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**MEETING MINUTES**

**Name of Organization:** Economic Forum: Technical Advisory

Committee on Future State Revenues

**Date and Time:** April 24, 2019, 1:30 pm

**Location:** Legislative Building

401 S. Carson St., Room 3137

Carson City, Nevada

**MEMBERS PRESENT:**

Mark Krmpotic

Cindy Jones

Susan Brown

Mary Walker

Jeff Hardcastle

Andrew Clinger

**MEMBERS ABSENT:**

David Schmidt

**OTHERS PRESENT:**

Russell Guindon, Economist, Legislative Counsel Bureau

Susanna Powers, Executive Branch Economist, Governor’s Finance Office

Mike Lawton, Senior Research Specialist, Gaming Control Board

1. **Call To Order/ Roll Call**

**Mark Krmpotic:** Good morning. I’m calling to order the meeting of the Economic Forum, Technical Advisory Committee on Future State Revenues. I’d like to have the Secretary please call the roll.

**Secretary:** Mr. Schmidt?

Ms. Brown?

**Susan Brown:** Here.

**Secretary:** Mr. Krmpotic.

**Mark Krmpotic:** Here.

**Secretary:** Ms. Jones.

**Cindy Jones:** Here.

**Secretary:** Ms. Walker?

**Mary Walker:** Here.

**Secretary:** Mr. Hardcastle?

**Jeff Hardcastle:** Here.

**Secretary:** Mr. Clinger?

**Andrew Clinger:** Here.

**Secretary:** Let the record reflect, we have a quorum.

**Mark Krmpotic:** Thank you.

1. **Public Comment (No action may be taken upon a matter raised under public comment period unless the matter itself has been specifically included on an agenda as an action item)**

**Mark Krmpotic:** At this time, I’m going to call for public comment. Anybody coming forward for public comment? Seeing none.

3. **Approval of the October 31, 2018 and November 28, 2018 Minutes (For possible action)**

**Mark Krmpotic:** We’ll start approval of the minutes from the October 31st and November 28th meetings. I do realize that a couple of the Members were not present for those meetings last fall, but I will call for a motion to approve the minutes from the October 31st and November 28th meetings. I’ll take a motion.

**Cindy Jones:** Move to approve.

**Mark Krmpotic:** I’ll take a second.

**Susan Brown:** I’ll second.

**Mark Krmpotic:** Everyone in favor say aye. Any opposed? The motion passes.

4. **Review and Approval of Revenue Forecasts for Selected General Fund Sources, including taxes, licenses, fees, fines and other revenue for Presentation to the Economic Forum at the Economic Forum’s May 1, 2019 Meeting (For possible action)**

**Mark Krmpotic:** We’ll begin then with item number 4, *Review and Approval of Revenue Forecasts for Selected General Fund Sources, including taxes, licenses, fees, fines and other revenue* and the Members should have information in front of them regarding the preliminary forecast from each of the forecasters for minor revenue sources that this body is responsible for.

I’m going to begin with Mr. Guindon.

**Russell Guindon:** Thank you, Mr. Chairman. What I thought I’d do, Mr. Chairman is just sort of like we normally do, is start with some opening comments about what has transpired since when this body last met, at the end of November, to prepare the consensus forecast that the Technical Advisory Committee (TAC) had staff bring forward to the Economic Forum at their December 3rd meeting.

What has transpired since then is that, at that November meeting, all the forecasters would’ve had available to them, three to four months of the monthly revenue sources and one-quarter of the quarterly revenue sources and in some sense, your Fiscal and Budget staff were going in the Controller’s system and even looking at what’s coming in right up to the TAC Meeting, to see just where the year-to-date is.

Now, for standing here for the forecaster and the tables that are before you for today’s meeting, we now have 8 to 9 months’ worth of monthly revenue sources. Again, we’re in the Controller’s system to see what is coming in, to just make sure we’re trying to true up the fiscal year-to-date actuals. Then we have the second quarter, the quarterly revenue sources. So that’s basically the year-to-date actual information set that’s available to Fiscal and Budget, as well as the Agencies when they’re preparing forecasts for the revenues that are in the tables.

When you look at this, the process that we use for Fiscal and Budget is we send out a request to all the Executive Branch agencies that are statutorily responsible for collecting and administering the taxes or fees that you see here and ask them to provide us a revised forecast, if they feel a revision is necessary, from what they provided us back in October. So, that request went out in March and then that was provided to us in April. Fiscal and Budget then, if we have questions, we can work with the agencies to get clarification or work through the forecasts before Fiscal and Budget come up with their own forecast that we put in the streets for your consideration today.

