MINUTES OF THE
JOINT MEETING OF THE SENATE COMMITTEE ON REVENUE
AND THE
ASSEMBLY COMMITTEE ON TAXATION

Seventy-Sixth Session
March 17, 2011

The Joint Senate Committee on Revenue and the Assembly Committee on Taxation was called to order by Chair Sheila Leslie at 1:15 p.m. on Thursday, March 17, 2011, in Room 4100 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda (Exhibit A), the Attendance Roster (Exhibit B), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/76th2011/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

SENATE COMMITTEE MEMBERS PRESENT:

Senator Sheila Leslie, Chair
Senator Steven A. Horsford, Vice Chair
Senator Michael A. Schneider
Senator Moises (Mo) Denis
Senator Mike McGinness
Senator Joseph (Joe) P. Hardy
Senator Elizabeth Halseth

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblywoman Marilyn K. Kirkpatrick, Chair
Assemblyman Harvey J. Munford, Vice Chair
Assemblyman Elliot T. Anderson
Assemblywoman Teresa Benitez-Thompson
Assemblywoman Irene Bustamante Adams
Assemblyman John Ellison
Assemblywoman Lucy Flores
Assemblyman Ed A. Goedhart
Assemblyman Pete Livermore
Assemblywoman Dina Neal
Assemblywoman Peggy Pierce

Assemblyman Lynn D. Stewart
Assemblywoman Melissa Woodbury

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None

STAFF MEMBERS PRESENT:

Russell Guindon, Principal Deputy Fiscal Analyst
Joe Reel, Deputy Fiscal Analyst
Michael Nakamoto, Deputy Fiscal Analyst
Cyndie Carter, Committee Manager
Mike Wiley, Senior Committee Secretary
Gayle Rankin, Committee Secretary
Mary Garcia, Committee Secretary
Olivia Lloyd, Committee Assistant

OTHERS PRESENT:

Jeremy Aguero, Principal Analyst, Applied Analysis

Chair Leslie:
[Called the meeting to order. Roll called.] This is our time to hear a presentation from our good friend Jeremy Aguero from Applied Analysis. He is going to give us an overview of Nevada's economic structure and government revenue system. We each have a copy of the presentation (Exhibit C). Good afternoon. This is the first time I have seen you this year.

Jeremy Aguero, Principal Analyst, Applied Analysis:
Good afternoon. It is a pleasure to be here. I was asked to prepare a presentation for you—a general overview of our state's economic structure and a brief discussion on our state's revenue structure as well. I will try to walk through the handout. I have broken my presentation into two component parts. The first is the state's economic structure. The second part I will cover deals with the state's fiscal structure.

If we talk about our economy overall, there are really three ways to view the economy. One, in terms of its structure, is based on gross state product. That is how much we produce as an economy. The second is our employment, shown in the middle chart on the fourth slide (Exhibit C). The chart on the far right deals specifically with how much we, as a state, generate in personal income.

Every one of these charts says the same thing. Our economy has grown tremendously between 1970 and where we are today. We led the nation in almost every category of growth during this entire period, and it is reflected in every one of these charts. On the far right of every one of these charts, you will see a dip, which is the recession that began in December 2007. In some areas of our economy, it still continues today.

On the next slide (Exhibit C), top of page 3, if you look at annual gross state product during the 1970s, 1980s, 1990s, and 2000s, you see that, in every one of those decades, Nevada exceeded the national average in terms of how rapidly our economy was growing—that is to say how much we were producing as an economy. During the 1970s, the United States grew 10.5 percent while Nevada grew by 13.6 percent. During the 1980s, we grew by 10.2 percent while the United States grew by 7.9 percent, and so forth. When we come to the decade of the 2000s, we grew by 5.7 percent while the United States grew by 4 percent.

To the far right of that chart, we and the nation go into a recession. For us, the peak leading up to the recession was higher, and the decline was lower, than what the nation as a whole saw. This is what we have all felt and recognized in terms of our overall economic performance. Gross state product is not the only indicator, but it is a key indicator. It is reflective of what we have seen historically. We have been on a growth rollercoaster over the past decade, with arguably the greatest period of growth in our modern history and the greatest period of decline in our modern history happening in a ten-year span.

On the next slide (Exhibit C), bottom of page 3, if we look at growth in gross state product between 2000 and 2009—the most recent data we have—even with the loss we have seen, we still rank among the nation's top states. Nevada is shown in blue. Wyoming and Alaska expanded a little more rapidly than we did, but we still grew at a rate well exceeding the national average during that period.

Our economy has certainly changed during this period. The next chart (Exhibit C), top of page 4, shows goods-producing and service-producing

elements of Nevada's economy. Of course, our state's economy has been dramatically different from the nation as a whole in terms of us being more services-dependent as opposed to more goods-dependent. Other areas of the United States manufacture more goods than we do, so they tend to be more goods-producing. Unfortunately, the data for Nevada only go back to the 1970s.

If we look at this a little differently though, and we look at the nation as a whole, it is probably a bit more meaningful as it is shown in the next slide (Exhibit C), bottom of page 4, which illustrates personal consumption. That is to say, how people spend the money they have either on goods or on services. In 1947, all the way on the left-hand side of the chart, we were spending about 40 percent of our income on services, and about 60 percent of our income was spent on goods.

On the far right-hand side of the chart, which is as close as we can get to today, the fourth quarter of 2010, those numbers have dramatically flip-flopped. That is to say, our economy, as a nation, is much more dependent on services today, with roughly two-thirds of our expenditures going toward services versus goods, which represent only about one-third of our aggregate expenditures as consumers.

This is a dramatic change for our nation. I realize we are looking at several decades. The lines for goods and for services cross in the late 1960s to early 1970s. But the structure of who we are, both as a nation and as a state, has changed dramatically over the past several decades. It is absolutely reflected in everything we see, whether it is our economy or our fiscal system. I will build on that a bit more as we go through this.

Senator Horsford:
Can you elaborate on what is meant under the category of "goods" and what is meant under the category of "services"? Can you give us some examples?

Jeremy Aguero:
Sure, I can give you any number of examples. Goods would be things we manufacture: forks, knives, sheets, clothes. Any of those types of things would be money we are spending on goods. Services would be anything we buy that requires someone to come and get it. I hire the services of a lawyer and those types of things.

How our economy has changed is where this gets very interesting. I remember talking to my daughter who likes to download music off of iTunes onto her

iPod Touch. I remember going to Tower Records and flipping through the records and buying CDs. I do not quite remember 8-track tapes, but I remember records. We have changed the way we consume things today. We consume all kinds of services, whether it is cable or Internet, whether we download a song off the Internet, or whether it is services from folks who provide lawn services or pool services or those types of things. We do more of that today than we did a decade ago, two decades ago, or three decades ago. What we know is that more of our disposable dollars—the money we have in our pockets—is going toward buying things that are services, and less of it is going toward buying goods. That is just the way our economy has evolved.

Senator Horsford:
So, that is a major shift. We went from 61 percent being goods-based in the early 1950s to only 33 percent being goods-based today. At the same time, the services went from 40 percent in the 1950s to more than 66 percent today. I understand what you are saying, that the types of products people are buying today are different from what they were yesterday. That is a major shift, and I just want to know some of the dynamics that contributed to that over time. That is almost 60 years of major shift.

