

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

October 17, 2014

The meeting of the Economic Forum (created by Senate Bill 23, 1993) was held at 9:00 a.m. on Friday, October 17, 2014, in room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with videoconference to room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada.

ECONOMIC FORUM MEMBERS PRESENT IN LAS VEGAS:

Ken Wiles, Chairman
Marvin Leavitt
Jennifer Lewis
Linda Rosenthal

ECONOMIC FORUM MEMBERS PRESENT IN CARSON CITY:

None

ECONOMIC FORUM MEMBERS ABSENT:

Matthew Maddox (absent excused)

STAFF:

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division
Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division
Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division
Susanna Powers, Economist, Budget and Planning Division, Department of Administration
Judy Lyons, Committee Secretary, Fiscal Analysis Division

EXHIBITS:

[Exhibit A](#) Meeting Packet and Agenda
[Exhibit B](#) Nevada's Commercial and Industrial Real Estate Market Trends – Colliers International
[Exhibit C](#) The LV Housing Recovery or, the New "Normal" – Home Builders Research, Inc.
[Exhibit D](#) Northern Nevada Economic and Housing Outlook.
[Exhibit E](#) Nevada Governor's Office of Economic Development
[Exhibit F](#) State of the Health Insurance Marketplace – Division of Insurance
[Exhibit G](#) Nevada New Markets Jobs Act – Department of Business and Industry
[Exhibit H](#) Medical Marijuana Program - Department of Health and Human Services
[Exhibit I](#) Nevada Mining Association

I. ROLL CALL

Chairman Ken Wiles called the meeting of the Economic Forum to order at 9:17 a.m., and the secretary called roll. The members were present at the meeting in Las Vegas, with member Mr. Matthew Maddox absent excused.

II. OPENING REMARKS AND OVERVIEW OF THE ECONOMIC FORUM.

Chairman Wiles thanked the audience and the presenters for attending the meeting, and expressed that it was an exciting time for the State of Nevada. He explained there would be two additional Economic Forum meetings held in November and December of 2014. Chairman Wiles pointed out that the meeting materials were available in hard copy at both meeting locations in Las Vegas and Carson City, as well as on the Nevada Legislature's website.

III. PUBLIC COMMENT

Chairman Wiles asked for public comment from attendees in Las Vegas and Carson City. There was no public comment at either location.

IV. APPROVAL OF THE MINUTES OF THE JUNE 3, 2014, MEETING.

Chairman Wiles asked for approval of the minutes.

MR. LEAVITT MOVED FOR APPROVAL OF THE MINUTES
FROM THE JUNE 3, 2014, MEETING.

MS. ROSENTHAL SECONDED THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

V. PRESENTATION ON NEVADA'S COMMERCIAL AND INDUSTRIAL REAL ESTATE MARKET TRENDS.

John Stater, Research Director, Colliers International/Las Vegas

Mr. Stater said he would provide a general overview of commercial real estate and its current trends, along with a copy of the Colliers International *Las Vegas Quarterly* for those who were interested in specific data pertaining to Southern Nevada's economy ([Exhibit B](#)).

Mr. Stater addressed the following segments of commercial and industrial real estate markets in the Las Vegas Valley:

- Industrial Market: Mr. Stater indicated that the industrial market was performing very well. He said build-to-suit construction picked up, and vacancy rates dropped over the last two years, which caused speculative industrial construction to emerge. He said in prior years, between one million and two million square feet of industrial product was built per quarter, but construction was nowhere near that today; although it picked up in North Las Vegas and was expected to increase in the southwest area as well. He thought the surge was primarily driven by service partners who catered to the distribution industry, convention center, and the Las Vegas Strip. He projected continued success over the next year in the industrial market. Mr. Stater said the marijuana industry had minimal impact on real estate at this point, but the industrial market is the projected target. He was told by colleagues in Denver that the marijuana industry is attracted to older product that is less marketable. He said this could be very positive for the area, because it would take older product off the market and make room for more development.
- Retail Market: the retail market expanded over the last three years and was doing well. Although this market did not report much activity in early 2014, it was in line with normal cyclical business trends. Mr. Stater reported that retail taxable sales were doing well, and speculative construction projects in the retail market were picking up, particularly in the northwest part of town and Downtown Summerlin. He described the Summerlin project as a regional mall, and noted that upscale retail did very well throughout the recession. Additionally, Ikea is opening a new location in the southwest area along the 215 Beltway, and vapor e-cigarette stores have appeared in several retail centers in Las Vegas, which indicates confidence in the market. He implied that the marijuana industry will influence the retail market in terms of dispensaries, but probably will not be a major impact at this point. Mr. Stater did not foresee any future problems with the retail market in Las Vegas as long as retail taxable sales stayed healthy and local incomes were stable.
- Professional Office Market: this is a difficult market, with a high vacancy rate. Studies showed that poorly located and poorly designed office space greatly contributed to the high vacancy rate. Mr. Stater said the Las Vegas Valley saw expanded growth in employment, which normally stimulated the professional office market and demand for office space; however, a transition occurred with the introduction of computers and the internet. He said the need for employee office space in Las Vegas was shrinking, much like in the large major markets located in New York, Chicago and San Francisco. The combination of shared office space, employees working from home, and cloud computing has eliminated the demand for onsite space. He said the office market was underperforming, by old standards, but new standards showed the office market was improving; it was just a little bumpier than the industrial and retail market experience.
- Medical Office Market: the medical office market was troubled, and reported another quarter of very high negative net absorption. It is a flat market that is experiencing a

similar transition as the professional office market, but the issues are mainly due to less demand for work space. Mr. Stater explained that doctors are generating less profit today, and are giving up their private practices to join medical groups. These groups require less medical space than those doctors would need individually, because they utilize offsite billing services that are located in professional office space. Additionally, there has been a rise in health clinics that share space with places like Walmart, Walgreens and other retail centers, which also decreases the need for medical office space. Mr. Stater said the medical office market was affected by the recession, and needed to reconfigure their space, which will be very expensive. He said it was not a good time to build speculative medical offices unless it was integrated with a hospital or other related medical facility, such as Union Village in Henderson. Mr. Stater implied that the transition was related to health care and how it was delivered, and was driven by government regulation and insurance companies rather than by what customers actually need or want.

- Multi-Family Market: Mr. Stater informed the committee that the information regarding the multi-family market was obtained from other websites, but this market appeared to be doing very well. He said not as many people were moving to the Las Vegas Valley; however, multi-family construction was expected to increase over the next year, which would help the low vacancy rate.
- Hospitality Market: Mr. Stater reported that the hospitality market is healthy and the Las Vegas Strip is doing fine. He said the hospitality operators are ahead of the market in terms of delivering what people desire, such as night clubs, party pools, and retail venues. He conveyed that Reno, Atlantic City, and China were having troubles in this market, but Las Vegas seemed to be moving ahead very well. He reported two major sales occurred in Las Vegas over the last year, specifically the Las Vegas Hotel and Casino (LVH) and the Cosmopolitan.
- Land Market: Mr. Stater said the available land for development was being used up, and had experienced slightly less activity in 2014 than it had in 2013. He said there has been a lot of interest in this market, especially in the southwest part of the Las Vegas Valley. Mr. Stater recognized the activity to be a sign of confidence in a growing market. He reported that home builders are actively purchasing the few finished lots that are available in the Las Vegas Valley, although construction is not expected to start for a couple of years.

Concluding his presentation, Mr. Stater expressed satisfaction with the commercial real estate market. He said it improved and was expected to move at a steady pace in 2015; however, with less population gain, the Las Vegas Valley will be more reliant on consumer spending than in past years. Overall, he thought the Las Vegas Valley was growing right along with the rest of the country.

Mr. Leavitt targeted sales tax, one of the largest revenues forecast by the Economic Forum. He said, historically, a fairly substantial portion of sales tax revenue came from construction; however, construction fluctuated over the last year. He asked what the sales tax revenue projections were for both commercial and residential

construction in 2015. His question was specific to projects that were currently in the construction phase and were generating sales tax revenue; not projects in the planning or permit stage.

In terms of commercial construction, Mr. Stater replied it was expected to pick up over the next year. He said T.J. Maxx was almost complete and Downtown Summerlin was wrapping up. He said there was speculative industrial construction going up in North Las Vegas and the southwest part of the Las Vegas Valley, along with two other projects that already broke ground or intended to do so in the next six to nine months. Mr. Stater reported that the retail market was not as active; however, there was build-to-suit activity going on. Overall, there was an increase in commercial real estate construction, but a major rise was not expected.

Mr. Leavitt asked Mr. Stater if his projections were specific to Clark County. Mr. Stater replied they were primarily related to the Las Vegas Valley.

Chairman Wiles mentioned the Manhattan West property that sat vacant for many years. He said it was coming online, and asked Mr. Stater if he had any information regarding it.

Mr. Stater replied that Manhattan West changed its name to "The Gramercy." He said The Gramercy and the regional mall in Downtown Summerlin are large, Class A office projects that are being completed in a short span of time, and in a questionable market with a high vacancy rate. Both projects stopped construction during the recession, but there was a desire to see them through. He said the number of preleases were not extraordinary at either project, although they were not terrible. The mall in Downtown Summerlin is projected to do very well, but in order to complete the mall the centralized office tower had to be finished. Mr. Stater described The Gramercy as a mixed-use project that consisted of condos, retail space and an office building. He assumed that both projects had a demand for part of the product, so the office buildings had to be completed as well to avoid an eyesore. Mr. Stater projected that both projects will enter the market with a 50% occupancy rate, and will cannibalize the local markets a little. Additionally, those projects will contribute to the already high vacancy rates found in the professional office marketplace.

Chairman Wiles commented that one of the early indicators of economic activity was the demand for different types of commercial real estate. He thanked Mr. Stater for his presentation.

Before moving to the next agenda item, Chairman Wiles introduced and welcomed Jennifer Lewis as the newest member to the Economic Forum. As a member, today's Economic Forum meeting is Ms. Lewis' first meeting in attendance. Ms. Lewis thanked Chairman Wiles and stated that she was pleased to be a member.

VI. PRESENTATION ON THE SOUTHERN NEVADA HOUSING OUTLOOK.

Dennis Smith, President, Home Builders Research, Inc.

Mr. Smith explained that Home Builders Research, Inc. tracks and reports the housing market for clients around the world, and has done so in the Las Vegas Valley for about 26 years. The intent of his presentation was to provide an overview of the new home and resale markets in Southern Nevada.

To begin his presentation, Mr. Smith touched on net sales per subdivision per week. He said the graph on page 2 ([Exhibit C](#)) represented results from a weekly collection of data going back to 2012. It is the most current data available in regard to sales office traffic, written contracts, cancellations, etc, and was used by every builder, developer and banker in Las Vegas. The data suggests that net sales per subdivision in 2014 were somewhat off from what occurred in 2013. Mr. Smith acknowledged the pattern as a “false sense of recovery;” and elaborated by comparison. He explained that the net sales per subdivision per week in the first half of 2013 (1.0 to 1.5 sales) was higher than the second half of the year (.5 to .6 sales). Although there was hope for a repeat of that market trend in 2014, the first half of 2014 started out lower than 2013 (.8 to 1.0 sales), and dropped even further the second half of the year (.5 to .6 sales). He said because of the holiday period, a drop was expected in the fourth quarter of 2014 to approximately .4 or .3 net sales per subdivision per week; however, that decline was considered a normal seasonal trend. The graph on page 3, ([Exhibit C](#)) identified the trend line (black line), and reflected how flat the year was overall. He projected the same pattern for 2015.

Mr. Leavitt asked Mr. Smith to clarify the percentage of sales that came from existing inventory versus from homes that were being newly constructed.

Mr. Smith clarified that his definition of existing inventory referred to the standing, unsold inventory of new homes. He explained that inventory in Las Vegas typically sold within 30 days or less, and if not, the builder offered serious price reductions or incentives in order to get rid of it; therefore, standing inventory was usually at a minimum. In response to the question, Mr. Smith estimated that 80% of sales came from new construction, and 20% came from existing inventory. He testified that his estimate could be off, but he thought it was reflective of the Las Vegas market.

Relative to sales tax, Mr. Leavitt asked if the construction of homes would follow closely with the sales of homes, and if the sales tax coming from the construction of those homes would be similar to the sales projections. Mr. Smith concurred.

Moving on to the next slide (page 4, [Exhibit C](#)), 2011 – 2014 Monthly New Home Closings, Mr. Smith reported that monthly new home closings trended upward in the first half of 2013, but tailed off in the second half. In 2014, closings slowly increased, and there was continued growth through September. He projected by the end of 2014, new home sales would peak at about 600 to 650 closings per month, and would hold steady through the first or second quarter of 2015. His projection was based on weekly data collections, permit data, the resale market, and many other factors.

Mr. Smith discussed the trend of annual new home closings in the Las Vegas Valley (page 5, [Exhibit C](#)). He referred to the decline in closings as an “eye opener,” and noted that it was not a pretty picture after 2008. He said there were many influences in the housing market, additional to supply and demand, and a normal level of closings would be hard to define. In his opinion, 20,000 new homes a year could be justified as “production capable” in the Las Vegas market, but he thought 10,000 new homes would be a sustainable “normal” level. To compare, he said closing 10,000 units per year would equate to 50% of what the new home market closed in ten years prior to the boom, before the recession. Mr. Smith said approximately 7,000 units were built in 2013, and that number was estimated to drop to between 6,250 and 6,500 homes in 2014. He expressed that closings could have easily increased by another 500 in 2014 if it was not for delays in production, unrelated to actual construction of the units. The delays revolved around processing maps and subdivisions from raw land to permit. Mr. Smith said some home builders relayed that certain subdivisions in Clark County were taking 10 to 12 months to process, doubling the amount of processing time since two years ago.

Chairman Wiles asked for an explanation as to why this was happening.

