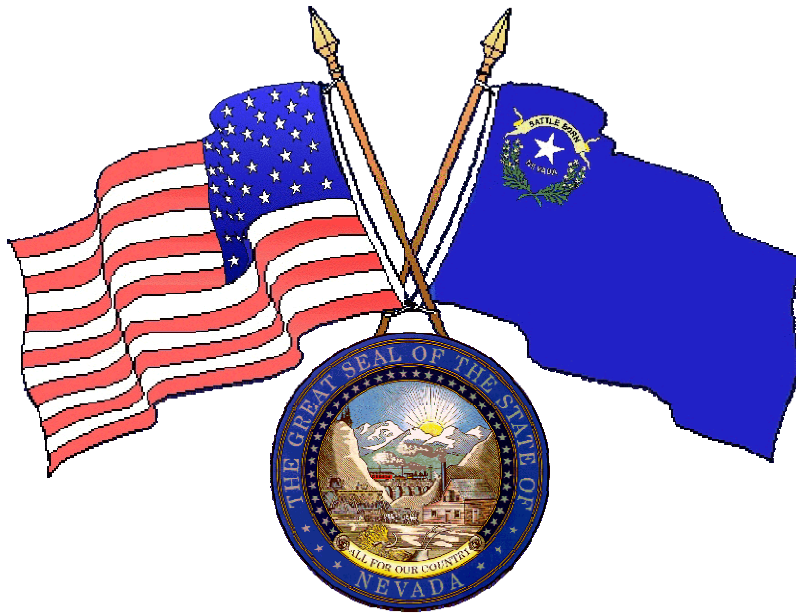


STATE OF NEVADA
ECONOMIC FORUM



FORECAST OF FUTURE
STATE REVENUES

December 1, 2008

THE STATE OF NEVADA ECONOMIC FORUM

Cathy Santoro, Chairwoman
John Restrepo, Vice Chairman
Mike Alastuey
Bill Hartman
Linda Rosenthal



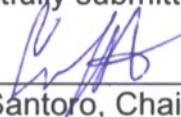
December 1, 2008

The Honorable Jim Gibbons
Governor of Nevada
Capitol Building
Carson City, Nevada 89701-4747

Dear Governor Gibbons:

Enclosed is the Economic Forum's report on future state revenues prepared pursuant to Nevada Revised Statutes 353.228. This report, which must be presented by December 1, 2008, includes a description of the purpose of the Economic Forum, the methodology employed in arriving at the estimated General Fund revenues, economic assumptions and the final revenue projections. As required by statute, the Economic Forum plans to revisit these projections before May 1, 2009, to determine if any adjustment is necessary.

Respectfully submitted,



Cathy Santoro, Chairwoman
State of Nevada Economic Forum



John Restrepo, Vice Chairman



Mike Alastuey



Bill Hartman



Linda Rosenthal

Enclosure

THE STATE OF NEVADA ECONOMIC FORUM

Cathy Santoro, Chairwoman
John Restrepo, Vice Chairman
Mike Alastuey
Bill Hartman
Linda Rosenthal



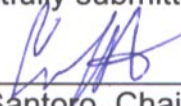
December 1, 2008

Members of the 75th Legislature
Legislative Building
Capitol Complex
Carson City, Nevada 89701-4747

Dear Nevada Legislator:

Enclosed is the Economic Forum's report on future state revenues prepared pursuant to Nevada Revised Statutes 353.228. This report, which must be presented by December 1, 2008, includes a description of the purpose of the Economic Forum, the methodology employed in arriving at the estimated General Fund revenues, economic assumptions and the final revenue projections. As required by statute, the Economic Forum plans to revisit these projections before May 1, 2009, to determine if any adjustment is necessary.

Respectfully submitted,


Cathy Santoro, Chairwoman
State of Nevada Economic Forum


John Restrepo, Vice Chairman


Mike Alastuey


Bill Hartman


Linda Rosenthal

Enclosure

**REPORT TO THE GOVERNOR
AND THE LEGISLATURE ON
FUTURE STATE REVENUES**

December 1, 2008

Senate Bill 23 (1993) provided for the creation of an Economic Forum to forecast future state General Fund revenues. The Forum, a panel of five representatives from the private sector with backgrounds in economics, business, and taxation, is required to adopt an official forecast of unrestricted General Fund revenues for the biennial budget cycle. All agencies of the state, including the Governor and the Legislature, must use the Forum's forecast. A seven-member Technical Advisory Committee made up of Executive and Legislative Branch staff members as well as a representative of local government was also created in S.B. 23 to provide whatever assistance and resources the Forum required.

The Forum must present its forecast to the Governor and the Legislature by December 1, 2008, and any required revisions by May 1, 2009. This report includes forecasts of unrestricted General Fund revenues for Fiscal Years 2008-09, 2009-10 and 2010-11.

Methodology and Procedures

The Governor appointed the five members of the Economic Forum in 2008 for a two-year term. These appointments include two members nominated by the leadership of the Senate and Assembly. The Forum has since met in open meeting three times between October 2, 2008, and December 1, 2008, to complete its assigned responsibilities and duties regarding the approval of forecasts of unrestricted General Fund revenues for Fiscal Years 2008-09, 2009-10, and 2010-11.

The first meeting of the Forum on October 2, 2008, was devoted to organizing and reviewing the assigned task; reviewing previous forecasts and outcomes; reviewing how the forecasts were prepared by the different forecasters; and determining a course of action for future meetings. At that time, the Forum directed the Technical Advisory Committee to prepare independent forecasts for those revenues normally projected by individual state agencies, the Budget Division of the Department of Administration and the Fiscal Analysis Division of the Legislative Counsel Bureau. The Forum also requested that the economic assumptions underlying the projections for major revenues be provided. In addition, the Forum solicited information from others known to develop such data and asked for commentary from economic experts not directly involved in the forecasting process.

In response to this request, the Budget Division and the Fiscal Analysis Division provided projections and economic analyses for seven major General Fund revenues at the second meeting of the Forum on November 3, 2008. The Department of Taxation and the Gaming Control Board also provided projections and economic analyses concerning the major revenues they have the responsibility to collect. The Forum also received forecasts of all minor General Fund revenues developed by the Technical Advisory Committee for its review and consideration.

