page 3 showed the Percentage Fee Collections Impacted by Non-Economic Factors, indicating that each variable became more volatile while progressing through the chart. Ms. Rogers explained that the drop was the most measurable and described the win percentage as a random variable. She said when progressing through the variables, by the time collections was reached, the variability was 50% higher than the variability was in the drop. She said that was primarily due to the month-to-month EFA and marker credits. Ms. Rogers modeled gaming drop by separating baccarat from the other types of gaming and she modeled Clark County separate from the rest of the state. However, the graph at the top of page 4 showed gaming drop statewide per million visitors, which placed all the games and counties together. According to the graph, the amount of drop on an inflation adjusted visitor basis was shown to have been falling for decades. Ms. Rogers forecasted inflation adjusted gaming drop per visitor down 3.0% in FY 2013, down 1.9% in FY 2014 and down 1.5% in 2015. She said the actual for FY 2013 (July through October) inflation adjusted per visitor drop was down 2.8%, and her forecast for drop for the remainder of FY 2013 was a 3.1% decrease. The middle graph on page 4 was statewide monthly drop, which Ms. Rogers forecasted to be up 0.4% in FY 2013, 2.2% in FY 2014 and 3.4% in FY 2015. She said Nevada was currently down on drop by 0.1% for FY 2013 (July through October) and her forecast was for an increase of 0.7% for the rest of FY 2013, which was an improvement, but the reason for FY 2013 looking weak. The last graph on page 4 presented the baccarat forecast and Ms. Rogers did not show weakening of the baccarat market.

Chairman Wiles reiterated there was the inflation adjusted monthly gaming drop as well as the monthly gaming drop, which he interpreted as a real forecast and a nominal forecast. He asked if that was correct and Ms. Rogers concurred. Regarding the real forecast where a change in the second derivative of the slope was shown, Chairman Wiles inquired what was driving that slope because there were two components, and one was the nominal estimate, the other the inflation rate change. He thought part of what got incorporated into Ms. Rogers real forecast was forecast inflation. Chairman Wiles asked if the slowing rate of change was driven primarily in changes in forecast of economic activity, or by changes in the inflation rate. His point was that ultimately that state paid bills in nominal dollars; therefore, there were two components to the inflation adjustment, which were the forecasts of actual drop as well as inflation forecast.

Ms. Rogers said the real drop was based on the economic factors that went into that model and was based on U.S. activity and GDP etc. She noted that when nominal or current dollars were used then the increases were based on increasing visitor volume and approximately 2.0% to 2.5% inflation rate.

Chairman Wiles thought it sounded as if visitor volume was anticipated to increase, but gaming expenditures per person to decline; however, the state was picking up revenue through other entertainment options for visitors. He said that perhaps the slowing rate was driven by inflation expectation where the nominal growth was going up.

Ms. Rogers said the variables used for her real drop per visitor forecast were based primarily on U.S. economic conditions and she thought the slowing rate was due to the recovering economy. She indicated that baccarat drop was also a factor; therefore, the increasing baccarat coupled with a strengthening U.S. economy was producing the slowing of the decline in the real graph. The increase in the nominal graph took into account that the state was going to have more visitors and their inflation-adjusted resources would increase, along with a correlation with an increase of their inflation adjusted wages.

Mr. Leavitt referred to the bottom graph on page 2 (Exhibit E), Las Vegas Visitor Volume, which showed higher visitor volume than prior to the recession and compared it with the graph on the bottom of page 5, which showed substantially less monthly gaming percentage fee collections than during the high period. He wondered if that information was an indication that gaming collections in parts of the state, other than Clark County, were dropping off and were becoming a smaller part of the total economic activity. He was trying to understand the demographics of what was happening in the graphs.

Responding to Mr. Leavitt, Ms. Rogers directed the members to the graph on the top of page 5, Monthly Gaming Percentage Fees Statewide and the graph on the bottom of page 5, Monthly Gaming Percentage Fee Collections Statewide. She said the pattern of both graphs were very similar and showed the increasing variability because of the EFA. The fact that the state had not recovered was due to visitors not spending as much money on gaming. Ms. Rogers noted the visitors had returned to their previous level, but the amount they were spending had declined. Therefore, the collections had not recovered from their pre-recession peak.

As it related to gaming, Mr. Leavitt asked if the percentage between Clark County versus the rest of the state had changed over the course of the recession.

Mr. Lawton thought that Clark County represented 75% of total gaming win for the state. Mr. Leavitt asked if that number had been consistent over the last several years. Mr. Lawton responded it had been moving slightly upward. Mr. Leavitt inquired whether it was rapid and Mr. Lawton answered no.

Mr. Guindon stated that Washoe County had not been recovering. He said because the rural counties were such a small share of the total gaming win the shares were not changing across the counties because Washoe County had not been recovering.

Mr. Lawton corrected his previous statement regarding the percentage of Clark County total gaming win. He said in FY 2012 Clark County represented 86.3% of total gaming win, FY 2011 was 86.2%, FY 2010 was 85.3% and FY 2009 was 84.4%. He noted the total gaming win for Clark County was moving up and it had represented 80% in FY 2000.

Mr. Guindon thought the gains occurring in Clark County for total gaming win were not statistically surprising. He said the month-to-month numbers showed Washoe County bouncing around the bottom, and the rural counties were such a small portion of gaming win that Clark County was the one area pulling up the numbers.

In response to Chairman Wiles question regarding baccarat, Ms. Rogers said the volatility of baccarat made it very difficult to forecast. The model that she used contained global variables, but did not have U.S. economic conditions as a factor. Ms. Rogers stated that due to its volatility, there were no economic conditions that correlated to what happened with baccarat play.

Continuing with her presentation, Ms. Rogers explained the graph on the top of page 6 (Exhibit E) showed the volatility of the monthly Gaming Percentage Fee collections statewide. Comparing fiscal year July through October versus fiscal year November through June, the graphical representation depicted that there was a 66% correlation. Referring to the middle chart on page 6, Ms. Rogers said based on collections for September 2011 versus September 2012, drop was up 0.2%, win was 3.3% and it was due to the win percentage being up 3.0%. She indicated the taxable gross revenue after being adjusted for marker credits and payments from past issued marker credits was up nearly 10.0%. The percentage fee net of the EFA was up 10.0% and the percentage fee due was up almost 40% on a year-over-year basis based on the EFA. If there were large marker credits issued in a given month then then collections were expected the following month; therefore, Ms. Rogers noted that the real bottom line was drop and win percentage, which were the two critical components when she was forecasting. The last chart on page 6, Gaming Percentage Fee Collections Statewide, was the summary forecast from the Budget Division. Ms. Rogers said the FY 2012 actual collections were up 0.3% and she forecasted a 2.3% increase in FY 2013. Year-to-date (July through October) the state was up nearly 14.0%, but it was expected to decrease 2.6% from November through June. The forecast included a 2.1% increase in FY 2014, which was a continuation of the same level of growth and she noted acceleration to 3.8% in FY 2015. Those figures were based with hope on a strengthening economy coupled with increasing international visitors.

Chairman Wiles believed the approximately 150 baccarat players were international visitors and the ability to track those gamers would be driven somewhat by domestic economic activity. He said if economic conditions declined substantially then Nevada would not have the maintenance, support and other components needed to continue tracking those players. Chairman Wiles wondered how the state would decipher that information over the years in a time series model with a substantial error variable.

Ms. Rogers said the idea of bundling was interesting. She reported that many of the Las Vegas properties were supporting gaming in other areas of the U.S. and nationally, including Maryland and Macau. Ms. Rogers noted that one of the variables in her model was how many states had casino-style gaming. She thought that type of gaming in other states had a negative impact of Nevada; however, there was an aggressive effort by the Las Vegas casinos to ensure that the casinos in other places fed into Nevada's properties in the longer term.

Mr. Nielsen said discussion at the meeting suggested there had been a migration of consumers away from gaming to other bundled activities. He asked whether there was data to quantify whether that behavior was a dollar for dollar tradeoff; dollars spent per visit across the combined activities.

Addressing Mr. Nielsen's question, Ms. Rogers explained that the Las Vegas Convention and Visitors Authority used to provide a dollar amount that visitors spent on other activities besides gaming; however, it was strictly an estimate. She supposed the amount of money spent in a casino restaurant versus gaming could be calculated at each of the different properties, but Ms. Rogers thought it would be very difficult to separate those numbers. In her economic models, the amount of gaming drop fed into the retail volume because she felt the domestic and international visitors had a predetermined or fixed budget of what they were going to spend. What the visitor spent on a slot machine would not be spent in a restaurant and vice versa. Ms. Rogers noted there was a correlation in the forecast for the two to feed off each other, but it was not a precise measure.

Chairman Wiles thought there was some secondary indication of how visitors were spending based on sales tax revenues. If gaming revenues were down, but sales tax revenues were up then it was coming from some source.

Ms. Rogers concurred and added that sales tax revenues in eating and drinking establishments were up so it was clear that visitors were not just stopping spending.

Mr. Nielsen thought it was conceivable to back in through the various rates of those activities to determine the actual dollars spent.

Mr. Leavitt speculated that the state might have reached a point where data should be accumulated in a different way from the past, which could more precisely determine where the state stood in relation to its visitors and the amount of money they were spending. He expressed that gaming revenue was already being tracked and the Department of Taxation would have record of the sales tax and entertainment tax revenue derived from restaurants and other venues within the casino. Mr. Leavitt thought the state had the ability to take information it was currently tracking and combine those numbers differently to determine the visitor spending and subsequent revenue.