Mr. Smith replied that staff within the building departments would have to answer that question. He communicated that he was not involved in processing maps, but heard from builders that building officials were sticking too close to the current code, whereas in the past there was leeway. He reported there are parcels of land being built on that have issues and require a zoning change, drainage study or other modification in order to process the subdivision. He said the plan check process varied by jurisdiction (Henderson, North Las Vegas, City of Las Vegas, Clark County), but Clark County was taking almost three months to start the process, and they accounted for approximately 50% of the permit activity each month. He reiterated that delays were holding up subdivisions and impacted the number of new home closings per year.

Continuing with his presentation, Mr. Smith said the new home monthly absorption rate is what home builders base their pro formas on when evaluating future projects, and the current rate in the Las Vegas Valley totaled 4.0 to 4.3 sales per month (page 6, [Exhibit C](#)). He said if the rate continued to drop, the builders would offer price incentives to induce buyers; however, that would affect appraisals. Mr. Smith said price incentives present a false sense of true value. For example, \$1,000 in incentives does not necessarily equal \$1,000 in value. He expected the absorption rate in 2015 to remain similar to the 2014 rate.

Mr. Smith referred the members to page 7 ([Exhibit C](#)) to compare the new home median price trend from one-year ago. He said the trend line (black line) was running slightly downward, and pointed out the dip in the market that occurred in mid-2014. The new home median price in September 2014 was \$299,601, an 11% year-to-year increase from 2013, but end-of-year prices were expected to resemble 2013 prices. He described the new home market as segmented, meaning the median price of homes was different throughout the various regions of the Las Vegas Valley. Mr. Smith projected the median price of new homes would increase 4.0% to 5.0% from

year-to-year (2014 to 2015), with increases varying by region from 0.0% to 9.0%. He said the new home market is influenced by individual markets, and a few home sales in one neighborhood could affect an overall submarket area. Currently, median prices are not controlled by the demand for housing, but rather by a change in product type. He said land prices had been steady over the past year or more, but a price surge in 2014 became the primary factor that influenced larger new homes. He said as long as the builders can sell in the move-up segment, they would continue to build larger homes. The unsold inventory of new homes varied slightly in 2014, but appeared flat overall (page 8, [Exhibit C](#)). He noted that new home inventory was much larger leading up to the dip in 2013.

Mr. Smith moved on to discuss the resale market in Las Vegas. He explained that the annual resale closings used to generate the graph on page 9 ([Exhibit C](#)) did not come from the Multiple Listing Service (MLS), but instead was based on actual deeds. He said data showed that about 38,000 closings should occur by the end of 2014, which would be a year-to-year decrease of 9.2%. He expected the resale market to decline by 3,000 closings in 2015 and 2016, totaling 36,000 closings, and attributed the loss to limited supplies; hard-to-get loans; and increased home prices. He said the resale market went from distressed listings to traditional listings, which was a natural price increase. In reference to resale closings per month, the chart on page 10 ([Exhibit C](#)) showed the trend line gradually decreasing, which was expected to continue for the next couple of years. Denoting distressed properties, Mr. Smith said short sales and real estate owned (REO) properties were practically gone. In 2009, the MLS showed that 22% percent of the listings were traditional listings, and in October of 2014, 68% of the listings were traditional. Mr. Smith said he would share the price differences between the traditional listings, REOs and short sales to those who were interested.

Mr. Smith provided a monthly comparison between the median price of a new home and a resale home (page 12, [Exhibit C](#)), and specifically focused on the gap in price between the two from 2002 through 2014. Currently, the gap reflected a \$122,600 difference, with new homes costing more. Although the resale market prices were inching upward, he did not see much change in the price gap because the available product type changed, and new homes prices were not expected to rise in the Las Vegas market in 2015 and 2016. Mr. Smith disclosed that his data was taken from the MLS, but the numbers were scrubbed by Residential Resources. He said the number of resale listings increased, which was good because there was less than a three month supply available, whereas a six-month supply was typical. He pointed out that the chart on page 14 ([Exhibit C](#)) was a good comparison of year-to-year listing types and their percentage changes from October 1, 2009, through October 6, 2014.

Moving on to the Notice of Default in regard to SFRs, Mr. Smith said that reports from around the state indicated that foreclosures were moving quickly, and advancing through the system. Although the number of defaults has been relatively flat, Mr. Smith disagreed with those reports and emphasized that a lot of houses still had to go through the foreclosure system. He said the number of foreclosures changed daily and weekly because of circumstances in the market. Confirmation from various utility companies suggest that approximately 43,000 water meters and 40,000 electric meters are set

inactive in the Las Vegas Valley. He said there would always be some inactive meters, but approximately 30,000 homes still needed to flush through the default system.

Home Builders Research, Inc. projected 7,000 new home permits would be obtained in the Las Vegas Valley in 2014, and if it was not for delays, the count would have been closer to 7,400 or 7,500. Mr. Smith implied there was demand for more permits, but based on delays, he believed that Clark County would issue approximately 7,000 permits in 2015 and possibly 8,000 in 2016. For historical comparison, Mr. Smith referred the committee to page 17 ([Exhibit C](#)). The chart ranked the builders in the Las Vegas Valley by the number of new home permits pulled in 2004. There were nine builders that pulled over 1,000 permits in 2004, including two that pulled more permits than the whole metro area acquired in 2014. In terms of 2013 statistics, not one builder pulled 1,000 permits that year (page 18, [Exhibit C](#)).

In closing, Mr. Smith reiterated the following:

- The absorption rate is flat, but not bad. There is hope for improvement as new subdivisions bring new products and features to the market, including energy efficiency and high-technology. New home sales should improve if other factors do not hold down the market.
- New home prices are expected to rise slowly because the product size is increasing. Resale prices are inching upward as more traditional listings appear.
- The inventory of new homes is increasing at a manageable rate. Builders will offer seasonal incentives to reduce standing inventory.
- Mortgage qualification requirements are strict. A change to the Fair Housing Act (FHA) requires a Mortgage Insurance Premium (MIP) to be purchased up front, and remain in effect for the life of the loan. FHA loans cost more, and are a large factor in the Las Vegas Valley marketplace.
- The replacement lot shortage will remain an issue and will keep the permit numbers down.

Ms. Lewis asked if the Supreme Court's (Court) super priority lien decision was expected to hurt the resale market in Las Vegas or if it was thought to help increase the values.

Mr. Smith replied it was too early to summarize the effect of the Court's decision, but initial discussions suggest that the ruling will help the neighborhoods and Homeowner Associations (HOAs) understand what costs and fees are recoverable in terms of back dues. He explained that if the first deed of trust holder wants to maintain their position, all they have to do is pay the HOA dues. He implied that future escrow accounts will be set up to collect HOA dues, and future monthly mortgage payments would include principal, interest, taxes, insurance and association fees (PITIA). Mr. Smith said it was questionable as to how much would be impounded at the closing for the association fees, but that it would be a factor because it created an additional move-in expense and thought this issue would be addressed during the 2015 Legislative Session. He said according to the lawyers that represented the winning side of the decision, the cost of auction homes immediately increased to retail price.

Relative to Mr. Smith's concern over the lot shortage, Ms. Lewis referenced the newer master planned communities: Cadence, Skye Canyon and Inspirada. She asked if those communities would make up for some of the lot shortage.

Mr. Smith said those lots will allow builders to construct houses in master planned areas, and keep the supply funnel occupied to maintain status quo. He said he did not see public builders increase their future lot supply from one-year to two years; however, the builders were aggressively purchasing infill lots because of the land shortage in the 215 Beltway areas. He said three or four years ago, builders did not look at land that amounted to less than ten acres, but now the five-acre parcels are drawing interest.

Chairman Wiles thanked Mr. Smith for his presentation on Southern Nevada's housing outlook. He remarked that the housing market was the ultimate measure of consumer confidence, not only in individual purchases, but also that of the country, state and local community. He said a trend depends on where the measure starts. For example, the trend looked great if comparisons were measured from 2008. He said that he noted many factors in Mr. Smith's presentation that created uncertainty in the forecasts, such as lending standards, shift and building type, plan value, silent inventory, permanent delays, economic uncertainty, negative equity, and more.

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

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

Mr. Bonnenfant said he would present the economic and housing indicators in the greater Reno/Sparks Metropolitan Statistical Area (MSA), which included Washoe and Storey counties. In reference to monthly employment, he reported that 203,300 jobs were recorded as of August 2014, reflecting an increase of 4,700 jobs since August of 2013, and the highest August employment since 2008 (page 2, [Exhibit D](#)). He said the Reno/Sparks MSA was still 25,000 jobs below the peak in December of 2006 (228,000 jobs).

Mr. Bonnenfant said that seasonal job growth increased by 15,000 jobs between January and December of 2013, and was recorded as the highest seasonal increase since 2005. Mr. Bonnenfant said the August 2014 year-to-year increase (2.4%) in annual employment growth was in line with projections made by state economists of 2.0% to 2.5%. He noted the unemployment rate dropped to 6.9% as of August 2014, and reflected 2.3% less than the rate in August of 2013.

Directing the committee to page 3 ([Exhibit D](#)), Mr. Bonnenfant elaborated on the month-over-month employment change; meaning month of the current year versus the same month of the previous year. The chart showed an increasing rate of employment growth through 2013, and a decrease in the rate of growth in 2014. He reminded the committee that the United States Gross Domestic Product (GDP) contracted during the

first quarter in 2014, and caused jitters throughout the economy, both nationally and locally. He said employment increased 3.9% between January and August of 2014, and exceeded 2013's annual average growth rate of 2.9%.

Mr. Bonnenfant turned his focus to employment increases by sector in the Reno/Sparks MSA (page 4, [Exhibit D](#)). He said the leisure and hospitality sector was the driving force behind employment growth over the last few years, and represented 19% of total employment. The subsectors that comprise the hospitality sector are bars, restaurants, entertainment and recreation, and not the accommodation and casino hotel categories. Mr. Bonnenfant said growth was revealed in the professional and business services sector, and jobs within this sector paid higher wages than the median. Retail and construction had picked up again, and education and health services continued to grow. He said due to demographic shifts, the education and health services sector was the only industry that grew through the recession.

The chart on page 5 ([Exhibit D](#)) showed the transition of Nevada's industries over the last 12 years (2002-2013) within the Reno/Sparks area, and represented the linkages between industry and demographics in a five-county region: Carson City; Lyon; Storey; Douglas; and Washoe counties. Mr. Bonnenfant pointed out that the graph was color-coded and illustrated both the supersectors and subsectors in the region.

- Gaming (light green); this sector was the leading industry in 2012, but currently ranks number three after losing 12,400 jobs over twelve years.
- Retail (white); this sector lost some employment through the recession, but currently led the region in employment.
- Health Care Services (blue); this sector's sudden growth was driven by a demographic shift. This industry was identified as "the sleeper of the decade," and is now fighting the retail industry for the number one employment sector in the Western Nevada region.
- Manufacturing (red); this sector was the fourth leading employer in 2002. It still remains fourth, but is anticipated to overtake gaming in the next five years with the Tesla jobs coming onboard.
- Construction (orange); this sector ranked fifth in employment in 2002 and number three in 2006. Since that peak, construction has lost 17,000 jobs. Currently construction employment is at 13,000 jobs, but the Tesla project is expected to employ 3,000 construction jobs and another 1,000 jobs in equipment installation in 2015, which is also classified as construction related.

Mr. Bonnenfant said the abatement policy requires Tesla and its participants to hire 50% of its workforce local to Nevada. To qualify as a Nevada resident, the potential employee must have a Nevada driver's license and registration. He said discussions with a local representative from The Associated General Contractors of America (AGC) revealed that skilled labor was very difficult to find in the Reno/Sparks MSA; therefore, many workers were expected to come from the Las Vegas area to supply those needed jobs in 2015.

Moving on to page 6 ([Exhibit D](#)), Wages and Employment Versus Inflation, Mr. Bonnenfant brought attention to two columns; 2013 Average Wage and 2008-2013 Percent Change, both reported by industry. He said the combination of all industries in Washoe County generated 4.4% growth in wages from 2009 to 2013, and the inflation rate over that same period rose 6.3%. He said this was a confirmation that wages were not keeping up with inflation. The chart identified the number of employees in each industry that are negatively affected by inflation, and the industries that are keeping up with inflation. The industries highlighted in green were keeping up with inflation (31%), and the industries highlighted in red were not (69%). Nevertheless, Mr. Bonnenfant said the growth in jobs and population were driving an increase in taxable sales in the Washoe/Sparks MSA (page 7, [Exhibit D](#)). He conveyed that Washoe County experienced only two quarters of decreases in taxable sales over the last four years of -0.9% and -0.1%. Taxable sales in calendar year 2013 grew 8.6% on top of 4.0% growth in 2012, and in calendar year 2014 (January through July), taxable sales were 8.7% above 2013 growth; keeping a consistent rate of growth with 2013 sales. He said top sellers continued to be the bars, restaurants, auto sales and general merchandise, and noted that bar and restaurant taxable sales in Las Vegas totaled more than all sectors combined in Washoe County.

Ms. Rosenthal asked if the decline in quarterly taxable sales occurred in the outlying areas of Nevada, and if the decline was mainly related to the sales tax on mining equipment.

Mr. Bonnenfant concurred, and said the Ruby Pipeline had significant taxable sales during its construction, which has since been completed. Additionally, the drop in gold prices affected exploration in the rural areas, and caused a slowdown in mining taxable sales.

In regard to taxable gaming revenue, Mr. Bonnenfant stated that Washoe County reported four straight quarters of increases in calendar year 2013, which had not happened since 2000; however, taxable gaming revenue decreased in 2014, which was thought to be related to the GDP contraction in 2014.

Mr. Bonnenfant directed the committee to Washoe County's visitation statistics, specifically the chart showing trend changes of cash-occupied room rates over the last seven years (page 9, [Exhibit D](#)). He said the trend in Washoe County was in cash-occupied rooms in the non-gaming sector, and noted the fluctuation that had taken place in Sparks, Downtown Reno and Suburban Reno. Surprisingly, he said non-gaming properties were driving the market, and charging the highest rates, averaging slightly above \$100 per night. In FY 2014, properties located in Sparks had more occupancy because they lowered their rates, while properties in Downtown Reno and Suburban Reno increased their rates. He said the number of visitors grew in 2012 and 2013, but as of August 2014, visitation was down 0.1%. He attributed the decline to the loss of the Safari convention to Las Vegas, unhealthy air conditions during Hot August Nights, and rain during the weekend of Street Vibrations.

