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MEETING MINUTES

Name of Organization:	Economic Forum: Technical Advisory Committee on Future State Revenues
Date and Time:	November 28, 2018, 2:00 pm
Location:	Legislative Building 401 S. Carson St., Room 2135 Carson City, Nevada

MEMBERS PRESENT:
Mark Krmpotic
Cindy Jones
David Schmidt
Paul Nicks
Mary Walker

MEMBERS ABSENT:
Vic Redding
Jeff Hardcastle

OTHERS PRESENT:
Russell Guindon, Economist, Legislative Counsel Bureau
Susanna Powers, Executive Branch Economist, Governor's Finance Office
Hayley Owens, Economist 3, Department of Taxation
Tara Hagan, Chief Deputy State Treasurer, Treasurer's Office
Mike Lawton, Senior Research Specialist, Gaming Control Board

1. Call To Order/ Roll Call

Mark Krmpotic: The meeting of the Economic Forum, Technical Advisory Committee (TAC) will come to order. Secretary, please call the roll.

Secretary: Thank you. Chairman Krmpotic?

Mark Krmpotic: Present.

Secretary: Mr. Schmidt?

David Schmidt: Here.

Secretary: Mr. Nicks?

Paul Nicks: Present.

Secretary: Ms. Jones?

Cindy Jones: Here.

Secretary: Ms. Walker?

Mary Walker: Here.

Secretary: Mr. Hardcastle and Mr. Redding are not present. Let the record reflect, we do have a quorum.

2. 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'll open the Committee to Public Comment. Any public comment coming before the Technical Advisory Committee? Seeing none.

3. Approval of the October 31, 2018 Minutes (For possible action)

Mark Krmpotic: We'll move to—it's my understanding, with respect to Item 3, Approval of the Minutes that the Minutes have not been fully transcribed yet. So, that is an item we will not take up, we'll defer today. I would expect the minutes would be available prior to the meeting of this Committee sometime in late April.

4. Review and Approval of Final Revenue Forecasts for Selected General Fund Sources for Presentation to the Economic Forum at the Economic Forum's December 3, 2018 Meeting (For possible action)

Mark Krmpotic: I will move on to Item 4, Review and Approval of Revenue Forecasts for Selected General Fund Reviews. Mr. Guindon, before you present that, since we last met on October 31st, there's been an Economic Forum meeting that took place on November 8th. I believe one of the agenda items in that meeting was, any special instructions to this Committee, in considering minor revenue forecasts for this fiscal year and the next biennium. So, if you could update the Committee on any goings on in that regard. Thank you.

Russell Guindon: Thank you, Mr. Chairman and Members of the Technical Advisory Committee. For the record, I'm Russell Guindon with the Fiscal Analysis Division of the Legislative Council Bureau.

At their November meeting, under that agenda item, in terms of for instructions to this body, the instructions were the same as at the prior meeting which is for this body to consider the same set of revenues that they did at the prior meeting and approve then the final forecast that will be brought forward for their consideration at their meeting next Monday, December 3rd.

With that, Mr. Chairman, if there are any other questions with regards to that agenda item, from the last meeting that's being brought forward to this meeting, let me know.

Mark Krmpotic: Any questions from the Committee, Committee Members? Please proceed.

Russell Guindon: Thank you. What I'd like to start first is to just sort of individually identify all the tables and then probably what they are and hopefully, their advantages, hand out material for this meeting. So, what you should first have is one that's called Table 3. Then you have one that looks just like it, except there's a lot less numbers in it, or I should say, positive number. It's called Table 3-Difference.

First, Table 3, for the Members that were here at the last meeting and for Ms. Walker attending this meeting for the first time, that this is the table then—every one of the revenue sources that the Economic Forum requested that this body give consideration to as an unrestricted General Fund revenue source and prepare a forecast for it, for their consideration next Monday.

So, the way the process works again, just as a quick overview is that, as you know at the prior meeting, the Fiscal Analysis Division and the Budget Office asked each of the Executive Branch agencies that's responsible for collecting and administering these revenues to provide us a forecast. Then, Budget and Fiscal prepare their own independent forecast. So, that's what you sort of see reflected in this table now is, the update from the prior meeting. We don't go back and ask all the Executive Branch agencies for revised forecasts, it's sort of for the large ones. And again, the vernacular that we use, there's major/minor. These are the minor General Fund revenue sources because the Economic Forum considers the seven major ones. Within this minor set, we have what we call major-minors, right. The bigger ones. So, we ask the agencies to provide forecasts for that. That's primarily Department of Taxation and Gaming Control Board. Then we also interacted with the Treasurer's Office for their two revenue sources.

So then, what the process is, is that Fiscal and Budget gets together and looks at all the different forecasts and brings forward to you the Budget, Fiscal consensus for this body's consideration. Before I move to that table—the Table 3-Difference, that's showing you the difference between the forecast that's in Table 3 and the forecast that was presented to this body at their meeting at the end of October. So, obviously then, if you're seeing a plus number, that means that forecaster revised that forecast up, in relation to the forecast that was prepared and presented to this body at the October meeting and obviously, negative means the forecasters revised down by forecaster.

So then, the other set of tables that you have is the one that's called Technical Advisory Committee, General Fund Revenue Forecast – December 3, 2016. So, this is the one, again, where Budget and Fiscal got together and decided what we thought was comfortable as a consensus to bring forward for this body's consideration. So, generally, the rule is, we look at them and lots of times, we average over the three different forecasts. Unless there's something as we look through them, then we may average over just Fiscal and Budget or the Agency and Fiscal or select one of them and there are times where you'll see the forecast for Fiscal and Budget is equal to the Agency's forecast. As we looked at theirs and that was where the comfort level was, so then obviously the consensus for those are easy because if you have three forecasts the same, then you're picking any one as the forecast.

Then what you're seeing in this table today is, the revised consensus forecast that Budget and Fiscal compiled based on the revisions to any of the forecasts and then you have the Difference Table. So, it's just like the other Difference Table. It's showing you the difference between the consensus estimates in this table compared to the same table for the October meeting.