Ms. Rogers thought that on the retail side it might be difficult to disseminate what part of the revenue was tied to visitors or locals because both participated in shopping for goods. Furthermore, visitors and locals both enjoyed entertainment opportunities, which made it tough to determine what portion of that entertainment was a Las Vegas local attending a show to celebrate an anniversary, or a visitor attending because they were there on vacation. She thought the Las Vegas Convention and Visitors Authority tried to obtain some of that information, but she had not studied it closely.

Chairman Wiles said there were different components, with some more volatile than others, and some that were more or less dependent on national economic conditions. There was also a bundling or substitution effect that was occurring. He thought it was important to try to begin development of a series to identify those components that could be better forecast going forward, for discussion after January 1, 2013.

Referring to Mr. Leavitt and Mr. Nielsen’s comments, Mr. Guindon said the Las Vegas Convention and Visitors Authority implemented an annual visitor profile study, which was not an estimate. It consisted of a quarterly “on the street” survey of visitors who were asked to complete a survey on their spending behavior, including questions regarding how much money they spent on gambling and attending shows. The results of the survey were compiled from the answers. He said Mr. Leavitt's point for consideration on tracking and compiling data differently was a noble goal, but Mr. Guindon questioned who would compile the data. Mr. Guindon was sure that the casinos were well aware of their patrons spending habits, but that information was not reported to any state agency. He said the Department of Taxation received the taxable sales reported to them by the business that collected the taxes. Mr. Guindon expressed that he, Ms. Rogers and Mr. Lawton would be interested in having that type of data. However, he did not know how to obtain it without costing a lot of money and an inordinate amount of burden on a taxpayer to have to fill out a form with reporting detail, especially since there was no Census Bureau, Bureau of Labor Statistics or Bureau of Economic Analysis at the state level.

Chairman Wiles was not overly compelled by survey data because there was selection bias in who was willing to say what they had done and whether the information was accurate.

Mr. Guindon agreed with Chairman Wiles, but thought the survey results at least provided some useful information, rather than having none.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Beginning his presentation, Mr. Guindon referred the members to Exhibit F, the Fiscal Analysis Division Forecast Information Packet. He said the division had not changed its outlook for employment or wages per employee since the November 9, 2012, meeting. The outlook was aligned with the employment forecast provided by Mr. Anderson and his staff from the Department of Employment, Training and Rehabilitation. He noted that the Fiscal Division forecasted the wages per employee growing less than the rate of inflation. In inflation-adjusted terms, the wages per employee were keeping up in purchasing power, but the personal income forecast was trending just slightly above inflation. Starting with pages 38 and 39 (Exhibit F), Mr. Guindon pointed out Table 1A and 1B of the Fiscal Division Percentage Fee Tax Collections Forecast. Since the Fiscal Division revised its Gaming Percentage Fee forecast (Economic Forum's meeting packet, Exhibit A, page 139) by approximately $3.7 million since the November 9, 2012, meeting, he wanted to explain the reasoning. He said Table 1B on page 39 (Exhibit F) reflected one more month of information than his previous forecast noting that the figures on the table highlighted in yellow reflected the current forecast, the green highlighted area showed the November 9, 2012, forecast, and the orange highlighted section was the difference between the two forecasts. Mr. Guindon described his forecast methodology. He explained there was no difference in total win; when he studied the slot win, the game and table win, the drop and the coin-in and changed the forecast slightly for the different categories, the net result was zero. He said the percentage fees forecast was changing because of the changes in the taxable gaming revenue (TGR) to win ratio and the average effective tax rate. Mr. Guindon made an adjustment in the ratio of TGR to win for FY 2013 because he saw the TGR ratio at 100.1% in September 2012 and realized that it needed to fall hard to achieve the number he had forecasted for the quarter; therefore, he brought the average for the quarter up. He debated on the forecast for FY 2014 and 2015 and made an upward revision across the forecast path in the TGR to win ratio, which increased the amount of TGR that could be made subject to an effective tax rate. Mr. Guindon lowered the average effective tax rate, and when that number was carried through the forecast the net result for the percentage fees from TGR was to increase the forecast by 0.5% growth, or about $3.3 million in the first year. He explained it then fell by 0.10%, but added $2.6 million because of the adjustment in the first year and although there was no change in the growth in the out year, $2.5 million was still picked up. Regarding the EFA, he said mathematically it was an annual correction and he had made a slight adjustment to the EFA.

Turning to the charts beginning on page 44 of Exhibit F, entitled Taxable Gaming Revenue to Win Ratio, Mr. Guindon said Chart 5A showed it quarterly for each fiscal year quarter from 1993 to present. His forecast for FY 2013 was shown on the chart as a green bar surrounded by a black box. For the first quarter of FY 2013, the ratio was below the year prior, for the second quarter, the September ratio was 100.1 and he dropped the ratio for the third quarter because historically that quarter tended to be lower due to typical credit play in December, January and February. Since credit was issued, but not collected in the third quarter, collection was expected to come in future months, which resulted in a higher fourth quarter ratio. Mr. Guindon said Chart 5B (page 45) showed the TGR to win ratio cumulatively fiscal year-to-date by quarter.

Moving to Chart 6A (page 46, Exhibit F), Quarterly Percent Fees from Taxable Gaming Revenue Effective Tax Rate by Quarter, Mr. Guindon said the huge jump up in the bars on the chart, from FY 2003 to FY 2005, was due to the tax increase approved during the 2003 Session that was effective in FY 2004 and fully effective in FY 2005. He noted the chart showed his assumptions of the forecast rate compared to prior quarters and FY 2012. Chart 7A (page 48) was the actual quarterly EFA and Chart 7B (page 49) was the cumulative EFA. Mr. Guindon stated the EFA was approximately -$6 million net for the first quarter compared to -$10 million, which was a $4 million net positive impact on FY 2013, compared to FY 2012. He assumed the second quarter was going to come in at $14 million and with September at $12.1 million and the prior year at $5 million there was another $7 million net positive. He thought the EFA year-to-date was an approximate $20 million net positive increase. Mr. Guindon reiterated that fiscal year-to-date, the total percentage fees, including the EFA, were up 13.6%, but once the EFA was removed, the total was only up 3.2 %. He indicated that with the taxes for the month having come due on the 24th, there was a glimpse of what the upcoming month would be. As a result, Mr. Guindon noted he would only be adding another $2 million to his EFA forecast for the second quarter, to a total of approximately $14 million. Referring to Chart 7B (page 49), Mr. Guindon indicated that his forecast for total EFA for FY 2013 would be at $3.76 million, compared to a -$2.2 million in FY 2012. He noted that the EFA was really a comparison of the last quarter of a fiscal year compared to the last quarter of the prior fiscal year, barring any new properties that would come onto the market that might cause distortions. Since there were no new properties expected on the market, it would truly be a comparison between the last quarter of FY 2013 and the last quarter of 2012.

To answer Ms. Rosenthal's question, Mr. Guindon indicated that the Fiscal Division forecast required an average decline of 1.4% over the last eight months of FY 2013 to hit the forecast. He agreed that it seemed counter-intuitive to talk about increases in win and TGR at the same time, but noted that the forecast of 1.8% increase in the TGR over the last eight months of FY 2013 was compared to an increase of 2.2% over the last eight months of FY 2012. Taken in combination with the year-to-date position of the EFA and where that revenue might end up at the end of the year, that resulted in the decline of 1.4% compared to 3.0% growth last fiscal year. Mr. Guindon also noted that, without the effects of the EFA, there would actually need to be growth in gaming over the remainder of the fiscal year in order to hit the forecast.

Mr. Nielsen thought Chart 7B (page 49, Exhibit F) was very interesting because over the entire fiscal year it showed that the EFA was almost a random variable that started to come out close to zero. He said an analytical suggestion might be to look at the same chart of the percentage of the total dollars for that year.

Mr. Guindon pointed out that the chart on page 38 of Exhibit F showed the percentage fees from TGR and the EFA. On average, he said it was not that big of a player except it could go from a net positive to a net negative with great variances. Mr. Guindon said on Chart 7B, the orange bar that was much higher than the others, was due to the tax rate change in FY 2004, which distorted that year. He also noted that FY 2009 was heavily impacted by the recession. Mr. Guindon thought that Mr. Nielsen's observation was correct in that on average in the first quarter, it was a net negative, and then it bounced around becoming a net positive in the fourth quarter. He commented that knowing where the state was fiscal year-to-date was not necessarily a perfect indicator of where the state would be at the end of the fiscal year.

Mr. Leavitt said taking into consideration the combination of all the variables and volatility; he thought it would be good if the numbers even came close to the estimate.

Chairman Wiles said it was challenging because there were volatile components, but the weight on those components was also changing.

Stating that Mr. Leavitt made a valid point, Mr. Guindon agreed that the nature of the tax, coupled with the underlying dynamics associated with the industry, made it difficult to forecast. He thought the Economic Forum forecast record on the tax was good considering the business cycles the state had experienced, and the volatility of the industry and the tax.

Mr. Nielsen commented that one of the benefits the members had in the challenge of forecasting was the presentation of multiple forecast methodologies. The fact that some components of the forecasts converged, he found to be helpful.

Ms. Rosenthal asked if the members were ready to discuss a proposed forecast and Chairman Wiles replied yes.

Referring to Table 4 on page 137 of the Economic Forum's meeting packet (Exhibit A), Ms. Rosenthal directed the members to the Percentage Fees Tax and the subsequent listing of the different forecasts by forecaster. She agreed with Mr. Nielsen that it was helpful to have multiple forecasters along with their long record of accuracy. Reviewing the Percentage Fees Tax specifically for all three fiscal years, Ms. Rosenthal thought Moody's Analytics forecast was a bit of an outlier. She said if Moody's Analytics forecast was excluded then all three of the other forecasts were very close in dollars and she thought all the methodologies were valid. She appreciated the additional detailed data gathered by the Gaming Control Board and shared with the Fiscal Analysis Division and the Budget Division to utilize in their broader models. Given the closeness of the Agency, Fiscal Division and Budget Division forecasts, Ms. Rosenthal proposed adopting the middle number for each fiscal year.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM FOR THE GAMING PERCENTAGE FEE TAX ACCEPT THE GAMING CONTROL BOARD'S FORECAST OF $672.422 MILLION FOR FY 2013, THE BUDGET DIVISION'S FORECAST OF $683.038 MILLION FOR FY 2014, AND THE FISCAL ANALYSIS DIVISION'S FORECAST OF $726.777 MILLION FOR FY 2015. THE MOTION WAS SECONDED BY MR. NIELSEN.