Mr. Bonnenfant reported that Washoe County's population and school enrollment has been lagging since 2007, per the State Demographer's population estimates and the

Washoe County School District's enrollment counts (page 10, [Exhibit D](#)). In 2008, Washoe County was running at 2.7% annual growth per year, but the recession caused this area to hover around 1.0% to 1.2% in growth since 2008 and 2009. There was an uptick in population in 2014, but a drop in enrollment, which implied that Washoe County's population growth was not driven by families. He expected that the jobs associated with Tesla would bring more families to the area and change the trend.

Mr. Bonnenfant redirected his focus to single family home values, and drew attention to the graph on Page 11 ([Exhibit D](#)). He said the red line represented the "housing bubble" that showed the single family market peak in 2005, along with the steady drop afterwards. He said the fourth quarter prices were flat in 2013, but third quarter numbers in 2014 reflected a median resale price of \$248,000. He explained that the blue line on the graph signified what housing comparisons adhered to, and that it reflected a 1.0% appreciation per quarter, or 4.0% per year. He said if he were to extend the graph at that rate, it would show that the area was still undervalued by approximately \$25,000.

Mr. Bonnenfant conveyed that 714 new SFR sales were recorded in 2013, which was 31% more than in 2012, but far from the 3,000 homes sold in 2006. Through August of 2014, 630 new single family homes were sold in Washoe County. He said that number was expected to grow to approximately 1,200 homes by the end of 2014, and average 79 sales per month, which was the highest growth rate since 2008. Mr. Bonnenfant reported that the median value of a new single family home is \$339,000, and the gap between the cost of an existing home and a new home is slightly over \$100,000, with new homes costing more. He pointed out that there was no such gap during the peak between 2005 and 2006. Mr. Bonnenfant said the confirmation of economic recovery coincided with purchases of higher priced homes. He said the days of buying distressed homes or product between \$100,000 and \$200,000 in Washoe County were over, and homes selling between the \$200,000 and \$300,000 market were taking a beating because they were not of quality (page 13, [Exhibit D](#)). However, homes selling in the \$300,000 to \$400,000 range were starting to pick up. He said homes that sold for above \$300,000 accounted for 25% of all sales in 2013 versus 17% in 2010.

In conclusion, Mr. Bonnenfant summarized that jobs, sales, population, home sales and values were all on the rise in the Reno/Sparks MSA. Referring back to page 47 in the meeting packet ([Exhibit A](#)), Mr. Bonnenfant referenced a slide from the Economic Development Authority of Western Nevada (EDAWN), and said the slide spoke to the activity of company interests in the region prior to the Tesla announcement. He indicated that companies were showing a lot of interest in the Reno/Sparks MSA, and projected employment from signed deals equated to over 1,000 jobs, with 60% of those jobs in manufacturing. EDAWN reported another 4,000 jobs are relative to pending agreements made with companies coming to the area, with 45% of those jobs in manufacturing. He reiterated that all of the mentioned agreements were established prior to the Tesla agreement, and none of this was speculation. Mr. Bonnenfant acknowledged the weaknesses in the Reno/Sparks MSA were gaming, wages, and the lack of skilled labor related to job growth and construction. He said employers in that industry will have to pay higher wages to avoid losing their employees to other sectors that pay more.

Chairman Wiles asked if the new jobs reported by EDAWN were related to newly formed companies or from companies relocating to the area. He asked where those companies were coming from.

Mr. Bonnenfant replied those companies were relocations from California, Washington, Kentucky, Taiwan, North Carolina, Ohio, Illinois, Pennsylvania, Europe, New Jersey, Florida, Oregon - all over the nation and world.

Mr. Leavitt asked how the current assessed valuation of Washoe County compared to its valuation in 2013. Mr. Bonnenfant replied that it flattened out in 2013, and was now up about 3%.

Chairman Wiles thanked Mr. Bonnenfant for his presentation, and emphasized the significance of the starting point when performing trend analysis to determine whether a trend improved or not. He thought it was remarkable that the average SFR value rose from \$148,000, in the first quarter of 2012, to the current price of \$248,000; a 68% increase in just a little over two years. He was curious if there was anywhere else in the country that had seen such an improvement.

Mr. Bonnenfant noted that California's economy recovered quicker than Nevada's, which created the ability for California residents to sell their homes and invest in the Reno/Sparks MSA real estate market. He said California's implementation of Proposition 30 in 2012 triggered a large influx of Californians to the area to escape tax increases. Mr. Bonnenfant expects another housing bubble will occur due to the impact of the Tesla project, and the ripple effect of the 22,000 direct and indirect jobs it is estimated to bring to the area. He implied that speculative home sellers have put a small margin on their listing value and are remaining firm.

VIII. PRESENTATION ON THE PROGRAMS AVAILABLE TO THE GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT AND THEIR USE TO PROMOTE ECONOMIC DEVELOPMENT INCLUDING:

- A. CATALYST ACCOUNT (NRS 231.1573)**
- B. KNOWLEDGE ACCOUNT (NRS 231.1592)**
- C. TRANSFERABLE TAX CREDITS**
- D. TAX ABATEMENTS**

Steve Hill, Executive Director, Governor's Office of Economic Development (GOED)

Mr. Hill opened his presentation by acknowledging the regional development authorities across the State of Nevada. He said they partnered with GOED, and were often the lead group/people on the ground that generated most of the recruitment and success that the state has been experiencing. Mr. Hill said he would discuss the Tesla project in terms of what the project is, the agreement approved by the Legislature during the 28th (2014) Special Session, and the project's economic impact to the area.

Additionally, he would describe other programs, and what was happening from an assisted job standpoint, including his perspective on the state's future.

Mr. Hill reported that Tesla's building footprint would probably be the largest of any building in the world, and would measure between 5.5 million and 6.0 million square feet. Some areas will extend two and three stories, with a clearance height of 60 to 70 feet in most places. The site will also include outbuildings. He said the dirt work is ongoing and foundations are ready to pour. Tesla is in the process of purchasing steel and hiring their construction partners and workers, and plan to move ahead at a quick pace. Mr. Hill anticipated that construction would occur in five phases, with the first phase encompassing 1.2 million square feet. Tesla hopes to obtain a Certificate of Occupancy in the second quarter of 2015, at which point they will begin to move manufacturing equipment into the facility.

Mr. Hill described Tesla's plant in Fremont, California, as a marvelous looking facility that was very clean and robotized. He was confident that the plant in Nevada would have the same general feel, but thought many areas would look more like a semiconductor fabrication plant, with robotic arms extending throughout the entire facility. He described the facility as high-tech and automated, with an environment cleaner than an automobile manufacturing plant. He explained that the project was not a corporate type partnership, but instead it was compiled of a number of companies referred to by legislation as "participants". Tesla is the lead participant, but there will be 12 to 15 corporate entities on the site that will be investing and putting their own equipment inside the building that Tesla is constructing. For example, Panasonic will be making a significant investment that is part of the overall investment in the project.

Mr. Hill clarified that the 6,500 jobs relative to the Tesla project, projected by the GOED, would be divided up between all of the participants on the site. He thought that to be a positive factor for a couple of reasons: 1) the 12-15 companies invested on the site will diversify the risk, and provide different partners to fall back on in the event that is required, and 2) the project attracted an entire cluster of companies pertinent to the industry, and will not rely on a single company to attract the supply chain. The entire supply chain of investors will be located in this facility, giving Nevada access to their customers and vendors all across the globe from 12 or 15 companies. He accredited Tesla for the design and structure of this project, and thought the participants were a beneficial component of the project.

Mr. Hill said the average wage associated with the 6,500 jobs would be in excess of \$25 per hour, or 25% higher than the state's average wage of \$20.62 per hour. He noted that Tesla, specifically, would offer a great benefit package, and their health care benefits would be effective on the first day of employment. Mr. Hill informed the members that a company must offer their employees a minimum health care standard that equates to the bronze standard in the Silver State Exchange Plan in order to receive state incentives. He emphasized that the GOED will not incent a company to locate to Nevada if the state had to assume responsibility for their medical care.

Mr. Hill referred to the agreement made with Tesla as "abatement," a combination of an abatement of a portion of the sales tax and an interlocal agreement with Storey County

that acknowledges Tesla as the lead partner on the site. Through those methods, the sales tax is eliminated for Tesla and the other participants on the site until June 30, 2034. He conveyed that Nevada is one of eleven states that charge sales tax on manufacturing equipment, which is the majority of Tesla's onsite investment. There was also an agreement to abate 100% of real property tax, personal property tax and the Modified Business Tax for the participants on the site through June 30, 2024 (page 3, [Exhibit E](#)). Mr. Hill explained that the abatements will not start until the GOED receives an application from Tesla, which had yet to be received; however, the application was compiled simultaneously with the 28th (2014) Special Session of the Nevada Legislature. He indicated that the application size and complexity was more involved due to the number of partners that had to report through Tesla. Each company had to meet specific criteria in order to make the project eligible for tax abatements.

1. The company is required to invest \$3.5 billion or more on the site. The site could be designated by any county throughout the state.
2. The company is required to hire at least 50% Nevadans. From a definitional standpoint, a person can be a non-Nevadan and later become a Nevadan. The GOED will measure days of work for everybody on the site and determine whether they qualify under the definition of the law as a Nevadan or non-Nevadan. Mr. Hill said the criteria in the agreement with Tesla were strong and clear to avoid ambiguity or leave any opening for a future law suit.

Additionally, Tesla was offered the opportunity to earn \$195 million in transferable tax credits that could be sold one time to another Nevada company, and be used against the Gaming Percentage Fee Tax, the Insurance Premium Tax or the Modified Business Tax to reduce tax liabilities. During the process of working through the agreement with Tesla, Mr. Hill asked a few companies in the state to buy these transferable tax credits at par, so the state would not have to make up the 5.0% discount that equated to approximately \$10 million. He said there was a show of support and patriotism for the state, though he specifically recognized and thanked the MGM Grand for their willingness to purchase many of the tax credits at par in order to avoid the additional cost to the state.

Mr. Hill said the transferable tax credit program was structured on a revenue neutral basis for the state, and would use a portion of the Film Tax Credit combined with a sunset of the Home Office Tax Credit. Those programs will offset the cost of the \$195 million and eliminate any additional fiscal impact on the General Fund. He said the GOED will not grant the transferable tax credit programs until July 2015, and the credits cannot be earned at a rate in excess of \$45 million per fiscal year in total. The repurposed tax credit programs were calculated on a calendar year basis, while the Forum's projections were based on fiscal year. He said the GOED estimated that programs would be earned 50% in a six-month period of one fiscal year, and the other 50% in a different fiscal year's six-month period, basically balancing each other over the course of multiple fiscal years.

Mr. Hill explained that the Film Tax Credit was currently valued at \$80 million, which would have allocated \$20 million each calendar year from 2014 through 2017, but with

the repurposing, its value was reduced by \$70 million. He clarified that the Film Tax Credit program allocations will be reduced by \$10 million in 2014, and by \$20 million per year in each of the subsequent three years.

Mr. Hill said the Home Office Tax Credit provided a 50% reduction in the IPT for insurance companies that established their home offices in Nevada. There are approximately 1,200 companies that pay IPT in Nevada, but approximately 12 companies receive the benefit of the 50% reduction in the insurance tax. Mr. Hill said in order to not impact insurance rates in 2015, because the new rates were already accepted by the Insurance Commissioner, a sunset was placed on the 50% home office reduction program to start January 1, 2016. To clarify, Mr. Hill explained there is now a cap in law that limits the program's funding to \$5 million per year to be apportioned amongst the companies that are eligible to receive the tax credit, based on the legislation from the 2014 Special Session. He said the current tax credit did not have a cap or sunset so it steadily grew over the past several years, and is estimated to be valued in excess of \$30 million in calendar year 2014. Due to the program's cuts, starting in calendar year 2016, all of the proceeds from the current program, except for \$5 million, will be available to the General Fund. Mr. Hill estimated that amount to be between \$26 million and \$27 million by 2016, with some gradual growth after that. In 2021, the program will sunset and be totally eliminated, so the additional \$5 million per year toward the General Fund Revenue will be added.

Mr. Hill said the rate at which Tesla and their partners become eligible for Transferable Tax Credits lines up with the reductions in the Film Tax Credit and Home Office Tax Credit programs, so there is no additional net cost to the General Fund. He said in the out years, there is approximately \$30 million available, which was something that had not been talked about in the entirety of the Legislative package that was passed.

Mr. Hill said there was a lot of focus on the \$1.1 billion tax abatements that potentially could be made available to Tesla, but those abatements really depended on the amount of investment made on the site. He clarified that the \$1.1 billion is directly related to \$10 billion of investments. If the investment drops to \$5 billion, then Tesla will be made available approximately \$675 million in abatements. Mr. Hill also clarified that the reduction in the Home Office Tax Credit not only offsets the transferable tax credits, but it comes close to offsetting the tax abatements that have been made available. In regard to Tesla's economic impact, Applied Economics projected that approximately 16,000 indirect jobs would be created; bringing the total number of jobs to approximately 22,500 jobs. He said Elon Musk, Chairman of Tesla, thought the total number of jobs on the site would grow to about 10,000, but 6,500 was a solid estimate.

Mr. Hill said the Tesla project is projected to make a \$100 billion economic impact over the course of 20 years, or approximately \$5 billion per year. To give perspective, he compared that to the gross state product in Nevada totaling approximately \$130 billion. The indirect impact of the Tesla project is estimated to produce between 3.0% and 4.0% additional gross output for the state.

Ms. Rosenthal asked about the media's mention of Tesla's contribution to the school system. She asked Mr. Hill to elaborate on what school district would benefit, or if he could discuss the details.