Finally, as if you don't have enough tables, you have one that's titled Table 7. This is one that just tries to pull together the major-minors as some of the bigger ones that make up the ones that this body considers. As well as, we throw everything else into all others so that we can balance out the totals for all the revenue sources that this body considers.

Then at the bottom we have the tax credits, which is again, a separate agenda item that this body will be taking up. So, with that, that is the material that's been prepared for this body's consideration this afternoon.

Mark Krmpotic: Mr. Guindon, just for the benefit of Ms. Walker, the Agency forecast, that is the forecast by the Agency that's responsible for collecting that particular revenue source, correct?

Russell Guindon: That's correct. And again, I should point out for this body, all these forecasts are done under current law. So, it doesn't take into consideration any proposal or anything that's out there, as well as the Forum's forecasts are done under current law.

So, with that, Mr. Chairman, I can sort of proceed then and go through and I wasn't going to go through every revenue source here because as sort of staff, we sometimes find ourselves joking about that we possibly spend more time on a $30,000 revenue source then we do on a $30 million revenue source. So, is that really a wise allocation of scarce resources. It's just staff doing due diligence for every revenue source.

So, I will also point out then that the information set here for the forecasters compared to the information set at the end of October was we picked up an additional month of revenue for the monthly revenue sources. For those revenues on these sheets that are quarterly, we've actually gotten the first quarter of revenue. So, basically, in summary, we've got additional actual year-to-date information that we can now take into consideration.

So, when you look through the difference tables, what you really see is, in general, there's differences more often in FY '19, then there may be in 2020 and 2021 because we're truing up FY '19 to go, well gosh, here's what we thought but now that we've gotten that additional month or that first quarter actual, that's causing the forecaster to realize they needed to make adjustments to their base year forecasts, FY '19. It didn't necessarily require an adjustment to the outyear forecast, FY '20 and '21. But you also then see, some of the differences if we go through them that there are differences in 2021. So, it's not just a base year adjustment, it's a path adjustment for the whole forecast period.

With that then, I think it's probably maybe easiest to have the Difference Technical Advisory Committee Table in front of you, so you can just see the differences. And then, if you want, you can have the Table 3 Difference because that's going to show you what the forecasters were doing for each forecaster by fiscal year.

You can see on the Difference Technical Advisory Committee Forecast Table that the net proceeds in Minerals was revised down slightly in FY '20 and FY 2021. Principally due to the Budget Office making an adjustment to their forecast. The decision for this one was to average the Agency and this is the Department of Taxation's Budget, as the Agency's forecast, and the Fiscal and Budget forecasts. This is the same decision rule that was used for the October consensus forecast, was averaging all three forecasts. When you—if you look at Table 3, not the difference but the Table 3, you can see each of the forecaster's forecast and there really isn't that much variance across this revenue source. The Taxation forecast was a little lower. Then you can see, Fiscal is sort of sitting at the higher one and then Budget is sitting down below it. So, actually I think the average then, puts us somewhat close to the Budget is the consensus.

Then, moving on—and again, Mr. Chairman, Members, you can let me get through everything, or if you have questions, feel free to jump in and ask questions while I'm on there. Generally, what I sort of do is try and go through a page and then pause and see if there's any questions on a page and then, we'll move on to the next page.

So, then under the next block and I should point out where you—you see these blanks, the Sales and Use, the Gaming Percentage—remember, those are the major General Fund revenue sources that this body doesn't consider, the Economic Forum considers at their meeting. Then the gray blocks, the tax credits, I'll go through that when we get to that agenda item, for tax credits.

Mark Krmpotic: So, any numbers that show zero there on the Difference sheet are instances where there were no changes from the October 31st forecast or forecast information, correct?

Russell Guindon: That is correct. So, under all the—under the Gaming/State section, you see all the various license fees or taxes on the devices, being that either table games or slots. So, you can see really the only revision is to the—really the base year, FY '19, for the Gaming Penalties and the Advanced License Fees. These revisions were principally due to, we have year-to-date information that required the forecast to be revised. You can see all of them revised up because of the year-to-date actual information. The Annual Fee on Games was a slight upward revision. These are the Gaming Control Board's forecast. We actually have Mike Lawton from the Gaming Control Board here, if anybody does have questions that need to be addressed by the Gaming Control Board.

Then the next section is the Transportation ConnectionExcise Tax. This is the one that's the 3% tax on transportation network companies such as Uber and Lyft but also it's on taxicabs, it hits limousines, buses, those types of things. So, you can see, based on the—we got an additional month of information and when you go and look at the difference by the forecasters, you do see there that—so, again, the Agency forecast would be the Department of Taxation and then you have the Fiscal and Budget forecast. All of them were making slight changes all the way across the forecast path. I think, you know, sometimes if there's anybody that ever questions whether there's any collusion going on, this would be the one that shows you no, right. Because you can see the adjustments are sort of some are up, some are down, some are bigger, some are smaller, as you go across the different forecasters, but then the decision rule here is again, the same as last time, which is to average all three forecasts and come up with a consensus, that's in the Technical Advisory Committee Table.

Also then, you can see the Cigarette Tax. Even though this is $160 million revenue source, in terms of the FY 2019 actual, the Forum has decided to have the Technical Advisory Committee consider this and bring that forward to them for their consideration. Again, generally the forecasts are very close together. So, they thought it was a better allocation to have this body handle this one versus the Forum. Again, you see that another one where each of the forecasters, we got an additional month and took that information to consider and decided they needed to make adjustments across all three years of the forecast path. Again, you see the adjustments vary by forecaster. For this revenue source, the decision rule is the same as last time, which is the average of all three forecasters. Thus, you can see it ends up with about a $500,000 downward adjustment and then approximately $1.4 million and $1.2 million in FY 2020 and FY 2021.

With that, that's the revenues on this table. I will pause if there's any questions on the revenue sources on this table, before moving on.

Mark Krmpotic: Yes, with respect to Cigarette Tax, it appears that each of the forecasters and I'm looking at Table 3, on the General Fund Revenue Forecasts, that each of the forecasters are forecasting this revenue source, Cigarette Tax, to decrease from FY '19 to FY '20 and subsequently a further decrease in FY '21. So, I'd like to ask the Agency and the representative from the Budget Division to explain the forecasting increase in FY '19 from what was recorded in FY '18 actual. So, FY '18 actual shows a Cigarette Tax amount of about $160 million. The Agency forecasts an increase to $163 million. The Budget Office forecasts an increase to $164 million. I just wanted to get an idea as to what you're seeing that's causing that revenue to, an otherwise decreasing revenue source to increase in FY '19.