Jeremy Aguero:
I think it is almost everything you buy. In terms of the dynamics in that shift, I think it is just how consumers are spending their money and how businesses are delivering services today. If I can deliver something, be it the news over the Internet, I am going to do that as opposed to doing it on paper. If I can deliver a book on an iPad, I am going to do that as opposed to doing it on paper. The dynamics, in terms of how we spend our money overall—I would not just call that a major shift. I would call that an entire change in the way we deliver services. We in the United States do not manufacture nearly as much as we used to. The demand we have is different from what it was before.

I can try to walk you through a few more examples if you want me to, but I think the things we buy now, from a movie on DVD to downloading that movie off Netflix or getting a service to deliver music or any of that type of thing, it is in almost anything we do these days.

Assemblywoman Pierce:
Also, I think it is important to note that the beginning of this is 1947, so there was a lot of pent up buying from World War II.

Jeremy Aguero:
Absolutely. That is a great point.

This next chart (Exhibit C), top of page 5, is wildly busy, and I would not expect you to spend a lot of time with it. What it shows, though, is an important precursor to what I am going to show you in a moment. On the left-hand side of the chart is Nevada's employment distribution. On the right-hand side is the employment distribution of the United States of America. You can see some very important differences there. These numbers are all current, but as we walk through my presentation, I will show you how they have changed over time.

You will notice, though, that there are areas where we have substantially larger or substantially smaller concentrations of our workforce. The one that stands out more than any other is leisure and hospitality, representing 27.8 percent of our workforce here in Nevada versus less than 10 percent of the workforce nationwide.

We can look at any of these categories. In some we have gotten closer to the mean, and in others, we have moved further away. Manufacturing, for example, represents only 3.3 percent of our economy where nationwide it is 9 percent of the aggregate economy.

This was just to set the stage for how we are different from the nation as a whole. Now I am going to introduce you to a concept called the location quotient. It is a mathematical formula that compares where our economy is concentrated versus where the nation's economy is concentrated. The next four charts cover the location quotients for Nevada in 1980, 1990, 2000, and 2009.

When I show you the charts, if you see something that says 1 or 100, however you want to look at, that means we are exactly on par with the national averages. If you see something higher than 1 or 100, that means we are higher than the national average. If something is lower, then we are lower than the national average.

The first chart (Exhibit C), bottom of page 6, shows our gross state product location quotient in the 1980s. What does this tell us? Anything on the right-hand side of the little red line means we have a greater concentration of that in Nevada than the nation as a whole. Anything on the left-hand side of the little red line means we have a lower concentration of that.

So, in the 1980s, we had 2.5 percent more of our economy concentrated in services than the nation as a whole. Of course we would. Tourism is a huge element of our aggregate economy. Construction shows 1.7, so 1.7 percent more of our economy was in the construction sector. Retail trade was a

little higher. In mining, wholesale trade, agriculture, forestry, fishing, and manufacturing, we were a little lower than the national average.

Chair Leslie:
Why were we lower in mining? What kind of mining are we talking about?

Jeremy Aguero:
It could be any type of mining—coal, any type of materials, any of those things nationwide.

Chair Leslie:
So all those are aggregated into that figure?

Jeremy Aguero:
That is right. What you will see when we jump forward to 1990 is that the sectors change, and that is how the data are reported. Mining increases dramatically in terms of how it is classified and how our mining economy grows versus the nation as a whole, which saw some reductions overall. Nonetheless, when we get to 1990, mining in Nevada is 2.7 times. Services are 1.8 times, and construction and retail trade are still above the average. The categories that were below the average continue to be there.

By the time we get to 2000, some of the categories begin to be fleshed out a little bit more. We get detail on leisure and hospitality, which represents five times the national average and shows just how concentrated our economy really is in hotels and casinos. Construction and mining still remain above the national average, where almost every other category is either at or below the national average overall.

In 2009, where we are today, we see we are very similar to where we were in 2000. Leisure and hospitality are a little bit lower, but still dramatically over the national average. Construction, mining, and financial activities are above the national average, but other major sectors of our economy are still substantially smaller than what we would expect if we were to look like the national average.

That is gross state product—the idea of productivity. Let us now look at that in terms of employment, which is maybe a little more than an intuitive indicator of how our economy, overall, is structured. This next chart (Exhibit C), bottom of page 8, shows employment growth overall for the State of Nevada. Over the last three years, we have shown negative employment growth. Before that, we really only had one period in the 1980s in which our employment actually was negative.

The spikes we see in the 1990s and most of the 2000s are what it looks like to be the fastest-growing economy in the United States for the better part of a two-decade period. That was an incredible period of expansion, adding a lot of jobs. On the far right is what it looks like to be the fastest-declining economy, in which we have lost more jobs on a percentage basis than anywhere else in the country.

In the next 11 charts, I have broken out a few of the economic sectors. This first one (Exhibit C), top of page 9, is accommodations, or hotels and casinos, as a percentage of our workforce. You can see that, in the mid-1990s, we peaked out at almost 19 percent of the state's workforce contained in hotels and casinos. You can see it then dropped down but is now starting to work its way back up.

Construction shows a much sharper upward trend and a much sharper downward trend in terms of the losses to our economy overall. At the statewide level, it accounted for more than 10 percent of our economy in 2006. Today it represents less than 5 percent of our economy.

Manufacturing has also shown signs of decline, as has wholesale trade. Retail employment has declined. Mining has picked up as the economy overall has increased, but today it only represents about 1.25 percent of our overall economy. Other areas where we have actually seen significant growth, in terms of our economy overall, are places like business and professional services, which represented less than 8 percent of our workforce in 1970 but today represents more than 13 percent.

The education and health services sector has changed along the same lines. Representing less than 3 percent of our economy in 1970, education and health care represent more than 8 percent of our economy today and have dramatically increased during most of the last 40 years.

Chair Kirkpatrick:
You could almost see, when we were building large casinos, that those ancillary industries tended to grow as we were making big strides in our state in certain industries. Is that a fair statement?

Jeremy Aguero:
Yes. I have a great chart, which I did not include in this presentation that shows the correlation between major hotel/casino openings and the expansion of our economy. Interestingly, particularly in southern Nevada, where 90 percent of our employment was coming directly outside of hotels and

casinos, employment peaked every time major hotels and casinos came on line until, of course, this last wave of development when the trend went exactly the opposite way. Your analysis was absolutely right.

Chair Kirkpatrick:
Does that hold true with the other industries within our state? I see that manufacturing has consistently grown a small amount over time.

Jeremy Aguero:
These are not growth rates. They are what percentage of our jobs is made up of manufacturing. What this says is that in 1970, 3.5 out of every 100 workers in Nevada were employed in the manufacturing industry. Today, that number is less than 3. If we want to look at the growth rates of these individual industries, I will show you in just a minute where the new growth has come from.

However, your analysis of where we saw that rise in employment—I am not here to suggest what caused it to happen, but, certainly, when major hotels came on line, we invested in office, industrial, and retail development. We had jobs to fill those spaces that were created.

Chair Kirkpatrick:
Is it just as easy to define that with some other of our core industries within the state?

Jeremy Aguero:
It is much more difficult from the standpoint of what is driving our economy today. When we had this conversation five years ago, we knew what was driving our economy. Tourism and construction were driving our economy. Today it is much less clear where that new growth is going to come from. Ninety percent of our employment growth over about the past 15 years has come from industries other than hotels and casinos as we have diversified our economy to some extent.

Chair Kirkpatrick:
My point is that we often focus on one industry, but the ancillary businesses actually tend to drive a lot of the further employment and the use of services as we add new hotels and casinos.