Mr. Hill replied that he did not have the details; however, Tesla was working with Dale Erquiaga, Nevada Superintendent of Public Instruction, to define the specifics of that program. He said beginning in the 2018-2019 school year, Tesla will make a \$7.5 million contribution to K-12 education. He said a portion would be contributed to a statewide Science, Technology, Engineering and Mathematics (STEM) program, and another portion would be applied toward capital and operating costs for the schools and the surrounding region of the facility. Mr. Hill insinuated that the \$7.5 million number approximated the amount projected as the K-12 component of the real and personal property tax that will be abated during that period of time, and was designed to start when the facility becomes operational and the potential increase to student enrollment takes place. He said Tesla made a five-year commitment to K-12 Education of \$7.5 million per year totaling \$37.5 million.

Mr. Leavitt asked if an analysis was done to determine how much potential tax revenue would be generated from sales tax via the 6,500 jobs generated by the Tesla project.

Mr. Hill pointed out that both the economic impact and fiscal impact analysis, authored by Applied Economics, was available on the Nevada GOED website, and that the answer to Mr. Leavitt's question was included in the fiscal impact analysis. He said a projection of \$1.9 billion in taxes would be generated over a 20-year period. The study revealed that roughly \$1.0 billion would be allocated to local government, and about \$0.5 billion would be directed to both K-12 Education and the State of Nevada.

Mr. Leavitt said the Economic Forum was working on revenue projections that related to FY 2016 and FY 2017. He asked if analysis was done in relation to when these employees would come online, so the Forum could make projections accordingly.

Mr. Hill replied that the analysis was done, and he was happy to update the results with more accurate data. He said Applied Economics compiled their analysis in conjunction with the Tesla deal, using the information that was most accurate at that time. Tesla has since made schedule changes, so Mr. Hill said the analysis could be updated to include a short term 2.5-year tightened thought process.

Moving on to GOED Tax Abatements, Mr. Hill defined the three abatement programs that are typically used for incentive projects (page 5, [Exhibit E](#)).

- Sales and Use Tax: abates the applicable county tax rate down to 2.0%, which is the state's portion of sales tax. The abatement can be applied toward personal property purchases for a two-year period. If a company is building in phases, the sales tax abatement can be renewed each phase.
- Personal Property Tax: abates personal property tax by 50% for up to ten years and can be applied toward personal property purchases. In terms of expansion projects,

it does not retroactively apply to what is already in place; it only applies to the expansion moving forward.

- Modified Business Tax: abates payroll excise tax by 50% for up to four years.

Mr. Hill clarified that the aforementioned abatements are performance based incentives, and there are claw back provisions if the company does not comply with the executed contract.

Mr. Hill acknowledged the Catalyst Fund that was implemented during the 2011 Legislative Session (page 6, [Exhibit E](#)). He said it was initially funded with \$10 million, and received an additional \$1.5 million in the 2013 Legislative Session. He referred to it as a “deal closing” fund that was established to assist companies with creating jobs in the state. Initially, the target was to fund 2,500 jobs at \$4,000 per job, but resulted in funding approximately 4,000 jobs at \$2,500 per job. Currently, this fund has committed \$10 million. Mr. Hill described the program as very successful and important for the state, and named the following benefactors of the Catalyst fund that comprised a lot of Nevada’s recent job growth: Nevada Barclaycard, Solar City, Take-Two Interactive, and Catamaran. The program is administered through local governments per an application process, and is performance based; therefore, a wage threshold must be met before payments are made. Upon meeting the wage threshold, the GOED will disperse payments to the local government who will then make future payments to the companies that have created these jobs. There have been no disbursements to date.

The members were directed to page 7 ([Exhibit E](#)), Transferable Film Tax Credits. Mr. Hill reported that \$5.9 million in film tax credits had been provided for approximately \$54 million in production budgets through October 2014. He said the program is measured by comparing the amount of the incentive and total wages. To further clarify, the Film Tax Credit program has not created permanent jobs; however, it created approximately 146 full-time equivalent (FTE) “person years” of employment. The total amount of that incentive calculated to approximately \$40,000 per person year of employment, which Mr. Hill described as a healthy percentage of the payroll produced in Nevada. He said these figures were considered when the GOED looked at repurposing both the Home Office Tax Credit and the Film Tax Credit. He said this was about 60% of the total payroll that is generated for film projects. The Home Office Tax credit is a little over 30% of the total payroll that is generated, and the incentives for Tesla were a little less than 3.0% of the total of payroll that will be generated in a 20-year period of time. The GOED thought permanent jobs were important in addition to the ratio results from these tax credit programs.

Mr. Hill said there were other incentive programs offered by the GOED. The Knowledge Fund program was funded during the 2013 Legislative Session, and was used as grant funding for the commercialization of research at the University of Nevada, Las Vegas (UNLV), University of Nevada, Reno (UNR) and Desert Research Institute (DRI). The GOED thought this program was significant to the future of Nevada, and funded six programs that are very much in line with the targeted cutting edge industries relating to Nevada’s Economic Development plan. Mr. Hill recognized the Train Employee Now

Grants and the Battle Born Venture Fund. The Battle Born Venture Fund is a \$5 million federally funded program that allows investment in companies through a venture fund, and operates like a venture capital fund. He said the GOED committed this funding to three companies to-date, and have more companies on the horizon. The purpose of the fund is to help attract other venture capital to the state. He said there is a required matching component to this program, and a well-experienced advisory committee was assigned to run the program.

Mr. Hill addressed statistics relative to annual assisted companies from 2009 to 2014 (pages 9 and 10, [Exhibit E](#)). He said the number of jobs created and the projections for future growth by each company were not recorded until 2013. The assistance programs are audited after two and five years to portray actual statistics. He said most of the companies that are significant to the graph were ahead of their projections. For example, Barclaycard contracted to hire 400 employees by the end of 2014 and they already hired 550 employees, with the intent to grow that number by the middle of 2015. He reported that Solar City was also running well ahead of their projections. He said not all of the companies will work out that well, but was hopeful that the number over the projections is compensatory for the number under the projections.

Ms. Lewis asked if the GOED planned to create new funds in the 2015 Legislative Session that might affect the Economic Forum's projections.

Mr. Hill replied there were no new programs; however, he implied that the GOED was hoping to revive S. B. 385 that related to a partial abatement for aviation components. The bill was introduced in the 2013 Legislative Session, and passed unanimously by the Senate. He said it would have made a relatively small impact to the state's budget, and would allow the GOED to negotiate more competitively, which could potentially bring a sizable number of jobs to Nevada. The GOED felt that as the state moved closer to full employment, the economic development efforts should focus on jobs that would increase the average wage in the state. He said that effort will involve some legislation because the GOED will look to narrow the abatements that are available to companies that pay less than the state average wage or 75% of the state average wage. Mr. Hill stated that, by policy, the GOED has reduced by half the abatements that are available to a company that is paying less than 75% of the state average wage. He said in the 2015 Legislative Session, they will put that principal into law, with the requirement that when a county drops below 6.0% unemployment the abatement would only apply to companies that paid the state average wage instead of 75% of the state average wage. He noted the same abatement rule would apply to the Catalyst Fund. Mr. Hill closed by stating the amount of the incentives per job may increase, but the GOED hoped to focus on the quality of new jobs moving forward.

Chairman Wiles said the Tesla announcement triggered calls from a few impressed and/or surprised people in Texas, along with a very thankful Reno resident. He asked Mr. Hill if he heard feedback or responses from people who lived outside Nevada.

Mr. Hill replied there were responses regarding the Tesla announcement, and specifically mentioned a congratulatory call to Governor Sandoval by Governor Perry of Texas. The GOED also received interest from Nevadans who looked forward to going

back to work. He further expanded on the huge amount of interest drawn to Nevada by companies outside the state, and indicated that three other major companies contacted him to inquire about Nevada's legislation and the criteria needed in order to consider doing business in Nevada. He said he was hopeful that something like the Tesla project would land in Southern Nevada as well.

Chairman Wiles commented that he lived in places that encountered strategic economic inflection points. He recalled living in Charlotte, North Carolina, when a competition between two banks resulted in Charlotte becoming the second highest concentration of banking assets in the country. He lived in Jester Dorm, University of Texas at Austin, when Michael Dell dropped out of school to found a small company and compete with IBM. He said it really changed the technology landscape in Austin, and strongly believed that the Tesla project will be one of those strategic inflection points. He hoped for future economic development and consumer confidence to buy homes, and for people to move to the area. Chairman Wiles said that price, terms and speed were the major components to any deal or decision. He added, in all cases, he hoped this will enhance those in terms of the state's ability to attract new people; the terms in which future companies will be here; and hopefully shorten the speed dramatically, because somebody else has done a tremendous amount of due diligence on the quality of the state, the environment and the opportunities in Nevada. Chairman Wiles said it was already being reflected in the number of in-bound calls.

Mr. Hill concurred, and agreed that the Tesla project is an inflection point for the state. Mr. Bonnenfant stated that manufacturing employment in Northern Nevada may surpass gaming employment. He described manufacturing as the industry of the future, and said Nevada would be in the center of its growth; creating a terrific opportunity for the state. He explained that the Tesla project will provide a magnet for other companies to consider Nevada as a place for doing business, and highlighted the large well-trained workforce that will eventually be established in the area. Looking ahead, he anticipated that some people would initially work for the companies on the Tesla site, but would eventually form spinoff companies and emanate future innovation in the area.

Chairman Wiles reiterated that when people at Dell Inc. thought they could do it better, it created a whole industry.

Mr. Hill said it was a very big effort by a lot of Nevadans to make the Tesla project happen.

Chairman Wiles recessed the meeting at 11:26 a.m.
Chairman Wiles reconvened the meeting at 11:38 a.m.

IX PRESENTATION ON STATE MEDICAID ENROLLMENT, STATE HEALTH INSURANCE PLAN ENROLLMENT THROUGH THE SILVER STATE HEALTH INSURANCE EXCHANGE RELATED TO THE FEDERAL AFFORDABLE CARE ACT, AND THE STATE HEALTH INSURANCE MARKET.

Shawna DeRousse, Chief Operating Officer, Silver State Health Insurance Exchange (Exchange)

Ms. DeRousse began her presentation on page 57 ([Exhibit A](#)) of the meeting packet, with the intent to discuss 2014 highlights and changes going forward. She said she would address the 2015 plan year; how the Exchange transitioned from last year's health plan to the supported state-based marketplace; current statistics; the insurance landscape; and expectations moving forward.

Ms. DeRousse explained that plan year and calendar year meant the same, and was effective January through December. Per the Affordable Care Act (ACA), open enrollment began October 1, 2013, for the 2014 plan year. She reported there was an amazing amount of interest across the country; nevertheless, the success rate of enrollment was very different. Nevada had good statistics starting out, but for various reasons did not meet the projections. She said going forward into the 2015 plan year, the Exchange Board voted to terminate the contract with Xerox (Nevada's current vendor) at the May 20, 2014, board meeting. Although Xerox has to fulfil their contract by supplying service to the existing plan holders through December of 2014, the infrastructure from HealthCare.gov (the federal government) will be acting as Nevada's new vendor for plan year 2015. She explained that the Exchange will remain a state-based exchange, and is not part of the Federal Facilitator Marketplace (FFM). The Exchange will continue to utilize a plan certification process through the Division of Insurance (DOI), offer a Navigator Assister program, and will still have a toll-free contact number. The Exchange will still be responsible for marketing and advertising.

Moving on to open enrollment, Ms. DeRousse mentioned some of the changes that will take place in the 2015 plan year (page 59, [Exhibit A](#)).

- NevadaHealthLink.com will require the user to answer questions pertaining to family size and income to determine eligibility status. If the user is deemed eligible for a qualified health plan (QHP), then he/she will be redirected to HealthCare.gov to start the insurance application process and to apply for subsidies offered through the federal government. If the pre-screener determines possible eligibility for Medicaid, then he/she will be redirected to Access Nevada, through the Welfare and Supportive Services program, to start that application process. If a user is redirected to HealthCare.gov and is determined eligible for Medicaid, then the federal government will take that application information, download it into a file, and transfer it to Welfare and Supportive Services on the back end.
- In-person assistance tools and navigators have been implemented to help with the enrollment process. The Exchange has partnered with licensed brokers, agents and Medicaid representatives to staff static locations, storefronts, and mall venues so that people have a permanent site to visit for enrollment assistance without having to research local events or health fairs.
- Education and links to partners, including certification and background checks through the DOI, has always been required in order to enroll individuals in QHPs through the Exchange. Effective for the 2015 plan year, brokers and agents are required to attend a federal training program in order to access HealthCare.gov.

Ms. DeRousse said the individual health plans and how they are managed will be very different in plan year 2015 versus plan year 2014 when the Exchange and Xerox handled everything in-house. She explained that in 2014, a person enrolled in a plan through the Exchange had to submit payment to Xerox, and Xerox submitted payment to the insurance carrier (carrier). In 2015, a person will be directed to healthcare.gov to choose a plan, and the enrollment file will transfer electronically to Health Plan of Nevada for direct payment to the carrier; eliminating the middle man. Ms. DeRousse said Health Plan of Nevada and the Exchange will work together with the carriers to make sure that the enrollment counts are acknowledged so that the Exchange will get their per member per month fee that is set by the Exchange Board. She clarified that instead of the Exchange giving the carrier the money, the carrier will be giving the Exchange the money.

In regard to reenrollment, Ms. DeRousse said the big difference affected by the transition to healthcare.gov is there would not be an automatic reenrollment into plan year 2015. As of the start of open enrollment on November 15, 2014, anyone who purchased a plan through Nevada Health Link in plan year 2014 will be required to revisit the site and repurchase a plan (page 60, [Exhibit A](#)). She said one of the reasons for this is because there was no way for the federal government to convert existing data to their system, and because of the language surrounding “guaranteed renewability,” people must be able to access insurance information. New to plan year 2015, if an existing client does not reenroll by December 15, 2014, the carrier will automatically reenroll that client in an off-exchange policy. The information will be communicated to the client, and a bill will be mailed to them directly. Ms. DeRousse believed this procedure will spur the client to take action toward enrollment. This process happens in the middle of open enrollment, and the client is required to pay by a specific date in order for their insurance to be effective January 1, 2015. If they do not pay by the deadline, the start date will roll over to February 1, 2015. The goal of the reenrollment campaign was to reenroll existing clients, promote the new program, and to boost the enrollment numbers for 2015. Reenrollment notifications were sent via email blasts and letters to remind clients of the open enrollment period starting November 15, 2015.