Hayley Owens: Thank you. My name is Hayley Owens, for the record. I'm from Taxation, so I represent the Agency forecast. So, when we added in July through September actuals into our model, this is sort of just what came out of it. July and August had higher revenues than we expected and higher revenues than our model put out. So, when we added in those actuals for the first quarter of the year in addition to the modeled values for the last three quarters of the year, it just came up positive from FY '18. It does show to us a very clear downward trend, so that's why it does continuing declining as we get into the out years.

Mark Krmpotic: Any questions from Committee Members? Please proceed.

Susanna Powers: For the record, Susanna Powers, from the Budget Office. So, I use a linear regression model. I modeled the number of packages as my proxy for demand for cigarettes. So, the regression model shows also a declining pattern in a number of packages. However, when I put the model together and forecast the out years based on trend, Fiscal '18 just seems like a little bit of an anomaly. There were a few months that were quite low. The overall trend still remains downward sloping. So, when I look at the individual months and tally up the number of packages purchased and derive the revenue, it's just a timing factor when those—when those packages, the stamps are actually purchased. So, it doesn't mean that all of a sudden we have more demand for cigarettes, per se, it's just a timing anomaly perhaps how the fiscal year gets collected. Does that make sense? Any questions on this? I'd like to clarify if possible.

Mark Krmpotic: Mr. Schmidt.

David Schmidt: Thank you, Mr. Chair. Do we happen to know what FY ’17 looked like? If FY ’18 was a little bit low, how would ’17 and ’19 compare?

Russell Guindon: Thank you Mr. Schmidt. For the Cigarette Tax, the FY ’17 amount was about $180.7 million which was up 18.1%. Then you had FY ’18, as you can see, it was $160.7 million or down 11%. I think, just to go back a little bit, what you need to keep in mind is that this tax was increased in the 2015 Session. So, you went from approximately $92.8 million in FY ’15 to $153 million in FY ’16 with the tax increase and then it went up. I think all of us forecasters feel that part of that, you know, you had—you’re annualizing the tax increase in FY’17, because what actually happens to the Cigarette Tax right, as an economist if you believe in rationale expectations then this is one of the ones where we have evidence.

The wholesalers for cigarettes knew we were going to raise the tax. So, they came in and got a lot of packs to beat the tax. So, we actually got more money in ’15, than we probably should have but for the tax increase. Then, we got less actually off the tax increase than we should’ve in FY ’16. Then thankfully, because California decided to trump our cigarette tax increase, that helped us out in FY ’17, in terms of getting, I think, that 18% increase. So, that’s just to give you history that ’16 went up a lot because of the tax increase, but then ’18 went up because you’re annualizing against that cigarette pack behavior in Nevada, but also then the California tax increase. So, we’re probably now, as much as you can use the phrase apples to apples, for our Cigarette Tax in terms of ’18 and ’19 being sort of comparable.

It is true that for this revenue source, that to the first three months of FY ’18, it was actually down 16.2% compared to the first three months of this current fiscal year, FY ’19, we’re up 8.4%. Principally, I think because the first month was up something like 260%. This is a tax that has quite a bit of volatility because as Ms. Powers said, it’s not based on retail, it’s based on packs at the wholesale. So, we’re trying to approximate retail behavior with stamps going on packs. So, these people could, right, it’s like when you’re at Costco, you want to get stamps, you can get 10 packs or you can get one pack. We don’t know the decisions that these people make when they’re really deciding to buy packs, but you hope as forecasters it’s somewhat tied to the demand that’s out there.

Mark Krmpotic: So, for the benefit of the Committee, Mr. Guindon, if you could speak to the Fiscal Division forecast for FY ’19 as well.

Russell Guindon: Yes, so you can see, we revised ours up slightly. That’s because you can see, we were one of the—we were the lowest one last time. The September month actually came in not quite as bad as we thought it was going to. All right, it was down, but it wasn’t down as much as we thought. So, because of that, we felt that we needed to do the base year adjustment then—but then let that carry through. Then, actually, the decline is, it goes down in ’20-’21 for Fiscal because we drive it off of our visitor’s forecast and we decided to bring our visitor’s forecast down a little bit in 2021, compared to the forecast that we were using in the October forecast. So, that’s really what it is. It's a base year adjustment that carries forward, but 2021 is a little—it goes down because the driver that you're using to forecast went down.

Then you can see basically, then averaging over all three for the base year, it means we'll be flat, right, there's no growth. So, when we looked at that, we thought, okay that's probably not unreasonable. Some of the forecasters think it could grow slightly, some think it could go down. So, when you take the average, it's zero and we all know that's sort of what averaging does. It's sort of trying to find that goldilocks forecast or that you know, split the baby kind of forecast.

Mark Krmpotic: Any questions from Committee Members on Cigarette Tax or any other revenues on Page 1 of the Forecast Sheet? Mr. Schmidt?

David Schmidt: Thank you, Mr. Chair. For the net proceeds of minerals tax, the Budget forecast is down $1.5 million, I was curious if there was a reason for that in '20 and '21.

Susanna Powers: For the record, Susanna Powers. Yes, there is a reason. When I was here last month, my forecast was using a gold price forecast by the World Bank. They had not released their latest forecast yet. At that time, the World Bank gold price forecast was current as of April 2018. However, they released their latest gold price forecast that is current as of October 2018. So, I just dropped those new values into my forecast model and that's what came out.

David Schmidt: Thank you. I also had a question about the Advanced License Fees. I noticed there was an increase in FY '19 but no increases in future years. I was curious if that—since that should in some way present future expectations for either properties opening or new licensees, if we're seeing an increase in one year but no increase in future years, what would cause that?

Russell Guindon: Thank you, I'll have Mike Lawton from the Gaming Control Board address your question, Mr. Schmidt.