Jeremy Aguero:
Sure. To that end, I have not shown the indirect and induced impacts. I have shown you, for example, what the accommodation sector makes up in terms of

its direct employment. If we were to include all the supplier purchasers that have jobs as a result of those jobs existing, if I was to show you that when a hospitality worker goes home, goes to see the doctor, goes to a grocery store, goes to a gas station and spends her money, it creates jobs, it would be about twice what I am showing you in that particular chart (Exhibit C), top of page 9.

You can only count each job one time, so you have to be careful about that because there are also multiplier effects for other industries. As we start reducing, though, we are getting a pretty good view of which of our core industries are able to stabilize and which ones are falling off as the demand that was originally sourced to another industry just is not there any more. In today's market, and really over the past 24 months, people are losing their jobs because other people have lost their jobs. That is something on which it is tough to stem the tide.

These charts (Exhibit C), page 12, show us where the escalations were. Business and professional services are growing. Health care is growing as a share of our economy. It is important to note that although things like accommodations may be falling, even within our economy things have changed. Hotels and casinos do not own as many of the restaurants as they did before. As a result, the number of outside service providers, whether providing restaurants to individuals or to visitors who come to Nevada every year, has been growing dramatically, even through the recession.

Government employment, which used to represent nearly 20 percent of our state's workforce during the 1970s, represents about 10 percent of our workforce today. If I fast-forward and show state and local government, you see the degree to which federal government and the military played a much larger role in the 1970s and 1980s. The numbers for state and local government and government overall have come much closer to each other.

Assemblywoman Neal:
Could you give me three examples of what constitutes the professional and business services sector? It is going to decline, but what has that sector encompassed during the past 12 months?

Jeremy Aguero:
Remember, what I am showing you is a percentage value. If something is declining more slowly, it is going to make up a greater share. Things in that sector, though, include professional and technical services—architects, engineers, lawyers, accountants, design and development professionals, and

those types of things, and such things as data warehouse supply companies that provide server farms.

Technical services would be included in there. The people I call when my computer breaks would be in there. All those sectors of the economy would be included under that broad umbrella of business and financial services. In addition to that, things such as mortgages, banks, and bankers would be in the financial services world and would fall under that category as well.

That is not to suggest they have grown. It is only to suggest that they now make up a larger share of our overall economy. In the next four slides, I will show you which sectors of our economy have actually grown.

This next slide (Exhibit C), bottom of page 14, shows our employment growth over the past 20 years.

Senator Horsford:
Where is the government sector as a percentage compared to the national average?

Jeremy Aguero:
It is dead last.

Senator Horsford:
What does that mean?

Jeremy Aguero:
We have fewer state and local government employees per 1,000 population than any other state. I do not know where we stand with regard to the federal government, but it is pretty low. I will show you that in a moment.

Senator Horsford:
Government employment includes teachers, nurses, case workers—anything that is classified as a local or state employee, including university employees.

Jeremy Aguero:
Yes, it would include all of those. It is anyone who does not work for the private sector.

Chair Leslie:
How long have we been last?

Jeremy Aguero:
I would have to go back and look at those figures. I know we did trend analyses over the past ten years for a report we did recently, and I think we were last or close to it during most of those years. I can show you where we are versus the national average when we get to the employment location quotient portion of this.

Assemblyman Goedhart:
Do you also have a corresponding chart that does not break it down as far as a share of employment, but in terms of payroll dollars as a share of total payroll dollars?

Jeremy Aguero:
I am sure we could create a chart that showed the share of total payroll dollars.

Assemblyman Goedhart:
It would be good to see that and then overlay that versus the employment chart we have here to see how that compares to the rest of the country. We would not just be looking at the number of people, but at the amount of money being paid in the different sectors.

Jeremy Aguero:
I can give you a brief answer if you like. If we look at the total number of employees, it tends to be low. If we look at the average salary, it tends to be high. If we look at the amount we are spending in terms of wages and salary, it tends to be right about in the middle.

Assemblyman Goedhart:
That is my point. Thank you.

Assemblywoman Pierce:
Are we attributing this downward trend in government employment to a loss of federal people? Can you flesh that out?

Jeremy Aguero:
Sure. It is not a loss of federal folks, per se. But the federal government, in terms of employment, has not been increasing at the same rate as the balance of our economy, so it has become a smaller and smaller share of the overall total. Both federal and military have grown at a substantially slower pace than our overall economy, and state and local government employment specifically.

Assemblyman Anderson:
Could you follow up briefly on that question about salaries? Are you including local figures or just state? Is there a difference between state and local salaries?

Jeremy Aguero:
Yes. I am not sure I would know exactly how the workforce distribution breaks out, and I cannot say I recall the analysis of where the total wage and where the wage and salary payments are. However, directly in answer to the question of state versus local government wages and salaries, I believe the last analysis we did showed that state government employees are about 105 to 107 percent of the national average. Local government employees are paid about 127 percent of the national average.

Assemblyman Livermore:
Going back to your first couple of slides, which showed the transition of purchasing, are people typically purchasing what government workers may have provided, or are they purchasing from the private sector—downloaded material, accessed information, availability of all these potential services you can seek nationwide or even worldwide?

Jeremy Aguero:
This is an incredibly insightful question. I will get to the element incomes, and I will show you that for services, particularly those such as medical services that are delivered by the government, the demand has increased dramatically over the past 30 years in terms of what is being delivered by the government as a percentage of our total income—sort of that third way of looking at it. When we get to that part, I will stop, and we can have a conversation about that. I think it will be easier to explain when we have a chart in front of us.

Assemblyman Livermore:
I look forward to that.

Jeremy Aguero:
The next chart, "State of Nevada Employment Change by Sector" (Exhibit C), top of page 15, shows where our employment growth has been or has been sourced to over the past 20 years. This is one of the greatest charts we can show. Almost every sector of our economy except natural resources and mining, which declined somewhat during that period, has grown dramatically, adding thousands upon thousands of jobs. That is exactly what we like to see.

Over the past ten years, we start to see some red on our chart. In the past decade, we have actually lost construction jobs and manufacturing jobs compared to where we were ten years ago. That is akin to job growth plus decline for something like construction.

This is what I was indicating before. It is other sectors of our economy that have really been buoying us and pushing us forward. Education and health services have grown by almost 36,000 jobs over the past ten years. Government has grown by almost 28,000 jobs. Professional and business services and all those subcategories I mentioned a little bit ago have grown, as have trade, transportation, and utilities; leisure and hospitality; and other services. They are all on the positive side of the ledger.

During the past five years, this is where the wheels come off our economic wagon, if you will. We have lost 141,000 jobs over the past five years. Arguably, we have been affected as much as, if not more than, any other major economy of our size in the United States. We see a lot of red on this chart, with the impact on construction being disproportionate in comparison to the rest of our economy.

This is almost the opposite of the chart for employment over the last 20 years, affecting a lot of industries we believe to be core industries essential to the fundamentals of our economy today. Those that have grown over the past five years, that have weathered the recession somewhat better, are mining, government, and education and health services, which comes as a surprise to some people. We have continued to grow in education and health services even as the balance of our economy has declined.

This next chart (Exhibit C), top of page 16, shows just the past 12 months, and there is some good news here. It is sort of a good news/bad news chart. The fact that some sectors have seen positive growth over the past 12 months is something I could not have told you 12 months ago. That is very encouraging as I sit here today. Those sectors that are showing positive gains are education, leisure and hospitality, business and professional services, mining, and other services. Construction, utilities, and government continue to contract on the back end of this economic cycle.

I apologize for how much data there is in the next set of three charts, but I thought it an interesting way to look at where we are growing versus where the nation as a whole is growing. This is a shift-share analysis, and it looks at the growth rates over the past ten years and compares them against the United States.