In addition to the state agency information, the Economic Forum received forecasts of gaming percentage fees and sales taxes and state and national economic analysis from Global Insight, an economic and information consulting firm under contract with the state. Other public and private experts provided various economic analyses to the Forum on the current and future outlook for the state's employment and housing situation. This process allowed the Forum to review results from a variety of econometric models and other analytical approaches to revenue estimation. The Economic Forum reviewed the forecast information and developed a preliminary forecast of General Fund revenues and requested that updated forecasts and information be provided at the meeting on December 1, 2008.

At its December 1, 2008, meeting, the Economic Forum received the updated economic and revenue information from the state agencies, the Technical Advisory Committee, Global Insight and others to produce the binding forecast of all unrestricted General Fund revenue. A copy of that forecast is attached. A final meeting of the Forum will be scheduled on or before May 1, 2009, to make any necessary revisions to the December 1, 2008, forecast.

Economic Review: 2004 – 2007

Following several years of economic expansion, the U.S. economy began showing signs of weakness in 2005 and 2006 as the anticipated correction in the housing market was beginning to take shape. A review of recent economic performance reveals the declines experienced across many sectors of the economy as the negative effects of the housing market turned out to be more severe and widespread than expected. Table 1 highlights the annual growth in select U.S. and Nevada economic indicators.

TABLE 1. ANNUAL GROWTH IN ECONOMIC INDICATORS
CALENDAR YEARS 2004 - 2007

	2004	2005	2006	2007
<u>U.S.</u>				
Real GDP	3.6%	2.9%	2.8%	2.0%
Employment (Total Nonfarm)	1.1%	1.7%	1.8%	1.1%
Wage Growth	2.6%	5.5%	5.1%	6.3%
Personal Income	6.1%	5.6%	7.1%	6.0%
Consumer Price Inflation	2.7%	3.4%	3.2%	2.9%
Energy	10.8%	17.0%	11.0%	5.6%
Housing Starts	5.2%	6.3%	-12.6%	-26.0%
Oil (\$ per barrel)	\$41	\$57	\$66	\$72
<u>Nevada</u>				
Employment (Total Nonfarm)	5.9%	6.1%	4.6%	1.0%
Personal Income	12.7%	12.2%	7.2%	5.4%
Wage Growth	7.7%	11.5%	10.7%	8.1%
Las Vegas Visitors	5.2%	3.2%	0.9%	0.7%

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Nevada Department of Employment, Training and Rehabilitation, Las Vegas Convention and Visitor Authority

Real Gross Domestic Product (GDP) growth slowed to 2.0 percent in 2007, marking the third consecutive year of decline in the rate of growth following the peak of 3.6 percent growth reached during the previous expansion. Employment and wage growth played

major roles during this expansion through 2005, and although employment growth slowed from 2006 to 2007, wage growth remained strong, reaching 6.3 percent in 2007 despite the slowing economic conditions. Growth in total employment slowed to 1.1 percent in 2007 from 1.8 percent in 2006 driven by job losses in the construction industry as a result of the steep decline in housing starts. The struggling auto industry in the Midwest states also contributed to lower employment growth.

In 2005 the Consumer Price Index (CPI), which measures the increase in consumer prices, had increased to 3.4 percent and inflation driven by high energy prices was seen as a major concern. Inflationary pressures subsided to some extent during 2006 and the first half of 2007 and provided a nice compliment to increases achieved from wages. The CPI declined slightly to 2.9 percent in 2007, driven mainly by a drop in energy costs. The portion of the CPI that measures electricity, gasoline and other fuel prices, spiked 10.6 percent in 2005 due to supply disruptions caused by the damage to Gulf Coast refineries in the wake of Hurricane Katrina before falling to just 3.0 percent in 2007. However, during the second half of 2007 this component of the index increased to 4.3 percent and contributed to increases in the index for food, which averaged 4.5 percent during the second half of 2007.

On a national level, signs of a slowing housing market – marked by high inventories, falling prices, and increases in foreclosure rates – began showing in late 2006, with expectations of a soft landing and eventual recovery beginning in 2008. The expectations of a minor market correction gave way to a more prolonged and pronounced decline during 2007, as prices and demand continued to decline at rates that suggested that the eventual landing would be harder and deeper than initially believed.

At the same time that demand and prices were decreasing, pressure on homeowners increased, particularly among those borrowers who had obtained subprime loans. By the middle of 2007, new records were being set for mortgages entering foreclosure, straining (and, in some cases, breaking) mortgage companies and banks nationwide. The financial troubles of mortgage companies dealing in subprime lending quickly spread throughout the financial industry, as more and more financial institutions were

affected by the widespread increase in defaults and delinquencies. The effect of these foreclosures on the financial industry had, by the end of 2007, manifested into additional issues – devaluation of bank assets, liquidity risks, and inaccessibility to credit for both businesses and individuals, among others – that have permeated the economy (in the U.S. as well as worldwide) at virtually all levels.

New home builders, who had benefited greatly from the nationwide housing booms of the early 2000s, were faced with excessive inventories and reduced demand as the market decline continued. New home construction, which began its declines in 2006, continued to decline throughout 2007, as total starts descended toward the one million level nationwide.

TABLE 2: SELECTED HOUSING MARKET STATISTICS
CALENDAR YEARS 2004 - 2007

	2004	2005	2006	2007
New Housing Starts (% change)	5.2%	6.3%	-12.6%	-26.0%
Average New House Price (% change)	11.4%	6.8%	4.7%	1.7%
Sales of New Single-Family Homes (% change)	10.1%	6.5%	-18.0%	-26.8%
Average Existing House Price (% change)	9.0%	9.5%	1.3%	-2.1%
Sales of Existing Single-Family Homes (% change)	8.6%	4.5%	-7.7%	-13.1%
New Single-Family Mortgage Loans (% change)	28.7%	7.2%	-2.4%	-34.4%
Outstanding Single-Family Mortgages (% change)	14.5%	13.4%	11.5%	6.8%

Sources: Global Insight, National Association of Realtors, Office of Federal Housing Enterprise Oversight, US Census Bureau

During much of the past decade, Nevada has enjoyed the status of being the fastest growing state in the nation with economic activity that has generally outpaced the national average. During 2004 and 2005, Nevada’s total employment grew four to five times faster than national employment, and similarly, wages grew at twice the rate of national wage growth. Given the state’s rapid population growth, much of the success in the Nevada economy over the past decade has been attributed to the phenomenal growth associated with residential and non-residential construction. As a result, when economic conditions began to deteriorate with the collapse of the housing market, Nevada became one of the hardest hit states in the country in terms of foreclosure rates and the loss of jobs in the construction sector. Nevada employment growth slowed considerably in 2007 to 1.0 percent and fell slightly below the national average of 1.1 percent.