Chairman Wiles pointed out if the average was taken of the three forecasts it resulted in 2.8% as opposed to 2.9%. He asked for a vote.

> THE MOTION WAS UNANIMOUSLY APPROVED.

Mr. Leavitt asked Mr. Guindon for the calculation of the percentage increases between each of the three chosen forecast amounts.

Mr. Guindon replied it was a 1.6% increase to go from the FY 2013 forecast of $672.442 million to the FY 2014 forecast of $683.038, and a 6.4% increase to go from the FY 2014 forecast of $683.038 to the FY 2015 forecast of $726.777.

Chairman Wiles offered clarification on a misstatement in the motion for the Gaming Percentage Fee Tax and wanted to rescind the previous motion. Ms. Rosenthal withdrew her motion to accept the Budget Division's forecast for the Gaming Percentage Fee Tax for FY 2014, and Mr. Nielsen withdrew his second on the motion for the Gaming Percentage Fee Tax for FY 2014.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ACCEPT THE GAMING CONTROL BOARD'S FORECAST FOR

GAMING PERCENTAGE FEE TAX OF $696.663 MILLION FOR FY 2014. THE MOTION WAS SECONDED BY MR. NIELSEN.

THE MOTION WAS UNANIMOUSLY APPROVED.

Mr. Guindon clarified for the record the motion was the 3.6% growth rate for FY 2014 and was a 4.3% increase going from the $696.663 million to the $726.777 million for FY 2015.

Chairman Wiles wanted to confirm the process for considering each of the major General Fund revenues. He understood that the members would vote and choose forecasts in each category and then staff would prepare an updated table based on those decisions. The members would then review the final table, and move for approval and forwarding to the Governor and the Legislature.

Mr. Guindon concurred with his understanding of the process. He added that until the final table was approved under Agenda Item IX the members could deliberate any of the revenue forecasts and change any of the decisions previously made throughout the meeting by taking a new motion and a majority vote.

LIVE ENTERTAINMENT TAX – GAMING

Mike Lawton, Senior Research Analyst, Nevada Gaming Control Board

Mr. Lawton reported that the Gaming Control Board (GCB) forecast for the Live Entertainment Tax (LET) was not changed from the November 9, 2012, meeting. Referring to page 140 of the Economic Forum's meeting packet (Exhibit A), which contained the GCB forecast for the LET collections, the GCB reported that actual LET collections were down 3.3% fiscal year-to-date with only three months' worth of data. Preliminary results indicated that the month of October 2012 would be down compared to October 2011. He noted that LET collections in October 2011 were up 12.2%. For FY 2013, LET collections were projected to decrease -1.5% with $123.5 million in collections, which was primarily due to shows that were "dark" and not being replaced in the fiscal year, or would be replaced later in the fiscal year. The average growth required over the last nine months of FY 2013 to achieve the GCB forecast was -0.8%. Meanwhile the growth over the last nine months of FY 2012 compared to FY 2011 was 1.0%. For FY 2014, the GCB forecast 3.7% growth with $128 million in total LET collections as the new shows come online and are annualized. For FY 2015, the GCB forecast growth in LET collections of 1.5% with $130 million in total collections.

Chairman Wiles asked if the GCB estimate for LET collections for 2013 was based on specific information about when shows would come back online, and Mr. Lawton replied that was correct.

Mr. Nielsen asked what was driving the 1.5% total growth rate for FY 2015. Mr. Lawton replied that LET collections for FY 2014 were based on information of when shows would come back online. He stated that the growth rate has definitely slowed down, but FY 2014 was coming out strong with the new shows coming online and annualized, and the comparisons would be more difficult. Mr. Lawton said that the LET was a difficult tax to forecast because of the large venues with 7,500 seats or more and revenue was derived primarily from concerts. Being unaware of the concert schedules, the GCB wanted to forecast LET collections conservatively for the outlying year.

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers stated that the Budget Division forecast for the LET revenue was done for inflation adjusted LET collections per million visitors. Referring to the Budget Division forecast for LET collections, page 7 (Exhibit E), Ms. Rogers said the chart showed historical data from the previous entertainment taxes; the tax as it currently exists was started in 2005. Ms. Rogers stated the Budget Division forecast showed a slight decline per-visitor on an inflation adjusted basis. She used an econometric model for her forecast more than looking at specific activity on the Las Vegas Strip and throughout the state. The LET collections were forecast for 1.8% growth in FY 2013; 4.4% growth in FY 2014; and 5.6% growth in FY 2015. However, the forecast reflected the belief that venue operators recognized the importance of these shows for their bottom line and would be aggressive in trying to bring venues back online, which was why the Budget Division forecast had somewhat stronger growth rates than the GCB forecast.

Chairman Wiles asked if the Budget Division forecast for LET collections was based on specific shows that were coming online. Mr. Rogers said the forecast was based on the economic conditions of the nation and the fact that that she did not believe the casinos were going to let the venues sit “dark.”

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon referred to the Live Entertainment Tax collections forecast on page 52 of the Fiscal Analysis Division Forecast Information Packet (Exhibit F). He noted that he did not know the final numbers for September 2012 at the November 9, 2012, meeting, but he had a good idea of what it was from talking with Mr. Lawton and looking at the Controller’s Office financial reporting system. Mr. Guindon said that the LET forecast was $22,000 lower than the forecast from the November 9, 2012, meeting, due to the adjustment for the actual collections being reported for September and the first quarter of the fiscal year. Mr. Guindon stated that when the shows start coming online it may be hard to annualize against them in FY 2015, but he thought the industry had done a good job of bringing shows online to generate revenue than other parts of entertainment or retail type activity. In addition, Mr. Guindon agreed with the other forecasters about the change from gaming to non-gaming visitors. Non-gaming revenue was an important element of the business and he believed operators would figure out how to get shows online to generate revenue.

Mr. Guindon referred to Table 9, page 144 (Exhibit A) which showed the growth that was required to hit each of the forecasts. He said LET collections for FY 2013 were forecast to decrease by 1.9%, compared to the 5.7% actual growth in FY 2012. Based on the actual 3.6% decrease for the first quarter of FY 2013, collections are projected to decrease by an average of 1.3% over the remaining three quarters of FY 2013. The required average decrease of 1.3% was compared to an average increase of 1.0% over the last three quarters of FY 2012.

Ms. Rosenthal said she placed a lot of value in the detailed information from the Gaming Control Board from speaking to the providers of the shows, which she believed was particularly important in forecasting LET collections.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ACCEPT THE GAMING CONTROL BOARD'S FORECAST FOR GROWTH IN THE LIVE ENTERTAINMENT TAX–GAMING OF -1.5% GROWTH IN FY 2013, 3.7% GROWTH IN FY 2014 AND 1.5% GROWTH IN FY 2015. THE MOTION WAS SECONDED BY MR. NIELSEN.

Mr. Leavitt said he would be more comfortable using the Fiscal Analysis Division's LET forecast of 3% growth or $131 million in LET collections for FY 2015.

Mr. Guindon clarified that it would be 3% growth to go from $128.046 to $131.902 in LET collections for FY 2015.

Mr. Nielsen commented that the most challenging forecast for LET collections was FY 2015 because collections were difficult to predict and were dependent on actual shows.

Chairman Wiles reminded the committee that they would meet again in late April or early May 2013 to review the forecasts, which would be helpful given the uncertainty the state faced through the end of FY 2012. He said that he was comfortable adjusting the LET collections forecast to 3% growth for FY 2015 as suggested by Mr. Leavitt.

> MR. LEAVITT MOVED THAT THE ECONOMIC FORUM ACCEPT THE GAMING CONTROL BOARD'S FORECAST FOR GROWTH IN THE LIVE ENTERTAINMENT TAX–GAMING OF -1.5% GROWTH, OR $123.513 MILLION IN FY 2013, 3.7% GROWTH IN FY 2014, OR $128.046 MILLION, AND THE FISCAL ANALYSIS DIVISION'S FORECAST OF 3.0% GROWTH, OR $131.902 MILLION FOR FY 2015. THE MOTION WAS SECONDED BY MR. NIELSEN.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

Chairman Wiles called for a recess of the meeting at 11:56 a.m.

The meeting reconvened at 12:05 p.m.

STATE 2% SALES TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser stated that the methodology used by the Department of Taxation to develop the forecast was a simple linear regression model that was applied to prior years' revenue. In addition, major historical events were considered so that the forecast would not be over projected. The Department of Taxation recently closed its September reporting period and had one more months' worth of data in order to revise the forecast. When the Economic Forum met in early November there were 26 months of continuous growth in the State 2% Sales Tax revenue. Currently, there was 27 months of continuous growth in taxable sales. To address Mr. Leavitt's question about the construction industry for the period of September 2012 and why growth had a large percentage rate change of approximately 20% compared to the same month in FY 2011, Ms. Maser indicated that a majority of the growth in the construction industry came from Clark County, as well as a portion from Elko County, due to the mining activity in Elko County.

Chairman Wiles asked if the growth in the construction industry was primarily driven by residential or commercial activity. Ms. Maser replied that the Department of Taxation did not have that data.