If we look at the last ten years, the United States has lost almost 21 percent of its construction employees. In Nevada, we have lost 39 percent. In the information sector, which includes newspapers and the like, the United States has lost 28 percent of its workforce while we have lost 37 percent. I will let you go all the way through those, and this is helpful as a reference.

At the other end of the cycle, where the United States as a whole has seen growth—29 percent in education and health services—we have done even better with 54.3 percent. In natural resources and mining, we are about on par with the national average. In trade and transportation, we have grown while the nation as a whole has declined.

This shows us a number of things. It is one of my favorite charts (Exhibit C), bottom of page 16, because it indicates how our economy is changing a little bit differently from the nation as a whole. It tells us where the nation is growing versus where we are growing, and it helps us gain a little insight into our economy overall.

If I show you the same chart but only for the past five years (Exhibit C), top of page 17, you see very similar indications. Some are starker in terms of their order of magnitude. Over the past five years, construction nationwide has lost almost 30 percent of its workforce while we have lost roughly two-thirds of our workforce. Manufacturing and financial activities have been harder hit in Nevada. Education and health services, natural resources and mining have been positive and have followed a trend somewhat similar to the national average overall.

During the past 12 months, there is a lot more noise in the data here in terms of what is up and what is down. Construction is down. Natural resources and mining are at the top of the list. Nevertheless, this is a good way of looking at the way we are growing and whether it is more just us or whether it is national trends.

We talked before about these location quotients, and the next three charts show where the concentration of our employees is. I would argue this is a better way to look at this than that gross state product we looked at before. Not surprisingly, ten years ago, leisure and hospitality, mining and natural resources, and construction were industries where we had more than the national average. That is to say, under this chart (Exhibit C), top of page 18, we have 3.4 times more leisure and hospitality employees than the average around the entire nation. In manufacturing, we had one-third as big a percentage of the employees as the nation.

Five years ago, the numbers looked very similar. At present, our numbers are a lot lower than they were before. Our competitive advantage, our concentration, our dependence, if you will, on hotels and casinos, or leisure and hospitality, is less than it was a decade ago. That is not to say it is small. If I go back and look at government—I promised you before that I would mention government—right here it is 80 percent of the national average. If I go back five years ago, we were about 71 percent of the national average, so that is a little lower. We have been lower for some time.

This next chart (Exhibit C), bottom of page 19, is what is called a Hachmann Index. It is a relatively complicated mathematical formula. I am not going to spend a lot of time here, but what this chart is intended to show is how diversified our economy is—how close we are in every category to the national average. Imagine, if you will, that getting as close as possible to 100 would be a perfect score. We would be almost perfectly diversified if we got to 100. Economies like Salt Lake City, for example, are more diversified.

This chart tells us that we are more diversified today than we were a decade ago. That is a good thing, but this should not be confused with the idea that all this growth I have been showing you has left us with a diversified economy. That is clearly not the case.

On the next page (Exhibit C), page 20, this is Detroit, Michigan, the Motor City, known for auto manufacturing. If we look at the comparison charts (Exhibit C), top of page 21, we can see how relatively dependent we are on casinos and hotels, leisure and hospitality, versus how dependent Detroit is on auto manufacturing.

Next, we see the beautiful city of Seattle known for Boeing and aerospace design and development research. Aerospace manufacturing in Seattle, Washington, is roughly 6 percent of its economy, while hotels and casinos are roughly 16 percent of our economy.

Next is the city of Houston, Texas, known for oil and natural gas, which represents 1.8 percent of Houston's aggregate economy compared our 16 percent. Washington, D.C., is known for housing our federal government. Government in Washington, D.C., is roughly 24 percent of its aggregate economy while hotels and casinos in Nevada are roughly 16 percent. I would say that is a pretty fair comparison.

I also wanted to compare us with somewhere that is tourism related. Here is beautiful Honolulu, Hawaii, where tourism represents about 14.4 percent of its

economy while it represents 15.9 percent of ours. That is a much smaller economy, to be sure, but it has some level of dependence. To think about this in those terms, at least for me, is somewhat helpful.

The next subject is the third element I mentioned earlier. We talked about productivity, or how much we are producing as an economy. We talked about job growth, or where people are going to work every day. The third element by which we measure the structure of our economy is where we get our income from. The goal of an economy is not necessarily to have more people but certainly to have wealthier people overall.

The next chart (Exhibit C), bottom of page 27, shows personal income growth rates in the 1970s, 1980s, 1990s, and 2000s. Again, this chart is great. We are outpacing the national average in terms of personal income growth all the way through. We have a higher peak in 2000, we decline, and we are now showing some signs of recovery. It is great to have some signs of recovery on our chart.

But if we look at the distribution of where our income is coming from, this is where we get a sense of how the structure of our economy is changing. Earnings by place of residence—that is, I live somewhere, I go to my job, and I earn it—represents about 63 percent of our income. Dividends, interest, and rent, or earnings we get from money or property we put to work for us, represent about 22 percent of our income. Transfer receipts of individuals from businesses—this is to say some type of benefits I have to book as income from my business—represent about 0.2 percent.

Now we get into transfers from government. This goes to the question Assemblyman Livermore asked before. Government retirement and disability insurance benefits represent about 5.2 percent of our income. Government medical benefits represent 5.5 percent of our income. Income maintenance, such as Temporary Assistance for Needy Families and welfare benefits, represent about 1.3 percent of our income. Unemployment insurance is about 1.8 percent, veterans' benefits about 0.5 percent, educational training and assistance grants about 0.3 percent, and transfers from non-profits about another 0.3 percent overall. If we look at the next couple of charts (Exhibit C), bottom of page 28 and top of page 29, showing how that has changed over time, we can see the sources of our income in terms of order of magnitude.

Directly to the question Assemblyman Livermore asked, this next chart (Exhibit C), top of page 29, probably shows it better than any other. On the left-hand side is the percentage of our income coming from unemployment

benefits. We certainly would expect that has spiked over time, so there are no surprises there. We have a lot of people receiving those types of benefits. The right-hand side shows total government transfers from all government programs in terms of contributing to those services that are provided by government to consumers. Those include veterans' benefits, health care, and transfers that would otherwise have had to be supported by income that would have been earned and paid for. We see that, in the 1970s, it represents about 6 percent. Today, it is roughly 14 percent of all the income overall.

If we look at the differential, this next chart (Exhibit C), bottom of page 29, is somewhat interesting because it shows Nevada versus the United States as a whole—where we are the same and where we are different. What it shows is we are much more like the United States than we are different from the United States. Yes, we are paying more in unemployment insurance compensation. I highlight a few places where we are higher. We have a lot of productive property in the state. We have a lot of interest and earnings income that is going through. But overall, we are very similar.

That is the structure of our overall economy. That is our gross state product, our employment, and how our income is structured. With that, I would like to take a moment to walk through how our revenue system is structured. I will not spend a lot of time here, but I will show you some trends along the same lines.

This bar graph (Exhibit C), bottom of page 30, is our overall state budget. In 2001–03, it was $9.9 billion. For the current biennium, it is $16.7 billion. These numbers probably look a bit foreign in comparison to some others we have seen comparing our State General Fund budget. The State General Fund is the area that is shown in yellow on the next chart (Exhibit C), top of page 31. All of the other funds are the area in blue. The General Fund makes up roughly 39 percent of appropriations and authorizations for the budget as a whole.