Nevada's economy was further impacted by the sharp decline in the growth rate of visitors to Las Vegas, as reported by the Las Vegas Convention and Visitors Authority, which fell from 5.1 percent in 2004 to just 0.7 percent in 2007. For the most part, Nevada's tourism sector and the overall economy has shown considerable resiliency to previous downturns in the national economy, but the state's ability to overcome the additional negative effects of the struggling state economy as well was proving to be a more difficult challenge.

Worsening Economic Conditions Spread Globally in 2008

By the third quarter of 2008, the housing market correction created a crisis in the financial markets as double-digit increases in mortgage foreclosure rates related primarily to subprime home loans put a freeze on the availability of credit and contributed to significant declines in the stock market. By the third quarter of 2008, the crisis had reached acute levels with the failures of prominent financial institutions and banks worldwide, such as Lehman Brothers and American International Group (AIG), largely caused by loss of confidence by investors in mortgage-backed securities that resulted in a liquidity crisis for these firms.

In response to this crisis, the U.S. government began plans to use public money to stabilize the financial system, after having already provided direct economic stimulus to consumers earlier in the year through income tax rebates. On October 3, Congress passed (and President Bush signed) the Emergency Economic Stabilization Act of 2008, which authorized the U.S. Treasury Department to inject as much as \$700 billion into the financial system through purchases of mortgage-backed securities and loans to banks. As of the present, however, much of the details as to how to distribute the money pledged by this Act into the Troubled Assets Relief Program have yet to be determined.

Consideration has been given by President-elect Barack Obama as to the usage of public money for additional economic stabilization in 2009, with the potential for money to be available for other industries in need of financial help, such as the automotive industry.

Despite the uncertainties in the financial market, real GDP has continued to grow through 2008, with an average annual increase of 4.4 percent for the first two quarters of the year. Quarter-to-quarter real GDP growth, which has been at or near 1.0 percent for the first two quarters of the year, is expected to be negative for the last two quarters of 2008 and the first two quarters of 2009 – a signal that economic recovery may not be imminent, even with the influx of government spending that has been authorized in the latter half of this year.

Housing

By late 2007, most experts observing the decline in the housing market through that year stated that the market, rather than beginning to recover in 2008, would continue its decline through the new year. These predictions have proven thus far to be true, as housing starts, sales, and prices have continued to decline through the first three quarters of 2008. These declines have been fueled, in part, by a continued increase in the number of foreclosures and a tightening of the credit market that has made it far more difficult to purchase a home than it was earlier in the decade.

Nationwide, total existing single-family housing sales are expected to decline from slightly less than 5 million units in 2007 to 4.3 million units in 2008. This decrease in demand is also expected to have a negative effect on prices, with the average existing house price in the U.S. declining 8.5 percent, from \$263,800 in 2007 to \$241,300 in 2008.

The decline in new home starts that was evident in 2007 has also continued into 2008 as the market has attempted to clear an excess of existing inventory. Total single-family housing starts in the U.S. are expected to be approximately 628,000 in 2008, down from slightly more than 1 million in 2007. This decrease in supply, along with the national decrease in demand for the purchase of housing, has also led to a decline in new house prices. The average new house price nationwide is expected to be \$289,300 in 2008, a 6.3 percent decline from the average price of \$308,800 in 2007.

In Nevada, declines in home starts, sales, and prices that have been at or above the national levels have been further complicated in 2008 by an extremely high level of foreclosures. According to the national real estate firm RealtyTrac, Nevada led the nation in the number of foreclosures for the 22nd consecutive month in October 2008, with one filing for every 74 homes in the state.

Inflation

In late 2007 and early 2008 rapidly increasing gas prices contributed to higher prices for food and other consumer goods and services due to increased transportation costs. Through the first three quarters of 2008, consumer inflation averaged 4.6 percent while the component of the CPI that measures electricity, gasoline and other fuel prices averaged 10.2 percent during the same period.

Average crude oil prices, as measured by the West Texas Intermediate Spot rate, rose from an average of \$75 a barrel in the third quarter of 2007 to an average of more than \$123 a barrel in the third quarter of 2008, with daily spot prices reaching above \$140 a barrel at times. Increased worldwide demand relative to supply combined with political events and conflicts in some of the oil producing regions contributed to the run up in oil prices. Gas prices rose from \$2.50 per gallon in the second quarter of 2007 to well above \$4.00 per gallon during the summer months of 2008. As a result of the collapse in the housing market, the uncertainty related to the credit and financial markets combined with the increasing gas prices, overall conditions in the U.S. and the global economy began to deteriorate more rapidly.

The depressed economic conditions helped to reduce the demand for oil, which contributed to declines in prices for gas and other consumer goods during the third and fourth quarters of 2008. Consumer prices dropped significantly as a result of the lower gas prices and retailers drastically cut prices in an effort to attract customers faced with increasing unemployment and overall poor economic conditions. Consumer prices experienced the largest one-month decline in 61 years by dropping 1.0 percent between September and October of 2008. This significant decline in prices actually raised discussion about the possibility of experiencing deflation which hasn't occurred since

the Great Depression. The high gas prices experienced during the summer months of 2008 fell to below \$2.00 per gallon by the middle of the fourth quarter.