With that then, what you should have is the four tables. You have one that’s called *Table 3*. That is the one for those who have recollection from the November meeting, or for the others, recollection from when you were here before, that this shows you the forecasts for each of the revenue sources that this body was requested to consider by the Economic Forum for fiscal year (FY) 2019, FY 2020 and FY 2021. So, it’s labeled, it’s by fiscal year and then by forecaster, within that fiscal year.

You can see under the first set of columns there, you have FY 2019 and then you have the Agency forecast. That would be the forecast prepared by the agency responsible for collecting and administering that revenue source. Then you have the Fiscal forecast, that’s the Fiscal Analysis Division. Then you have the Budget Division which is Susanna Powers from the Budget Division. Again, then you see the columns for the other two fiscal years.

The second table, that’s the companion table to that table, is labeled *Table 3 – Difference*. What that shows you are, again, by forecaster, for each revenue source, by fiscal year, is the difference between the forecasts that you see and the table that I just previously presented, *Table 3*. *Table 3* from the November meeting that this body approved and the Economic Forum approved at their December 3rd meeting. That’s showing you the difference or the delta between the two forecasts.

As you look through those, you can see most of them are relatively minor adjustments. To help you get a sort of order of magnitude, you can look to the left-hand side and you see the year, the FY 2018 actual amount that was collected as the last actual. Sometimes that helps when you’re looking at these to get an order of magnitude, then you may ask yourselves, well, some of these adjustments seem pretty small. The process that we use is, each forecaster, be it the Agency, Fiscal or Budget goes through their forecasting process in terms of the information they have now and redoes the forecast and then it goes in the sheets. Then, you see the delta, well was our forecast that much different, ah just leave it. That makes it hard for forecasters to go, well, if it wasn’t that much different and you left it the same, that wasn’t your forecast that you actually did for that period, and right, we’re all comparing actuals to forecasts to try and keep a track record of how we do. I just thought that was worth pointing out.

The second set of tables, one is labeled *Technical Advisory Committee General Fund Revenue Forecast – May 1, 2019*. This is the sheet that takes the forecast from *Table 3* and based on Fiscal and Budget looking at them, comes up with a consensus to bring forward for this body’s consideration. That’s what this table is. Then, the companion table to that one is the *Difference*. This would be, again, the difference between what you see in the table that I just discussed, versus what this body approved at the November meeting and again, the Forum approved at their December 3rd meeting.

The rule that we have for almost all of these in here is that it’s either an average of all three forecasters or an average of two of them. Sometimes we just make a decision to go with one of the forecasts as we look through it and look at the year-to-date and sort of the historical consideration that we have for these. For most all the forecasts you see here, they’re pretty much an average of the two or three forecasts, except, as I get into them there is one set and I’ll explain why.

With that, Mr. Chairman, I didn’t know if there were any questions about any of the tables or any of that information. I thought then, if there aren’t, I would sort of do like usual and proceed through. I don’t intend to go through all these. Probably just hit the highlights and then I can address any questions that the Members may have.

**Mark Krmpotic:** Mr. Clinger.

**Andrew Clinger:** Yes, Russell, just a quick question. So, I want to make sure I heard you correctly – the sheet that’s labeled *Technical Advisory Committee General Fund Revenue Forecast – May 1*, that sheet reflects a consensus that you, Budget and the Agency has already come to on these revenues?

**Russell Guindon:** Yes. Probably to be more technically accurate, it’s probably more Budget and Fiscal look at the Agency fiscal budget and then we agree, as staff to the Technical Advisory Committee, what we think the consensus is. We look at the Agency’s and then, as need be, we email back to make sure we understand their forecasts and what they are. So, we make sure we understand to take it into consideration and thus you can see, we end up averaging over all three for many of the forecasts, so everybody’s forecast has a one-third weight, in a sense.

**Andrew Clinger:** Okay. I think this is helpful. I don’t remember this from the last time I did this but it’s been a while.

**Russell Guindon:** It should’ve been there.

**Mark Krmpotic:** Any other questions before we have Mr. Guindon go through the forecast? Please proceed.

**Russell Guindon:** Thank you. I think it’s sometimes a little easier to look at the differences, than the dollar amounts. In some sense to have the Table 3 difference and the Technical Advisory Committee difference because that’s sort of where I’ll concentrate more of the comments or statements. Obviously, we don’t spend deltas, we spend the dollars – I just think it’s a little easier if you have them in there to lay the differences and then possibly, then lay the revenue forecast tables, the non-difference tables.