Our discussion here today is only going to focus on the General Fund, but I do not want to leave you with the impression that those are the only revenues you deal with. Of course, there are gas taxes that go to pay for highway funds, and there are monies that go into the state Distributive School Account. I am not going to spend a lot of time on those, but instead, focus on the General Fund where most of the decisions take place. I would be happy to talk about more of the other funds if you would like, but again, the General Fund is the focus of my presentation today.

This next chart (Exhibit C), bottom of page 31, shows State General Fund revenues from fiscal year (FY) 1991 through what is projected by the Economic Forum through FY 2013. I have shown the biennium we are in today in blue. I have shown the upcoming biennium projection in orange. We have used the Economic Forum's projection as the best available data on what the expectation is of what those revenues will do.

In the next chart (Exhibit C), top of page 32, I have taken some of the blue off and indicated it with dotted lines. I think it is important to make the point that these revenues include increases in revenue that were passed by Legislatures past. The reason we have a substantial increase between FY 2003 and FY 2005 on the chart is because we passed a lot of new revenue sources during that period. If we took away the revenue sources that were passed by this Legislature the last go-around, revenues that come from taxes or deferrals or moving money from one account to another—I have not discriminated in this regard—that is what the trend would otherwise have looked like.

If I go back a chart or two (Exhibit C), bottom of page 31, you can see a lot of growth in our revenue. This is not only the result of new revenue sources being passed. The bigger result is clearly due to increases in inflation. Costs go up so taxes go up. There is also the fact that we have led the nation in population growth for most of this period. As a result, we had more consumers consuming more things, buying more property, and, therefore, pushing our tax receipts up.

If I jump forward and adjust everything for inflation and for how many people were living in the state, you can see, in the next two charts (Exhibit C), page 33, that the trend is not nearly as upward as it was before. The dotted red line shows that the overall average is about $1,053 per person per year. What happens if I take away the revenues you passed last go-around is that it drops below that average. That is what we are dealing with today in terms of what we have had historically. The boom period we had was followed by the bust period. The orange bars show the projection for the next biennium. That is the overall picture of our revenue.

Where do our revenues come from? The left-hand side of the next chart (Exhibit C), top of page 34, shows Nevada's revenue sources as a percentage of total revenue. On the right-hand side is the United States average. This chart looks very similar to the one I showed you a while ago covering the employment shift-share analysis, but this deals with where our revenue sources are. In many places, we are very similar to the national average. Of course, there are some places where we are not similar to the national average. The amusement taxes, where we would see a lot of the gaming taxes included, are much higher than

the national average. By contrast, we do not have a personal or corporate income tax, which is much lower than the national average overall.

In terms of our revenue sources, this next chart (Exhibit C), bottom of page 34, is Nevada's growth between FY 1970 and FY 2009, with the growth rate shown on the side. Comparing this with the following chart (Exhibit C), top of page 35, which shows the same thing for the United States, we can see they are very similar. Revenues have grown. Inflation has expanded. All those things have occurred. Yes, the United States is doing a little better than we are now, but it did a little worse than we did during most of the preceding two decades. If we look at them in comparison to one another, you see Nevada's growth in major state tax revenues and the United States' growth in major state tax revenues. They follow a fairly similar trend overall. You also see the decline we witnessed in FY 2008 and into FY 2009 over the past decade. It has been a rollercoaster ride, to be sure.

If we compare those trends on a year-by-year basis, it is very easy to see the boom when we exceeded the national average. It is also easy to see the bust when we were much below the national average overall. If we look at inflation-adjusted per capita revenues, you see where we are versus where the nation is. They do not look that dissimilar.

If we compare the trends of the two over the past five years—on the bar chart five charts further on (Exhibit C), bottom of page 37,—we have dipped down harder than other states. Looking from FY 2005 to FY 2009 shows this contrast. That is how much we are generating in taxes—all tax revenues at the state level—on a per capita inflation-adjusted basis. We have been ahead of the national average, and we are now below the national average.

This next slide (Exhibit C), top of page 38, is a clear reflection of the trends we are seeing. It is also a clear reflection of the recession this nation and this state continue to deal with today. Those on the left-hand side are the revenue declines from state budgets that occurred during the last recession between 2002 and 2005, including the recession and the residual period following it. On the right-hand side is what we have witnessed during the current recession. The order of magnitude of these numbers is substantially different.

Forty-four states are dealing with budget shortfalls. The gray areas on the map (Exhibit C), bottom of page 38, represent those that are not. Those states which have been hit the hardest are shown on the next map (Exhibit C), top of page 39, in dark red. Those that have the smallest budget shortfalls are shown in pink. Those in the lighter red color are the states in the middle.

According to the Center on Budget and Policy Priorities, we lead the pack in terms of our budget shortfall for the 2012 period, as shown in the following table. I am not here to suggest these folks have the analysis exactly right, but at least it is a uniform way of looking at every state.

If those are our total revenue sources, and that is how we get our money, the third question we have to answer is how that money is performing for us today. The next pie chart (Exhibit C), top of page 40, shows how you get your State General Fund revenues. There are a lot of things on this chart. These are the big ones. You will notice that the two biggest pieces of the pie are the Sales and Use Tax and the gaming tax. Those are the biggest sources of our General Fund revenue, and we have used FY 2012 as an example.

I will walk through how these revenue sources have been performing. The next six slides cover the Sales and Use Tax, representing 25.5 percent, or roughly 25 cents out of every dollar we collect in revenue. The red line on the first two of these charts (Exhibit C), top of page 41, represents the growth; the blue represents what happened during the last session; and the orange represents where we are expecting it to go. There is a flattening expected by an improvement overall.

However, if we look at the order of magnitude and how taxable sales have been declining, it is dramatic. Certainly, consumers on the left-hand and middle of that next chart (Exhibit C), top of page 42, were spending more money than they actually had. The hard truth is that it is a lot easier to spend money you do not have than to pay back money you do not have. That is what we are dealing with today.

The good part of my chart here, however, is if you look all the way over on the far right-hand side and squint, you get to see the recovery. That is it. The one little bar up there is the recovery, and we want to see it continue. I have to find good news where I can get it, and this is in the chart showing Nevada taxable sales in trailing 12-month values.

I think what is really important here is whether or not it is keeping pace with our economy as a whole. That is the fundamental question that was presented to me. This next three charts show the total taxable sales adjusted for inflation on a per capita basis. What that is saying is over a 12-month period, we have historically generated about $17,000 in taxable sales for every man, woman, and child that permanently resides in this state. We were there for a nice long period of time, and those were good times. We are now under that curve. It is

starting to edge back up, and that is encouraging, but we are still under that curve.

Now, look what happens when I show you, on the last chart (Exhibit C), top of page 44, covering sales tax, the period between 2001 and where we are today. We are having trouble. It has been cyclical, and we are well beyond the line. Unless it is becoming less costly to provide services to residents, both state and local, we have less money to spread over a greater number of people. That is what we are dealing with now.

There are a lot of reasons for this trend. There are also structural changes to our economy. We buy more things over the Internet. We are buying more services, which are not subject to the State of Nevada sales tax. In addition, we also have fewer visitors coming for every man, woman, and child compared with what we had before. Our population has grown faster than our visitor volume, and therefore those expenditures that are subject to retail Sales and Use Tax are spread over more population. Fewer visitors are coming for you and me and my kids. That is the reason for those changes.

The next eight slides covering gaming taxes illustrate this in a starker format in terms of how our economy has changed, largely because of economic diversity. The first few charts show the same data for gaming taxes that were shown for sales tax, with how much we are generating, current biennium, and biennium to come, but I think it is easier to look at it like this. This chart, titled "Nevada Gross Gaming Revenues: Trailing 12-Month Totals" (Exhibit C), bottom of page 45, is the one we all love to look at. It shows the declines we have had over the past 20 years. The declines on the right-hand side do not seem to be that great in terms of order of magnitude.