Employment

U.S. employment continued to contract in 2008, with a decline of 1.2 million jobs over the first ten months of the year. Employment growth remained in positive territory through the first five months of 2008, growing at 0.4 percent compared to the same period in 2007. Employment growth turned negative in June 2008 for the first time since November 2003, declining by an average of 0.4 percent from June through October compared to the same period in 2007. The steepest employment declines continued to appear in the construction industry, which posted its 19th consecutive month of negative growth in October 2008 with a decline of 6.5 percent compared to October 2007. The manufacturing and retail sectors also posted year-over-year declines of 3.8 percent and 1.8 percent, respectively, in October 2008. The unemployment rate rose to 6.5 percent in October 2008, which marks the highest unemployment rate since June 2003. Wage growth slowed considerably to 3.4 percent in the first three quarters of 2008 compared to the previous year.

Following the national trend, total nonfarm employment in Nevada had declined by 0.2 percent through the second quarter of 2008 compared to the same period a year ago, while growth in wage disbursements had also slowed to 4.3 percent during the same period. Total employment in Nevada continued to trend downward with a decline of 0.4 percent in the third quarter 2008 compared to the third quarter 2007. The unemployment rate, which had bottomed out at just above 4.0 percent in the second quarter of 2006, stood at 7.6 percent in October 2008, marking its highest level since May 1985. Given the overall weakness in the national economy and reduced levels of tourism, the weakness in Nevada's labor markets is anticipated to continue through the third quarter of 2010.

Consumer Spending

Consumer spending, which had held steady through 2007, began to decline in 2008 as a result of growing mortgage burdens and increases in energy costs. The average cost of a gallon of gas nationwide, which began the year at under \$3.00 per gallon, continued its increase throughout the year, surpassing \$4.00 per gallon by the middle of the year.

To attempt to ward off a recession, President George W. Bush, on February 12, signed the Economic Stimulus Act, which provided a rebate check of up to \$1,800 to qualifying persons filing a federal tax return. The rebates, which were distributed beginning in late April, had minimal effect, as real consumer spending increased by only 1.2 percent during the second quarter of 2008.

The effects of the economic stimulus were also short-lived, as real consumer spending for the third quarter of 2008 was expected to decrease by 3.2 percent. Though gasoline prices had significantly declined during September and October (to a nationwide average below \$2.00 per gallon), declining home equities and increased joblessness, coupled with expectations of deflation occurring well into 2009, have led to declines in consumer spending not seen since the recession of 1990-91.

Economic Outlook: 2007 - 2009

National forecasts prepared by Global Insight predict that economic growth, as measured by the growth in inflation-adjusted Gross Domestic Product (real GDP), show a deepening recession as the federal government and the Federal Reserve attempt to deal with the financial crisis and unfreeze credit markets. Based on its November 2008 outlook, Global Insight forecasts that real GDP will decrease for three consecutive quarters from the fourth quarter of 2008 through the second quarter of 2009 after decreasing by 0.3 percent in the third quarter of 2008. Real GDP is forecast to decrease by 1.0 percent in calendar year 2009, increase by only 1.7 percent in 2010 and increase by 3.1 percent in 2011 as the economy begins to recover from the impacts of the financial crisis of 2008 and 2009.

Inflation, which was considered a problem in the summer and fall of 2008 as oil and gas prices increased, is no longer a major concern at the end of 2008 and into 2009 and 2010. In fact, Global Insight is actually expecting a deflationary environment in the first half of 2009 with the Consumer Price Index projected to decline by 0.9 percent in calendar year 2009.

However, conditions are expected to start to improve slightly by the end of calendar year 2009, when the economy is expected to turn. Real GDP growth is expected to increase by 1.0 to 2.0 percent in the fourth quarter of 2009 and first quarter of 2010 and increase in the 2.0 to 3.0 percent range from the second quarter of 2010 through middle of calendar year 2011. However, employment levels will remain subdued as they are forecast to increase by only 0.1 percent in 2010 and 1.4 percent in 2011 after a projected decline of 1.5 percent in 2009. Table 3 shows some highlights from Global Insight's November 2008 U.S. baseline forecast.

TABLE 3. GLOBAL INSIGHT U.S. FORECASTS - BASELINE SCENARIO
CALENDAR YEARS 2008 - 2011

	2008	2009	2010	2011
Real Gross Domestic Product (% Change)	1.3%	-1.0%	1.7%	3.1%
Consumer Price Index (% Change)	3.9%	-0.9%	2.4%	3.0%
Housing Starts (% Change)	-30.9%	-22.9%	51.4%	28.2%
Personal Income (% Change)	4.2%	2.1%	2.4%	4.6%
Employment (% Change)	-0.1%	-1.5%	0.1%	1.4%
Unemployment Rate	5.7%	7.7%	8.2%	7.8%
3-month Treasury Bill Rate	1.5%	0.9%	1.8%	4.0%
10-year Treasury Note Yield	3.8%	3.6%	3.9%	5.1%

There is a degree of uncertainty associated with any forecast, but perhaps this point is especially true given the current economic and political environment. Global Insight assigns a 60 percent probability to the baseline scenario prepared in November 2008 portrayed in Table 3. Global Insight also believes that there is a 25 percent probability that economic conditions in the next three years could be worse than those described in the baseline forecast. In its pessimistic forecast, real GDP growth would fall by 2.4 percent in 2009 and increase by only 0.3 percent in 2010. The deflationary environment would become more severe with the Consumer Price Index falling by 2.0 percent in 2009. Employment is projected to decline in both 2009 and 2010 before

recovering slightly in 2011. Table 4 shows some highlights from Global Insight's pessimistic scenario.

TABLE 4. GLOBAL INSIGHT U.S. FORECASTS - PESSIMISTIC SCENARIO
CALENDAR YEARS 2008 - 2011

	2008	2009	2010	2011
Real Gross Domestic Product (% Change)	1.3%	-2.4%	0.3%	2.9%
Consumer Price Index (% Change)	3.8%	-2.0%	2.2%	4.2%
Housing Starts (% Change)	-31.7%	-27.2%	36.9%	30.4%
Personal Income (% Change)	4.2%	1.1%	0.5%	4.5%
Employment (% Change)	-0.1%	-2.1%	-0.9%	1.1%
Unemployment Rate	5.7%	8.2%	9.2%	8.8%
3-month Treasury Bill Rate	1.5%	0.5%	2.0%	5.0%
10-year Treasury Note Yield	3.7%	3.1%	3.9%	5.9%

Global Insight believes that there is a 15 percent probability that the recession could be milder due to the Federal Reserve's aggressive response to the financial markets crisis and the federal government's fiscal assistance and stimulus programs. In its optimistic forecast, real GDP does not decrease in 2009, but only increases by 0.4 percent. Additionally, the recovery is more robust with real GDP increasing by 2.8 percent in 2010, compared to 1.7 percent in the baseline scenario, but the outlook for growth in 2011 is relatively unchanged from the baseline forecast. Table 5 shows some highlights from Global Insight's optimistic scenario.