You can see the first one is *Net Proceeds of Minerals*. This is the one that probably had one of the more substantive revisions to it, as you can see by the deltas, by each forecaster. Then probably in the out-years, the bigger differences were the Fiscal Analysis Division’s forecast. I’ll go through sort of the information that we had as forecasters and then if there are any questions for Fiscal’s forecast, I can address those. If there are questions for the Agency or Budget, then we have Jeff Mitchell from the Department of Taxation and Susanna Powers from the Budget Office.

When we were doing the forecast back in November, we were, in a sense, purely forecasting. Now, under the law, the mines have had to report what they actually did for calendar year 2018, which determines FY 2019’s taxes. That’s still not a hard number because the Department of Taxation is going through those returns that they sent and then they have to do a verification and a certification and then they send that billing back out to the mines. Taxation was nice enough to go through and sort of hurriedly take those returns and get Fiscal and Budget some information so we’re no longer totally forecasting. We have actual information reported by the mines on their tax returns. Then they’re required by law, they’ll actually tell us what they think they might do for calendar year 2019, so we have that information. That’s the information set available to all forecasters.

Thus, based on that, you can see in FY 2019, all of us were forecasting too much. Principally, I think, in general terms for each forecaster that was involved here, the amount of production was less than what we thought, the gross proceeds. Then the net-to-gross ratio was less than what we thought it would be. Again, I’ll just sort of go through quickly to refresh. The net proceeds and minerals tax is specifically the General Fund portion. It’s a relatively complicated tax. Especially from a forecasting point of view because the mines report their gross proceeds and then they get to have statutorily allowed deductions to get to the net. Then, depending on the net, there’s a tax rate attached to that. That tax rate can vary depending on their net-to-gross ratio.

The good thing for us is that, the maximum rate that can be imposed is 5%. If your ratio of net-to-gross is 50% or greater, you’re at the 5% rate. Even more important for us is that if you’re $4 million or more in net, then you have the 5% rate. Most of the gold mines are at that 5% maximum rate because they’re at the $4 million and above, which makes it a little easier for forecasters to know that the maximum rate is 5%. For the General Fund portion, gold is about 95% of what you see getting deposited here.

Then the State’s actual General Fund rate, tax rate, it varies across the county. So, the maximum rate is 5% but if the county has say a 2% property tax rate, the General Fund gets 3%. If the County has a 3% property tax rate, the General Fund gets 2%. So, you can see, as the mines in the counties doing their net and where they’re at, it’s influencing the amount that can come to the general fund. So, as forecasters, we’re trying to forecast the average tax rate. Looking at it gross versus trying to look at every mine. It’s hard enough to try and get at it in aggregate terms, probably let alone looking at each month.

I just thought to put that out there that sort of the complexity of what goes in for the forecasters. Clearly you can see because of the delta, what we were assuming didn’t come to fruition in terms of what the mines actually reported. In fact, I think most of the forecasters had somewhere net to gross ratio around 35% and it came in around 30%. Then the General Fund tax rate for FY—based on the information that’s been reported, Taxation, at this point, it’s somewhere around 2.8% and it had been higher than that. But again, right, if you have a big mine in a County that has a higher local rate, then that means the General Fund rate is going to be less. So, you can see we’re subject to where the mines are really doing a lot of net in relation to what the local property tax rate is in, where that mine is located.

**Mark Krmpotic:** So, based on the information you just provided regarding the greater certainty with respect to FY ’19 revenues, the primary difference between the differences in each of the forecaster’s forecasts have to do with where they landed in the first place, or can you explain that? Where the Agency, in FY ’19, forecast $12 million less, Fiscal $13.5 and Budget $11.4. It seems like maybe they should be a little bit closer.

**Russell Guindon:** I would argue those are pretty close for net proceeds, that they’re all within that $12 million, $11 million and $13 million delta. So, if you think about it, our net proceeds forecast that we presented last time was relatively close. If you look at them now in *Table 3*, the dollar amounts, the forecasts are relatively close to each other. They’re all pretty much the same because Taxation is telling us the mining, so we’ve trued up against that and that’s why they’re all the same now in *Table 3* for FY ’19 because we’re no longer forecasting it. We’re using what the mines reported. Back in November we were all forecasting, so we each had our different assumptions of what the gold price would be, what the gross proceeds would be and what the net proceeds would be and what the average effective tax rate would be for the General Fund and because of our forecasts, we all missed it slightly differently. I would argue, to be in that range for net proceeds, that’s really close. I’ll just be honest with you.