Concluding, Ms. Maser said given that the September numbers showed continued growth in sales tax revenue, the Department of Taxation revised its November 9, 2012, forecast. Referring to page 3, of Exhibit G, she stated that one line on the page represented the linear analysis that the Department of Taxation forecast, in addition to the second line that represented the historical actual General Fund revenues since FY 2009. The Department of Taxation's forecast for State 2% Sales Tax was 3.1% growth, or $869.08 million in FY 2013; 3.9% growth, or $903.16 million in FY 2014; and a 3.8% growth, or $937.24 million in FY 2015.

Mr. Nielsen asked if the linear regression model used just the data points included on the chart on page 3 (Exhibit G) or did it the time series go back further. Ms. Maser replied that the Department of Taxation only used the data points shown on the chart for the State 2% Sales Tax.

Mr. Leavitt asked about the volatility within the numbers for the State 2% Sales Tax growth over the last year. He asked if there was consistent growth looking at the tax on an industry level, or if one industry grew more rapidly one month and then dropped off to negative growth the following month.

Ms. Maser replied that from what she had seen over the past few months it seemed that some industries were more volatile than others, specifically the construction industry. She thought the purchases of large machinery fed into construction; however, the other industries seemed to be fairly smooth in their growth, and growth was consistent throughout the whole range of industries.

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers directed the members to the chart on page 8 (Exhibit E) which showed that employment, gaming drop, and retail activity were tightly linked in her econometric model. In addition, page 8 showed the year-over-year changes in employment, which she was actually forecasting for econometric reasons. The inflation adjusted change in taxable sales per job on the page showed how the two series moved together. Employment was clearly a very strong driver for the retail sales activity, and visitor volume went into the State 2% Sales Tax formula forecast.

Referring to page 9 (Exhibit E), Ms. Rogers said the top chart on the page reflected inflation adjusted 2% Sales and Use Tax per million jobs. She stated that at the last meeting it was noted that the 2% Sales Tax was not always collected on all items listed under the taxable sales and certain abatements were excluded from the State 2% Sales Tax. Therefore, comparing the chart with the previous chart it would show the growth rates were not exactly the same, whereas, if the two were actually reflecting the same growth, retail sales and 2% Sales Tax would expect to have the same rates. Using the inflation adjusted State 2% Sales Tax per million jobs; the state was up 2.6% year-to-date, and was projected to be up 1.3% for the remainder of FY 2013. Ms. Rogers said the uptick was due to the pent-up demand and the purchase of necessary replacement items that had been put off during the recession and satisfied over the most recent period, which would be dropping off. She noted that the uncertainty of the upcoming "Fiscal Cliff" would weigh in on the 2012 holiday season and the outcome could have a negative impact, which was not directly forecast. Inflation adjusted growth per job was forecast at 1.6% growth for FY 2013, 0.4% growth for FY 2014, and 0.6% growth for FY 2015, based on the fact that she did not think the economy would strengthen sufficiently to support additional higher growth. The monthly average State 2% Sales and Use Tax was up 6% in FY 2012, and 4.8% growth was forecast in FY 2013, 4.2% growth in FY 2014, and 5.0% growth in FY 2015, the difference being that inflation was picking up and the jobs were increasing.

Referring to the bottom chart on page 9 (Exhibit E), Ms. Rogers said the chart reflected the State 2% Sales and Use Tax forecast on a fiscal year basis with actual 6.0% growth for FY 2012, 4.8% growth projected for FY 2013, 4.3% projected growth for FY 2014, and 5.1% growth projected for FY 2015.

Mr. Leavitt noted that when the state saw strong growth in FY 2007, a substantial component of the sales tax collections was from construction. Over the last few years, the state had been growing at a fairly good rate, but the construction component had seen only slight growth. He asked Ms. Rogers if the forecast essentially continued with growth similar as the last few years with construction seeing very slow growth.

Ms. Rogers stated that the Budget Division forecast assumed that 5% of the total jobs in the state were in construction, which currently on an employment basis at the national average was down to around 5% of construction jobs. The state was up over 13% for construction jobs at the height of the bubble and she did not think the construction sector in the state would increase beyond 5%.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Guindon stated that at the November 9, 2012, meeting, the Fiscal Analysis Division looked at collections from taxable sales, specifically, with regard to abatements occurring for renewable energy projects and pledges of sales tax revenues through the Sales Tax Anticipated Revenue (STAR) Bond Tourism and Improvement District (TID) projects. Mr. Guindon said he would to continue to work on this issue, not only for the purposes of forecasting State 2% Sales Tax when the committee would meet during the legislative session, but also because he believed it would be an issue when the Legislature convened in February. Based on the current information set he had, Mr. Guindon said that he made adjustments to the Fiscal Division's State 2% Sales Tax forecast from the November 9, 2012, meeting; however, he did not change the taxable sales forecast. He said the month of September was not significantly different from what he thought for the quarter once he had the latest months' collections to complete the quarter, so he did not make adjustments to the taxable sales forecast. Referring to Table 8 (Exhibit A), the Fiscal Analysis Division forecast was revised down by approximately $5.4 million in FY 2013, $3.2 million in FY 2014, and $4.1 million in FY 2015.

Continuing, Mr. Guindon said that fiscal year-to-date through the first three months of FY 2013, taxable sales were up 5.5% compared to 7.0% the first three months of FY 2012. Therefore, taxable sales had to average 4.7% over the last nine months compared to 7.8% over the last nine months of FY 2012 to hit the Fiscal Analysis Division forecast, which he was comfortable with in regard to the level of growth required compared to what it was a year ago. Year-to-date through the first three months of FY 2013, sales tax collections were up 5.5% compared to the first three months of FY 2012, which were up 5.9% compared to FY 2011. Therefore, to hit the Fiscal Analysis Division forecast for FY 2013, sales tax collections had to average 5.8% over the last eight months of FY 2013 compared to an average of 6.0% growth over the last nine months of FY 2012. Mr. Guindon stated if taxable sales and 2% sales tax collections were actually lined up and there were no abatements, he would need 4.7% average growth against the 7.8% growth a year ago. An attempt was made to account for the impact of the renewable energy abatements and Sales Tax Anticipated Revenue (STAR) Tourism Improvement Districts (TID) amounts on the State 2% Sales Tax collections to create an apples-to-apples comparison for FY 2012 to FY 2013. Based on the analysis, sales tax collections needed an average of 5.6% growth over the last nine months of FY 2013, compared to 6.3% growth over the last nine months of FY 2012, adjusted for the renewable energy abatements and STAR TID amounts.

Mr. Guindon referred to Table 2 on page 64 (Exhibit F) which showed the actual quarterly total statewide taxable sales forecast. Imputed collections were the amount that would have been collected had the reported taxable sales generated tax collections. He stated that there was a $4.5 million gap in the fourth quarter of FY 2011, which was the second quarter of FY 2012, and a $5.4 million gap in the final quarter of FY 2012. After looking at the renewable energy projects that have been approved and working with the Department of Taxation, Mr. Guindon had to guess what the approved projects might purchase to generate revenue and the difference that he assumed would be there. He said in FY 2012, that actual difference was $14 million and approximately $11 million was due to the renewable energy sales tax abatement. Mr. Guindon said the rest of the difference, approximately $3.6 million, was due to the STAR TID tax pledges.

Mr. Guindon said that based on the Fiscal Analysis Division forecast, the amount of the renewable energy abatements would be less in FY 2013, but the STAR abatements would be about the same because they could be pledged to bonds for 20 years, which was a consistent amount that was being taken off as the STAR amount. In FY 2013, the renewable energy projects were decreasing compared to FY 2012. He said the forecast ended up with a net positive impact of approximately $5.3 million from FY 2012 to FY 2013 due to the renewable energy credits, which explained why taxable sales was projected to grow 4.9%, but collections were projected to grow 5.8%. He said it was a reverse of FY 2012 when taxable sales grew 7.6% but collections only grew 6.0%. He believed there would be less renewable energy credits in FY 2014 so he picked up another $5.3 million, which was why he had taxable sales growing 4.2%, but collections growing 4.8%.

Directing the committee to page 67 (Exhibit F), Mr. Guindon said the taxable sales collections forecast on the chart looked fairly robust, which came out of a econometric equation that was a function of inflation adjusted taxable sales per employee as a function of inflation adjusted personal income per employee, visitors per employee, new car registrations per employee, and construction employees per employees and a lag dependent variable. Chart 2 on page 68 showed statewide taxable sales; actual versus forecast on a quarterly basis, which showed reasonable rates of growth, but the collections were stronger because of the renewable energy impact. The bar chart on page 69 (Exhibit F) showed growth in taxable sales, which were growing faster than the State 2% Sales and Use Tax collections. Mr. Guindon referred to the chart on page 70 entitled Statewide Taxable Sales per Non-farm Establishment Employee – Actual versus Forecast on a quarterly basis.