TABLE 5. GLOBAL INSIGHT U.S. FORECASTS - OPTIMISTIC SCENARIO
CALENDAR YEARS 2008 - 2011

	2008	2009	2010	2011
Real Gross Domestic Product (% Change)	1.4%	0.4%	2.8%	3.1%
Consumer Price Index (% Change)	3.9%	0.1%	2.9%	2.6%
Housing Starts (% Change)	-30.6%	-7.3%	53.6%	22.9%
Personal Income (% Change)	4.2%	3.5%	4.4%	5.0%
Employment (% Change)	-0.1%	-0.2%	1.4%	1.4%
Unemployment Rate	5.7%	7.1%	6.9%	6.5%
3-month Treasury Bill Rate	1.5%	1.2%	2.1%	3.7%
10-year Treasury Note Yield	3.8%	4.0%	4.1%	4.8%

The economic outlook for Nevada will be affected by the state of the national economy and global economic conditions. In general, Nevada has weathered past negative economic events better than the national average. However, Nevada is at the forefront

of the current economic downturn due to both internal and external impacts on the Nevada economy from the state's own housing and financial problems and the national economic and financial crisis. Unfortunately, Nevada is expected to remain at the forefront of the economic downturn from anticipated negative impacts to the state's residents through a weak employment outlook. Secondly, the state's major economic sector (gaming) and its associated business sectors will continue to be negatively impacted over the forecast horizon due to the prolonged effects of the financial crisis on the state and national economy. Table 6 shows some highlights from Global Insight's November 2008 Nevada Forecast.

TABLE 6. GLOBAL INSIGHT NEVADA FORECASTS
CALENDAR YEARS 2008 - 2011

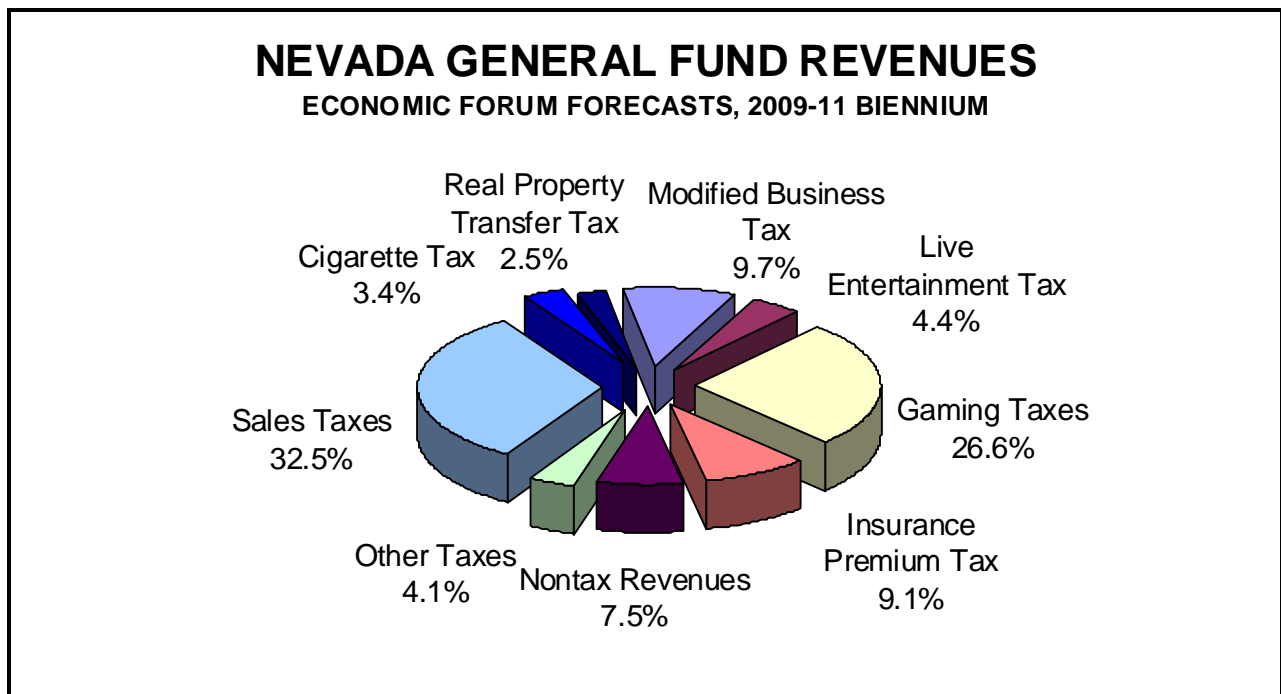
	2008	2009	2010	2011
Housing Starts (% Change)	-29.5%	-33.6%	26.3%	33.7%
Personal Income (% Change)	3.9%	1.0%	1.4%	4.0%
Employment (% Change)	-0.5%	-2.2%	-0.5%	1.1%
Construction (% Change)	-9.0%	-12.6%	-9.1%	-0.9%
Retail (% Change)	1.7%	-2.4%	2.5%	-1.0%
Accommodation & Food Service (% Change)	-0.1%	-0.7%	-0.7%	0.0%
Unemployment Rate	6.5%	7.4%	7.1%	6.7%

Although Nevada's economy stands to benefit from the major construction projects currently in progress, the potential net direct and indirect impacts may be less than previous construction expansions and new casino openings in terms of employment and visitor growth. The MGM Mirage's Project City Center, Fontainebleau Resort, and the Cosmopolitan Resort, all currently under construction, are scheduled to open in late 2009. Due to current financial conditions, other projects under construction have been halted and others have been delayed or scaled back. Although these construction projects provide important construction jobs, the current situation in the residential and commercial construction market provides for a much weaker construction employment situation than historically recorded during previous casino construction cycles. In fact, construction employment is projected to continue to decline over the next three years, based on Global Insight's November 2008 forecast for Nevada.