Then you can see, looking out in 2020 and 2021, the largest revisions are Fiscal’s. We were just thinking we would be able to maintain that level, but now that we actually have an actual observation that ’19 wasn’t as strong as we thought, Fiscal felt it was prudent to have to bring down the number of ounces that they would produce, thus, the amount of gross and net; also, keep the average effective tax rate for the General Fund down, so you can see we have the biggest changes in 2020 and 2021, in terms of Fiscal’s forecast.

**Mark Krmpotic:** Ms. Walker.

**Mary Walker:** So, a couple of things, Russell, a couple of questions – was this in particular to any certain mines or was it statewide, as far as the lower production?

**Russell Guindon:** I don’t know that I can answer that one. We can have Jeff Mitchell come up and see if we can answer it. From looking at the information that Taxation provided us, I think the answer is, yes, it is specific to certain mines and it’s the big guys because the big guys can move the needle on us by being in a county where there’s a higher or lower local property tax rate, thus, how much the General Fund would get and what was their net-to-gross ratio. You can even see that their gross from year to year can be identical but their net is different because their costs of the type of gold they’re getting out of the ground or their costs are higher. Thus, the net that we’re actually taxing from year to year can be different. I know that’s probably not answering your question but it’s at least attempting to with regard to the complexity of looking across these mines. So yes, Taxation did give all of us the information so that we can try and look at some of those mines and see, well what was moving the net-to-gross, what was moving the average effective tax rate so that that can be taken into consideration and our forecast for 2020 and 2021.

**Mary Walker:** The net-to-gross, do you think those changes were potentially because of higher cost of labor, because of labor shortage? Could that have an impact on that?

**Russell Guindon:** What we see as the cost reported to us in terms of the take against their gross to get their net – I think it can get into not only that but it’s, what’s the type of gold that they’re going after. Are they surface mining? Are they underground? Are they some above? Some of these mines, they can have both surface mining and underground mining. I’ll be honest with you; I don’t know enough about the cost differentials between getting out of the ground. It could also be, well do you have a really good vein of gold that you’re getting, that you’re into, versus not so much and that affects the gross versus the cost. That’s just an honest answer about the complexity of this industry with regard to the tax but also with regard to the amount that gets deposited in the General Fund that comes from the state tax.

**Mary Walker:** Thank you.

**Mark Krmpotic:** Mr. Clinger.

**Andrew Clinger:** Russell, maybe a little bit different line of questioning than Mary had. When you looked at the net proceeds, so is it a decline in gross, is it the net-to-gross ratio, is it the tax rate again, depending on what county you’re in? Or is it sort of all of the above? I mean, is there one thing that’s driving the change?

**Russell Guindon:** With regard to Fiscal’s forecast and I believe remembering from the others, that it’s some of all of the above in that the number of ounces that they produced was less than we were thinking, thus, that reduced the net, then the costs were higher and the gross was lower. Then because where the mine was at in relation to the local government rate, then it changed the General Fund’s average effective rate. So, walking from left to right, it’s a little bit of all of the above.

**Mark Krmpotic:** Mr. Hardcastle.

**Jeff Hardcastle:** Just to follow-up on some of the questioning, in doing the population projection and dealing with the rural counties, the mines have looked to be more of a sustainable rate of production, at least in trying to keep their labor force and workers on a fairly steady level. So, long-term, I think they’re looking at, as Russell was saying, the balance of their exploration versus the type of gold versus cost but there’s been an effort over the years, as I understand it, to try to level things out some.

**Mark Krmpotic:** Any further questions? Ms. Jones.

**Cindy Jones:** Thank you, Mr. Chair. Mr. Guindon, in looking at the Difference sheet for the forecast, it appears to me that the forecast, the consensus forecast, for all three years is the average of the Budget, Fiscal and the Agency, just eyeballing it. That would be correct?

**Russell Guindon:** That is correct.

**Cindy Jones:** Thank you.

**Mark Krmpotic:** Further questions? Please proceed.

**Russell Guindon:** Thank you, Mr. Chairman. I think the next one worth spending any time talking about is under the *Gaming-State* section, this is the one where these forecasts are the Gaming Control Board’s forecast that is provided to us by Mike Lawton who is here today. That’s because when Budget and Fiscal looked at these and what goes behind them, we review them and talk to Mr. Lawton about it. The forecasts that you see here, they’re the Agency’s forecast. When you look at *Table 3*, everybody’s got the Agency’s forecast. Even if you averaged all three, you’d end up right back in the same place, at least, mathematically speaking, that should happen.