Mike Lawton: Good afternoon, for the record, Mike Lawton. Yes, so Mr. Schmidt, this tax is very difficult to forecast. It's—you know, we're estimating if there's going to be a lot of activity with new gaming licensees or with the churn of existing licensees being taken over. So, we use a simple average and try to skew out anything that might have materially happened and to be honest with you, there hasn't been a lot of new properties. In '21, you do see a large uptick and that's because of the expectation that Resorts World is going to open up.

In the reason the FY '19 number increased is we had some activity that was recorded in November. Over and above what we had anticipated. Sometimes certain transactions are, I guess, the way they're worked, sometimes they don't pay the advanced fee and sometimes they do. In this scenario, there was a property on the Las Vegas Strip, that there's a transaction and they paid this fee. I'm not always aware of these fees. It's something Investigation handles when they determine what kind of transaction it's going to be. I have to say, this one caught me a little bit by surprise and that was the reason for the uptick.

Russell Guindon: I think, just to follow up to your question that, does it mean going forward that—I think the important thing to remember is that this is the—it's a revenue source that's tied to, as Mr. Lawton said, either a change in ownership that triggers it being paid or a new one, which almost always triggers. But that, it's based on the—the licensee is required to pay three times their first full month's business. That's what the Advanced License Fee is. So then in terms of thinking, well you're going to adjust the base year up and you think that shouldn't that mean something for 2020, '21? No, because it's tied to either a property selling or a new one opening. Again, what this Advanced License Fee does is it primes the Gaming Percentage Fee Tax. Believe me, I'm not going to go into that, unless I'm asked. But, that's just what it is. It's just one of those things that, as we were working through it and basically what we're doing is we're querying the Controller's system and working with the Agencies to go, hey there's money in here, is it good? So, when we worked with Mr. Lawton, he's like, yes. We need to include this. So thus, it just ended up being year-to-date, there's more than what we thought there was a month ago.

Mike Lawton: It came in on November 15th by the way.

Russell Guindon: Oh, yes.

Mark Krmpotic: Questions from other Members? The Chair would just indicate that I had a concern about FY '19 Cigarette Tax Forecast. I think given the information you provided as to what that revenue amount has been over the last three or four years, certainly does fluctuate a lot. So, in looking at FY '17, at $180 million and coming down significantly in FY '18, I'm not quite as concerned about the FY '19 forecast. I don't know how other Members of the Committee feel about that.

David Schmidt: I'm in the same boat, Mr. Chair.

Mark Krmpotic: Okay. Please proceed.

Russell Guindon: Thank you, Mr. Chairman. So, you can flip through the second page of all your tables because that's—because of the tax credits, it now takes one full page to do the Modified Business Tax. We'll just skip over that one.

So, on the third page of all the tables, you see that there really again, isn't sort of that much in terms of major changes to the revenues on these tables. I will point out for the Governmental Services Tax that you can see the slight upward revision because both the Fiscal Division and the Budget Office revised their forecast up slightly in FY '19 and thus, it's averaging those forecasts, gives you the $155,000 additional money.

It is worth pointing out for this revenue source is that, why you don't see any revenue in FY 2020 and FY 2021 is because this is the revenues source that the Governor recommended and that the Legislature approved that of this—the portion of the Governmental Services Tax that came from the 2009 law changes, where we added 10% to the depreciation schedules with money generated from that 10%. Originally being dedicated to the General Fund for four years and then it was supposed to go to the Highway Fund. During the Great Recession, it was being used as a General Fund revenue source. So, the current—what the Legislature then—again, the Governor recommended and the Legislature approved from the 2017 Session for FY '18 and FY '19, that 25% of the proceeds go to the General Fund and 75% go to the Highway Fund. Under the law that was passed, beginning FY 2020, 100% will then go to the Highway Fund. So, that's why you see the amount that you do for '19, remembering that that's 25% of the total and then you see zero for FY '20 and '21.

Again, for the Business License Fee, the Liquor Tax, the Other Tobacco Tax, you can see that it's relatively minor changes. I think it's probably again, just as a forecaster sitting here and pointing out for all the forecasters that you may sit here and wonder like, well gosh, if you look at percent terms, we're really not adjusting the forecast that much. So, what's the point? The point really is that the forecasters have a process that they're going through, right. They get the latest actual and they—you've heard that they run it through their models, they run it through their process and a forecast comes out. Well, it's a lot easier for the forecaster to put that forecast in the tables and know that you can go back and tie a forecast to a table, versus going, uh, it's really not material, so I'll just keep my old forecast. Then you start wondering, well where did that forecast come from because you can't tie it out to your actual forecast modeler table. So, that's just to sort of put on the record that, when you see some of these that seem to be perhaps immaterial changes, they are but they're still part of the forecast process that everybody's using. I think that's part of the integrity of the process.

So then, I don't think there's anything there, unless somebody has questions on that section. Again, the gray area, the Tax Credits, it's its own agenda item. So, unless there's question on that page about this particular tax or the forecast, Mr. Chairman, I can keep proceeding.

Mark Krmpotic: Questions from Committee Members? Please proceed.

Russell Guindon: So then, turning to the next page that begins with Insurance Licenses. Again, you see again some minor changes on this sheet to the revenue sources, so I really wasn't going to spend time going through them unless there's questions. Because again, it's just the forecasters doing their forecast process and then you can see the tabulation of the results from that process. Again, for most of these, again, the average—the rule is the average over all three. There are a few where that's not true, but generally for the forecasts on this page, it is true.

On the Fees and Fines Section, the bottom section, again you really can see, there were very few changes except for the largest one on this page which is the Short-Term

Car Lease Fee, in terms of the changes in the forecast. Again, this is one that we got the first quarter actuals and then the forecasters made their adjustment based on that. So, again, if there's any specific questions to any of the individual forecasters on that, or any other revenues on this page, Mr. Chairman, Members of the TAC, we can address those.

Mark Krmpotic: Questions from Committee Members? Mr. Schmidt.

David Schmidt: Thank you, Mr. Chair. On the Short Term Car Lease, for '20 and '21, I noticed that the Agency forecast changed by a much smaller amount than Budget and Fiscal, I was wondering if you could speak to that.