Continuing, Mr. Guindon said the chart on page 71 (Exhibit F) showed statewide taxable sales per $1,000 of statewide personal income – actual versus forecast on a quarterly basis, which was not as robust as per employee. Personal income had been holding up better because of the transfer payments on the non-wage side of income. Chart 6, page 72 (Exhibit F) displayed statewide taxable sales per Las Vegas visitor – actual versus forecast on a quarterly basis, which was coming back but starting to flatten out from the current pace. Mr. Guindon said people were coming to the state but spending more money on non-gaming activities compared to gaming and part of the non-gaming was taxable sales, LET and room tax. Moving to the chart on page 73, personal income per employee was increasing because employees were falling so the denominator was going down substantially, but in addition, it was the transfer payments through the Unemployment Insurance (UI) program, which helped hold up the personal income. Personal Income per employee continued to increase over the recession and there as an inflection point in the Fiscal Division forecast and it would continue to increase but not at the rates seen during the recession. Mr. Guindon explained that the final chart on page 74 (Exhibit F) showed Las Vegas visitors per statewide number of employees, which had been falling from the recession, and employment growth had been out pacing visitor growth, which was good domestically for any state's economy. He stated that Nevada had a tourism-based economy, but at least employment was keeping up or actually growing faster and therefore the ratio was falling. However, it would hit the trough and come back because the state was able to start bringing visitors faster after the impact of the recession on visitors worked itself out. The employment was not able to recover as fast so the ratio was going up. He said that each employee was worth about 8.8 or 9 visitors, so visitors were coming to the state and doing things that had taxable sales attached, which was why the taxable sales per employee was going up so much, which he believed was being driven by visitors. In addition, he said that visitors were significantly outpacing employees and contributing to the nightclub scenes, which generated sales tax. Another category that was growing very fast was clothing and clothing accessories, which was also attached to visitors. The mining activities in the rural counties were driving the taxable sales per employee and continued to grow. He said the state was already at the peak in actual data and the forecast went beyond the peak. Mr. Guindon said that his expectation was as the economy started to get back into alignment the forecast would start to turn back and fall the other way.

Ms. Rosenthal stated that she assumed the numbers in the Fiscal Analysis Division's forecast was because the numbers of employees were down and it was a percentage. In addition, another reason why the employment growth looked like it was back to pre-recession numbers was that the formula was changed.

Mr. Guindon said it was a ratio, so they know that the denominator was falling pretty dramatically in terms of employment. Nevertheless, the Fiscal Division forecast had employment starting to grow and up approximately 1% to 2% by the end of the forecast and visitors were growing around 2% to 2.5%, so the visitors to employee would start to flatten out.

Mr. Leavitt stated that a major portion of sales tax in the past came from the construction industry. With construction down, he wondered what percentage of sales tax was currently made up from the automobile industry since he was aware that new automobiles sales were mainly purchased with borrowed money. He said when the state went through the recession people were unable to obtain loans because of the financing problems, or they were uncertain of the economy and not willing to purchase vehicles. Currently, the confidence level was up, people were purchasing automobiles and financing was getting easier and he wondered if the state reached a point where maybe it was being saturated in that market and the growth would not continue.

Ms. Rogers stated that the taxable sales data by industry included motor vehicle and parts dealers although she did not have a break out of how much of that was from purchase of replacement parts or new parts. She said that in September 2012 it was approximately 10% of total retail activity.

Mr. Guindon said that the first three months in FY 2009, which was a year below the peak, the category for motor vehicle parts and dealers for July/September 2009 was approximately $1.2 billion, which was approximately 10% of the total taxable sales for that three-month period. Taxable sales then went down to $928 million in the first three months of FY 2010, went up to $955 million in the first three months of FY 2011, and then up to $1 billion in FY 2012, and was currently at $1.2 billion, which was approximately 11%, up 16.4% during the first three months of FY 2013 compared to the first three months of FY 2012. Therefore, the forecasters could not break out that category with enough detail and what might be from credit in terms of auto sales. Looking at the financing deals, and the income growth, and part of the income growth was due to unemployment insurance, which might go away at the beginning of the next calendar year, Mr. Guindon agreed that there was uncertainty with what was driving the current growth in taxable sales. He thought the bubble in taxable sales was driven by residential and non-residential construction, in addition to people cashing in the equity from their homes to purchase cars and other things and then there was the reset.

Chairman Wiles commented that there were two components to taxable sales – consumer confidence and discretionary income and one of the things that overlays everything was federal and state tax policy, which was a component out of their control. He thought there were a general consensus that income tax rates were going to go up; however, they were unsure the amount, groups and income levels. He said that at the state level one of the most important suppliers of gaming and sales tax was from California, because the state raised its taxes, which made Nevada even more attractive for businesses and people, which affected discretionary income and consumer confidence. Another component was that Nevada was going through so much uncertainty, and having a resolution resolved some uncertainty, so there was an enhancement to consumer confidence just knowing the rules, the after tax, or what discretionary income was going to be. He stressed that the forecasters did not know the decisions that would ultimately drive discretionary income and consumer confidence. He reiterated that there was an overlay to taxable sales that affected consumer confidence and discretionary income, which were the most significant drivers of the forecasts.

Mr. Nielsen stated that the Moody's Analytics forecast for state sales tax seem relatively high compared to the other forecasts provided, and the Department of Taxation forecast used a simple model and appeared to be at the low end. He thought the Fiscal Analysis

Division's forecast was appealing because it provided more detail on the renewable credits, particularly in the early years. He suggested the committee consider the Fiscal Analysis Division's forecast for state sales and use tax for all fiscal years.

MR. NIELSEN MOVED THAT THE ECONOMIC FORUM ACCEPT THE FISCAL ANALYSIS DIVISION'S FORECAST FOR STATE SALES AND USE TAX OF 5.8% GROWTH FOR FY 2013, 4.8% GROWTH IN FY 2014 AND 4.1% GROWTH IN FY 2015. THE MOTION WAS SECONDED BY MR. LEAVITT.

THE MOTION WAS UNANIMOUSLY APPROVED.

INSURANCE PREMIUM TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser said the results of the Insurance Premium Tax collections for the first quarter of FY 2013 were quite positive, so the Department of Taxation revised its forecast. She noted, on the graph on page 4 of the State of Nevada Economic Forum Projections provided by the Department of Taxation (Exhibit G), the blue line showed the peak in actual revenues in September 2012, and the red line showed the linear analysis. She said the Department of Taxation's forecast for the Insurance Premium Tax revenue was for growth of 1.2% in FY 2013, 0.4% in FY 2014, and 0.4% in FY 2015.

In response to a question from Ms. Rosenthal, Ms. Maser said the Department of Taxation forecast did not consider the effect of the Affordable Care Act (ACA) on the FY 2014 and FY 2015 revenue collections.

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers referred to the graph on page 14 of the Executive Budget Office Economic Forecast (Exhibit E) to the Budget Division forecast for Insurance Premium Tax revenue. She said there was not much data on which to base the forecast. She explained that the forecast was prepared on an inflation adjusted basis per million jobs in the state.

Ms. Rogers said the biggest difference between the current forecast and the forecast presented on November 9, 2012, was the amount attributable to increases in the revenue due to the ACA. She was provided an estimate by the Department of Insurance that $18 million in additional revenue would be collected in FY 2014 and $27 million additional would be collected in FY 2015 due to the ACA.

Ms. Rogers said the Budget Division forecast for Insurance Premium Tax was for 1.6% growth in FY 2013, 10% in FY 2014, 6.6% in FY 2015.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto said the Fiscal Analysis Division forecast for the Insurance Premium Tax revenue began on page 75 of the Fiscal Analysis Division Forecast Information Packet (Exhibit F). He explained that it had been the practice for the Fiscal Analysis Division to forecast individual categories of the Insurance Premium Tax revenue as shown on page 76, particularly with regard to the quarter-ending periods, which made up approximately 95% to 96% of the revenue source. Fiscal Analysis Division staff used a linear regression model that took into account the quarterly collections per employee as a function of personal income per employee and single-family home sales per employee to produce the forecast.

Mr. Nakamoto noted that there was no actual data on which to base the November 9, 2012, forecast, but for the current forecast the first quarter of collections was known. He said the Fiscal Analysis Division's November 9, 2012, forecast was for 2.9% growth in the first quarter, but actual growth in the first quarter was 1.9%. He noted that was the only change that the Fiscal Analysis Division made to its forecast, other than some minor revisions to the smaller categories. The revisions resulted in a decrease in the forecast of approximately $500,000 per year throughout the forecast horizon. He said that for FY 2013 the Fiscal Analysis Division forecast growth in the Insurance Premium Tax revenue of 2.9%, and the forecasts for FY 2014 and FY 2015 were unchanged at 2.8% and 3.1%, respectively.

Ms. Rosenthal asked whether the Fiscal Analysis Division was able to determine what was driving the shortfall in the first quarter. Mr. Nakamoto said there was no indication in the available data as to what caused the difference between the forecast and actual collections. He noted the $500,000 shortfall was based on about $60,000 million in revenue.

Mr. Nielsen asked if the Fiscal Analysis Division forecast considered the increase in the number of policy premiums because of the ACA. Mr. Nakamoto said it did not. He said the Fiscal Analysis Division staff did not disagree with Ms. Rogers that the revenue could increase due to the ACA. However, there were many individual and employer mandates to consider. He acknowledged that the previously uninsured individuals would be able to obtain insurance through either their employer or a Health Insurance Exchange, which could increase the revenue. However, the Fiscal Analysis Division staff also considered the effect on the premiums of the 80% in the state who had health insurance before the ACA. Based on that, the Fiscal Analysis Division staff did not have a firm idea as to how the ACA would affect the Insurance Premium Tax revenue.

Chairman Wiles noted, of the three forecasts, one included the estimated effect of the ACA, one intentionally excluded the effect, and another did not consider the effect. He asked Ms. Rogers how the development of the state exchanges was incorporated into the Budget Division forecast. He noted Governor Sandoval had not yet made a decision on the Medicaid component.

Ms. Rogers said she did not recall the assumptions made by the Division of Insurance in regard to the insurance exchanges. However, she selected a number that was more conservative than the Division of Insurance estimate.

Chairman Wiles asked whether the Budget Division forecast would be affected if the Governor decided not to create the exchange. Ms. Rogers said if the Medicaid component was expanded, fewer individuals would need to purchase taxable insurance. If the Governor decided not to expand Medicaid, and the rest of the forecast was on target, the Budget Division forecast would be a couple million dollars under actual collections.

Mr. Nakamoto added that employers might decide that it was financially more viable to pay the penalties to the IRS rather than purchase health insurance coverage for employees. Some employers might decide that it was cheaper to pay the penalty than to provide the insurance benefits for their workers.