I think, if you look down, just the ones probably worth pointing out is GL3042, *Gaming Penalties*. Under the left-hand side, you have the GL numbers. You can see in the delta, the difference, the $19.75 million, this is the adjustment that is due to the $20 million fine that the Gaming Commission ended up imposing on Wynn Resorts. This is now incorporated into these forecasts because that’s actual information, the State has received that fine and then there are no changes to the forecast, basically, in the out-years.

Second on this one is GL3046, *Advanced License Fees*. You can see, there are changes but they’re relatively minor. Out in FY 2021, there’s the downward reduction. This is because there was a property back in the November forecast, it was assumed that it would probably come online towards the very end of FY 2021. Based on the information set, the Gaming Control Board has and has provided to the Fiscal Division and the Budget Division, that that property will most likely slide outside of this forecast period, then, we have to reduce the advanced license fees. Again, just for those, the Advanced License Fees is when a new licensed property opens, they’re required to pay three times their first full months of business in gaming percentage fees and then that gets drawn back against the gaming percentage fees tax. That’s the advanced license fees, the triple payment, in a sense. That’s the Gaming Section, I don’t think there’s anything else there that looks of order of magnitude worth discussing.

I think on this sheet then, at the very bottom, the Cigarette Tax which is GL3052, you can see there are changes. Again, the Fiscal Analysis Division is the largest change, principally because we started out the fiscal year with a very strong month but we thought it would taper off faster than it has. So, year-to-date, it’s still up, more than we thought it would be back in November. So, Fiscal felt we needed to revise our forecast up in FY 2019. Then you can see it somewhat carries out forward into 2020 and 2021. It’s really more of an intercept adjustment than it is like a slope adjustment to the forecast. Then you can see for the other forecasters, they made adjustments but they’re relatively de minimis, especially compared to Fiscal’s adjustment. Then again, the forecast that you have in the sheets is the average of all three forecasts that you see in the Technical Advisory Committee, thus, the Difference Table is showing you the difference based on that.

If there are no questions on the first page, Mr. Chairman, I’ll proceed on. Then, I need you to skip the second page because that’s all Modified Business Tax and that’s addressed by the Economic Forum. Go to the third page of that table. Here, when I look at it, I don’t know that there’s any here I feel I need to make any comments about on this page but I would pause just to see if any Members of the Technical Advisory Committee may have some questions. Again, there are these changes that are going on but I think they’re relatively de minimis. I’m leaving the gray area, the Tax Credits, out because that’s its own agenda item and we’ll discuss that later. If there are no questions then, I’ll have you flip and go to the fourth page.

You can see there are some changes here. Again, in Commercial Recordings, Fiscal made a larger adjustment than the other forecasters and again here, we were just I think more optimistic but looking at the current year-to-date information, it has not been performing that well so clearly, it necessitated, as all the forecasters you can see in FY ’19, based on the year-to-date actual, lowered their forecast. Just Fiscal ended up having to lower theirs more to try to true up to the year-to-date. Again, if you look at the difference, they all appear to be more of a base year adjustment, i.e., in FY ’19 than they are and thus, an intercept adjustment, rather than really a slope adjustment of the forecast.

Then I just thought, it is not a very big change but it is big relative to the order of magnitude, the Athletic Commission Fees that you see at the top there. The adjustment that was done to the Technical Advisory Committee forecast is about $423,000. That’s just that again, we have more year-to-date information that leads us to believe that that’s better than what we thought and necessitated the Agency, as well as the forecasters, to adjust their forecast up.

I think then, at the bottom section under Fees and Fines, you have the GL3066, the Short-Term Car Lease. Here again, there were changes made by the various forecasters. Again, they’re not large of order of magnitude. Again, we have the second quarter information and truing up against that, in terms of one of the larger revenue sources that’s on that table. Again, when you look at a $55 million, $56 million revenue source and the changes, they’re really not that material.

If there are no questions on any of those tables, I would flip the page then to the next page and this is sort of the easy section. The top section is Other Repayments. The General Fund basically makes a loan to programs and then they’re paid back. So, just like a mortgage, there’s an amortization table for payments so we know exactly what those are. That’s why you don’t see any differences in these between the forecasts.