However, if I adjust it for inflation and for the number of people we have here, going all the way back to 1990, we have generated about $5,208 in gaming taxes for every man, woman, and child who lives here. Because the gaming industry has expanded at a slower rate than the balance of our economy, the degree to which we can spread those monies over a greater number of people is less.

If I fast forward again, since 2000, you will see we have been below that long-term average for the better part of a decade and have been declining. We would expect this to continue to decline if our economy continues to diversify.

Going on to the chart (Exhibit C), bottom of page 47, showing the number of slot machines, that number peaked in about 2001 or 2002. The next chart

(Exhibit C), top of page 48, shows the number of table games, which peaked out in 2007. The way our economy is structured, it is changing significantly.

The next chart (Exhibit C), bottom of page 48, shows the Modified Business Tax (MBT), or payroll tax, which represents about 12 percent of our State General Fund revenue. It has changed a lot. We used to have what was called the business license fee, which was a $100 a head tax. We then created the MBT. We now have the MBT II which, when it goes away, will go back to the MBT I. You can see the differential between what we are collecting today versus what we will have on the other side of the sunset, assuming it sunsets at the end of this fiscal year as it will under current law.

The next chart (Exhibit C), bottom of page 49, shows our private sector employment in terms of what we have lost. Yes, it is flattening. No, it is not increasing dramatically. Not only are there fewer jobs, but workers are working less.

My presentation is peppered with good news. I have talked a lot before about this idea that people will give workers their hours back before they hire new workers. We have been waiting to see this trend. The last three months have shown us that if there is anything I can show you that is encouraging about the performance of our local economy—not to leave with any type of impression that we are out of the woods—is the fact that workers are getting part of their hours back. That is hugely encouraging for our overall economy.

The next chart (Exhibit C), top of page 51, shows the Insurance Premium Tax, which has been among our most stable revenue sources, even during the current economic downturn, and what is expected during the next biennium. The Live Entertainment Tax represents about 4 percent of our General Fund revenues. Again, it is very much the same chart (Exhibit C), top of page 52,—a decline followed by expectation of modest overall improvement.

Many other taxes contribute a small share, but I do not have enough time to go through them individually. They include room revenue; Cigarette Taxes; Liquor Taxes; liquor sold in Nevada; Real Property Transfer Tax, which is arguably the most unstable tax known to man; Governmental Services Tax; and new business entity filings for our Business License Fee. If I show them all to you on a single chart (Exhibit C), top of page 53, you can see ups and downs but mostly downs overall, particularly in the last few years.

That is an overview of the state's economy generally, how it is structured, and how that structure is affecting our state's fiscal system. With that, I would be happy to answer any questions you may have.

Chair Leslie:
Thank you for that great presentation.

Senator Horsford:
I want to understand the slide showing employment shift-share analysis for the past five years and the comparisons to the national average. Construction grew at a much higher rate in the past two decades in particular. That contributed to the 61.7 percent decline in the last five years. Can you elaborate on how, as a percentage, construction grew more than anywhere else in the country?

Jeremy Aguero:
Sure. We were adding more population; more employment; more office, industrial, and retail buildings; and more hotels and casinos than almost anywhere in the country. Nevada's economy was the most prolific in the United States. That led to a lot of construction activity.

During the 1980s and 1990s, our construction continued to grow. Although we had some ebbs and flows, it continued to march upward. When we got to the 2000s, we saw construction go up even further than we had seen before. In southern Nevada, it got up to about 12.7 percent of our employment. Overall statewide, it was more than 10 percent of our employment. To put that in contrast to the national average, construction nationwide historically represents somewhere between 4 and 6 percent of the aggregate employment. We were approaching three times the national average in construction.

I have made the statement—with all due respect to the construction industry and everything that goes along with it—that there was a point in 2006–2007 where construction workers were building houses for other construction workers. The sustainability of that was limited. We were ahead of the national average for the vast majority of that two-decade period. We were also maintaining vacancy rates in our housing units lower than the national average. We had office, industrial, and retail vacancy rates lower than the national average. We were reporting hotel occupancy rates in the 90th percentile. We were not just building those things, but people were occupying them.

Did we let supply outstrip the demand? You are absolutely right; we did. Now we are paying the price for it, with roughly two out of every three construction workers being displaced.

Today, roughly 5 percent of our employment is in construction, which is at about the national average. There is a big risk of two things happening. One is that those construction workers will start to migrate out of the state. Two is for us to have additional losses within that construction sector. It is not as though we have cut our construction sector to half of what it is nationwide. We are only down to the national average at this particular point in time.

Senator Horsford:
I do not want to go into another policy discussion for another committee. However, because 80-some thousand out of the nearly 200,000 unemployed people in the state are in the construction sector, if we were able to put some of those 80-some thousand back to work, what would that do for the overall economic picture in these three areas?

Jeremy Aguero:
It is something of a double-edged sword, with both edges being positive. On the one hand, you put those people back to work. Imagine if we could put those who are ready, willing, and able, from construction, the hardest-hit part of our economy, back to work on something that could be an asset, especially with construction prices being relatively low. When a construction worker goes back to work he spends his money, buys whatever he can afford, is able to keep his house, and all those types of things. He pays property tax. He pays sales tax. He pays all the other taxes out there. That is a positive.

On the other side of the ledger are all those things I showed you before in terms of the government programs that are now being leveraged in order to offset them. I think the average unemployment benefit is $16,000 to $17,000 per employee per year. Construction workers would come off of the unemployment rolls and go to the other side of the ledger. You win from both sides.

Not only are you putting the economy back to work, assuming you have something you want to build that will be an asset at the end of the day—roads, schools, jails, or whatever—but you are also taking them off of unemployment. In terms of the economic impact, I do not know that I could measure it for you today and say that every such employee would gain you $5,000. I do not know what that number would be, but in terms of reducing your cost and increasing your revenue, both of those would benefit as a result of putting those workers back to work.

Senator Horsford:
On the State General Fund revenue slide, does that dotted part include the state stabilization funding from the American Recovery and Reinvestment Act of 2009 (ARRA), or is that just the new revenues that were passed.

Jeremy Aguero:
Are you looking at the pie chart?

Senator Horsford:
No, I mean the bar chart for FY 1991 through FY 2013.

Jeremy Aguero:
Okay. These are General Fund revenues. Because the ARRA funds were not booked into the State General Fund, they will not be reflected there.

Senator Horsford:
I think it would be helpful if you could put that up because part of the problem is that people cannot agree on the number we are trying to fund. The number you show, then, if what you said is correct, is just the General Fund money which was the revenue increases from the 2009 Session, exclusive of the state stabilization funding which, except for $72 million, all went to education.

Jeremy Aguero:
I want to double check to make absolutely sure, but I do not think so. I think the only things I was showing in this particular chart were the one-time revenue sources that were booked into the General Fund. I may need to go through [the figures] because I think the number would be lower if I were to add that back in. I do not think it is included, which would only bring the numbers down. I know there were $644 million.

Senator Horsford:
Going forward to the next slide, if that does not include the state stabilization funding (ARRA), all but $72 million of which went to support education—kindergarten through Grade 12 (K-12) and higher—then those blue bars would be further down.

Jeremy Aguero:
I think that is absolutely the case.