Chairman Wiles asked Ms. Rogers for clarification as to the change to the Budget Division forecast if the state exchange option were selected by the Governor. Ms. Rogers explained that if Medicaid was expanded, her forecast for FY 2014 of $18 million for the ACA impact would be unchanged. If Medicaid was not expanded, those individuals would be covered through the exchanges, and subject to the Insurance Premium Tax. Therefore, the forecast would increase by about $2.5 million in FY 2014 and $3.7 million in FY 2015.

Chairman Wiles asked if the cost to the state would increase as well. He explained that if it was assumed that there was no increase to the revenue, but costs increased, then the Economic Forum would not be reflecting those increased costs properly.

Ms. Rogers clarified that the forecasts being presented were only for revenues. None of the forecasts reflected increases or decreases in the cost components. In his decision-making process about whether to expand Medicaid, the Governor would probably consider increased revenues versus increased costs. After that decision was made, the forecasts could be revised to include that information.

Chairman Wiles said that if there was additional revenue and additional costs, having forecasts that did not show any incremental revenue would obviously dramatically understate the net revenue that would go into the budget.

Ms. Rogers stated that she believed the ACA should be considered in the forecast for the Insurance Premium Tax. She agreed with the Fiscal Analysis Division that there was lots of complicated information involved in how the ACA affected the revenue. She agreed there would be costs, but said that was an entirely different issue.

Mr. Rogers said she had heard from several different people that some employers might accept the cost of the penalty rather than the cost of the insurance. However, she believed that the small employers would want to provide insurance benefits if they could. She said some may opt to take a penalty rather that use the opportunity to provide insurance benefits to their employees, but she believed that effect was overstated.

Ms. Rosenthal said the Economic Forum would be remiss in not considering additional information regarding ACA. She said there was lots of uncertainty about what the amounts would be, but the best information available was included in the Budget Division's forecast. She noted that the top graph on page 14 of the Executive Budget Office Economic Forecast (Exhibit E), without ACA included, showed increases that were more conservative than the Fiscal Analysis Division forecast, and more aggressive than the Department of Taxation forecast.

Mr. Leavitt asked if the Division of Insurance's estimate considered the percentage of the total individuals currently without coverage, and the percentage of total businesses that did not currently provide health insurance coverage that would opt to participate.

Ms. Rogers said she would request that information from the Division of Insurance. She noted the graph on the bottom of page 14 (Exhibit E) showed the Budget Division forecast with and without the ACA.

Mr. Nielsen agreed that something should be included in the forecast to reflect the ACA. He understood that the estimate provided to the Budget Division from the Division of Insurance was the best information available. He would prefer to hedge the forecast back, but he did not have any basis for a change.

Ms. Rosenthal noted that there would be another opportunity to adjust the forecast at the May 2013 meeting of the Economic Forum, when information would be available about what the Governor decided and how the Division of Insurance estimated the number of individuals and businesses that would participate in ACA.

Ms. Rogers said because she used the assumption that Medicaid coverage would be expanded, her forecast was slightly more conservative than if she had used the average of the two, or assumed Medicaid would not be expanded. She did not use the higher number provided by the Division of Insurance.

Mr. Guindon asked about the Division of Insurance's assumptions about the premiums, and who would be covered. That information would help the Economic Forum to develop its forecast.

Ms. Rogers said the Division of Insurance expected slow growth in basic insurance premiums. She said the Division of Insurance used the Gorman Actuarial Market Report provided by the Kaiser Family Foundation, which reported that Nevada would have approximately 317,440 new non-Medicaid insured by 2016 if Medicaid was expanded to 138%, and approximately 360,964 new non-Medicaid insured if Medicaid was not expanded. Using their own data, they arrived at a statewide average premium of $291.16 per member per month, at a pick-up rate of 50% in 2014, 75% in 2015, and an average effective premium rate of 3.25%.

Mr. Guindon asked how the ADA increment was developed. He noted the Insurance Premium Tax was based on the net rather than the gross.

Ms. Rosenthal asked Ms. Rogers for more information on the assumptions used by the Division of Insurance to develop its forecasts. Ms. Rogers said the analysis was very detailed, but she did not know whether every aspect was correct.

Mr. Nielsen asked if staff from the Division of Insurance was available to answer questions, and Mr. Guindon said he and Ms. Rogers would attempt to reach them.

The Economic Forum postponed its decision on the Insurance Premium Tax forecast until a representative from the Division of Insurance could be reached.

The following discussion took place at 2:17 p.m., after the discussion on Agenda Item E.

Mr. Guindon said he had been in contact with staff from the Division of Insurance, and confirmed that it was estimated that Nevada would have approximately 317,440 non-Medicaid insureds by 2016. He said it was estimated that 50% of those individuals would be paying insurance premiums in 2014, with an increase to 75% in 2015.

Mr. Guindon said the Division of Insurance reported that there was limited information available for the state. It was assumed the premium amounts would be $291.16 per member, per month. An average effective premium tax rate of 3.25% was assumed. He clarified that the actual rate was 3.5%, but adjustments were made to arrive at the net amount to be taxed. Mr. Guindon calculated that the amount of potential revenue would be $18 million at the 50% level, and $27 million at 75%.

Chairman Wiles said the Economic Forum had the option to either include the impact of the ACA, or not. The Economic Forum could use the estimate that was given, or modify it based on other information.

Mr. Nielsen asked if the estimate assumed there were no other dynamics relative to private employers' decisions regarding the ACA options. Mr. Guindon could not say whether the number of insureds was estimated with an idea that some employers would decide not to offer insurance to their employees as a practical business decision. He noted that the Kaiser Family Foundation estimate was higher than the 317,000 used by the Division of Insurance, but he did not know the basis for that reduction.

Mr. Leavitt asked how it was determined that 50% or 75% of the insured individuals would be paying insurance premiums. Mr. Guindon was unsure, but suggested it might be a "gut check" number.

Ms. Rosenthal said there was obviously lots of missing information; however, she believed the effect of the ACA should be considered in the revenue forecast. She pointed out that the Division of Insurance adjusted the number downward to a more conservative estimate. She said the Economic Forum must provide an accurate forecast, because the forecast drives the Governor's recommended budget. She noted there would be an opportunity to request more information and revise the revenue forecast at the May 2013 meeting of the Economic Forum.

> MS. ROSENTHAL MOVED THAT THE ECONOMIC FORUM ACCEPT THE BUDGET DIVISION'S FORECAST FOR INSURANCE PREMIUM TAX OF $240.610 MILLION FOR FY 2013, $264.791 MILLION FOR FY 2014 AND $282.383 MILLION FOR FY 2015.

Mr. Leavitt said he would be more comfortable using the 50% level to estimate both years' revenue. Mr. Nielsen agreed with the more conservative approach given the complicated set of dynamics.

Mr. Guindon said rounding to the nearest million using the 50% rate would reduce the FY 2015 forecast by approximately $9 million.

Chairman Wiles noted the estimated number of insured was based on some level of evaluation by the agency. He understood the Economic Forum had the ability to adjust that estimate, but he would want to know the basis for the adjustment.

Mr. Nielsen said he did not have a basis for the adjustment, but it was difficult to estimate the complete set of dynamics associated with the revenue.

Mr. Leavitt said each individual would make a determination whether or not to join the program. He had trouble believing that half of the individuals who decided not to join in one year would then change their minds and opt to join in the following year. Mr. Leavitt clarified that this question only involved the estimate for the second year.

Ms. Rosenthal was not against changing the number in the second year, but she pointed out that the determination that 50% would join in the first year was equally arbitrary.

Chairman Wiles agreed there was not much information available on which to base a forecast, but the Economic Forum would be able to adjust its forecast for FY 2014 and FY 2015 based on new information provided at the May 2013 meeting.

> THE MOTION WAS SECONDED BY MR. NIELSEN. THE MOTION WAS UNANIMOUSLY APPROVED.

MODIFIED BUSINESS TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser said the Department of Taxation's approach to forecasting the Modified Business Tax (MBT) was a bit different than its approach to the other revenues, because of changes to the MBT tiered rate. She explained that the Department of Taxation staff forecast gross wages into the future, and used that data to forecast the revenue for FYs 2013, 2014, and 2015.

NONFINANCIAL INSTITUTIONS

Ms. Maser explained that the MBT nonfinancial for FY 2013 was calculated using a tiered rate. The rate for Tier 1 (any wages under $62,500) was 0%, and the rate for Tier 2 was 1.17%. She said the Department of Taxation used an effective tax rate to forecast the remainder of the fiscal year, and because gross wages for the last quarter were not significantly different than historical amounts, the Department of Taxation did not change its previous forecast.

Ms. Maser said the Department of Taxation forecast for MBT nonfinancial for FY 2013 remained at $359.232 million, or 2.9% growth. She explained that for the FY 2014 and FY 2015 forecasts, the tax rate returned to 0.63% due to the sunset of the tiered rate. The Department of Taxation forecast for MBT nonfinancial was $259.184 million, or -27.9%, for FY 2014, and $266.904 million, or 3%, for FY 2015.

FINANCIAL INSTITUTIONS

Ms. Maser said because collections for the September quarter were significantly higher than the previous quarter, it was necessary to revise the Department of Taxation's forecast for MBT financial. She said for FY 2013, the Department of Taxation forecast a growth rate of 4.8%. For FY 2014 and FY 2015, the growth rate was forecast to be 0%. Referring to page 6 of Exhibit G, State of Nevada Economic Forum Projections, November 30, 2012, Nevada Department of Taxation, she noted the line representing the linear analysis was fairly flat.

