

Nevada's May 2017 Economic Forum

WHAT IS THE ECONOMIC FORUM?

The Economic Forum is a state-mandated panel that convenes periodically to submit revenue projections for the General Fund—Nevada's major operating fund—to the Governor and the Legislature. It is a five-member committee drawn from the private sector, with three members selected by the Governor and one nominated by each the Assembly and Senate.

The Economic Forum meets in December of even-numbered years to provide forecasts for the unrestricted revenue portion of the General Fund. That forecast is binding on the Governor's Recommended Budget for the forthcoming biennium. The Forum meets again in May of odd-numbered years, during the Legislative Session, to submit revised projections for the General Fund's unrestricted revenue. These forecasts are binding on the Legislatively Approved Budget. Two additional meetings—one in December (odd-numbered years, e.g., 2017) and June (even-numbered years, e.g., 2018)—are held to update the status of actual General Fund revenues relative to forecasted amounts.

The forecasts rely on global, national, and statewide economic indicators. The Economic Forum projects expected revenue for each statutorily-required source that is deposited in the General Fund. These revenue sources may be subdivided further into two categories: major General Fund revenues and non-major General Fund Revenues. A major fund is one in which its "total assets, liabilities, revenues, or expenditures/expenses... are at least 10 percent of the corresponding total for all funds of that category or type." Non-major General Fund revenues include all other taxes; licenses; fees/fines; use of money and property; and other revenue collected by the State. The distinction between major and non-major General Fund revenues is important, as members of the Economic Forum's votes on each major revenue source are carried out on an individual basis, whereas non-major revenues are grouped together for a single vote.

HOW DID THE ECONOMIC FORUM'S PROJECTIONS CHANGE FROM DECEMBER 2016 TO MAY 2017?

The Economic Forum revised its overall forecast upwards between December 2016 and May 2017. Unrestricted General Fund Revenue, net of Commerce Tax credits and other tax credit programs, is projected to be nearly \$8 billion for the upcoming biennium (that is, FY 2018 and FY 2019). The forecast is roughly \$95.8 million higher than the December estimates, for a 1.2 percent increase. Economic indicators suggest that the Silver State's economy is healthy: wage growth is approximately four percent; there are strong gains in housing and construction; and private sector growth is the fourth-fastest nationwide.

However, while aggregate revenue is expected to increase in accordance with these positive economic signals, not all sources of revenue are projected to do so. We disaggregate the Economic Forum's May forecast, below, into revenue summary categories and major fund revenues to examine the trends.

Revenue Summary Categories

Table 1 presents the Economic Forum's General Fund revenue projections, by source, at the summary category level, for December 2016 and May 2017. Between December 2016 and May 2017, the Economic Forum projected all tax categories to increase, with the exception of the sales and use tax, with a downward projection of \$1.7 million (0.1 percent decrease). Of non-tax revenue, only use of money/property and other revenue enjoy forecasted increases. In contrast, licenses and fees/fines are expected to decrease.

Table 1. Economic Forum: General Fund Revenues, by Source—2017-2019 Biennium

Description	Biennium Total (FY 2018 and FY 2019)		Dollar Difference	Percent Change
	December 6, 2016 Forecast	May 1, 2017 Forecast		
<i>Taxes</i>				
Total Mining Taxes and Fees	\$89,002,600	\$91,765,000	\$2,762,400	3.1%
Total Sales and Use Tax†	\$2,463,741,000	\$2,462,068,000	(\$1,673,000)	-0.1%
Total Gaming Taxes—State†	\$1,553,470,400	\$1,571,074,100	\$17,603,700	1.1%
Total Live Entertainment Tax (LET)†	\$258,934,000	\$269,444,000	\$10,510,000	4.1%
Total Commerce Tax*	\$371,139,000	\$381,022,000	\$9,883,000	2.7%
Total Transportation Connection Excise Tax	\$39,001,000	\$43,667,000	\$4,666,000	12.0%
Total Cigarette Tax*	\$337,936,000	\$342,732,000	\$4,796,000	1.4%
Total Modified Business Tax (MBT)*	\$1,289,768,000	\$1,311,075,000	\$21,307,000	1.7%
Total Insurance Taxes†	\$790,446,500	\$809,052,200	\$18,605,700	2.4%
Total Real Property Transfer Tax (RPTT)*	\$172,415,000	\$176,351,000	\$3,936,000	2.3%
Total Other Taxes	\$337,585,000	\$345,928,000	\$8,343,000	2.5%
TOTAL TAXES—BEFORE TAX CREDITS	\$7,703,438,500	\$7,804,178,300	\$100,739,800	1.3%
<i>(Tax Credits)</i>				
Total Commerce Tax Credits	(\$177,070,000)	(\$181,786,000)	—	
Total Tax Credit Programs	(\$142,537,500)	(\$140,458,426)	—	
TOTAL TAXES—AFTER TAX CREDITS	\$7,383,831,000	\$7,481,933,874	\$98,102,874	1.3%
<i>Non-Tax Revenue</i>				
Total Licenses	\$269,213,000	\$265,334,200	(\$3,878,800)	-1.4%
Total Fees and Fines	\$125,675,100	\$123,473,800	(\$2,201,300)	-1.8%
Total Use of Money and Property	\$7,729,214	\$11,338,014	\$3,608,800	46.7%
Total Other Revenue	\$100,830,300	\$100,985,600	\$155,300	0.2%
TOTAL NON-TAX REVENUE	\$503,447,614	\$501,131,614	(\$2,316,000)	-0.5%
TOTAL GENERAL FUND REVENUES	\$7,887,278,614	\$7,983,065,488	\$95,786,874	1.2%