Hayley Owens: Thank you, Hayley Owens, for the record, again from Taxation. All I can say is our model changed slightly. We revised it downward slightly as a result of adding in the first quarter of FY '19. I'm not sure—I can't speak to the other forecasts, really. So, nothing changed in our assumptions or our methodology, the way we modeled this, we just added in another quarter. Basically, regressed it on itself, so it looks like we're fairly more optimistic on this one.

Mark Krmpotic: Ms. Powers.

Susanna Powers: For the record, Susanna Powers, Budget Office. My adjustment is based on the year-to-date. I was completely surprised to see that there was such a big decline, year over year in this revenue. So, I had to make an adjustment across the board. Thinking about it, looking at the visitation statistics, it made sense to do that. So, I made an adjustment across the board, based on the year-to-date.

Russell Guindon: And, for the Fiscal Division, basically, I think somewhat reiterating what Ms. Powers stated that the first quarter came in down about 5.5%. In our model, we only had it going down about 1.7%. So, clearly you're too high out of the gate. So, you need to make that adjustment for the actual and then, also it incorporates, it's based off our visitors forecast. So again, pulling down the 2021 forecast is going to pull down the backend more than the front end of the forecast.

David Schmidt: Thank you.

Mark Krmpotic: And, briefly, what is the visitor's forecast over the forecast period?

Russell Guindon: I can't remember. I was just working on it, revising it this morning since the October numbers just came out, yesterday. I think the fiscal forecast for visitors is probably almost flat for FY '19 and possibly about 1% growth for FY 2020 and less than 1% growth for FY 2021, from memory.

Mark Krmpotic: Ms. Powers?

Susanna Powers: Susanna Powers, for the record. I don't have the exact numbers either but I'm just trying to visualize my graph because I do show that in the Economic Forum forecast, as it's a major driver behind everything in the State. My fiscal '19 forecast declines ever so slightly over the previous year. It's fairly steady in '20 and '21, however, it's ever so declining but not drastically or anything, but there's just a fairly slight declining pattern in visitation. But, it's still near record levels.

Mark Krmpotic: Okay. So, the growth under both Fiscal and Budget, there's either slightly declining growth or flat growth for the most part?

Susanna Powers: Susanna Powers, for the record. That would be correct, for the Budget Office forecast.

Russell Guindon: I have the advantage over the other forecasters that I pulled mine up. So, I have FY '19 visitor growth at 0.1%, FY '20 at 1% and FY '21 at 0.7%. So, my memory wasn't too bad but those are the exact numbers.

Mark Krmpotic: Thank you. Any other questions on the page we're looking at, that includes Licenses, Fees and Fines. Please proceed.

Russell Guindon: Okay. So then moving on to the next page that the top of the block is titled, Use of Money and Property, Prop. Sorry, I just—so, the repayments, there's no changes. I'll just go through again that these other repayments are basically, the General Fund provides money for projects. So, it's like a loan and then there's an amortization schedule, for lack of a better term that then they make payments back for that project, back to the General Fund. So, that's what these are. They're in the law as projects and then the repayment schedule. So, they're the ones we have a zero forecast error, right because if you go look at the sheets, the amounts that's in the sheets, those are the amounts that are required to be paid. So, what we basically are doing is checking to make sure, working with our colleagues in the Budget and the Fiscal Division that the amounts that we have on the sheets are the statutory amounts that are required to be on the sheets and we've taken in account any adjustments or changes from each session to get them trued up.

Then what you have is the Treasurer's Interest Income Forecast there. There are no adjustments to that forecast. Budget and Fiscal did consult with the Treasurer's Office and those that were here, last time, recall that you can see the forecast for '19, '20 and '21, is sort of good news. We're getting back to where we're now getting interest income. One, why? Because the General Fund revenues are larger but also because of the Federal Reserve actions, the short-term rates are getting higher. So the Treasurer's Office, we met with them for the last meeting, and they went through their analysis and Budget and Fiscal were comfortable with that. Then, the Treasurer's Office did go and look at—to see if the forecast for interest rates were enough different that it would require them to adjust their forecast for this meeting and they decided that they did not. Fiscal and Budget we're still comfortable with the Treasurer's Office forecast, that's why you see no differences for that forecast.

So then, the Other Revenue section, again, there's really not much change there to discuss except for Unclaimed Property. When you look at the forecast, you can see that Fiscal is the highest one. What you see in the Technical Advisory Committee's Consensus Sheet is the average of the Agency and Fiscal's forecast. So, rather than averaging over all three—because what averaging does is gives each forecast one-third weight, versus 50/50 weight. So, as Budget and Fiscal, when we went through this last time, we did that 50/50 weight between Fiscal and the Agency's forecast because you can see Budget's, after working through it went with the Treasurer's forecast, excuse me, the Treasurer's Office is the agency responsible for administering the Unclaimed Property Program.

So, the reason why the Fiscal forecast is going up by what the approximately, I think, $6 million, is FY '18 was a pretty good year, in terms of the receipts that came in, in relation to the—the outflow, right. Because that's what the unclaimed property, it's a net thing. Right, we're collecting unclaimed property that's being remitted to the Treasurer's Office and then, they're—people either find themselves or the Treasurer's Office is out there with programs trying to help people find themselves to get the property back to them.

So, what you're looking at each year is how much came in and how much went out. And so, the forecasters are looking historically at what goes on. So, when I saw '18 last time, it was like, gosh can we really do that level again? So, I didn't think so. So, that's why I had the forecast of approximately $26 million last time. Looking at where we are year-to-date and what's in and what might go out, you can now say I've revised my forecast up to approximately the $32 million. So, averaging—and, Treasurer's Office, theirs changed slightly in terms of them looking at the year-to-date and doing the methodology that they do the forecast and thus then you can see the result in the TAC Table is the result of averaging the Agency's forecast and Fiscal's forecast, so those two forecasts get 50/50 weight. So, thus, what it results in is about a $2.4 million upward revision in FY '19, but slight downward revision, $1.3 million and $1.7 million in FY '20 and 2021.

So, that's sort of, I think concludes the revenue items in these tables for this body's consideration under Agenda Item No. 4, Chairman and Members of the TAC.

Mark Krmpotic: Could the Agency come forward and discuss their Unclaimed Property revision?