Ms. DeRousse explained that Nevada is part of a supported state-based marketplace (SSBM). She said the following three types of marketplaces were available when the ACA was implemented: 1) the federally facilitated exchange for the states that did not want to establish an exchange, 2) a partnership exchange for those states that partnered with the federal government and shared responsibilities, and 3) a state-based marketplace. The supported state-based model is only available to those states who were a state-based marketplace, but experienced technical problems and needed help going forward, such as in Oregon, New Mexico, and Nevada.

Ms. DeRousse reiterated that the carrier’s plan information was certified by the DOI, and was available through healthcare.gov instead of the Exchange. She reported that participating carriers already uploaded their plan information, and the Exchange was performing end-to-end testing to make sure the Exchange, the federal government and the carriers were all communicating electronically. The brokers and staff who enroll qualified individuals, employers and employees in a QHP through the Exchange are

required to attend training to obtain an Exchange Enrollment Facilitators (EEF) Certification before they are granted direct access to the federal government's healthcare.gov website.

Ms. DeRousse said peak QHP enrollment in 2014 was approximately 38,000 enrollments, but currently the enrollment equates to about 32,000. The decline is contributed to policy termination for nonpayment, eligibility through an employer, or becoming Medicaid eligible due to a job loss.

In response to a query made by Chairman Wiles, Ms. DeRousse said when the Exchange was making enrollment projections for 2014, they estimated approximately 600,000 people in Nevada were uninsured. Included in that number were people eligible for both Medicaid and the Exchange. The Exchange expected to enroll approximately 115,000 individuals in a QHP, but because many of those people were eligible for Medicaid, the Exchange revised their QHP enrollment projection to approximately 78,000 people. Ms. DeRousse said the Exchange initially forecast the uptake rate for QHPs to fall between 25% and 75% of the available population, not anticipating the high rate of Medicaid eligible recipients. She reported that of the total population that came through the Exchange, approximately 150,000 people were enrolled in Medicaid and approximately 40,000 people were enrolled in a QHP, and noted that the uninsured population in Nevada was cut by one-third since the implementation of the ACA, effective January 1, 2014 (page 62, [Exhibit A](#)).

Chairman Wiles asked Ms. DeRousse to clarify if approximately 180,000 of 600,000 uninsured Nevadans now had insurance coverage.

Ms. DeRousse concurred, and said not all people would purchase insurance. She said the Exchange never expected to enroll all of the projected uninsured Nevadans (600,000), especially in the first year, and reiterated that the Exchange targeted approximately 115,000 people in the first go-around; people who they thought would enroll through the Exchange in order to seek eligibility for the advanced premium tax credit. That population targeted Nevadans who fell between 138% and 400% of the federal poverty level (FPL); however, the core population that enrolled through the Exchange were people who fell between 138% and 250% FPL, totaling approximately 76,000 people.

Chairman Wiles remarked that the general information regarding the challenges with the plan did not make the acquisition process easier.

Ms. DeRousse said there were a lot of issues in regard to the enrollment and payment processes in 2014. The Exchange hoped that transitioning into the SSBM and utilizing healthcare.gov would eliminate those issues.

Chairman Wiles said he hoped the same, and noted the federal system also had challenges in 2014.

Continuing with her presentation, Ms. DeRousse conveyed that approximately 31,000 dental plans were sold through the Exchange, and approximately one-third (10,000) of

those plans were purchased by QHP enrollees, with the remainder purchased by Medicaid recipients acquiring adult dental (page 62, [Exhibit A](#)). She said that statistic was unexpected, and reported that Medicaid participants will not be able to purchase dental through healthcare.gov going forward.

Turning to page 63 ([Exhibit A](#)), Ms. DeRousse acknowledged Time Insurance as the newest carrier in plan year 2015. She indicated that 155 plans were uploaded to healthcare.gov, including a new PPO plan offered by Time Insurance that was hoped to spur added interest.

In summary, Ms. DeRousse said the transition to the SSBM was focused on daily in order to ensure a smooth conversion. Xerox is contracted through the end of 2014 to assist existing enrollees with qualifying events and the transition process. She said the Exchange has a very robust caseload resolution process in place to address consumer complaints, and has implemented an aggressive marketing push in an effort to enroll people within the three month enrollment period versus the six month period that was allowed for plan year 2014. She said going forward the open enrollment period will decrease to six weeks.

***Adam Plain, Insurance Regulation Liaison, Division of Insurance,
Department of Business and Industry***

Mr. Plain informed the members that a portion of his presentation included information that was already presented at the Economic Forum's June 3, 2014, meeting; therefore, he skipped pages 2 through 4 ([Exhibit F](#)) of his meeting content. He said page 5 ([Exhibit F](#)) did not reflect current data regarding the 2014 health insurance marketplace, and directed the members to page 6 ([Exhibit F](#)), Individual Market. Before going into detail, Mr. Plain explained that the tables in his presentation addressed three separate marketplaces; individual, small (group plans of fewer than 50 enrollees) and large (group plans with 50 or more enrollees), and compared statistics from insurers dated calendar year 2013, May 1, 2014, and August 31, 2014. He noted that the collection numbers in his presentation were self-reported; therefore, the data was understated due to the lack of participation. He described the individual market as a fully insured marketplace that was covered by commercial health insurers, and did not include self-insured plans, Taft-Hartley Trusts, Tricare, Medicare or anything along those lines. He pointed out that the gross premium collection as of August 31, 2014, was close to collections received in 2013 for the entire year. Final totals for 2014 would include all premium collections through December 31, 2014 (page 6, [Exhibit F](#)). He said the number of policies and covered lives from 2013 to 2014 grew by a significant amount because of healthcare reform. The table identified specific data that referred to covered lives, such as ACA-compliant lives; grandfathered lives, meaning coverage existed as of March 10, 2010 (when the ACA was first signed); and non-compliant lives, meaning the policy was renewed sometime in November or December of 2013. He clarified that the non-compliant policies renewed late in 2013 were not subject to the ACA mandates until time of renewal in either late 2014 or January 1, 2015.

Relative to the small group market, Mr. Plain pointed out that the projected premium volume as of August 31, 2014, was lower than it was in 2013 (page 7, [Exhibit F](#)). Again, because the data was self-reported, he estimated that the premium volume at the end of 2014 would be similar to the collections in 2013. He said large changes were expected to occur in 2014, specifically a significant drop in the number of policies in effect and a moderate drop in the number of covered lives. Mr. Plain said the variance was likely due to a provision of the federal law that preempts state law. In 2013 and previous, the state law allowed a group of two or more individuals to purchase a small group policy, even if those two individuals were related. He said under the federal preemption relative to the ACA, a mom and pop type business that did not have unrelated employees were now prohibited from buying in the small group market. Many of those policy holders dropped and either moved into the individual market or went another route for their insurance needs. He observed a significant drop in the number of grandfathered lives between May 2014 and August 2014, stating that many of those policies likely had older work forces or older demographics and found it advantageous to drop their coverage for newer ACA compliant plans when their renewal hit. Grandfathered plans were allowed to be rated based on their individual health characteristics, but the new plans are required be rated on a market wide basis. He said if the demographics of your business were disadvantageous or your workforce was less healthy, it was definitely in your best interest to abandon your old policy and favor one of the new policies.

Lastly, Mr. Plain discussed the large group market, and stated the probable margin of error likely produced lower gross premium in 2014 than it did in 2013 (page 8, [Exhibit F](#)). He indicated that both the number of policies and covered lives would be lower, possibly due to another ACA regulation. A fully insured large group plan, meaning one that is written by a commercial insurance carrier, has to comply with certain provisions of the ACA that a self-insured large group plan does not. Mr. Plain said this regulation could cause a shift from fully insured large groups to self-insured large groups, because those self-insured ERISA (Employee Retirement Income Security Act of 1974) plans are not subject to many of the provisions of the ACA. He said it could be an opportunity for employers to keep the costs down or do some other strategic objective of theirs.

Mr. Plain directed his focus outside his handout and explained to the committee that he felt it was important to highlight some issues that the Economic Forum might consider when making revenue projections. In recent history, he thought it had been easy for economists and econometrics to project the Insurance Premium Tax (IPT) revenues based on proxy numbers, population, number of jobs in the state, number of homes sales, etc.; and implied that it was a fairly transparent calculation. Mr. Plain indicated that times have changed, and a large amount of uncertainty will influence future premium tax projections. He recalled the 2013 Legislative Session, and stated there was concern about the implementation of the ACA and what it would do in general. He said the DOI has a better handle on how the ACA may affect enrollment and where it may shift people's buying habits; however, Mr. Plain reported that there were three items currently on the radar that haven't been accounted for in any previous discussion.

1. The effect of A.B. 3 from the 2014 Special Session in regard to IPT collections, relative to the sunset and eventual elimination of the insurance Home Office Tax Credit. There is approximately \$30 million of home office tax credits that are claimed every year, and under new legislation that amount will be capped at \$5 million per year. Mr. Plain estimated that the State of Nevada would receive a net gain of approximately \$25 million per year in gross IPT revenue; however, there was uncertainty around that number. He explained that if insurers who currently take advantage of that tax credit decide to change how they operate (e.g. relocate jobs out of state), the premiums and premium tax collections could be affected. Additionally, Mr. Plain pointed out that several of the insurers who are claiming that credit are health insurers, and under the ACA, health insurers are now subject to a minimum loss ratio (MLR). He further explained that depending on the specific insurer, the MLR may be 80% or 85% of premium receipts expensed as claims cost, with the remaining 15% to 20% being held back for administrative overhead. As part of that MLR calculation, the premium tax paid by insurers to state governments was a deduction both from the numerator and the denominator. He said with the Home Office Tax Credit going away, the MRL calculation for those insurers will change, which could affect their premium rates. He described it as an area of uncertainty and wanted to bring it to the Forum's attention.
2. The Cadillac Tax is a tax on high-cost insurance plans that may affect the distribution of premiums in the marketplace, and is scheduled to take effect in calendar year 2018. Mr. Plain explained that the tax is calculated by measuring against a metric using a federal health plan and the rate of premium growth in that health plan. He said the bellwether used typically experienced a lower rate of premium growth than commercial market plans. If commercial market premium growth continues to outpace the index, there could be a large number of plans that are subject to that Cadillac Tax. In that event, there could be unexpected changes in buying habits, offering habits on behalf of employers, and premium rating habits on behalf of the insurers. He said it was another large area of uncertainty.
3. Statewide ballot Question 3, referred to as the Margin Tax or the Education Initiative. Mr. Plain identified the three major tax paying industries in the State of Nevada: gaming; mining; and insurance. He said the insurance industry in Nevada pays one of the highest tax rates in the nation at a premium tax rate of 3.5%. He described the Margin Tax as a gross premium tax that allowed limited deductions of which were typically small in nature. Mr. Plain explained that the passage of Question 3 would implement the Margin Tax on those premiums that are already taxed at 3.5%, which would effectively raise the margin tax rate to approximately 5.5%. In a nonbiased manner, Mr. Plain reported that Nevada has a domestic insurance industry that is subject to retaliatory tax, meaning when a company that is domiciled or housed in Nevada does business in another state, the insurer is subject to the higher rate of premium tax. For example, a company housed in Nevada and doing business in South Carolina would be subject to the higher of Nevada's rate or South Carolina's rate. Mr. Plain said there are not many multi-state traditional companies in Nevada; however, there is a healthy captive insurance industry. He explained that captive insurers are owned by some other entity and are designed specifically to insure that entity's risk, such as a manufacturing company. Captive

insurers would be subject to the tax in Question 3, which could drastically change premium tax collections if Nevada is no longer seen as a welcoming captive industry host.

In closing, Mr. Plain reiterated that his intent was to inform the Economic Forum of the large amount of uncertainty going forward in the fully insured marketplace, and felt the items of concern that he mentioned were not commonly known, and would have some impact on the Forum's projections going forward. He announced that the DOI posted the approved health insurance rates for 2015 on their website (doi.nv.gov), and invited all economists and econometricians to view it, specifically to review premium data in order to make projections for premium collections for 2015. He said because of the large insurance illiteracy rate in Nevada (85%), the DOI launched an educational website (nvinsurance101.com) in an effort to teach consumers the basics about insurance. Additionally, smart phone applications will be available from both the Apple App store and the Google Play store that will provide online services, such as insurance rate lookup, complaint filing and insurance verification.

Russell Guindon, Principal Deputy Fiscal Analyst, Legislative Counsel Bureau, made reference to Medicaid enrollment, and pointed out that it was posted as a matter of discussion under this agenda item. He recalled an involved discussion regarding Medicaid enrollment that took place at the June 3, 2014, Economic Forum meeting, and was not sure if further discussion was needed. Until having discussions with Mr. Plain and Mike Willden (former Director of the Department of Health and Human Services), Mr. Guindon said he was not aware that there are Medicaid programs where the qualified enrollee is receiving a product that involves a premium to be paid to a managed care organization, which is a health insurance company. He said the payments are considered premiums, and are subject to Nevada's IPT. Mr. Guindon explained that these details, along with the forecast concerns that Mr. Plain brought awareness to, need to be considered by the forecasters when working through the IPT forecasts that will be presented to the members at the November 7, 2014, and December 3, 2014, Economic Forum meetings. He said he would work with Mr. Plain to make sure staff had the proper understanding of his concerns, and would have more discussion relating to how those concerns would influence the forecast.