Given the outlook for the state and national economy over the forecast horizon, there is significant uncertainty regarding the ability to attract adequate levels of visitors to support the additional rooms and gaming capacity that will be added to the market in late 2009 and early 2010. It is anticipated that the net expansion in jobs in the retail, accommodation and food service, and related employment sectors will be much less than historically observed. Based on the Global Insight's November 2008 outlook for Nevada, employment related to the accommodation and food service sector (which includes casino hotels) is projected to decline slightly or remain flat over the next three years. Although projected to increase by 2.5 percent in 2010, employment in retail trade is forecast to decline in both 2009 and 2011.

Total General Fund Revenues

Total Nevada General Fund revenues are forecast at \$2.8 billion for FY 2009-10 and \$2.9 billion for FY 2010-11. The 2009-2011 biennial total of \$5.7 billion is 3.0 percent lower than the revised revenue estimate of \$5.8 billion for the 2007-2009 biennium.



As you will note in the above chart, gaming taxes are forecast to provide 26.6 percent of all General Fund revenues during the 2009-2011 biennium, an increase from the 26.1 percent now estimated for the current biennium. Sales tax collections are forecast

to provide 32.5 percent of all General Fund revenues during the 2009-2011 biennium, an increase from the 32.4 percent now estimated for the current biennium. More detailed information on specific revenues in addition to gaming and sales taxes is available in the accompanying table.

Sales Taxes

Sales taxes have been forecast consistent with decreased consumption due to decreased employment and slowing tourism activity. Sales tax collections are forecast to reach \$883.1 million in FY 2008-09, an 8.6 percent decrease from FY 2007-08 levels. Sales taxes are expected to increase by 0.5 percent in FY 2009-10 and increase by 3.0 percent in FY 2010-11. These forecasts result in projected total sales tax receipts of \$1.8 billion during the 2009-2011 biennium.

Gaming Percentage Fee Taxes

Total gaming percentage fee tax revenues are forecast to reach \$677.4 million in FY 2008-09, a decrease of 12.1 percent from actual FY 2007-08 collections. From this base, gaming taxes are estimated to increase by 3.2 percent in FY 2009-10 and increase by 5.0 percent in FY 2010-11 to yield revenues of \$1.4 billion for the General Fund during the 2009-2011 biennium.

GENERAL FUND REVENUES - ECONOMIC FORUM DECEMBER 1, 2008 FORECAST
ACTUAL: FY 2005 THROUGH FY 2008 AND FORECAST: FY 2009 THROUGH FY 2011
ECONOMIC FORUM'S FORECAST FOR FY 2009, FY 2010, AND FY 2011 APPROVED AT THE DECEMBER 1, 2008 MEETING

December 1, 2008 - 4:00 PM

DESCRIPTION	FY 2005	FY 2006	FY 2007	FY 2008	DECEMBER 1, 2008 ECONOMIC FORUM FORECAST		
	ACTUAL	ACTUAL	ACTUAL	ACTUAL [a.]	FY 2009	FY 2010	FY 2011
	%	%	%	%	%	%	%
	Change	Change	Change	Change	Change	Change	Change
TAXES							
TOTAL MINING TAXES	\$16,449,304	\$19,661,886	\$27,698,719	\$35,131,075	\$33,600,000	\$28,100,000	\$26,600,000
TOTAL SALES AND USE TAX [1-FY04]	15.6%	19.5%	40.9%	26.8%	-4.4%	-6.4%	-5.3%
TOTAL GAMING TAXES [2-FY04][3-FY04][1-FY06]	4.9%	10.0%	1.6%	-3.4%	-8.6%	0.5%	3.0%
CASINO/LIVE ENTERTAINMENT TAX [4a-FY04][4b-FY04][2-FY06]	20.9%	8.6%	2.5%	-6.4%	-11.0%	3.3%	3.9%
INSURANCE PREMIUM TAX	11.1%	10.5%	13.1%	-0.5%	-4.5%	3.1%	5.7%
LIQUOR TAX [5-FY04]	7.5%	10.8%	9.0%	-1.0%	-1.8%	0.5%	2.9%
CIGARETTE TAX [6-FY04]	6.1%	5.2%	4.2%	1.3%	-0.4%	1.7%	2.4%
OTHER TOBACCO TAX [7-FY04]	9.1%	8.2%	-1.4%	-2.3%	-8.7%	1.5%	1.7%
LAETRIELE & GEROVITAL MFG.			8.1%		1.0%		
HECC TRANSFER							
BUSINESS LICENSE FEE [8-FY06][3-FY06][4-FY06]							
BUSINESS LICENSE TAX [9-FY04]							
MODIFIED BUSINESS TAX							
MBT-NONFINANCIAL [10-FY04][5-FY06][6-FY06]							
MBT-FINANCIAL [11-FY04][5-FY06]							
BRANCH BANK EXCISE TAX [12-FY04][7-FY06]							
REAL PROPERTY TRANSFER TAX [13-FY04][8-FY06]							
TOTAL TAXES	14.1%	10.5%	2.1%	-4.1%	-7.8%	0.8%	3.2%
LICENSES							
INSURANCE LICENSES							
BANKING LICENSES [16-FY04]							
MARRIAGE LICENSES							
TOTAL SECRETARY OF STATE [14-FY04]							
PRIVATE SCHOOL LICENSES							
PRIVATE EMPLOYMENT AGENCY							
TOTAL REAL ESTATE [15-FY04][16-FY04]							
TOTAL FINANCIAL INSTITUTIONS [16-FY04]							
ATHLETIC COMMISSION FEES							
TOTAL LICENSES	10.7%	19.0%	0.3%	0.6%	-2.9%	1.1%	1.3%
FEES AND FINES							
VITAL STATISTICS FEES [17-FY04]							
DIVORCE FEES							
CIVIL ACTION FEES							
INSURANCE FEES							
MEDICAL PLAN DISCOUNT REGISTRATION FEES							
TOTAL REAL ESTATE FEES							
SHORT-TERM CAR LEASE							
ATHLETIC COMMISSION LICENSES/FINES							
WATER PLANNING FEES							
STATE ENGINEER SALES							
SUPREME COURT FEES							
MISC. FINES/FORFEITURES							
TOTAL FEES AND FINES	6.2%	7.1%	10.5%	2.0%	-6.6%	-1.9%	4.8%
USE OF MONEY AND PROPERTY							
LYON COUNTY REPAIRMENTS							
OTHER REPAIRMENTS [18-FY04]							
MARLETTE REPAIRMENT							
INTEREST INCOME							
TOTAL USE OF MONEY AND PROPERTY	141.2%	142.5%	58.9%	10.1%	-65.9%	-67.7%	83.9%
OTHER REVENUE							
HOOVER DAM REVENUE							
MISC. SALES AND REFUNDS							
COST RECOVERY PLAN							
PETROLEUM INSPECTION FEES							
UNCLAIMED PROPERTY [9-FY06]							
TOTAL OTHER REVENUE	2.1%	1.3%	5.4%	109.6%	-28.8%	-3.7%	-0.1%
TOTAL GENERAL FUND REVENUE	22.2%	11.5%	2.8%	-2.9%	-9.1%	0.2%	3.3%