Janet Rogers, Chief Economist, Executive Budget Office

NONFINANCIAL INSTITUTIONS

Ms. Rogers reported that the Budget Division forecast for MBT nonfinancial has not changed in any material way since the previous forecast. Referring to the graph on page 8 of the Executive Budget Office Economic Forecast (Exhibit E) showing employment for nonfinancial institutions, she explained that because the data was for private employees only, the forecast was a bit higher than the previous data, which included public employees. She said that information was used to forecast an inflation-adjusted average wage at nonfinancial institutions, which, adjusted for inflation, was relatively flat and declining slightly. When inflation was included, there was a slight increase in the average monthly wage in current dollars. She assumed that employees were getting basic cost-of-living increases. She expected total monthly payroll for nonfinancial institutions (Page 11, Exhibit E) to pick up a little more in FY 2014 and FY 2015.

Ms. Rogers explained that employers were allowed to deduct the amount paid for health care, which reduced actual wages by about 10%. She noted that the Department of Taxation numbers included collections from other periods; there was not as strong a correlation as she would like between actual wages reported to the Department of Taxation and wages for that period.

Ms. Rogers said MBT nonfinancial for FY 2012 declined 3.5%, primarily because in FY 2012 the first $250,000 of annual payroll was exempted from the tax. She forecast a 1% increase for FY 2013, a 32.1% decline for FY 2014 due to the lower rate, and an increase of 3.3% in FY 2015, based on a comparison to another tax that was calculated on the same basis.

Chairman Wiles noted that the Economic Forum was required to make its forecast based on existing statutes. Ms. Rogers agreed that was correct. She said if the Governor or the Legislature decided that the tax would not sunset, then the Economic Forum's forecast would be adjusted based on that new information.

Mr. Leavitt asked for the growth remaining in the second year after the reduction in the rate due to the change in legislation. Ms. Rogers said that page 11 (Exhibit E) showed the growth rates for total monthly payroll at nonfinancial institutions, which was essentially what she would forecast if the tax rate were to stay exactly the same from one year to the next. She said 3.4% growth in FY 2012 would be followed by 1.8% growth in FY 2013, 3.6% growth in FY 2014, and 3.2% growth in FY 2015.

FINANCIAL INSTITUTIONS

Ms. Rogers referred to page 12 (Exhibit E) to graphs showing employment and wage information for financial institutions. She said employment in financial institutions had been declining fairly steadily. She expected the decline to continue, but at a slower pace, as the effects of the financial crisis settled. She said the middle graph showed inflation-adjusted monthly wages at financial institutions. She said wages were increasing, because the financial institutions were laying off the less senior workers, and the remaining workers average wage was increasing. She said the graph at the bottom of page 12 displayed average monthly wages in real dollar terms.

Ms. Rogers referred to the graph on the top of page 13 (Exhibit E) which showed growth of 1.2% in FY 2012. She forecast growth in total wages of 0.6% in FY 2013 (due to average higher wage) 3.4% in FY 2014, and 2.9% in FY 2015.

Ms. Rogers said the financial institutions were allowed to deduct insurance premiums. She said more financial institutions might provide insurance than before due to the availability of the health exchanges and the Affordable Care Act (ACA) encouraging them to do so.

Ms. Rogers said actual MBT financial collections were up 0.8% in FY 2012. She expected 5.8% growth in FY 2013, which, to some extent, was due to the very large amount that was collected in the first quarter for financial institutions. Those collections were up 22% over the previous year. She did not know the reason for the increase, but did not think it was sustainable. She pointed out that the large increase made the growth for the rest of the year appear to be lower by comparison. She said the Budget Division expected growth of 2.1% in FY 2014, and 2.6% in FY 2015.

Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division

NONFINANCIAL INSTITUTIONS

Mr. Reel said he would focus his presentation on the tables on 86 and 87 of the Fiscal Analysis Division Forecast Information Packet (Exhibit F). He noted that the economic variables driving the Fiscal Analysis Division forecast were included in the graphs starting on page 88.

Mr. Reel said the employment forecast on Table 2A on page 87 (Exhibit F) was based on DETR's employment forecast for nonfinancial industries. There was growth in nonfinancial employment of 1.9% in FY 2012, and growth was forecast to be 1.2% in FY 2013, 1.7% in FY 2014, and 1.9% in FY 2015. He pointed out that the inflation adjusted percentage change was shown on the bottom of the table. He said the Fiscal Analysis Division forecast wage and salary disbursements to increase 3.3% in FY 2013, 3.7% in FY 2014, and 4% in FY 2015.

Referring to Table 2 on page 86 (Exhibit F), Mr. Reel said the Fiscal Analysis Division had expected taxable wages of 2.9% for FY 2013, but growth was a little weaker at 1%. That difference was partially because the health care deductions ratio was a bit less than what the Fiscal Analysis Division had forecast. In terms of actual collections, the Fiscal Analysis Division forecast was within about $1,000 of the $88.6 million reported by the Department of Taxation for the first quarter of FY 2013. Based on the first quarter collections and wages, the Fiscal Analysis Division felt comfortable with the outlook, and did not change its forecast.

Mr. Reel said there was a minor change in the overall effective tax rate based on the additional quarter of information. He said that Fiscal Analysis Division staff was able to refine its methodology of extrapolating the tax rate throughout the forecast period based on the changes in the tax structure.

Mr. Reel said the Fiscal Analysis Division forecast for MBT nonfinancial was affected by the 1% decrease in wages for the first quarter. The Fiscal Analysis Division reduced its forecast for MBT nonfinancial by -$630,000 in FY 2013, -$716,000 in FY 2014, and -$800,000 in FY 2015.

FINANCIAL INSTITUTIONS

Mr. Reel noted that the MBT financial actual and forecast wages and employment information was shown on page 97 of the Fiscal Analysis Division Forecast Information Packet (Exhibit F). He noted that the employment forecast was driven by information provided by DETR. He expected the decline in FY 2012 of 1.9% to flatten in FY 2013. He said the Fiscal Analysis Division felt comfortable with growth in employment of 0.3% in FY 2013, 0.8% in FY 2014, and 1.3% in FY 2015. Mr. Reel noted that the average wage per employee was growing faster than inflation, and that was expected to continue through the forecast period.

Referring to information regarding taxable wages, collections and effective tax rate by quarter and fiscal year shown on page 96 of Exhibit F, Mr. Reel said the first quarter was strong with 23.5% growth in taxable wages, and collections of $5.7 million. He agreed with Ms. Rogers that there was one-time activity included in that period. For example, there were $19 million in wages accounting for about $400,000 in collections included in the first quarter of FY 2013. He noted those collections actually belonged in FY 2010 and FY 2011, but were collected through audits or another mechanism. Because that activity was from prior periods, it was not expected to continue.

Mr. Reel noted that the shaded part of the table on page 96 (Exhibit F) showed wages and collections adjusted for amnesty and other factors. He noted that, for forecasting purposes, wages of $279.5 million were reduced by $19 million resulting in wages of $260 million, which reduced collections from $5.7 million to $5.3 million. Mr. Reel noted that the table contained an error in the average effective tax rate of 2.048%. He said the Fiscal Analysis Division used an effective tax rate of 2.061% based on FY 2012 actual collections. He explained that although the rates were incorrect, the dollar amounts were very close. He said the Fiscal Analysis Division forecast growth in the MBT financial revenue of $22 million or 6% in FY 2013, $22.4 million or 2.1% in FY 2014, and $23.3 million or 4.1% in FY 2015.

Mr. Nielsen asked if the two MBT components would be considered separately. Ms. Rosenthal explained that each revenue was forecast separately so that if there was a legislative change in the tax rate for one of the tax sources, the Economic Forum's forecast could be adjusted.

Mr. Nielsen observed that the Budget Division and Fiscal Analysis Division forecasts for MBT nonfinancial for FY 2014 and FY 2015 were nearly identical.

Chairman Wiles said it was helpful to consider the individual components that would have an effect on the revenue.

> MR. NIELSEN MOVED THAT THE ECONOMIC FORUM ACCEPT THE FISCAL ANALYSIS DIVISION'S FORECAST FOR MBT NONFINANCIAL REVENUE OF $358.126 MILLION FOR FY 2013, $243.206 MILLION FOR FY 2014 AND $251.675 MILLION FOR FY 2015. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

Chairman Wiles asked for a discussion on the forecast for the MBT financial revenue. Mr. Leavitt said that the three forecasts were so close that it would not make much difference which one was selected.

> MR. LEAVITT MOVED THAT THE ECONOMIC FORUM ACCEPT THE BUDGET DIVISION'S FORECAST FOR MBT FINANCIAL REVENUE OF $21.915 MILLION FOR FY 2013, $22.370 MILLION FOR FY 2014 AND $22.956 MILLION FOR FY 2015. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

Chairman Wiles called a recess of the Economic Forum meeting at 1:38 p.m.

The meeting reconvened at 2:16 p.m.

REAL PROPERTY TRANSFER TAX

Sumiko Maser, Deputy Director, Department of Taxation

Ms. Maser reported that September 2012 collections were lower than average, making it necessary for the Department of Taxation to adjust its forecast (page 7, Exhibit G). The Department of Taxation forecast declines in Real Property Transfer Tax (RPTT) collections of -6.8% for FY 2013; -5.8% for FY 2014; and -6.2% for FY 2015.

Janet Rogers, Chief Economist, Executive Budget Office

Ms. Rogers said her forecast for the RPTT had not been adjusted. She noted that the Case Schiller Home Price Index reported a year-over-year increase in Las Vegas home prices of about 3%, which was the first solid increase in a long time. She expected the revenues in FY 2013 would decrease -2%, but would pick up as home prices increased. She forecast a 9.5% increase in FY 2014, and growth of 4.7% in FY 2015.

Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division

Mr. Nakamoto referred to the Fiscal Analysis Division's forecast for RPTT on page 105 of the Fiscal Analysis Division Forecast Information Packet (Exhibit F). He reported that the Fiscal Analysis Division forecast was not adjusted for the duration of the forecast period. He said there was very little new information with regard to collections. Although a few counties had reported monthly collections for October 2012, the information did not sway the forecast in any meaningful direction. He explained that home prices were stabilizing, and in some places increasing; however, there was not much real estate activity, because the shadow inventory of foreclosed homes was not on the market due to the legislative changes approved during the 2011 Legislative Session.

Mr. Nakamoto said the Fiscal Analysis Division believed the RPTT revenue collections for FY 2013 would decrease by -8.7% to $44.178 million; in FY 2014, increase 1.2% to $44.694 million; and in FY 2015 increase 6.7% to $47.693 million. He pointed out that 6.7% may seem like lots of growth, but it represented only about $3 million of activity.

Referring to the historical and forecast RPTT by quarter shown on Chart 1 on page 107 of the Fiscal Analysis Division Forecast Information Packet (Exhibit F), Mr. Nakamoto said the dramatic drop off resulting from the housing crash was just settling down. He said since the third or fourth quarter of calendar year 2009, the revenue had been steady with a bit of a dip, and that was expected to continue for several years.

Chairman Wiles was concerned that there were outlier negative data points resulting from the housing crash that may overstate the forecast for future activity. He said that was the nature of linear regression analysis. He was hopeful that home prices would not decline further.

Mr. Leavitt did not feel that there would be growth in the revenue of 9.5% in FY 2014 as proposed by the Budget Division. He would be more comfortable with the Fiscal Analysis Division's forecast of -8.7% in FY 2013 and 1.2% in 2014, and the Budget Division's forecast of 4.7% in FY 2015.

Mr. Nielsen said he was comfortable with the Fiscal Analysis Division forecast of 6.7% for FY 2015. He agreed that, although it seemed to be lots of growth, there was not much of an overall increase for the period.

MR. NIELSEN MOVED THAT THE ECONOMIC FORUM ACCEPT THE FISCAL ANALYSIS DIVISION'S FORECAST FOR REAL PROPERTY TRANSFER TAX REVENUE OF $44.178 MILLION FOR FY 2013, $44.694 MILLION FOR FY 2014 AND $47.693 MILLION FOR FY 2015. THE MOTION WAS SECONDED BY MS. ROSENTHAL.

THE MOTION WAS UNANIMOUSLY APPROVED.

VIII. REVIEW AND DISCUSSION OF FORECASTS OF MINOR GENERAL FUND REVENUES FOR FY 2013, FY 2014, AND FY 2015 APPROVED BY THE TECHNICAL ADVISORY COMMITTEE AT ITS NOVEMBER 26, 2012, MEETING.

Mr. Guindon referred to Table 5 of the Economic Forum meeting packet (page 145, Exhibit A), which presented the Department of Taxation, Fiscal Analysis Division, and Budget Division forecasts for the select revenue sources for which the Economic Forum directed the Technical Advisory Committee (TAC) to approve a consensus forecast. He reported that the TAC met on November 26, 2012, at 1:30 p.m., at which time staff provided a review of the forecasts, and some of the agencies provided revised forecasts.

Mr. Guindon referred to Table 6 (page 147, Exhibit A), which presented the forecast approved by the TAC. He provided the highlights of the forecast regarding the Net Proceeds of Minerals tax. He explained that at the prior TAC meeting, staff was requested to look into that revenue source and report back to the TAC. In that process, staff realized there were two different sunsets that would affect the Net Proceeds of Minerals tax.

Mr. Guindon said the major sunset issue was discussed at the November 9, 2012, meeting of the Economic Forum. He explained that under current law, the tax was paid based on an estimate for the calendar year for the current fiscal year, and then the tax was “trued up” in the next fiscal year based on the calendar year. In FY 2014, the tax would be based on the preceding calendar year. That was why no forecast was shown for FY 2014. In FY 2014, the tax would be was based on actual calendar year 2013 activity. Since that year had already been taxed, there would be no revenue collected in FY 2014. He said the forecast for revenue in FY 2015 was based on mining activity for calendar year 2014.

Mr. Guindon said the other issue was a set of deductions that were scheduled to sunset. He reported that staff met with the Department of Taxation to analyze the impact of the deductions, and that information was presented to the TAC. Mr. Guindon said the impact of the deductions was approximately $8.846 million in FY 2015, resulting in the reduction of the FY 2015 forecast for Net Proceeds of Minerals on Table 6 (page 147, Exhibit A) from $95 million to $86 million.

Mr. Guindon said various assumptions must be made in order to forecast the Net Proceeds of Minerals revenue. For example, to estimate gross proceeds required an assumption about the price of gold and mining production. To get the net numbers, the deductions must be figured out, which was done by looking at the ratio of net to gross. Then the effective tax rate for the portion that goes to the State General Fund must be forecast. He explained that the Net Proceeds of Minerals revenue was divided among school districts, counties, local governments, and the state debt service fund. Finally, although there was lots of good information on gold, assumptions must be made for other types of mining activity.

Mr. Guindon said the forecast was reduced by about $287,000 in FY 2013 from the November 9, 2012, forecast, mainly because information for another month's collections was available for the current forecast that was not available for the previous forecast. The forecast for FY 2014 was reduced by $348,000. The forecast for FY 2015 was reduced by $8,746 million, mostly due to the change in the method of the Net Proceeds of Minerals revenue.

Mr. Guindon said Table 7 on page 153 (Exhibit A), was provided at the request of the TAC. He said, for the current biennium, actual collections were known for FY 2012. The TAC had prepared a forecast for consideration by the Economic Forum for FY 2013, FY 2014 and FY 2015. He said the TAC forecast was approximately $488 million lower for the 2013-15 biennium than the current biennium. Most of the change, $413.563 million, was due to the sunsets. The other major change was in Unclaimed Property revenue, which was affected by a change in the law. The effect of the law was that $97.397 million was generated in FY 2012, but $31.051 million was expected to be generated in FY 2013, $32.275 million in FY 2014, and $33.536 million in FY 2015.

Chairman Wiles said he appreciated the evaluation of the Net Proceeds of Minerals by the TAC.

> MR. LEAVITT MOVED THAT THE ECONOMIC FORUM ACCEPT THE TECHNICAL ADVISORY COMMITTEE'S FORECAST FOR THE MINOR GENERAL FUND REVENUES FOR FY 2012, FY 2013, AND FY 2015. THE MOTION WAS SECONDED BY MS. ROSENTHAL.
>
> THE MOTION WAS UNANIMOUSLY APPROVED.

IX. APPROVAL OF THE ECONOMIC FORUM'S NOVEMBER 30, 2012, REVENUE FORECAST REPORT.

This agenda item was taken out of order.

Chairman Wiles called for a recess at 2:54 p.m. to allow staff to finalize the Economic Forum's forecast. The Economic Forum reconvened at 3:22 p.m.

Mr. Guindon presented the Economic Forum with the report of its forecast to be presented to Governor Sandoval and members of the Nevada Legislature. He offered to include in the report a table to show changes to the Economic Forum and the Technical Advisory Committee's forecasts due to the approaching tax sunsets.

> MR. LEAVITT MOVED TO ACCEPT THE FORECAST OF FUTURE STATE REVENUES PURSUANT TO THE FINDINGS OF THE ECONOMIC FORUM AND THE REPORT

GENERATED, WITH ONLY SUCH CORRECTIONS THAT MAY BE REQUIRED TO TAKE CARE OF TECHNICAL ISSUES, NOT SUBSTANTIVE ONES. THE MOTION WAS SECONDED BY MS. ROSENTHAL.

THE MOTION WAS UNANIMOUSLY APPROVED.

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

This agenda item was taken out of order.

Mr. Guindon asked Chairman Wiles whether the Economic Forum wished to make any changes to the revenues that were being considered by the TAC as opposed to the revenues being considered by the Economic Forum.

Chairman Wiles asked the Economic Forum members whether there were any proposed changes for the TAC, and there were none.

XI. SCHEDULING OF FUTURE ECONOMIC FORUM MEETING.

This agenda item was taken out of order.

Mr. Guindon said, under the law, the Economic Forum must provide its revised forecast on or before May 1, 2013, which fell on a Wednesday. Historically, only one meeting was scheduled to produce the revised forecast. He said it could be a relatively long meeting. Mr. Guindon said he would work with Chairman Wiles to determine the agenda and the presenters.

Mr. Guindon said May 1, 2013, would work well for the Fiscal Analysis Division staff. He noted that the Fiscal Analysis Division staff that worked with the Economic Forum also staffed the Assembly Committee on Taxation and the Senate Committee on Revenue and Economic Development, which met on Tuesday and Thursday afternoons.

Chairman Wiles requested that the Economic Forum meet on May 1, 2013, to produce its revised forecast.

Ms. Rosenthal asked that staff from the Division of Insurance be available at the Economic Forum's May 2013 meeting to provide information on how the ACA would affect the Insurance Premium Tax revenue. Mr. Guindon said he has been in contact with the Division of Insurance staff, and would meet with them before the forecasts were produced for the May 2013 Economic Forum meeting. He said he would work with Chairman Wiles in terms of setting the agenda. Chairman Wiles asked Mr. Guindon to let the Division of Insurance staff know to expect a detailed conversation regarding the Insurance Premium Tax revenue.

Chairman Wiles said when the Economic Forum met in May 2013, more would be known about the resolution of issues in Congress and Governor Sandoval's decisions, as well as additional information from the Division of Insurance.

XII. PUBLIC COMMENT.

There was no public comment.

XIII. ADJOURNMENT.

Chairman Wiles expressed his appreciation for the effort involved in producing the forecasts for consideration by the Economic Forum. The meeting was adjourned at 3:28 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:

____
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.