Chairman Wiles recollected previous conversations regarding the complexity and interpretation of the ACA, including the components of the law and implementation. He noted the tremendous amount of uncertainty that existed at the federal and state levels, and the potential impact that could result from Assembly Bill 3, the Cadillac Tax, and Question 3. Chairman Wiles thanked Mr. Plain for his presentation and for the DOI's interpretation of new and modified programs, and with working with the staff to try and give assessments.

Mr. Leavitt referenced the total IPT, and asked what portion related to health insurance versus other forms of insurance.

Mr. Plain replied that he did not have that information available at the meeting, but recalled a projection from the 2013-15 biennium that was based off the total overall number. He said approximately 30% of the total premium volume was related to health

insurance in the State of Nevada, and the remainder was related to other forms of insurance.

Mr. Leavitt remarked that health insurance made up a significant portion of revenue from the IPT.

X. PRESENTATION ON THE NEVADA NEW MARKETS JOBS ACT (SENATE BILL 357, 2013 LEGISLATIVE SESSION; CHAPTER 231A OF NRS).

Kent Steadman, Management Analyst II, Department of Business and Industry

Mr. Steadman said he would provide history on the Nevada New Markets Tax Credit program (NMTC), report on the status of the program as of the end of July 2014, and provide information about what was expected in the future (Nevada New Markets Tax Credit Program as of October, 2014 ([Exhibit G](#))).

Mr. Steadman said that the Nevada NMTC program was created by S.B. 257 (2013 Legislature) as part of the New Markets Job Act. The \$200 million program encourages capital investment in low-income areas and creates new jobs in Nevada. The program was patterned after the federal NMTC program. He said, typically, a new market tax credit loan would be for an amount between \$3 million and \$10 million. Anything below \$3 million was not cost effective. He explained that the loan structure was very complex.

Mr. Steadman reported that the program started October 1, 2013. He said the department received applications from seven federally certified Community Development Entities (CDEs). He noted the CDEs were certified on November 14, 2013. Mr. Steadman reported that the tax credits were allocated as follows (page 4, [Exhibit G](#)):

Advantage Capital Community Development Fund, LLC	\$32,000,000
Enhanced Community Development, LLC	\$32,000,000
KHC New Markets Fund C CDE, LLC	\$32,000,000
Stonehenge Community Development, LLC	\$32,000,000
The Clearinghouse CDFI	\$8,000,000
Urban Development Fund, LLC	\$32,000,000
USBCDE, LLC	<u>\$32,000,000</u>
Total	\$200,000,000

Mr. Steadman said the typical tax credit loan was a 7-year loan, with a below market interest rate. He said approximately 90% of these loans were leveraged loans where up to 20% of the loan was forgivable.

Mr. Steadman explained that the forgivable portion of the loan was equity from the money received for the sale of the new markets tax credits. For example, if a qualified small business needed a \$5 million loan, the federally certified CDE would work with a

financial institution to get the business a loan comprised of two notes. He explained there would be one \$4 million, 7-year loan at the current market rate, and another \$1 million, 30-year loan, below the current market rate, interest only, which would be effectively forgivable at the end of 7 years.

Mr. Steadman said the Nevada NMTC program focused on operating capital for businesses. The federal NMTC program focused on small business real estate projects. He said an insurance company that purchases Qualified Equity Investment (QEI) authority earned a tax credit equal to 58% of the purchased QEI over seven years based on the following schedule (page 7, [Exhibit G](#)):

Credit Allowance Date	Applicable Percentage
Date of Initial Qualified Equity Investment	0%
1st Anniversary Date of Equity Investment	0%
2nd Anniversary Date of Equity Investment	12%
3rd Anniversary Date of Equity Investment	12%
4th Anniversary Date of Equity Investment	12%
5th Anniversary Date of Equity Investment	11%
6th Anniversary Date of Equity Investment	11%
Total Credits (Percentage)	58%

Mr. Steadman referred to a flow chart in his presentation (page 8, [Exhibit G](#)) providing an overview of the tax credit process. The process begins with B&I, which allocates the tax credits to the CDEs that apply for them. The insurance companies would then pay cash, at a discounted rate, for the tax credits. That money would be invested by the CDEs in the form of a loan to the low-income community businesses.

Mr. Steadman said that B&I held a workshop on proposed regulatory changes on January 28, 2014. A public hearing was held on April 21, 2014, and the regulations were adopted by the Legislative Commission on June 23, 2014. Those regulations are now part of the *Nevada Administrative Code*.

Mr. Steadman said B&I asked the CDEs to report on the number of projects they were involved in, and how many of those projects involved minority businesses in Nevada. The CDEs reported that they began with 236 potential projects, totaling \$1.2 billion. At the end of July 2014, there were 85 projects in process, totaling \$686.7 million. He said that 29% of the projects in process at that time were for minority-owned businesses. He said the number of projects was expected to be reduced by half as the vetting process was completed.

Mr. Steadman said statute required that 85% of the NTMC allocation must be invested by December 14, 2014. There was a six-month grace period. If a CDE did not meet the 85% requirement by the end of the grace period, the NMTC allocation would be recaptured and reallocated to the other CDEs.

Mr. Steadman said B&I received the first completed investment report on Wednesday, October 15, 2014, and were in the process of analyzing that information.

Mr. Steadman referred to a slide in his presentation (page 12, [Exhibit G](#)) comparing other states' NMTC benefits. He noted that some of the programs were new, with not many results yet to report. However, the State of Florida created over 8,000 jobs with a \$178.8 million allocation. He said that was a positive impact of \$3 for every tax credit dollar. The State of Missouri had a similar response to its \$300 million program. He noted that the State of Ohio created over 2,000 jobs with a \$40 million program.

Mr. Steadman concluded his presentation by adding that he hoped Nevada's NTMC program generated results similar to those of the State of Florida, with a return of \$3 for every tax credit dollar.

Chairman Wiles asked if there was an expectation that investors would use the tax credits over the upcoming biennium. Mr. Steadman said there was not enough data to make a projection. Chairman Wiles noted that data would not be available until after the Economic Forum meets to develop its revenue forecast in December 2014. Mr. Steadman agreed that was accurate.

XI. PRESENTATION ON THE MEDICAL MARIJUANA PROGRAM AND IMPOSITION OF AN EXCISE TAX ON MEDICAL MARIJUANA (SENATE BILL 374, 2013 LEGISLATIVE SESSION).

Laura Freed, Deputy Administrator, Division of Public and Behavioral Health

Steve Gilbert, Program Manager, Division of Public and Behavioral Health

Ms. Freed introduced Steve Gilbert, Program Manager, Division of Public and Behavioral Health, who presented information on the patient registry program as well as the establishment program, with the focus on factors needed by the Economic Forum to make projections for the excise tax.

Mr. Gilbert said with the passage of S.B. 374, the Medical Marijuana program grew to be comprised of two authorized groups: 1) medical marijuana cardholders; and 2) medical marijuana establishments (MMEs).

Mr. Gilbert said the Individual Patient Registry program issues patient registry identification cards to Nevadans who meet the qualifications defined in NRS 453A.050. He said individuals would apply for the registry, and if found to be eligible, would be granted a medical marijuana card.

Mr. Gilbert said the Medical Marijuana Establishment program issues licenses to establishments within the State of Nevada such as laboratories; cultivation facilities; facilities for the production of edible marijuana products or marijuana infused products; and marijuana dispensaries. He explained that patients would receive medicine and educational materials at the dispensaries. He said the dispensaries would not be open to the public; only valid medical marijuana cardholders would be allowed.

Mr. Gilbert said the Individual Patient Registry program and the MME program have separate fee structures. He said the cardholder program collects \$100 total for a patient to become a cardholder. The MME program fees depend on the type of establishment that is registered with the state.

Mr. Gilbert said there were about 6,500 cardholders in the state and 374 caregivers. The caregivers are allowed to purchase product and administer medicine to the patients. He said Clark County represents about 73% of the cardholders; Washoe County, 11%; and the rest of the state, 16%.

Mr. Gilbert said, based on the growth in the number of cardholders month-to-month, it is projected that at the end of FY 2015 there would be approximately 9,510 cardholders; at the end of FY 2016, approximately 14,413; and at the end of FY 2017, approximately 21,102 (page 6, [Exhibit H](#)).

Mr. Gilbert said the division was going through the application and evaluation process. He said 199 applications were received for dispensaries; 183 for cultivation; 119 for production; and 18 for laboratories.

Mr. Gilbert introduced a table that showed dispensary totals by county (page 8, [Exhibit H](#)). He said the statute specified that 66 dispensaries would be allocated within the state. However, no applications were received for dispensaries in nine of the counties. He said 55 provisional licenses would be issued based on the license applications that were received. Provisional licenses would not be issued in the counties for which no application was received.

Mr. Gilbert said the division would partner with the local governments to implement the establishments throughout the state. He said the local government role would be to clarify local zoning and licensing requirements for establishments. He explained that once the division issued the provisional license, it would be up to the establishment's owner to work with the local governments on the zoning and licensing requirements of the county. He said the local governments would have the authority to supplement the division's regulations. The local governments would provide the first line of response for law enforcement needs to address criminal activity. He said the division would work with the local governments on complaints and investigations, as applicable.

Mr. Gilbert presented some of the unified roles between the division and the local governments. He said, per NRS 453A.326, in a county with a population of 100,000 or more, the division shall ensure that not more than 25% of the total number of dispensaries that may be certified in the county are located in any one local governmental jurisdiction within the county. The board of county commissioners of the

county may increase the percentage if it determines that to do so was necessary to ensure that the more populous areas of the county have access to sufficient distribution of marijuana for medical use.

Mr. Gilbert said some of the expected benefits to the local governments included, stimulation of skilled employment opportunities for the industry; reciprocity sales for nonresident medical marijuana patient cardholders; increased Nevada state tax generation and related benefits; and revenue from applications of MMEs. He noted that the number of dispensaries allowed in the state was 66: 40 in Clark County; 10 in Washoe County; 2 in Carson City; and 1 each in the other counties. He reiterated that some counties would not have dispensaries, because there was no application submitted. He said the number of MMEs that are not dispensaries was not limited in statute. He said the division was determining the scores and the ranks, and would be granting provisional licenses at the beginning of November.

Mr. Gilbert said under NRS 453A, medical marijuana patients from other states are eligible to purchase their needed medical marijuana in Nevada. He said in 2013, California residents comprised 33% of the visitors to Las Vegas. California has approximately 77,000 medical marijuana patient cardholders, so reciprocity sales in Las Vegas could be significant.

Mr. Gilbert said, based on projected patient cardholders, and limits on amount of medical marijuana that can be purchased, the MME program has budgeted \$1,042,975 for its share of the total excise tax in FY 2016, and \$1,580,815 in FY 2017. He said the projection was based on the current patient count and the purchase of 5 ounces per month.

Mr. Gilbert said the cardholder growth rate and the level of reciprocity sales were not known. There was no historical data for this revenue available from other states. He said the out-of-state cardholders who come to Nevada to purchase their medicine were required to abide by Nevada law, which allows the purchase of 2.5 ounces every 14 days.

Mr. Gilbert said the revenue generated by the MME fees would be used to pay back the costs incurred by the division in carrying out the provisions of NRS 453A.320-370. Any excess fee revenue would be paid to the State Treasurer to be deposited to the credit of the State Distributive School Account (DSA) in the Nevada General Fund.

Mr. Gilbert concluded his presentation by showing an organizational chart illustrating how the program was structured (page 16, [Exhibit H](#)). He explained that the cardholder program had 4 full-time employees that managed all of the applications, and processed and issued the cards. The MME program had 12 full-time employees: 6 in Las Vegas and 6 in Carson City.

Chairman Wiles asked when the licenses would be issued and when the dispensaries would be open for business. He asked what portion of the revenues was expected to revert to the State General Fund.

Mr. Guindon noted that a 2.0% excise tax was included in the bill for the medical marijuana program. The tax was attached to sales by the cultivators, producers of the edible and infused products and the dispensaries. He said 25% of the excise tax would go to fund the agency, and 75% would go to the DSA. He said the Economic Forum was not responsible for producing a forecast for the excise tax, because it was not an unrestricted General Fund revenue source. He explained that the Economic Forum would produce a forecast for state sales tax, which would apply to the products sold at the dispensary level. The sales tax would not apply to the product sold to the dispensary by the cultivator and producers, because that was a wholesale transaction. He noted that the new industry could begin creating jobs, which would be subject to the Modified Business Tax (MBT). In addition, those jobs would create further economic activity. That was why the Economic Forum and the forecasters would be interested in the progress of the medical marijuana program.

Ms. Freed added that in addition to 75% of the excise tax going to the DSA, any overage of the medical marijuana establishment fees that the division did not use to evaluate applicants and perform inspections of those establishments that received licensure certificates would also go to the DSA. She cautioned that the numbers provided in the presentation were extremely rough. She said the numbers would probably change as the division discussed the factors that went into estimating the excise tax revenue. One of those factors would be timing. She said that the first licenses were expected to be issued to MMEs on November 2, 2014. The labs were expected to begin operations first, and the cultivation facilities and dispensaries would follow.

Ms. Freed noted that previous testimony indicated that the timing of plan review for a permit approval in Clark County was 60 to 90 days. She said that meant establishments may not come online until February 2015. She understood that the Department of Taxation might not disburse excise tax to the division and the Department of Education until April or May 2015. She said that coincided with the end of the legislative session, when the forecasters would estimate the amount of General Funds that would be offset by the new excise tax revenue in the DSA. She said she would have liked the division to have had more definitive information on the revenue estimate for the Economic Forum.

Chairman Wiles said he appreciated the challenges that arose in making the revenue forecast for the medical marijuana program. In addition to the program being new, there were discrepancies between federal and state law regarding the medical marijuana program. He said the forecasters must consider that it was a new industry, with new distribution, new owners, and new sales. He added that there was uncertainty about the level of revenue that would be generated by the ACA, and the November 2015 General Election could change the political environment.