Senator Horsford:
Finally, on the major tax revenue sources, Nevada versus the national average, where it showed the sales tax at 48.2 percent, is that sales tax on goods

compared to the national average of sales tax on goods, or does that include sales tax on services as well?

Jeremy Aguero:
That is only where the revenue is actually coming from. In Nevada, it would only include goods because our sales tax does not include services. We have one of the narrowest sales taxes compared to other places in the United States. This does not make any assumptions regarding base. The United States as a whole has a much broader sales tax than we have in Nevada, but Nevada generates more money from its more narrow sales tax base by having a slightly higher rate.

Senator Horsford:
Just so I understand this, we have an overreliance on sales tax on goods, which is narrow at a higher rate, and we are higher than the national average, which has a broader base and a lower rate.

Jeremy Aguero:
Yes, sir.

Assemblyman Ellison:
Back on the chart where you showed government transfers, does this include the stimulus construction projects that were used in the last two years?

Jeremy Aguero:
Probably not, because this is income to individuals. Those projects would have been transferred to governments and then transferred to business enterprises. What it probably does include—and I would have to go back and double check—is the other part of the stimulus that went to shore up the unemployment insurance benefits. I would expect that is in there. Going directly to your question about the stimulus dollars that were used to fund a roads project somewhere, for example, I do not think we would see the labor income coming through, because that would be private income that would be paid to an individual.

Assemblywoman Neal:
I am going back to your distribution of income chart. I have to frame my comments, and then there is a question at the end. The chart for distribution of income tells me four things. It shows me we are not economically independent; that we have not managed to create employers; and that we have an aging and a poor population, which lends to the sustaining of the health plus education and training services. It also tells me that when we discuss the accumulation of

wealth within Nevada, which could be personal income and within our capitalist system, we do not effectively participate or regenerate our people as competitors within the national market or the global market.

If we want a future of going forward, we need to take our talented people and shift them into being entrepreneurs who will then create a professional service and participate in the market instead of becoming just another wage earner within the market. It seems our issue is we are dominated by people who just earn a wage and do not necessarily actively participate. I believe that if we do this shift and do not promote the wage earner but actually a competitor in the global market, we will get our growth and revenue and personal income.

Do you see that? We have a history of service industry, period. If we take construction, which may never come back, and take their particular skills and say to them, "You may have the ability to become a professional service person in the industry and take your skill on a national level or a global level." Then we are shifting what they are currently doing and saying, "Do not seek another job, but seek to employ yourself. Seek to be an entrepreneur and a competitor in the market." Do you see that at all?

Jeremy Aguero:
Those two things, in my mind, are not mutually exclusive. The modern thought regarding economic development is that you do not abandon the industries that got you where you are today, but you seek multiple specializations. You try to find other ways to grow your economy around what you have today while supporting what has worked for you in the past.

What I got from the first portion of what you said is we need our children to be innovators. We need to be thinking about creating jobs. They need to be job creators, not necessarily job participants. I could not agree more with that. I think that is a fundamental underpinning of our economy's ability to actually diversify beyond the cage we are in today.

I do not disagree with your point at all about us being locked into some of that. We have to find what that other thing is if we are to move past it. What has worked for us in the past is not going to work for us in the future.

Assemblyman Munford:
I just want to make a point in terms of construction. I started teaching at Bonanza High School in 1976. There was not another high school built until 1991. From that point on, I lost count. You know what I mean. They just kept building and building. I think they now have 36 1A schools that have

a population of 800 students or more. You can see the growth in terms of schools built and how many jobs that produced. There were families with children, and that drew people to the community for jobs. We probably will never see that type of growth again in terms of schools being built. Do you foresee that?

Jeremy Aguero:
In the immediate future, certainly not. In the next decade, no. I do not think you will at all. I think you are absolutely right. People were moving to Nevada for economic opportunity, whether it was through retirement or it was to get a job. I think the bigger risk we have is whether, when that economic opportunity goes away, they will leave as well—whether we will have population out-migration, which will be the exact opposite of the trend that led to all those increases.

Assemblyman Munford:
Some of them are still here, though, drawing unemployment.

Jeremy Aguero:
Yes, sir. The idea was that when the economic opportunity went away, some of those people would leave as well. When we ask them why they are staying, they tell us three things. One is they are tethered to their homes, which is not a surprise. I think we would all expect that one.

The second response is that they stayed longer than they expected. They moved to Nevada, put down roots, had children, have a child in high school, or they moved their parents out to live here. This is their home now, and they do not want to leave. The third response we get from consumers that were displaced was that they just had nowhere else to go. Whether they were in the service industry or in construction or somewhere their job skills were not transferrable to where the jobs were being created, there just was nowhere else for them to go.

I think sometimes we forget, when I show you all those negative charts about employment growth and those types of things, that every state in the United States had negative employment growth during 2009. Today, roughly 32 states are showing positive employment growth, but we are not one of them. I think the risk of them leaving now is greater than it was.

The only reason I bring that up is to respond to your question. I do not think the risk is for a dramatic increase in the demand for new schools. I do not believe that is where any type of demand is going to come from. As a matter

of fact, I think the opposite could actually occur where we show a decline in the demand for those physical assets.

Assemblyman Anderson:
When I look at all these charts, I get back to one thought, "My gosh, we have to diversify the economy". That is the number one thing that keeps coming back to me. I feel that unless we do that, we are just rearranging deck chairs. Basically, my question is what are your thoughts on economic diversification? You see these numbers a lot. What do you think we can do?

Jeremy Aguero:
That is a long discussion I would be more than happy to have with you. In terms of all the things we could do regarding economic development, I think recognizing we have an economic problem first and a fiscal problem second is a big part of that. We need to diversify the economy in terms of attracting new businesses without getting away from things that have worked for us in the past. There is a reason we have been among the most prolific economies in the United States. Preserving the things we have done right while finding new areas of specialization is of key importance. I have about 1,000 thoughts on that that I would be more than happy to share with you at any time. I just do not know if it is appropriate to start going through that.

Chair Leslie:
I think right now we need to move on. Perhaps you could chat with Assemblyman Anderson after the meeting.

Jeremy Aguero:
I would be happy to do that.

Assemblywoman Benitez-Thompson:
On the slides where you have the breakout of Nevada's gross state product, is there a way within the data that you could separate out education and health services?

Jeremy Aguero:
I do not know the answer to that question because I do not know if we tried to look at it in that kind of detail. I will have to look into that. The data are incredibly granular and detailed, so we ought to be able to hunt that down and find it. Let me take a stab at that, and I will get back to the Committee.

Senator Hardy:
I was looking at the section where you compared Nevada to Honolulu, Detroit, Seattle, and all. I did not see an apples-to-apples comparison of Las Vegas to Honolulu or any of the other cities. The 15 percent gaming was for all of Nevada, was it not? Is that what Las Vegas looks like?

Jeremy Aguero:
Las Vegas is a little higher, at about 19 percent of the total. I have a report that shows that, but I was trying to be consistent between the charts in order to deliver the information. I can certainly provide that to you. We have done a report specifically on southern Nevada's dependence, whether through income, output, or number of visitors per thousand population compared to other states. I would be happy to deliver that. To directly answer the question, it would be higher for Las Vegas.

Senator Hardy:
This handout (Exhibit C) said we were about $40 million ahead of the Economic Forum's projection for this biennium. If we are projecting out how much we are ahead or how much we are behind, would that take into account the taxes that are going to sunset? And in the next biennium, are the projections on all the bar graphs without the sunset taxes?

Jeremy Aguero:
Those assume that all the sunsets take effect as is currently in state law. They assume those revenues do not exist in the next two fiscal years.