Tara Hagan: Good afternoon. Tara Hagan with the Treasurer's Office. What we did is we—our major holding period, in terms of when the holders are reporting to us is in October. So, obviously, we have closed that. So, we did see a pretty good jump, a $10 million jump in the business category. What we generally have to do is, since a lot of those holders come in, they get put into that business category and then redistributed, some of them in the financial, the majority I would say, in the financial industry, institution, GL in there.

So, we anticipate that $40 million that came to the business to be downgraded a little bit but we do think overall we're going to see higher total deposits. We do think overall we're going to see higher total deposits. That's mainly because in 2016, the national regulations for the unclaimed property which affects all 50 states made some major revisions. So, you know, if you have like a Bank of America, Wells Fargo, they're hearing about these changes both at the national level and at the state level over and over since 2016. So, we do think that there's just more holder reporting. Not—sometimes there used to be a resistance in holder reporting. We think some of that's gone away. Then what we see is, we also look at the total claims. So, generally we see those total claims staying at about, 50-51% of total deposits. So, we do see an increase in the total deposits, but then we also expect that to go hand-in-hand and have an increase in the claims, hence the decrease in the biennium for the total transfer to the General Fund.

Mark Krmpotic: Questions from Committee Members? Thank you.

Russell Guindon: So, Mr. Chairman, that again, concludes the information that is staffed to this body was wanting the percent under Agenda Item No. 4. So, I didn't know if you wanted me to go on to Agenda Item No. 5 or if you wanted to wait and do the discussion and possible action under this Agenda Item now or just wait and get the full information set and then come back and for the action?

Mark Krmpotic: Do Committee Members have any questions on the information presented thus far?

There were no questions.

5. Review and Approval of Final Forecasts for Various Tax Credit Programs That May be Taken Against Certain General Fund Sources for Presentation to the Economic Forum at the December 3, 2018 Meeting **(For possible action)**

Mark Krmpotic: Let's go ahead and go into the discussion of the tax credits and then we'll consider all forecasts after all that information is presented.

Russell Guindon: Okay. Thank you, Mr. Chairman. So, you can just stay on the sets of tables that you have. I will go through again for the returning Members and for Ms. Walker that you can see that there's lots of gray areas in this table. They will get filled out. This bottom section will get blessed by the Forum and hopefully as this body takes action today.

When you go look at the FY 2018 actual, you actually see for Gaming Percentage Fee and Modified Business Tax and Insurance Premium Tax, there are credits there, but in the forecast world, we don't put them there. Except for those tax credits we know are specific to a revenue source. So, I'll just go through and try and explain that statement by briefly going through the tax credit programs here again and then the difference.

So, when you're looking at the Film Transferrable Tax Credits Program, the first one, you can see that there was an upward revision of approximately $6.2 million in FY 2019, $5 million FY 2020 and $4 million in FY 2021. That was because, that for the October meeting, we have deadlines, such as this meeting has to occur and you have to post for Open Meeting Law. So, we were going to get together with staff from the Film Office so that we could talk to this one.

So, as a placeholder, we put sort of the statutory maximum which is $10 million per year but on the sheets as a placeholder for the last meeting. Since then, we have met with a representative from the Film Office to go through what film projects have applied, what have sort of been approved, what are either in the completion process, audit process, which ones have actually been awarded credits and so, after her taking the time to go through that with Fiscal and Budget, the $6,229,391, that's based on what they were able to provide as what's in the hopper, coming out of the hopper or actually been awarded. In fact, just this month, with the latest month of the gaming taxes that were released by the Gaming Control Board yesterday, there was $275,000 worth of Film Tax Credits taken.

Remember, these are the transferrable type. Which the transferrable ones is that, they're only eligible to be taken against the Gaming Percentage Fee Tax and Insurance Premium Tax or the Modified Business Tax. So, if you have that liability, you can take it against them. If you think about it, if you're a film company, you only have probably one of these taxes that's in play, the Modified Business Tax. Unless of course, you're a gaming company, an insurance company producing a film. Otherwise, so then what we see is generally, these film taxes are transferred and they end up getting transferred to be taken—declared and taken against the Gaming Percentage Fee Tax. There has been a relatively small amount of the Film Tax Credits that the entity actually did take it against their Modified Business Tax, but generally, we're seeing these transferrable type taken. So, that's what these numbers are. And then, as talking through again with the Film Office, there was the, I think, the comfort level to put the $5 million on the sheets for FY 2020. The $6 million on the sheets for FY 2021.

So, the Economic Development Transferrable Tax Credits, again, same way. When you see the word transferrable, it's the same story that I just told about what they can be used against, how they work. So, here, we actually—the audit was done for the period ending June 2018. So, they're able to go out and see the actual number of qualified employees that they had and each qualified employee gets a tax credit worth $12,500. With that then, we could true up how much tax credits will be issued for that and they were actually just taken against the Gaming Tax that was released yesterday, approximately $6.1 million, from memory, was awarded to Tesla and they were taken. So, you can see there's sort of—it can happen pretty quickly in terms of the credits being awarded, declared against their tax and then transferred and then taken against the tax return.

So, what basically the forecasts on the sheets for this item in October was that we didn't have the audit yet. So, again, staff in the Governor's Office of Economic Development, GOED, worked with us to get what we thought it might be, so we're truing up against the audit. So, because of that, it means we had to add $352,000 to FY '19 and then take it off. The amount that's actually in FY 2020 is what we call the residual. This program will—Tesla will exhaust their statutorily allowed maximum tax credits in FY 2020. Because we believe that based on the information we saw from this latest audit and again talking to staff from GOED that most likely for the audit ending in June 2019, when they can actually go do the audit and qualify employees under the statutory provisions, they will have enough employees to exhaust the remaining tax credits that are available under this program.

The Catalyst Account, we have no different information. So, that forecast didn't change.

The New Market Jobs Act, this is the one that again, it's specifically taken against the Insurance Premium Tax. This is where insurance companies can make contributions to qualified community economic development agency or something like that and then they go invest that but then they can get tax credits for their contribution. So again, this isthere's no changes because we get good information from the Department of Taxation on this one to be able to track it and then, our forecasts have been really good for this one because, right, we just know how much is out there and we know the insurance companies and what they're taking.