XII. PRESENTATION ON NEVADA'S MINING INDUSTRY BY THE NEVADA MINING ASSOCIATION.

Dylan Shaver, Director of Public Affairs, Nevada Mining Association, said that, for more than 100 years, the Nevada Mining Association has served as a resource for the state, the people of Nevada, and the mining companies. He said his presentation would focus on the following topics: the essential minerals produced by the mining companies in Nevada; the quality jobs and businesses that mining supports; sustaining the highs and lows; and the significant contributions made by mining in Nevada.

Mr. Shaver said that the 116 Nevada mining operations across the state produced about 16% of the minerals used in the United States. While Nevada mines were well known for producing gold, they also produced about 19 other minerals that helped people live their lives on a day-to-day basis (page 3, [Exhibit I](#)). He said Nevada produced about 75% of the gold in the United States, and 5.9% of the gold in the world. Most of that gold was used as an investment tool, but it also had high-tech applications, such as for cell phones and car airbags.

Mr. Shaver said that although Nevada was called the "Silver State," there was only one active mine in Nevada that was mining only for silver, although other mines were producing silver incidentally in the process of mining for other minerals. He noted that silver had high-tech applications as well in medical equipment and solar panels.

Mr. Shaver said Nevada mines produce lots of copper. He said the Nevada Mining Association recently completed a display at the airport that indicated about 135 miles of copper wire was needed to build a Boeing 737 airplane, such as the ones used by Southwest Airlines. He said the state produced gypsum for wallboard, cement and plaster of Paris. He said the most important mineral produced in Nevada might be diatomaceous earth, or diatomite. He said Nevada produced over 20% of all the diatomite used in the world. That was significant, because all domestically produced beer and wine that was filtered was filtered through diatomaceous earth. He said barite and perlite were among the other minerals produced in Nevada.

Mr. Shaver said that most mining jobs were high-tech jobs. There were hydrologists, biologist, attorneys, chemists, electricians, and heavy equipment operators. He said that these positions required advanced degrees. Because the jobs were so specialized, mining jobs paid about twice the state average wage (page 13, [Exhibit I](#)). The average miner made just over \$90,000 per year, which added \$1.1 billion to the state's economy every year. In addition, miners received about \$400 million worth of benefits per year, of which \$200 million was health insurance. He said 93% of the miners in the state were covered by employer paid health insurance, compared to 56% of the state's employees generally.

Mr. Shaver said there were about 12,000 direct mining employees. He said another 5,000 were employed indirectly, such as contractors. Those combined created another 12,000 "induced" jobs for positions that are serving the community in which the mines operated. In total, about 2.3% of Nevada's workforce was attributable to mining.

Mr. Shaver said it was obvious that the gaming industry was the driver of the state's economy. However, for comparison, he noted that the mining industry directly employed 12,000 people, which was the same number employed by Wynn Resorts.

Mr. Shaver said the mining industry has managed to make it through a tough time without incurring many layoffs. He said there were challenges to meet, because of the decrease in the value of gold and ore, policy challenges on the horizon, and increased costs. From the start of the recession in 2006, the value of gold exploded to more than double. He explained that cynicism and speculation about the market caused people to take money out of equities and put them into commodities. Gold was priced internationally in dollars, so when the dollar devalued, the price of gold increased, because it took more dollars to buy it. He said that situation ended abruptly in 2013. Over the course of a year, the value of gold declined 27%, and investment demand declined by 15%. To get through this, the mining companies focused on what would yield the most tonnage of ore to allow a return on investment.

Mr. Shaver said one of the reasons for the sharp decline was that investors stopped investing in gold. He explained that for about 20 years, gold investors relied on something called an "exchange trade fund" (ETF), which allowed an investor to buy gold without having to take possession of the gold. It was much easier to buy and sell that way. When ETF investors started to sell off gold investments, there was a major hit to the price of the commodity. He said that was important to the state, because the value of the commodity coincided with the net proceeds of minerals revenue collections almost exactly (page 22, [Exhibit I](#)). He said there had been tremendous increases in the value of the commodity, but when gold prices declined, the net proceeds of minerals tax revenue declined as well (page 23, [Exhibit I](#)). Since its peak, the price of gold has fallen about 34%.

Mr. Shaver said ore grades were lower. In 2010, the average ore grade was about 0.149 oz. per ton of earth moved, but that fell 43% to 0.09 oz. per ton. He explained that at 0.09 oz. per ton, to produce enough gold to make a wedding ring, an amount of ore must be excavated that would fill a community pool. In addition, in the older mines, the mining companies must dig deeper and deeper. That meant more than double the ore must be removed than was necessary when the mine was first opened.

Mr. Shaver said that additional effort had an effect on the cost. He said the raw costs for mining were much higher. He said the cost for mining equipment was up 61% since 2004. The cost for underground mining equipment was up 60% since 2004. Equipment maintenance costs were up about 20%. The cost of mining support activities, such as drillers and blasters, was up about 78% since 2004. He said diesel fuel costs were up 41% since 2007. He said the 12-foot diameter tires for the heavy equipment cost about \$80,000 each, which was up about 64% since 2004. Mining labor costs have more than doubled in the last decade. In addition to commodity value being down, costs were way up.

Mr. Shaver said he would present several policy challenges that the mining industry was dealing with. He said the sage grouse would probably be listed as a threatened species under the endangered species act. He said the Nevada Mining Association was

working with the Governor's Office and the congressional delegation to find a solution to the problem of the birds' habitat. He said if the sage grouse were listed as a threatened species, it would be more difficult for the mining industry, energy producers and ranchers to do business in Nevada.

Mr. Shaver said tax uncertainty was also an issue for the mining industry, as it was for any business.

Mr. Shaver said the Environmental Protection Agency's Waters of the United States ruling would consider a ditch along the side of a roadway intended to catch rainwater to be a "navigable waterway," which would be subject to regulation. He said that would have a serious impact on the way the mining industry did business.

Mr. Shaver said although there were challenges, the industry was optimistic. He noted that Nevada Copper in Yerington was doing well. American Vanadium mined vanadium, a product used for long-term battery storage. He explained that massive amounts of energy could be stored using a vanadium battery. He said a couple of public buildings in New York purchased energy for use in the evening, but used energy from the vanadium batteries during the day. He said there was obviously a demand for lithium in the state right now, which was positive news for Western Lithium. He said General Moly was a new mine in northern Eureka County. All of the mine's permits were ready, and it was almost ready to move forward. He added that there were numerous new gold ventures opening and changing hands in the state.

Mr. Shaver said that it was remarkable that, despite gold losing 34% of its value, the mines have managed to stay open without the massive layoffs that have been seen in other industries. He said the mining industry had a "boom or bust" reputation, but the average mine in Nevada had been in operation since 1984.

Mr. Shaver said the work of the mining industry generated significant contributions to the state. While the mining industry employed just 1.0% of the state's workers, those employees earned 2.1% of the wages paid out in the states. He said the mining industry was responsible for about 6.1% of the economic output of the state, and paid 7.4% of the state's General Fund dollars in taxes and the induced taxes paid by businesses that existed because of the mining industry.

Mr. Shaver said the mining industry supported about 2,200 Nevada based businesses. One example was Cashman Equipment. He said some of the other businesses were equipment vendors, assay labs, engineering firms, construction companies, grocery stores, restaurants, hotel, hospitals and banks.

Mr. Shaver said that in Nevada the mines paid a special tax called the "net proceeds of minerals tax," which nearly doubled its tax burden to \$347.9 million in 2013. That made up about 7.0% of the state's General Fund, but the mining industry made up 6.0% of Nevada's economic activity. He referred to a chart showing the mining industry gross domestic product compared to other sectors (page 42, [Exhibit I](#)).

Mr. Shaver said, in addition to paying taxes, the mining industry employees were active in the community through educational programs, workforce investment programs, and charities all over the state, whether or not there are mines in that area. Just through employer programs, in 2013, Nevada mining employees contributed about 7,400 hours of volunteer time to local causes.

Mr. Shaver concluded his presentation by saying that the Nevada Mining Association was always available as a resource to the members and staff of the Economic Forum.

Mr. Leavitt asked, of the total volume of the minerals produced in Nevada, what percent of the income was related to gold?

Mr. Shaver said about 94% of the net proceeds of minerals revenue was from gold mining.

Mr. Leavitt asked how low the price of gold would have to dip in order for the mining companies to reach the point where it was not profitable to mine.

Mr. Shaver said the average “all in” cost for an ounce of gold in the State of Nevada was about \$1,150 per ounce. However, depending on the location of the mine, and what the ore body being mined was comprised of, that number could vary widely.

Mr. Leavitt asked how the net proceeds of minerals revenue for 2014 would differ from 2013 collections.

Mr. Shaver said it was difficult for him to predict what would happen to the price of the commodity between now and the end of the fiscal year. He said it appeared as if the price would remain steady for a while, but he by no means was an expert in the prediction of such numbers.

Mr. Leavitt said, because the Economic Forum must produce a forecast of the net proceeds of minerals revenue, the members were interested in the opinion of Nevada Mining Association staff. He said it would be very helpful if the Nevada Mining Association could provide the Economic Forum with projections.

Mr. Shaver said Nevada Mining Association executives have met twice with Economic Forum staff to provide such information. He noted that Nevada Mining Association members did not engage in such forward-looking statements in public forums. He said, in fact, the Nevada Mining Association did not engage in forecasting at all, but rather relied on other public forecasts, such as Bloomberg, for that information.

Mr. Guindon said that the Nevada Mining Association and representatives from Barrick Gold Corporation have met with staff from the Executive Budget Office, the Fiscal Analysis Division, and the Department of Taxation, the three entities primarily involved in producing the net proceeds of minerals revenue forecast that would be presented to the Technical Advisory Committee of the Economic Forum. He said market reports were presented on international gold prices, and information was

presented about specific companies. That information would be utilized by the forecasters to build their forecasts. However, he explained that information about specific companies would not be discussed in a public meeting, because it involved publicly traded entities.

Chairman Wiles said he appreciated the efforts of the forecasters to provide the Technical Advisory Committee and the Economic Forum with accurate information on the net proceeds of minerals revenue forecast. He noted that the net proceeds of minerals forecast was helpful to the rural communities in their budgeting process as well. He said he appreciated the effort of the Nevada Mining Association and Barrick Gold Corporation in working with staff to provide that information.

Agenda items XVIII and XIX were taken out of order.

XVIII. INSTRUCTIONS TO TECHNICAL ADVISORY COMMITTEE CONCERNING THE NEXT MEETING OF THE ECONOMIC FORUM.

Mr. Guindon acknowledge the Technical Advisory Committee (TAC) to the Economic Forum, and described it as a statutory body that supports the Economic Forum. He said the TAC consists of seven members, specified by statute, who serve in the Legislative or Executive Branch agencies, and have a good working knowledge of the revenue sources.

Mr. Guindon explained that, traditionally, the Economic Forum had forecasters present their projections for the following major General Fund revenue sources that make up 80% to 85% of the General Fund: Sales and Use Tax; Gaming Percentage Fees Tax; Insurance Premium Tax; Modified Business Tax, both financial and nonfinancial; and the Real Property Transfer Tax and Live Entertainment Tax, non-gaming portion. At the command of the Economic Forum, the remaining revenue sources are directed to the TAC to prepare a consensus forecast. He said the forecast is brought forward for consideration at a formal meeting held by the Economic Forum, where the staff performs a high-level presentation of the forecast to the Forum. Ultimately, the Forum decides which forecasts they want to approve, or reconsider and produce their own consensus forecast for the minor revenue sources.

Mr. Guindon questioned if the Economic Forum wanted to keep the forecasts specific to the major or minor categories that they were currently recognized under, or if any of the revenue sources should be reassigned; noting that a change could affect the forecast assignment required from the TAC. He recalled discussions that occurred at the Economic Forum's June 3, 2014, meeting, relative to the forecasting of net proceeds. He said Budget and Fiscal staff have been talking to the Taxation staff, realizing that they have to present more detail on how the Net Proceeds of Minerals Tax forecasts were derived by the TAC. He said this additional detail could also be brought forward to the Economic Forum for their consideration during their meetings.

Mr. Guindon pointed out that this agenda item was posted for possible action, and advised the members that either a formal motion could be made, or Chairman Wiles

could make the directive to staff on how the Forum wanted to proceed with forecasts, meaning keep the major General Fund revenue sources categorized as they currently are or revise them. He reiterated that the committee was not locked into taking action today, but could make an adjustment at their next meeting. Mr. Guindon said his intent under this agenda item, as staff to the Economic Forum, was to give clarity to the TAC's responsibilities. The next TAC meeting is scheduled for Wednesday, October 29, 2014, at 1:30 pm.

Mr. Leavitt replied that he served on the TAC in the past, and personally thought the current mix was a good one.

Jennifer Lewis commented that she was a new member, and could not disagree with Mr. Leavitt.

Linda Rosenthal agreed with Mr. Leavitt, and thought the variance in the mining tax was a "one-off," and did not recommend categorizing it as a major revenue source for review.

MS. ROSENTHAL MADE A MOTION TO RECOMMEND THAT THE
ECONOMIC FORUM INSTRUCT THE TAC TO CONTINUE
FORECASTING THE REVENUES AS THEY WERE MADE IN THE PAST.
JENNIFER LEWIS SECOND THE MOTION.

THE MOTION CARRIED UNANIMOUSLY.

XIX. SCHEDULING OF FUTURE ECONOMIC FORUM MEETINGS.

Russ Guindon informed the members that the next Economic Forum meetings were scheduled for November 7, 2014, and December 3, 2014. He reminded the committee that December 3, 2014, was the deadline, by law, to prepare a written report of its projections of economic indicators and estimate of future state revenue, and present it to the Governor and the Legislature.

Mr. Guindon said the intent is to have a preliminary set of forecasts at the November 7, 2014, meeting. He stated the TAC will produce preliminary forecasts for everything but the major revenue sources at their October 29, 2014. There will be additional forecast presentations to address other revenue sources for the Economic Forum's consideration. Mr. Guindon said the November 7, 2014, agenda will require the Economic Forum to decide whether it will consider the forecasts as informational or if it will adopt a preliminary forecast. Historically, the Forum did not adopt a preliminary forecast; instead the committee used the forecasts as informational, and used the meeting venue to ask questions or make suggestions so their concerns would be taken into account when the final forecasts are presented at the Forum's December 3, 2014, meeting.