Then, you have under the Interest Income, the Treasurer’s Interest Income here. Like for the November meeting, the Treasurer’s Office prepared a forecast and they were provided the Budget office, Fiscal Analysis and all the supporting information that went into the fund balances and their assumptions that they were using, as well as their interest rates in going out and looking at an interest rate, sort of forecasting entities in terms of the rates and the rate outlooks that they were using to drive the forecasts. Like last time, Fiscal and Budget, after looking at the Treasurer’s information and interacting with them in terms of any questions, decided to go with the Treasurer’s forecast for all three. So, you can see the net result there is about a $3.6 million upward revision in their forecast, again because we know year-to-date. When I looked in the Controller’s System, through the second quarter distribution, it’s a little over $8 million. So, we’re almost halfway to the forecast but again, just the next two quarters would be slightly stronger to hit that forecast. Thus, I think you can see why the comfort level with the Treasurer’s forecast, with regard to the amount that they forecast. Then it just gets revised down slightly in the out-years because of the interest rate outlook is not quite as strong as it was. That’s for that section of the table.

In the next section, there’s really nothing there other than Unclaimed Property, which is GL3255. Again, you can see, there isn’t much change out in 2020 and 2021. Fiscal again, had the biggest change there and this is primarily that back in November when we were looking at what was coming in year-to-date and the revenue GLs probably for Fiscal not having the appropriate understanding of how the money is going into those GLs and then on the outside you have the money coming out. Again, the Treasurer’s Office was able to provide us information on their forecasts as they worked through and from that, was able to observe that my forecast was probably double counting revenue because they have a revenue GL for financial institutions, insurance companies and such. Then there’s a corresponding outflow because of unclaimed property, people are turning the unclaimed property into the Treasurer’s Office but then people are coming forward and asking for their unclaimed property or the Treasurer’s Office has programs to try and find those people and help them find their unclaimed property.

So, what you’re looking at here is the net in terms of what’s at the end of each fiscal year that comes from the General Fund. Then, because of really the incorrect assumptions that Fiscal was making, it required revising the forecast down in FY 2019. Then, now when you go look at the different forecasts in Table 3, they’re actually all relatively close and I just went down below them now in terms of the adjustment that was made. The forecast that you had in the Technical Advisory Committee sheet is the average of all three forecasts, for all three years.

With that, Mr. Chairman and Members of the Committee, I think those were the things that I felt were worth highlighting here in these tables in terms of the revenue sources that had changes worth bringing to the Committee’s attention. I can stand ready to answer any questions that the Members may have.

**Mark Krmpotic:** Just to recap quickly, the larger adjustment for interest income in FY ’19 has to do with booked activity levels in the state accounting system, primarily? I’m looking at the *Difference – Technical Advisory Committee Forecast*, which shows an upward revision for Interest Income of about $3.6 million. I believe you indicated that that is primarily due to information we gleaned from the state accounting system?

**Russell Guindon:** Well, it actually is coming from both – the Treasurer’s Office has revised their forecast for FY ’19 and provided all the supporting information to budget and fiscal; then also, yes, what we actually have in the bank through the first two-quarters of the interest distributions which is, I think it’s around $8.2 million or something like that. So, it’s really, when you look at it, the forecast is around $17 million and so, we’re almost halfway there already through the first two quarters. So, they just expect the second two quarters to be slightly better than the first two quarters. Based on their forecast assumptions and in terms of their investment balances and their interest rate assumptions, I think what they did was a reasonable forecast. We’re sitting here at the end of April with really only two months left in the fiscal year.

**Mark Krmpotic:** Thank you. Questions from the Committee? Alright.

5. **Review and Approval of Forecasts for Various Tax Credit Programs That May be Taken Against Certain General Fund Sources for Presentation to the Economic Forum at the May 1, 2019 Meeting (For possible action)**

**• Film Transferrable Tax Credits**

**• Economic Development Transferrable Tax Credits**

**• Catalyst Account Transferrable Tax Credits**

**• Nevada New Market Jobs Act Tax Credits**

**• Education Choice Scholarship Tax Credits**

**• College Savings Plan Tax Credits**

**Mark Krmpotic:** Please then proceed on to the Tax Credit section of this forecast.

**Russell Guindon:** Moving on to agenda item 5, Mr. Chairman, Members of the Committee. I think probably the best way to proceed with this one is just to stay on that last page where we were with Unclaimed Property. You see the gray shaded areas frequently throughout the tables and that’s because of how we have to manage the tax credit programs from the forecasting to an actual world. I can go through quickly if you’d like, just each of the tax credit programs for the Members in terms of how they work and what we’re doing but you can see for a lot of them, there really aren’t changes by the forecasters based on the information that we have. I didn’t know what the Chair’s direction would be, as to actually go through each of them or just go through the ones where there are differences.