GENERAL FUND REVENUES - ECONOMIC FORUM DECEMBER 1, 2008 FORECAST
ACTUAL: FY 2005 THROUGH FY 2008 AND FORECAST: FY 2009 THROUGH FY 2011
ECONOMIC FORUM'S FORECAST FOR FY 2009, FY 2010, AND FY 2011 APPROVED AT THE DECEMBER 1, 2008 MEETING

December 1, 2008 - 4:00 PM

DESCRIPTION	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009		FY 2010		FY 2011	
	ACTUAL	% Change	ACTUAL	% Change	ACTUAL	% Change	ACTUAL [a.]	% Change	ACTUAL	% Change	ACTUAL	% Change	ACTUAL	% Change

DECEMBER 1, 2008 ECONOMIC FORUM FORECAST	

NOTES:

[a.] Subject to adjustment based on reconciliation with the Controller's Office and Budget Division

FY 2003-04 (Actual collections are not displayed in the table for FY 2004, but notes were retained as they reflect the tax changes approved by the Legislature during the 2003 Regular and Special Sessions.)

- [1-FY04] A.B. 4 (20th S.S.) reduced the collection allowance provided to the taxpayer for collecting and remitting the sales tax to the state from 1.25% to 0.5%, effective July 1, 2003.
- [2-FY04] S.B. 8 (20th S.S.) increased gross gaming tax rates by 0.5%, 3.0% to 3.5% on monthly revenue up to \$50,000; 4.0% to 4.5% on revenue over \$50,000 and up to \$134,000; 6.25% to 6.75% on revenue exceeding \$134,000, effective August 1, 2003.
- [3-FY04] S.B. 8 (20th S.S.) increased quarterly restricted slot fees by 33%, from \$61 to \$81 per machine, up to 5 machines; from \$106 to \$141 for each machine over 5, up to 15 machines, effective July 22, 2003.
- [4a-FY04] S.B. 8 (20th S.S.) modified types of establishments and entertainment subject to the current 10% Casino Entertainment Tax (CET), effective September 1 to December 31, 2003 [Estimated to generate \$4,982,000 additional collections during 4-month period].
- [4b-FY04] S.B. 8 (20th S.S.) repealed CET and replaced by Live Entertainment Tax (LET); 5% of admissions price, if entertainment is in facility with 7,500 or more seats; 10% of admissions price & food, beverage, and merchandise purchased, if facility has more than 300 and up to 7,500 seats; exempt from the tax if facility is a non-gaming establishment with less than 300 seats and less than 51 slot machines, 6 games, or any combination thereof, effective January 1, 2004.
- [5-FY04] S.B. 8 (20th S.S.) increased liquor taxes by 75%; beer from 9 cents to 16 cents per gallon; liquor up to 14% alcohol from 40 cents to 70 cents per gallon; liquor over 14% and up to 22% alcohol from 75 cents to \$1.30 per gallon; liquor over 22% alcohol from \$2.05 (15 cents for alcohol abuse program, 50 cents to local government, and \$1.40 to state general fund) to \$3.60 per gallon (15 cents for alcohol abuse program, 50 cents to local government, and \$2.95 to state general fund), effective August 1, 2003. [Estimated to generate \$13,873,000 in FY 2004 and \$15,536,000 in FY 2005]. A.B. 4 (20th S.S.) reduced the collection allowance provided to the taxpayer for collecting and remitting the liquor tax to the state from 3% to 0.5%, effective August 1, 2003. [Estimated to generate \$734,000 in FY 2004 and \$822,000 in FY 2005]
- [6-FY04] S.B. 8 (20th S.S.) increased cigarette tax per pack of 20 by 45 cents; from 36 cents per pack (10 cents to Local Government Distribution Fund, 25 cents to state general fund) to 80 cents per pack (10 cents to Local Government Distribution Fund, 70 cents to state general fund), effective July 22, 2003. [Estimated to generate \$63,268,000 in FY 2004 and \$70,047,000 in FY 2005] A.B. 4 (20th S.S.) reduced the collection allowance provided to the taxpayer for collecting and remitting the cigarette tax to the state from 3% to 0.5%, effective August 1, 2003. [Estimated to generate \$2,538,000 in FY 2004 and \$2,884,000 in FY 2005]
- [7-FY04] A.B. 4 (20th S.S.) reduced collection allowance provided to taxpayer for collecting and remitting tax on other tobacco items from 2.0% to 0.5%, effective August 1, 2003.
- [8-FY04] S.B. 8 (20th S.S.) changed the \$25 one-time annual business license fee to an annual fee of \$100, effective July 22, 2003.
- [9-FY04] S.B. 8 (20th S.S.) repealed the current quarterly \$25 per employee tax when the Modified Business Tax comes online, effective October 1, 2003. [See Notes 10 and 11]
- [10-FY04] S.B. 8 (20th S.S.) imposes tax on gross payroll of a business less a deduction for health care provided to employees, effective October 1, 2003. Tax rate is 0.70% in FY 2004 and 0.65% in FY 2005.
- [11-FY04] S.B. 8 (20th S.S.) imposes tax of 2.0% on gross payroll of a financial institution less a deduction for health care provided to employees, effective October 1, 2003.
- [12-FY04] S.B. 8 (20th S.S.) imposes excise tax on each bank of \$7,000 per year (\$1,750 per quarter) on each branch office, effective January 1, 2004.
- [13-FY04] S.B. 8 (20th S.S.) imposes tax of \$1.30 per \$500 of value on the transfers of real property, effective October 1, 2003.
- [14-FY04] S.B.2 and A.B. 4 (20th S.S.) makes changes to the rates and structure of the fees collected from entities filing with the Secretary of State's office, effective September 1, 2003 for Securities and UCC fee increases and November 1, 2003 for changes to commercial recording fees.
- [15-FY04] S.B. 428 (2003 Session) increases real estate salesman, broker-salesman, and brokers licensing fees by \$20 for an original license and \$10 for renewal of license (original and renewal license fee varies depending on type of license), effective July 1, 2003.
- [16-FY04] A.B. 493 (2003 Session) established that revenues from fees collected by the Division of Financial Institutions of the Department of Business & Industry will be deposited in a separate fund to pay the expenses related to the operations of the Commissioner of Financial Institutions and the Division of Financial Institutions, effective January 1, 2004. Previously, the revenues from the fees were deposited in the state general fund.
- [17-FY04] A.B. 550 (2003 Session) increased state's portion of the fee for issuing copy of a birth certificate by \$2 and fee for issuing copy of a death certificate by \$1, effective October 1, 2003
- [18-FY04] S.B. 504 (2003 Session) transferred the State Printing Division of the Department of Administration to the Legislative Counsel Bureau and all debt to the state general fund was forgiven, effective July 1, 2003.
- [19-FY04] Beginning in FY 2004, the portion of the fees collected by the Real Estate Testing Fees that belong to the general fund are transferred from Category 28 in BA 3823 to GL-4741 in the General Fund. Previously, the revenue from these fees were