XIII. PRESENTATION ON THE TAX CHANGES APPROVED BY THE LEGISLATURE DURING THE 2013 SESSION AND THE ECONOMIC FORUM MAY 1, 2013, FORECAST FOR FY 2014 AND FY 2015, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2013 SESSION.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau

Mr. Guindon stated the importance of this agenda item was related to the adjustment to the Economic Forum's forecast that was approved after the May 1, 2013, forecast (page 77, [Exhibit A](#)). He said a few of the revenue sources that had sunsets attached, per legislative action approved during the 2013 Session and approved by the Governor, were set to expire June 30, 2015. Mr. Guindon explained that the Economic Forum is required to produce their forecast under current law, and the current law states that certain measures no longer have effect beginning July 1, 2015.

- Net Proceeds of Minerals; this tax has a sunset relative to prepayment. There will not be any proceeds forecast for FY 2016, but there will be revenue in FY 2017
- The Business License Fee; the fee is currently \$200 and will reset under the sunset to \$100, effective for FY 2016 and FY 2017.
- Modified Business Tax on Non-Financials; this tax has a two-tiered structure that will revert to .63% on all taxable wages, effective for FY 2016 and FY 2017; therefore, the forecast for FY 2015 will reflect a much higher number than the forecast for FY 2016 and FY 2017.
- Sales and Use Tax – General Fund Commissions; this tax is tied to another sunset. It does not amount to a lot of money, but it has to be accounted for.
- Governmental Services Tax; under the sunset, the revenue generated from this tax will go to the Highway Fund in FY 2016 and FY 2017, so forecasts will not be applicable; however, there will be a forecast for FY 2015.
- GST Commissions and Penalties; under the sunsets, there will be a forecast for FY 2015, but no revenue applicable to FY 2016 and FY 2017.
- Court Administrative Assessments; there are no actions related to sunsets.
- Cost Recovery Plan; there are no actions related to sunsets.

Note: Mr. Guindon said any issues involving the forecasts for the last two bullet items would be discussed at the Technical Advisory Committee, and brought forward to the Forum as necessary.

Mr. Guindon informed the members that revenue sources on page 78 ([Exhibit A](#)) had permanent action taken; therefore, no sunsets applied.

In closing, Mr. Guindon emphasized that the sunset measures are statutory provisions that must be taken into consideration when producing the forecasts.

XIV. REPORT AND DISCUSSION OF FY 2014 ACTUAL REVENUE COLLECTIONS COMPARED TO THE ECONOMIC FORUM NOVEMBER 30, 2012, AND MAY 1, 2013, FORECASTS, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2013 SESSION.

***Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division,
Legislative Counsel Bureau***

Mr. Nakamoto began his presentation on page 81 ([Exhibit A](#)), TABLE 1. He said the table compared the actual collections for FY 2013 and FY 2014 with the Economic Forum's forecasts from November 30, 2012, and May 1, 2013, with respect to the actual collections for both the major revenues and some of the selected non-major revenues, as well as the total General Fund. In addition to that information, the table shows forecasts projected by the agency that collects the fee or tax; the Fiscal Analysis Division; the Budget Division; and Moody's Analytics, the firm that forecast the Gaming Percentage Fee Tax and Sales and Use Tax. Mr. Nakamoto pointed out an oversight on page 81 that referenced Global Insight/Moody's. He clarified that Moody's Analytics' forecasts are exclusive to Moody's Analytics for both FY 2013 and FY 2014, and Global Insight should be disregarded.

Mr. Nakamoto said he highlighted the May 1, 2013, forecast in orange to differentiate from the forecast approved on or before December 3, 2012 (November 30, 2012), and was used by the Governor to prepare the Executive Budget. He clarified that the May 1, 2013, forecast included the revisions made during the 2013 Legislative Session, and were used by the Legislature to generate the biennial budget for the 2013-15 biennium, as well as the current year forecast for FY 2013. Mr. Nakamoto said that TABLE 1 included statistics for major General Fund revenue sources, select non-major General Fund revenue sources, and the total General Fund revenue. He noted that the actual collections for FY 2013 were approximately \$45.9 million above the Economic Forum's forecast, whereas their FY 2014 forecast was approximately \$58.8 million below the actual collections for the forecast for the fiscal year (page 84, [Exhibit A](#)).

Mr. Nakamoto recalled Mr. Guindon's reference to the array of revenues that are forecast by both the Forum and the Technical Advisory Committee, and guided the members to TABLE 2 on page 87 ([Exhibit A](#)). He said TABLE 2 identified those unrestricted General Fund revenue sources, and tracked how actual collections in FY 2014 compared to the Forum's forecasts made at meetings held November 30, 2012, and May 1, 2013, for FY 2014. He clarified that TABLE 2 did not include projections made by other forecasters.

Mr. Guindon stated that he did not know if the Forums forecast ever came as close to actual collections as it did in the May 2013 forecast for FY 2014. He pointed out that three of the seven major revenue sources had a forecast error of plus/minus .50%. He referred the members to page 82 ([Exhibit A](#)), and highlighted the Economic Forum's forecast error of .33% for the total major revenue sources. He said, except for net proceeds of minerals and unclaimed property, the Forum's forecast compared to actuals was almost scary close. Relative to the uncertainty that exists with some of the revenue

sources, Mr. Guindon specifically pointed out the close results pertaining to the Insurance Premium Tax revenue in FY 2014 (page 81, [Exhibit A](#)).

XV. REPORT AND DISCUSSION OF FY 2015 YEAR-TO-DATE ACTUAL REVENUE COLLECTIONS COMPARED TO THE ECONOMIC FORUM MAY 1, 2013, FORECAST, ADJUSTED FOR LEGISLATIVE ACTIONS APPROVED DURING THE 2013 SESSION.

***Joe Reel, Deputy Fiscal Analyst, Fiscal Analysis Division,
Legislative Counsel Bureau***

Mr. Reel directed the committee to page 95 of the meeting packet ([Exhibit A](#)). He described TABLE 1 as a revenue tracking sheet that is updated and provided to the Forum on a monthly basis. The table summarized the FY 2014 actual collections and the growth rates that resulted from those collections versus the Economic Forum's May 2013 forecast. Relative to the FY 2015 forecast, the columns show the fiscal year forecast, the FY 2015 forecast that was projected by the Forum in May 2013, and the difference in the growth rates based on FY 2014 actual collections. The green columns show the percentage of the General Fund revenue that each revenue source made up.

Mr. Reel moved on to discuss TABLE 2, year-to-date actual collections for FY 2015 (page 96, [Exhibit A](#)). He said the report included one to three months of actual collections of monthly revenue and zero collections for the quarterly revenue sources. The quarterly data will be reported by the Department of Taxation at the end of November 2014, and that material will be presented at the Forum's final forecast meeting on December 3, 2014. He said, because of where we are in the fiscal year with collections, there was not a clear picture of how the forecasts were tracking. He noted that the data in TABLE 2 tracked against the FY 2015 forecast that the Forum made at its May 2013 meeting. He clarified that the Forum will be reforecasting FY 2015 at the November 7, 2014, meeting and will submit a final recommendation at the December 3, 2014, meeting. Using Sales Tax as an example, Mr. Reel explained that the yellow portion of the FY 2014 actual year-to-date collections was represented in the first column; the actual growth rate (6.0%) for FY 2014 year-to-date was represented in the second column; and the fiscal year-to-date as a percentage of the fiscal year total (8.3%) was displayed in the third column, which illustrated the total amount of revenue that was expected to be collected in FY 2014.

Moving across the chart on page 96 ([Exhibit A](#)) to FY 2015, Mr. Reel highlighted the actual collections, the 7.0% growth rate over FY 2014, and the amount that should have been collected for the fiscal year (8.1%). He identified the following columns highlighted in green: the fiscal year-to-date forecast for FY 2015; forecast percent change; and the dollar difference between the forecast and the actual collections. For example, Sales and Use Tax revenue was up slightly by \$853,000. He said the Percentage Fees Tax revenue was running quite a bit behind forecasts at this point, but was based off only three months of collections. He said gaming percentage fees are fairly volatile and can swing quite a bit from month-to-month. He implied that the forecast may need to come down a bit because the FY 2015 year-to-date collections are \$19 million below the

forecast, and collections were also below in FY 2014. Mr. Reel said that it was probable that Live Entertainment Tax (LET) was offsetting some of the losses in Percentage Fees Tax revenue, because LET was running ahead of forecast by approximately \$1.2 million. Overall, the total major General Fund revenues were down approximately \$17.5 million; the select minor revenues were running above forecasts by approximately \$2 million; and the all-other revenue forecasts were slightly ahead by approximately \$2.7 million. Mr. Reel reported that total General Fund revenues were down \$12.8 million; but reminded the members that collections consisted of one to three months of monthly collections and no quarterly results. He noted that it was early in the fiscal year, and that the numbers would change quite a bit throughout the fiscal year.

In closing, Mr. Reel brought attention to TABLE 3 (page 97, [Exhibit A](#)) that showed estimates of the amount of revenue that was expected to be collected for the remainder of FY 2015, as well as the actual remainder for FY 2014.

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

***Michael Nakamoto, Deputy Fiscal Analyst, Fiscal Analysis Division,
Legislative Counsel Bureau***

Beginning on page 105 ([Exhibit A](#)), Mr. Nakamoto presented the Report of the Forecast Accuracy of the Economic Forum for Selected Revenues. The report is prepared annually by the Fiscal Analysis Division, and is updated to include the latest fiscal year. He said the report's data was current through the end of FY 2014, and that it was an extension to the materials presented under Agenda Item XIV. The forecast error report compares the Economic Forum's forecast performance to actual revenue collections, and includes forecasts made by the Fiscal Analysis Division, the Budget Office, the Agency, and Moody's Analytics (outside forecaster). The selected major revenues covered in this report comprise the State 2.0% Sales Tax; Gaming Percentage Fees; Insurance Premium Tax; Live Entertainment Tax, also known as the Casino Entertainment Tax; Cigarette Tax, which previously was a major revenue source and is now considered a minor revenue source; Modified Business Tax, both non-financial and financial; and the Real Property Transfer Tax, as well as the total General Fund. Mr. Nakamoto explained that the information contained within this report showed the total amount of revenue that was generated, and the positive or negative percent error by which each of the forecasters missed the forecast. A positive figure meant the actual amount collected was higher than the forecast, and a negative amount meant the forecast was higher than what was actually collected.

Mr. Nakamoto recalled Mr. Guindon's observation of how close the Forum's May 2013 forecast came to the actual collections in FY 2014. To elaborate, he referred the committee to page 129 ([Exhibit A](#)), which displayed statistics for the total General Fund by Forecaster. He said the closest the Economic Forum ever came to zero, in terms of its percent forecast error, was in FY 1998 when the 1-year ahead forecast done in May 1997 resulted in -1.7%. By comparison, he pointed out that in FY 2014, the 1-year

ahead forecast done in May 2013 resulted in a percent forecast error of -1.9% (page 130, [Exhibit A](#)).

In terms of the average percent error rate, Mr. Nakamoto guided the members to the bottom of page 130 ([Exhibit A](#)). The table showed that the Economic Forum's 1-year ahead forecast for May 2013, on average, was within .40% of actual collections. Below that statistic was the absolute average percent error, which does not use negative percentages in its calculation to determine how close from zero the forecast came, regardless of direction. Mr. Nakamoto said the Economic Forum's 1-year ahead forecast, on average, was 4.5% away from the zero target, either in the positive or negative in direction.

Mr. Guindon commented on the considerable amount of information that was contained in the report, and whether anyone cared about it. He said there was an organization that reviewed state forecasting processes, and some of the information they looked for included tracking forecast errors and posting the results as public record. He said Nevada scored high under each of the criteria, and accredited the following processes: forecasts are presented in a public sector; forecasts are revised as necessary; and results on how the forecasts compare to actual collections are tracked and publicly reported.

Chairman Wiles noted there was an analysis done across all 50 states in terms of the quality of each state's budgeting processes, and Nevada was ranked along with four or five other states as having the best forecasting processes in the country. He said those results were something we should all be proud of as members of the Forum.

XVII. PRESENTATION ON HISTORICAL TAXABLE SALES AND GAMING MARKET STATISTICS.

Russell Guindon, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau

Mr. Guindon reported that taxable sales charts and gaming market statistics, considered under this agenda item, were posted on the Forum's website. He said they would not be discussed at this meeting; however, some of the charts would be presented at the November 7, 2014, and December 3, 2014, meetings. He suggested that the Forum members review the charts and familiarize themselves with the data, because it was data used by forecasters to make projections.

Mr. Guindon observed the many questions that revolved around taxable sales at this meeting, and recommended that the members compare the sales charts that were broken down by NAICS codes. He recalled Ms. Rosenthal's question in regard to the decline in quarterly taxable sales in rural counties, and if it was due to mining. He said not only did the mining companies show volatility, but in his opinion, some of the decline was due to the renewable energy projects at the time. He communicated that solar and wind farm projects generated a lot of materials, which generated taxable sales. Additionally, Mr. Guindon called out the sales tax abatement incentive, and implied that

the abatements are a source for generating taxable sales, but they may not be generating sales tax.

Mr. Guindon promoted the gaming charts that compared the slot market versus the gaming market, specifically the charts that broke out baccarat statistics. He accredited Mr. Maddox, Vice Chairman of the Economic Forum, for the implementation of those charts. He said it was interesting to see the role that baccarat was playing. He said baccarat was such an important part of gaming revenue, but it was a high variance game with a lot of credit activity behind it.

XX. PUBLIC COMMENT

There was no public comment at either location.

XXI. ADJOURNMENT

The meeting was adjourned at 1:54 p.m.

Respectfully submitted,

Judy Lyons, Committee Secretary

Becky Lowe, 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.