* Denotes major General Fund revenue.

† Indicates that major General Fund revenue comprises portion of the total: Total Sales and Use Tax includes Sales Tax; Total Gaming Taxes—State includes the Gaming Percentage Fee Tax; Total LET comprises both LET—Gaming and LET—Nongaming; and Total Insurance Taxes includes the Insurance Premium Tax.

Major General Fund Revenues

Before tax credits, major funds represent 85.6 percent of the Economic Forum’s forecasted General Fund revenue for the 2017-2019 biennium. Table 2 presents the Economic Forum’s major General Fund revenue projections, by source, for December 2016 and May 2017.

- **Sales Tax:** The Sales Tax is alternately referred to as the Sales and Use Tax or the State 2-percent Sales Tax. It is a tax imposed upon retailers at a rate of two percent on the taxable sale or use of personal property. The May 2017 Economic Forum estimates revenues from the Sales Tax to be \$1.7 million less than that projected in December 2016 for FY 2018 and FY 2019. With more information available since December, the projection is based on the expectation that taxable sales will grow at a lesser rate but will be offset partially by rising inflation and wage growth.
- **Gaming Percentage Fee Tax.** The Gaming Percentage Fee Tax consists of those fees due on taxable gross gaming revenues from non-restricted licensees, according to a progressive schedule: 3.5 percent on monthly revenue of up to \$50,000; 4.5 percent on monthly revenue in excess of \$50,000 up to \$134,000; 6.75 percent on monthly revenue in excess of \$134,000. The Economic Forum revised the Gaming Percentage Fee Tax forecast upwards since December 2016, for an increase of about \$17.9 million (1.2 percent) over the upcoming biennium.

Table 2. Economic Forum: Major General Fund Revenues, by Source—2017-2019 Biennium

Description	Biennium Total (FY 2018 and FY 2019)		Dollar Difference	Percent Change
	December 6, 2016 Forecast	May 1, 2017 Forecast		
Sales Tax	\$2,370,855,000	\$2,369,242,000	(\$1,613,000)	-0.1%
Gaming Percentage Fee Tax	\$1,497,535,000	\$1,515,436,000	\$17,901,000	1.2%
Live Entertainment Tax (LET)—Gaming	\$222,544,000	\$216,061,000	(\$6,483,000)	-2.9%
Commerce Tax	\$371,139,000	\$381,022,000	\$9,883,000	2.7%
Cigarette Tax	\$337,936,000	\$342,732,000	\$4,796,000	1.4%
Modified Business Tax (MBT)				
Nonfinancial Businesses	\$1,184,534,000	\$1,203,706,000	\$19,172,000	1.6%
Financial Businesses	\$61,191,000	\$61,191,000	\$0	0.0%
Mining Businesses	\$44,043,000	\$46,178,000	\$2,135,000	4.8%
Insurance Premium Tax	\$788,053,000	\$806,363,000	\$18,310,000	2.3%
Real Property Transfer Tax (RPTT)	\$172,415,000	\$176,351,000	\$3,936,000	2.3%
TOTAL MAJOR GENERAL FUND REVENUES	\$7,050,245,000	\$7,118,282,000	\$68,037,000	1.0%

* Before tax credits.