**Mark Krmpotic:** Why don’t you discuss the ones where there are differences noted.

**Russell Guindon:** Alright. I will just point out that the reason why most of these aren’t changing is because two of the programs, Economic Development Transferrable Tax Credits and the New Markets, those programs are winding down. The amounts that we have on the sheets are not known but we know how much for the total amount of credits that could go out there door. So, we know where we’re at in ’19 and we know what the maximum amount is, so what you see out there in 2020 on the forecast sheet is really the residual value in those programs. Then you can see in 2021, we’re not carrying any credits for those programs.

Then when you look at the Difference sheet on the Technical Advisory Committee and again, everybody’s forecast is the same here because we get information from the Governor’s Office of Economic Development (GOED) for some of the programs. We get information from the Gaming Control Board and the Department of Taxation on the actual amount of credits being taken so that we can measure that against what is authorized or what was actually approved.

I would just take a moment to point out that, with the tax credits, you really are forecasting them like a revenue source. They just have a minus sign in front of them, so we sometimes call them anti-revenue because you can go to GOED and get approved and certified for credits but until you do what’s required to get the credits, you don’t actually get the certificate of credits. Then that certificate can be transferred and used against the tax that’s declared. For some of these programs there could be months, many months or even a year or more between when you came and got approved versus when you actually got awarded and had the tax credits in-hand. Thus, you can see because of that, your crossing over fiscal years between when we may see them being sort of approved, versus when they’re awarded and taken.

Then what we have to do as forecasters is look at those amounts and say, well, we thought it was this amount here but they didn’t take that. Well, we know they’re going to carry it forward and take it in the next year, we hope, so that’s why we’re working between what’s approved and what’s actually being awarded and of what was awarded, what got taken because if you get awarded towards the end of a fiscal year, you may not be able to take it all in that fiscal year. Well, in our world, we shut down the one fiscal year and it carries forward in the next fiscal year.

With that, really the one that’s worth discussing here when I look at it is the Education Choice Scholarship Tax Cut Program. You can see the upward revision in the amount of credits, thus, the downward revisions and the amount of money that’s going off the sheets. This is the program that was approved in the 2015 Session for an amount of tax credits and then, starting in the third year, the amount of credits that could be authorized for it to be approved went up by 10% a year. You have two chapters that are in play. Chapter 363A which is the Modified Business Tax on financial institutions and mining companies, that’s the 2% rate. Then you have Chapter 363B which is the Modified Business Tax on non-financials or general business; under this program an employer can make a donation to a qualified tuition scholarship organization and then, if that’s approved, then they get credits equal to that donation back.

This Session, as we have been working on other bills that have tax credits, it came to our attention that because of Senate Bill (SB) 555, which was approved at the end of the 2017 Session that authorized the one-time additional $20 million to the Educational Choice Scholarship Program, that the additional effect of SB 555 as it was passed and approved was to split the amount of credits between the two chapters individually, rather than being combined, for the program that would escalate by 10% a year. Thus, what was on the amount on the sheets back in November was the amount of the 10% escalation combined between the two chapters. Now, it can be split between the two chapters. Basically, the amount that you see being added to the sheets is the additional amount that can be now taken for that program, based on the passage of SB 555 at the end of the 2017 Session.

The $7,320,500 that you see there for FY 2020 and FY 2021 amount of $8,052,555, that would be the $5.5 million escalating by 10%. So, these are the 10% increase amounts. If you go back and look at the old sheets, this is what we have on there for 2020, ’21, we’re doubling it. So, that’s basically the impact of this tax credit program with regard to, during this Session, discovering that was the effect of the passage of SB 555 from last session, is to require the credits to be separated to each chapter individually, rather than being combined.

As Fiscal and Budget talked through it, this is the maximum amount that’s authorized and that could be awarded and taken. As staff, we thought this has been a pretty viable program, the $20 million one-time, as well as 10% that all got awarded and it’s being taken and to think that it probably was fiscally prudent to put this additional maximum amount. Will it be that? We don’t know. It’s a forecast but given what we know about the program and the viability of it, we just thought that this would be the fiscally prudent thing to bring forward for this body as the consensus forecast, the maximum amount that would be allowed under the current interpretation of the statute.