So, why you see, when you look at the actual forecast and not the difference, why you see FY 2020 going down and then there's nothing in 2021, it's the same story as Tesla. They're exhausting the tax credits for this program in FY 2020. Now again, there could be some residual amounts that show up in 2021, in the real world, but our best information at this point in time, that it's unlikely that event will actually occur.

The Education Choice Scholarship Tax Credits – we have no information different than the information set we had last time, so, there's no changes. Again, remember this is the one that an employer can make a contribution to a qualified tuition scholarship organization and then get dollar-for-dollar tax credit back for that, but they can only be taken against their Modified Business Tax liability. Again, for those that when you look at, why is FY '19 so high and then it's come down, the Legislature approved an additional one-time $20 million for this program in FY '19, but you didn't see the full amount taken—well, that's because if they're all—based on the information available to us from the Department of Taxation that the total amount was allocated, it just hasn't been taken yet. They can carry them across from one fiscal year to another.

So, you can see, as we've discussed, that the interesting nature of these tax credits, that they can create for forecasters and bodies like this and Economic Forum is that, you think it might happen in this period but hey, it doesn't. Well, it doesn't mean it goes away. You just know that liability is still out there and you have to go figure out how much is out there. Then add it to the potential liability for the next year. Then—right—you keep making a guess and then you true up and you make a guess and you true up.

I think the really good thing for this body, the Forum and the forecasters is, at least the two major tax credit programs, when this body gets together two years from now, we won't have to be talking about Tesla and New Market. So, our jobs should get a little easier for forecasting. So, with that, Mr. Chairman and Members of the TAC, that's the information that I wanted to present on the tax credits. If there are any questions on the tax credit program itself or the forecast, please let me know.

Mark Krmpotic: Could you indicate the agency, which agency provided the forecast in each of these cases, for each of these tax credit programs?

Russell Guindon: Really, the information set was coming from, say, GOED, the Governor's Office of Economic Development and Department of Taxation. Then it was Fiscal and Budget that worked through to get the numbers that you see on the sheets. Again, sort of circling back with the Agency. So, that's an easy question but not so easy to answer but it really is Fiscal and Budget's numbers that you see in the sheets. Again, utilizing information principally from—well, excuse me, the Gaming Control Board, Department of Taxation are telling the actual amount of credits that they see getting taken against these taxes and then from GOED, we're getting how much is being awarded. Also, from Taxation, for some of the programs, they're also the ones telling us how much has actually been allocated or awarded, as well as taken. So, that's the information set that's available and the process that's used for the tax credits.

Mark Krmpotic: In the case of the Film Tax Credits, the numbers on the sheet would represent actual tax credits taken against that revenue. Could you just briefly explain to the Committee the process that takes place from the point in time when maybe the tax credits award versus when they're actually recorded as anti-revenue, if you will?

Russell Guindon: Yes. So, with the Film Tax Credit Program, an entity would come apply to the Film Office or GOED to apply for—hey, they're going to come here and do a production or something that qualifies under the law as an eligible production. They sort of put, hey here's what we're going to do, here's what we think our spend is going to be. Under the law, there's jobs, above the line, below the line jobs as well as, other spend that you can earn tax credits on. So, they put together that proposal and if it's approved, then they allocate an amount of tax credits for that project. So, it comes off the amount that's available as being allocated. So, then they can take possibly awhile, right, to go do the shoot and then go into production and post-production and then the audit has to be done.

So, that's what we do see with these film tax credits is that, there can be sometimes a substantial delay. Sometimes even as much as 12 months or more between, hey they came in and they got approved by GOED for a certain amount—they were allocated a certain amount of tax credits but then when they come back and the audit is done, they may not get that full amount, right, because they didn't do the spend that they thought they were going to do in their proposal. So, they don't get more than what was approved, but sometimes they don't get what was allocated. Then, anything that was allocated but not awarded goes back into the hopper as available to be approved.

So, that's the process that you apply, you're allocated, you go do your thing. Then, after your done, then there's an audit done. GOED reviews the audit. There's a certification of the actual amount of credits they earned. Then again, they're awarded the tax credit certificate. Then they can either—they have to declare them against the revenue source they're going to take. So, they have to declare it. If they declare it against the MBT and want to use it themselves, then they would. If they declare it and can't use it, then they go out and transfer it and then it gets taken by the person that it was transferred to.

So, what we see on this program, there can be a delay between the application and the actual awarding of the credits. Generally, we see once they're awarded, declared and transferred, they're taken really pretty quick. We can see that all happen within a month.

Mark Krmpotic: Questions from Committee Members? Ms. Walker.

Mary Walker: Mr. Guindon, this is going back to the Education Choice Scholarship. Just some background—a background question. So, when the Legislature appropriated the $20 million in additional funding for this, so was this a one-time thing of $20 million flat or is there an ongoing allocation in the future?

Russell Guindon: The $20 million was one-time. I apologize, I should've gone through it. This program was originally approved in the 2015 Session. It started out at $5,000—excuse me, $5 million and then it went up to $5.5 million. Then, thereafter, it goes up by 10% a year. So, then what you actually had is credits available in FY '18 would've been, it was about $6 million, taking and growing the $5 million by the 10%, plus you added the $20 million one-time. So, you had $26 million available. Then what's happening is, the $20 million goes away, but that 10%. So, that's really what you're seeing on the sheets of the forecast is, of the $26 million, there was $23 million taken and then you're carrying over that into the next year—whoops, sorry, I'm on the wrong column. There's about $16 million of the $26 million taken in FY '18. Then you're carrying that forward, plus the amount that's under the law that was approved in 2015, which is the 10% growth factor. So then, by the time you get to 2020 and 2021, you're seeing just the 10% growth portion.

Mary Walker: Okay, thank you very much.

Mark Krmpotic: So, with these tax credits, where approximately $16 million was taken in FY '18, and the forecasters forecast about $18 million in FY '19. That's the combination of what's remaining from the $26 million plus the base amount times 10% growth each year?

Russell Guindon: Yes. It's the carryover from '18 and plus the amount that's under the law authorized for FY '19.