- Live Entertainment Tax (LET)—Gaming.** The LET—Gaming Tax is paid by licensed gaming establishments for their live entertainment events; the rate is nine percent on the admission charge. The LET—Gaming Tax witnessed the most significant decrease since the December 2016 forecast, at nearly \$6.5 million (2.9 percent). The projection was based on the Gaming Control Board’s estimates, which relied on known venue use, as well as expected visitor traffic and festival attendance.
- Commerce Tax.** The Commerce Tax is imposed on businesses with more than \$4 million in Nevada gross revenue in a given fiscal year but is levied only on the Nevada gross revenue portion above \$4 million, with rates varying by industry classification for the business. The Commerce Tax forecast increased by approximately \$9.9 million between December and May (2.7 percent).
- Cigarette Tax.** The Cigarette Tax is a per-pack (20 cigarettes) tax of \$1.80 that is pre-collected by the seller but is paid directly by the consumer as an add-on to the selling price. The Cigarette Tax is projected to increase by nearly \$4.8 million (1.4 percent) since the December forecast.
- Modified Business Tax (MBT).** The MBT is imposed on every employer who is subject to Nevada Unemployment Compensation Law, with taxes levied on taxable wages, defined as total gross wages, net employee health care benefits; rates vary in accordance with the business’s classification as a nonfinancial business (all taxable wages exceeding \$85,000 at a rate of 1.475 percent), a financial business (2 percent of taxable wages), or a mining business (2 percent of taxable wages). In dollar amounts, the MBT—Nonfinancial Businesses experienced the largest increase of any of the major General Fund revenues, at about \$19.2 million (1.6 percent), while the MBT—Mining Businesses increased \$2.1 million (4.8 percent). The Economic Forum retained its December 2016 forecast for the MBT—Financial Businesses. These projections are expected to hold even though, as of FY 2017, taxpayers receive a credit on the MBT in a given fiscal year of up to 50 percent of the amount of the Commerce Tax paid in the previous fiscal year.
- Insurance Premium Tax.** The Insurance Premium Tax is paid by insurers whose tax liability was at least \$2,000 in the prior year at a rate of 2 percent of net premiums (risk retention groups) and 3.5 percent of net premiums (all other insurers). The Economic Forum increased its projection for the Insurance Premium Tax by roughly \$18.3 million (2.3 percent) over its December estimate, despite uncertainty around the status of the Affordable Care Act (ACA) of 2010.
- Real Property Transfer Tax (RPTT).** The RPTT is a tax levied on the value of real property transferred from one person to another—the value of the transfer, exclusive of any encumbrance, must exceed \$100; rates vary by county size, with certain optional and additional taxes permitted in some counties. The RPTT is expected to increase over the December projection, for an upwards revision of about \$3.9 million (2.3 percent) to \$176.4 million.

WHAT ARE THE IMPLICATIONS FOR THE BUDGET?

The Ways and Means Committee in the Nevada Assembly and the Finance Committee in the Nevada Senate deliberate in joint subcommittees, who report their budget recommendations to the full committees, which then vote on individual departmental funding. After the agency budgets have been approved, they are rolled into five budget implementation bills for floor votes: the Appropriations Act, the Authorizations Act, the K-12 Education Funding Act, the State Employee Compensation Act, and the Capital Improvement Plan Act. All must be enacted before the regular session adjourns. After approval, the entire budget is referred to as the Legislatively Approved Budget.

However, the Nevada Legislature has discretion over the use of the additional \$95.8 million approved by the Economic Forum for FY 2018 and FY 2019. It is obligated to balance General Fund appropriations with General Fund revenues for biennial budgeting and must use the Economic Forum's May 1, 2017, forecast in so doing.

There is some leeway beyond this requirement that can affect the use of unrestricted General Fund revenue. For example, the Governor's Recommended Budget adds an extension of sunsetting revenue sources (General Services Tax [Depreciation]) and excess court assessment fees (not allocated to statutorily required programs) and institutes certain tax credit programs, beyond those approved by the Economic Forum, which results in total unrestricted General Fund revenue that is slightly higher than that approved by the Forum in December 2016. Were the Nevada Legislature to adopt the Governor's recommendations for this portion of the General Fund, total unrestricted General Fund revenues would amount to just over \$8 billion.

The additional \$95.8 million approved by the Economic Forum could raise the Governor's Recommended Budget from about \$26.1 billion to approximately \$26.2 billion, for a 0.4 percent increase. But the Legislature may or may not appropriate the total unrestricted General Fund revenue available in its entirety. For the 2015-2017 biennium, the Legislature approved certain tax credit programs after the Economic Forum met in May that required a downward adjustment to the unrestricted General Fund revenue projections. Revenue enhancements passed by the Legislature augmented the General Fund, as well.

For more about the Guinn Center, visit www.guinncenter.org, call 702-522-2178, or email: info@guinncenter.org.