FY 2006

- [1-FY06] S.B. 357 (2005 Session) allocates \$1 per slot machine per quarter in FY 2006 and \$2 per slot machine per quarter in FY 2007 from the quarterly license fee imposed on restricted and nonrestricted slot machines and sunsets effective June 30, 2007. A total of \$822,000 in FY 2006 and \$1,678,000 is projected to be deposited in the Account to Support Programs for the Prevention and Treatment of Problem Gambling. (FY 2006: \$84,666 - restricted; \$737,334 - Nonrestricted and FY 2007: \$172,834 - Nonrestricted; \$1,505,166 -
- [2-FY06] A.B. 554 (2005 Session) lowers the occupancy threshold from 300 to 200, effective July 1, 2005. Estimated to generate \$3,600,000 in FY 2006 and FY 2007.
- [3-FY06] S.B. 3 (22nd S.S.) provides an exemption for entities that have four or fewer rental dwelling units. Estimated to reduce collections by \$2,975,000 in FY 2006 and \$3,060,000 in FY 2007.
- [4-FY06] S.B. 3 (22nd S.S.) allows an entity operating a facility where craft shows, exhibitions, trade shows, conventions, or sporting events to pay the BLF for entities not having a business license as an annual flat fee of \$5,000 or on a \$1.25 times the number entities without a business license times the number days of the show basis. Estimated to generate \$134,420 in FY 2006 and \$158,884 in FY 2007.
- [5-FY06] S.B. 391 (2005 Session) replaces the NALCS-based approach for defining a financial institution with a structure based on a state or federal licensing or regulatory requirement for conducting financial activities. Collection agencies and pawn shops are not included as financial institutions, but as nonfinancial businesses. The changes are estimated to reduce MBT-Financial collections by \$1,801,800 in FY 2006 and \$2,047,500 in FY 2007 and increase MBT-Nonfinancial collections by \$584,168 in FY 2006 and \$621,237 in FY 2007. Net effect is a reduction in total MBT collections of \$1,217,632 in FY 2006 and \$1,426,263 in FY 2007.
- [6-FY06] S.B. 523 (2005 Session) reduces the MBT-nonfinancial institutions tax rate from 0.65% to 0.63% from July 1, 2005 to June 30, 2007. Estimated to reduce collections by \$6,978,000 in FY 2006 and \$7,450,000 in FY 2007
- [7-FY06] S.B. 3 (22nd S.S.) provides an exemption for the first branch bank operated by a bank in each county, replacing the previous exemption for one branch bank only. Estimated to reduce collections by \$441,000 in FY 2006 and FY 2007.
- [8-FY06] S.B. 390 (2005 Session) increases the collection allowance provided to Clark County and Washoe County from 0.2% to 1.0%, effective July 1, 2005, which makes the collection allowance 1.0% in all 17 counties. Estimated to reduce collections by \$1,056,292 in FY 2006 and \$1,022,504 in FY 2007.
- [9-FY06] S.B. 4 (22nd S.S.) allocates \$7,600,000 of the Unclaimed Property revenues collected by the State Treasurer to the Millennium Scholarship Trust Fund in FY 2006 and FY 2007.

FY 2008

- [1-FY08] Per the June 30, 2007, sunset provision of S.B. 357 (2005 Session), the \$2 per slot machine per quarter allocated from the quarterly license fee imposed on restricted and nonrestricted slot machines to the Account to Support Programs for the Prevention and Treatment of Problem Gambling ceases and the full amount collected from the quarterly slot fees remains in the General Fund.
- [2-FY08] Per the A.B. 554 (2005 Session), race events that are part of the National Association of Stock Car Auto Racing (NASCAR) Nextel Cup series and all races associated with such an event are exempt from the LET, effective July 1, 2007.
- [3-FY08] Per the sunset provision of S.B. 523 (2005 Session), the MBT-nonfinancial institutions tax rate increases to 0.65% from 0.63%, effective July 1, 2007.
- [4-FY08] S.B. 165 (2005 Session) requires the state General Fund portion of the petroleum inspection fees imposed pursuant to NRS 590.120 to be deposited into a separate account for use by the Department of Agriculture, effective July 1, 2007.