Mark Krmpotic: Is the amount that's authorized under the law, can that be carried forward as well?

Russell Guindon: Yes. All of these programs basically allow anything that's authorized but didn't get awarded—excuse me, get allocated—to try and use the vernacular. Allocated that, somebody came and applied and got approved, versus awarded means they actually did what they're supposed to do and they got a tax credit certificate. Our transferrable, except for the Catalyst Account can't be—any amount that was authorized for a fiscal year that isn't allocated doesn't carry forward. The other ones, it does. The good thing with this educational choice, again, from the Department of Taxation, they're able to tell us, if that $26 million, it just all didn't get taken.

So, we're pretty comfortable with the numbers on the sheets. Especially when you go, if they could get all the $26 million allocated and you know it's good, then probably you shouldn't be too uncomfortable that they can get to the $7.3 million and the $8.1 million out there in 2020 and 2021, if they can get to $26 million.

Mark Krmpotic: Any other questions? Ms. Jones.

Cindy Jones: Thank you, Mr. Chair. Mr. Guindon, regarding the Catalyst Account, if I'm reading this correctly, it shows that the credits were $355,000 in '18. What do we think is going to result in that substantial increased amount over the out years?

Russell Guindon: We were provided information by the Governor's Office of Economic Development, GOED, as to the entities that have come in and applied for this program. So, the number in FY 2019, again, that represents stuff that was probably allocated and/or actually awarded in FY '18 but it didn't show up in '18 so it's being carried forward into '19, plus the amount that's authorized for '19 based on again, information that they're telling us that they have people that have applied, they have people in the hopper, they have people that they've allocated. So, that's why you see the amount that the actual amount in '18, that's all that was taken was the—there was more that was authorized. So, but based on their information, we believe that it's carrying forward.

Then, the FY 2020 and the FY 2021 amounts are basically, those are—it's the statutory maximum that's allowed for those. Again, our general rule is, if we don't have information that we really think gives Budget and Fiscal comfort, that we'll put the statutory maximum on the sheets because we think that's probably the fiscally prudent thing to do, in terms of for the State's General Fund, is that if they're willing to accept this liability then you put the liability on the sheets. That's why you can see why we originally put the $10 million on for the film, but after working with the Film Office and getting information, we had the comfortable level in bringing it down to the $5 million or $6 million range.

Mark Krmpotic: So, the Committee's been presented with both the final revenue forecasts for selected General Fund revenues, for presentation at the Economic Forum at its December 3rd meeting and also, the review and approval of final forecasts for various tax credit programs. I would remind the Committee that the action taken by this Committee today is as a recommendation to the Economic Forum. The Economic Forum has the ability to change that if it desires.

So, prior to taking any action, Mr. Guindon, could you summarize the bottom line for us, of all these forecast changes?

Russell Guindon: Yes, I think that's probably easiest, Mr. Chairman, looking at Table 7 that was provided to you. Again, it tries to roll sort of the bigger ones up, so they're easier to look at. So, what you see in that table on the left hand side is the label for the specific revenue source. Then, you have for the current biennium, the 2017-19 biennium, you see the FY '18 actual there and then the forecast for the revenue source that's in the TAC Table that was presented to this body from the FY '19 column there, for both the revenue sources and the tax credits. Then, for the 2020-21 biennium, the next biennium, you see the forecasts for FY 2020 and FY 2021. That again was in the TAC Table that was presented. Then, finally on the right hand side, you see it rolled up for the biennium. Then there you see the biennium difference.

Basically, the biennium difference here for the 2019-21 biennium is approximately $119.3 million more for the revenue sources and the tax credits that this body is forecasting. I think, as we observed last time, one of the interesting things is that, so the revenues you can see there, total all sources forecast by the TAC is $18.8 million less in the next biennium compared to the current biennium. Well, you can see the major driving force for that is the Governmental Services Tax and that's why we put it on the first line. Why? Because that's the statutory that it's only a revenue source under law for the current biennium, not the future biennium. So, that's a $41.8 million hit. Then you can see, the rest of the revenue sources.

I think the interesting observation for me is, you then go down to the bottom block of this table and see that the net effect of the tax credits is $138.2 million more for the next biennium then the current biennium. Again, principally because you can see that the Economic Development Transferal Tax Credit Program, i.e., the Tesla Tax Credits is phasing out and as well as the New Markets Job Act Credits. So, you can see that they're adding approximately $93.9 million and $38 million to the sheets for those two tax credit programs alone. So, the net, as you're—right, the minus $18.8 million for the revenues and the plus $138 for the tax credits is the net $119.3 million.

Again, this is slightly—this is about $11 million less than what this body was forecasting for the next biennium last time. Principally to, because bringing up '19—and not really revising, and again, when you looked at the Difference sheets, you can see, I think the revision for the 2019-21 biennium, between the forecasts presented today and the forecasts last time is less than $1 million. It's minus $866,000 for the FY 2020 and FY 2021. But it's approximately $10.3 million higher for FY '19. And right, the vast majority of that is on the revenue side, it's the unclaimed property. Then it's about a $6.6 million upward revision for the tax credits, principally due because of the Film. We went from the $10 million down to the $4 million, so you picked up the $6 million.

That, Mr. Chairman, I hope addresses the question about sort of where are we once you sort of pull everything together in terms of what the forecast presented for this body's consideration in terms of the current biennium and the next biennium and also compared to what was presented to this body and approved by this body in October.

Mark Krmpotic: Thank you. Are there any further questions from Committee Members? The Chair intends to take a motion on both the revenue forecasts and the review and approval of the various tax credit programs. The motion would be to approve what was presented to the Committee with the changes that—the bottom line changes Mr. Guindon just discussed with the Committee along with what was changed on the bottom line from the October 31st meeting. So, at this time, the Chair would accept a motion. Ms. Walker?

Mary Walker: So moved, Mr. Chairman. Move to approve.

Paul Nicks: I second.

Mark Krmpotic: All in favor say aye. Motion passed unanimously.

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 entertain any public comment?

Speaker: We have no public here.

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

Mark Krmpotic: Seeing none, this meeting is adjourned. Thank you very much. Thanks very much to the staff for all the hard work you put into updating your forecasts.