**Mark Krmpotic:** So, the forecast for FY 2020, in the way of tax credits for this program is $14,641,000? Or, a negative $14,641,000?

**Russell Guindon:** That’s correct.

**Mark Krmpotic:** And, that amount is split – if you took that amount, you’d take half of it and apply it to the one chapter and half of it and apply it to the other chapter that you just referenced?

**Russell Guindon:** That’s correct. The amounts are the $7,320,000, yes, that’s the amount for Chapter 363A and there’s an amount for Chapter 363B.

**Mark Krmpotic:** And on the increase from FY ’20 to ’21, is that 10% factor that you referenced.

**Russell Guindon:** That is correct. Under current law, it goes up by 10% per year and thus, each Chapter amount goes up by 10% a year.

**Mark Krmpotic:** And no adjustments for FY ’19 in that regard at this point?

**Russell Guindon:** No. The provisions became effective, now looking at it, July 1, 2017. So, there could be more taken but we don’t know that. So, we do think it’s probably, as staff to the Technical Advisory Committee, to the forum, it makes, again, fiscally prudent sense to probably put the maximum on for 2020 and 2021. We don’t have the information to believe here, now that we’re at the end of April, that they’ll be able to go out and take this additional amount that we’ve now realized is statutorily available.

**Mark Krmpotic:** Questions from the Committee? Mr. Clinger.

**Andrew Clinger:** Thanks, Mr. Chairman. Russell, so, on the increase in the tax credits, so the bill that passed at the end of last session, I think you said it was SB 555, so that bill had a $20 million, essentially, one-time, increase in the credits. If I’m understanding you correctly, what you’re saying is that one-time increase, does that get factored into the 10% then or?

**Russell Guindon:** No, the $20 million was one time for FY 2018. That amount was awarded and it’s almost all taken. So, it’s not related to this additional credit issue, other than SB 555 was to amend those two sections of the law, where it sits in 363A and 363B, to have the $20 million apply to both chapters, combined, not individually. Then, what we realized now is the additional effect of SB 555 being approved as it was, is to have the original provisions be separated into each Chapter, versus being combined.

**Mark Krmpotic:** And this tax credit program applies strictly to the Modified Business Tax?

**Russell Guindon:** That is correct.

**Mark Krmpotic:** Are there any other questions from Committee Members?

Is there anything else you would like to add?

**Russell Guindon:** No.

**Mark Krmpotic:** At this point, I would entertain a motion to accept the forecast as presented by Mr. Guindon and can you just summarize the changes, the total bottom-line changes for the Committee, Mr. Guindon, as prior to taking the motion?

**Russell Guindon:** Yes. So, looking at the bottom of the *Technical Advisory Committee* table that then combined the forecast for all of the minor General Fund revenue sources, including the tax credits, that this body was directed to produce a consensus forecast for consideration by the Economic Forum next Wednesday. For FY ’19, it would be the $690,019,298 for FY 2019; and this is approximately $12.9 million more than the forecast that this body approved back in November. The forecast for FY 2020 would be the $680,731,231, which is approximately $12.8 million less than what this body approved at the November meeting. Then for FY 2021, it’s the $713,592,705 for FY 2021, which is approximately $15.8 million less.

Then you can see, I didn’t total them all up but basically, the first two years, the plus and minus wash each other out. You have a plus $12.9 million and a minus $12.8 million, so really you’re left with the net effect over the three years of this is about a $15.8 million negative impact or negative effect, compared to all three years together for this forecast, if you would approve it as it’s presented, compared to what this body approved back at the November meeting.

**Mark Krmpotic:** I’ll entertain a motion to accept this forecast.

**Andrew Clinger:** Move to approve.

**Mark Krmpotic:** Motion to approve by Mr. Clinger. I’ll take a second.

**Mary Walker**: Second.

**Mark Krmpotic:** Second by Ms. Walker. Everyone in favor say aye. Opposed? Motion carries.

6. **Public Comment (No action may be taken upon a matter raised under public comment period unless the matter itself has been specifically included on an agenda as an action item)**

**Mark Krmpotic:** At this time I would, next on the agenda, entertain any public comment before we adjourn. Seeing none.

7. **Adjournment (For possible action)**

**Mark Krmpotic:** I would take a motion to adjourn the Technical Advisory Committee Meeting.

**Andrew Clinger:** Move to adjourn.

**Mary Walker:** Second.

**Mark Krmpotic:** There’s a first and a second, everyone say aye. This meeting is adjourned, thank you.