Senator Hardy:
With that assumption, do we have an idea how much we would have to pick up, based on the Economic Forum's projection, in order to bridge the gap those sunset taxes will create to arrive at a revenue-neutral position?

Jeremy Aguero:
Just to make sure I understand your question, with how much revenue we are generating today, how much more will we have to generate in order to make up the hole we know is going to exist under The Executive Budget, or do you want me to take out things like the securitization of the Insurance Premium Tax and the movement of the capital funds out of local government?

Senator Hardy:
Let me put this so I can understand it. If the budget is $5.8 billion, but the revenue is projected at $5.2 billion, how much more revenue will we need to get in order to get to $5.2 billion, as well as to the $5.8 billion?

Jeremy Aguero:
The question I think you are asking is much broader than that. It does not involve just those revenues that are going to sunset. It is all the things that are built into the budget. If we look at that, you are talking about needing growth rates of 18 to 20 percent a year to get back to what is being talked about in terms of expenditures and where we were before. I apologize if this is an inappropriate response; that is not what I intended it to be.

I have only looked at this in terms of what the Governor is proposing versus what is out there today. Those numbers are 13 percent a year just to break even by the time we get to 2013. If I subtract out those other pieces, you are talking probably about close to 20 percent growth a year in order just to get back to even.

Senator Hardy:
Are you talking about even being $5.8 billion or $6.2 billion or $6.8 billion?

Jeremy Aguero:
If we want to talk about where we were last legislative session, with a $6.6 billion budget, or what we actually spent, which was about $6.3 billion, or the Governor's budget of $5.8 billion, to me, all of those are important numbers. They suggest that is the entirety of the whole that you are dealing with, which is not the case. If the Distributive School Account, for example, comes down, the General Fund has to make up the difference. It is a zero sum game on the budget. If we look at a $5.8 billion budget not including any of the sunsets, how much would we have to go back to get to $6.5 billion or $6.6 billion? That is just the subtraction between those two numbers. Depending on which numbers you want to use, it is somewhere between $300 million and $600 million. But, I would not want to leave you with the suggestion that that is the shortfall that either exists today or would exist in 2013, because it is a lot bigger than that.

Senator Hardy:
So let me ask it even more simply. How much would we need in the way of revenue coming in to get to $5.8 billion? As I see it, the revenue we have projected with the Governor's budget is about $5.2 billion plus the other things that get us to $5.8 billion.

Jeremy Aguero:
Right. General Fund revenues are $5.33 billion plus $70 million. That is the number we have been working with. Others may have more of that in terms of aversions, which is $5.4 billion. That means you need $400 million to go from

what we have in General Fund revenues in order to make up the difference only in the General Fund, and only assuming $5.8 billion. I want to be clear; that does not include any of the lost money from the ARRA funds. That does not include the lost funds we will have in the Distributive School Account. That does not include any of the one-time measures that are being discussed. That is only the difference between what we are going to have in existing General Fund revenue sources and what is being proposed in terms of a $5.8 billion budget.

Senator Hardy:
This takes me back to my second question of $40 million ahead. Are we on track to make the $40 million ahead look like $400 million by the end of 2013?

Jeremy Aguero:
You asked for a ham sandwich, and I gave you the history of the pig. No, we are not going to do that.

Assemblyman Goedhart:
You have a slide here titled "Total State of Nevada Biennial Budget." That is matched on the other slide with the total State General Fund as a portion of the biennial budget. Our General Fund portion of that is 39 percent, according to your chart, and 61 percent comes from other sources. Are some of those other sources coming from the federal government?

Jeremy Aguero:
As a point of clarification, the State of Nevada's budget is the $16.7 billion. If we go back and look at the Fiscal Analysis Division's Appropriations Report for 2009, the one following the last session, that is the total amount of appropriations and authorizations not only for the General Fund, but for the Distributive School Account, the State Highway Fund, et cetera. Everything that goes into the budget, in its totality, was $16.7 billion.

With regard to what you are ultimately responsible for, I would suggest to you that it is the budget in its entirety. The only thing I discussed here today was the focus on the General Fund because those are the monies that most commonly get discussed in terms of providing services. Things like the State Highway Fund and the Distributive School Account only make the mathematics involved with the things you are responsible for or that make up the budget much more complicated.

Assemblyman Goedhart:
I have heard different anecdotal comments that Nevada is among the states that receive the lowest portion of the money sent to the federal government back from the federal government—somewhere around 70 cents or 72 cents out of every dollar we send. If we were just at the national median and got a dollar back for each dollar we threw in, how much more would that give to the state on a biennial basis?

Jeremy Aguero:
I can confirm. The last analysis we did in terms of us being close to last, if not last, in terms of monies coming back that we pay in, in terms of how much it would generate, was in 2001–2002, but I do not think I have done it since. If it would be helpful, I would happy to have an analyst work through what some of those figures were.

Remember, much of the federal money that comes back does so in the form of social security benefits, veterans' benefits, and those types of things. If you want to focus on grants or directed revenues for things like education, even that question gets a bit complicated. I am happy to show you what we have done and you can tell me what specifics you want to look at.

Chair Leslie:
Right. We are still 51st in per capita Medicaid spending, and that is how a good share of that federal money comes back to states that actually put up money to get money.

Jeremy Aguero:
Yes, Ma'am. We match less than other states do in almost every major category.

Chair Leslie:
Thank you. Okay, I think that is all the questions of the Committee except for Chair Kirkpatrick's.

Chair Kirkpatrick:
I just want to make something clear. On the employment shift-share analysis, in the past ten years it shows we had huge increases. For example, in education and health services, we had an increase of 45 percent while the national average was 28.9 percent. The chart shows where we were for all those individual pieces. If you go back to the growth, though, we would be consistent with what we were growing compared to the national average in order to have those employment shift changes. Am I correct?

Jeremy Aguero:
The first chart you were looking at only compares us against the national average. I think you have that dead-on accurate. With regard to the other chart, that shows where our actual growth was taking place. In some cases, those were consistent with the national average. In some cases we were different from the national average. Our economy was structured a bit differently from the nation's.

Chair Kirkpatrick:
I want to make the point that we did not just all of a sudden have all these extra employment shifts without having the need for it. As we were growing, our growth was consistent with the trends nationwide.

Jeremy Aguero:
Our economy changed a little bit. Our economy is a little different from other economies, but, to your point, our economy was growing and we were adding jobs in almost every sector out there. The answer to your question is yes. In some ways, the nation grew to look a little more like Nevada as opposed to Nevada growing to look a bit more like the nation. At least we sort of came together.

Chair Kirkpatrick:
That is what I thought. Thank you.

Chair Leslie:
Thank you so much for your presentation. We really appreciated it.

Is there anyone from the public who would like to comment in front of the two Committees? [There was no response.] All right, we will close the period of public comment. It has been a pleasure meeting with our colleagues in the Assembly, but it is time to go. This meeting is adjourned [at 2:45 p.m.].

RESPECTFULLY SUBMITTED:

_____
Mary Garcia
Committee Secretary

APPROVED BY:

_____
Senator Sheila Leslie, Chair

DATE: _____

_____
Assemblywoman Marilyn K. Kirkpatrick, Chair

DATE: _____

EXHIBITS

Committee Name: Senate Committee on Revenue / Assembly Committee on Taxation

Date: March 17, 2011 **Time of Meeting: 1:15 p.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Jeremy Aguero	PowerPoint presentation: "The Structure of Nevada's Economy and its State Revenue System"