

Hobbs, Ong & Associates APPLIED ANALYSIS

PUBLIC FINANCE

R E P O R T

This Public Finance Report includes current economic indicators, with observations on local government finances and the 2011 Regular Session of the Legislature.

CURRENT ECONOMIC INDICATORS

February 2011 gaming win decreased 6.8 percent compared to last year, and year-to-date percentage fee collections are running only 1.8 percent ahead of last year's total – a potential concern, since the state budget currently assumes a 4.4 percent increase in percentage fees. On the other hand, year-to-date taxable sales are 5.1 percent greater than in FY 2010, more than offsetting the slippage in gaming projections. If these trends hold, these two sources are together are running a scant \$15 million ahead of the Economic Forum's last projections for FY 2011. Other state revenues have shown mostly mixed results. Any notions that the state's budget

woes will heal solely through economic recovery should be put aside for the present. The Economic Forum meets May 2nd to re-project state revenues.

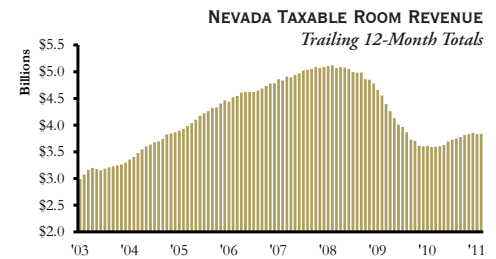
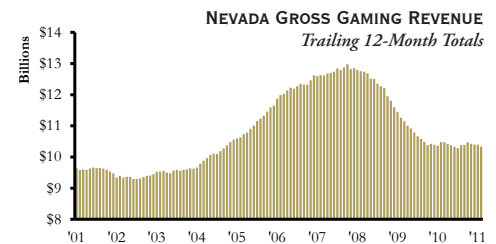
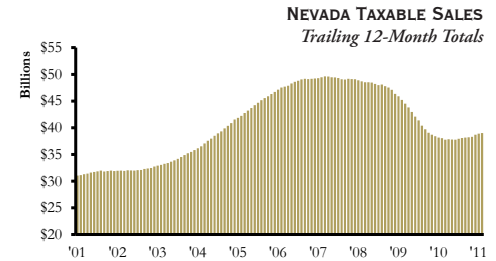
In March, Nevada's labor force grew by 10,400 workers, while the number of unemployed fell by 2,800, reducing the unemployment rate to 13.2 percent. The real good news was the addition of 13,200 jobs, hopefully signaling a reversal in job losses. Employers leading the advance in hiring were leisure and hospitality, and professional and business services. Construction employment continues to spiral downward, with little demand for new building given the profusion of low-priced existing housing and the high level of commercial vacancies. Despite some gains, Nevada's labor market is still the most challenged in the nation as measured by unemployment rate.

Closing prices for existing single family homes fell again in March 2011, reflecting a drop of more than 60 percent from peak levels, and a return to the prices of the 1990's. As a by-product, the number of new home closings declined 44 percent from the previous year, as homebuilders remain hesitant to generate new product while low-priced existing homes dominate the listings. In the commercial market for the first quarter, office, retail, and industrial vacancy rates in the Las Vegas metropolitan area were 24.0 percent, 10.4 percent, and 17.9 percent, respectively, with the latter two sectors worsening from the previous quarter as more square footage was vacated than newly

occupied. Office construction in progress is heavily concentrated in government, and government-subsidized facilities; and, therefore not indicative of sustained recovery in the economy as a whole.

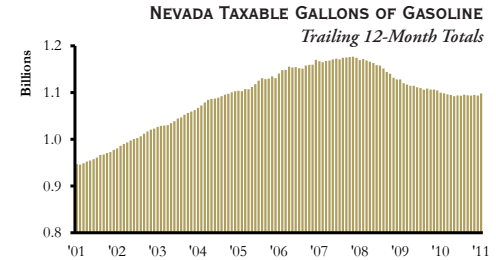
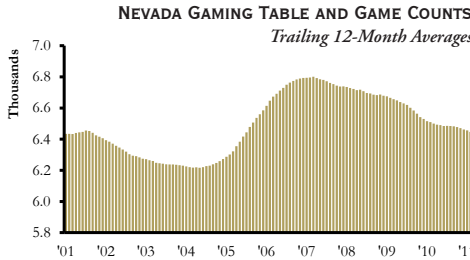
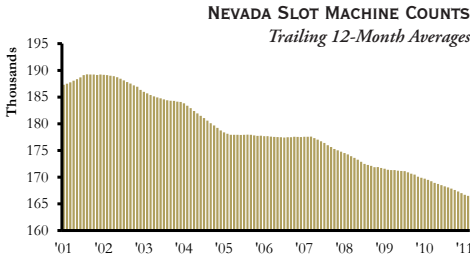
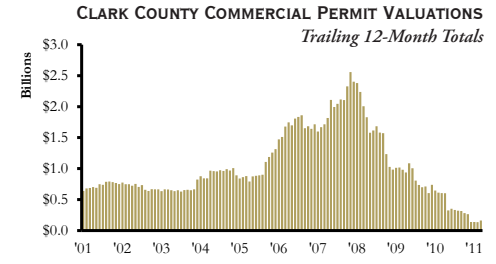
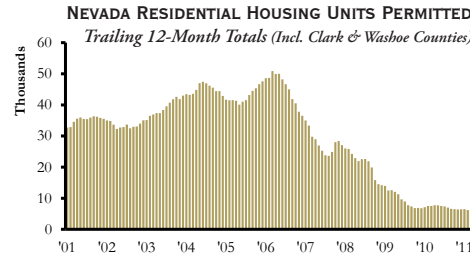
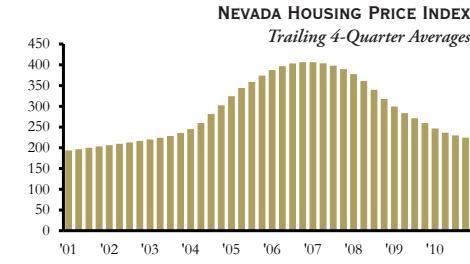
After declining in 11 of 12 months in 2010, McCarran International Airport passenger counts have risen in all three months of 2011, with the year-to-date total reflecting a 2.2 percent increase over last year. In addition, Las Vegas tourist visitation continues its gradual improvement, with a 4.8 percent year-to-date advance. However, spending per visitor remains

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TRAILING 3-Months/Quarterly Series	Most Recent Data Available	INDICATOR VALUES			GROWTH RATES	
		Current 3-Month Period/Qtr.	Previous 3-Month Period/Qtr.	Same 3-Months/ Quarter Prev. Yr.	VS. Previous Period	VS. Same Period Prev. Yr.
Nevada Taxable Sales (1)	Feb-11	\$9,996,045,613	\$10,169,833,996	\$9,281,929,299	-1.7% ▼	7.7% ▲
Nevada Gross Gaming Revenue (1)	Feb-11	\$2,597,718,687	\$2,537,987,410	\$2,689,241,824	2.4% ▲	-3.4% ▼
Taxable Rooms Revenue (1)	Feb-11	\$859,531,075	\$852,489,056	\$856,322,061	0.8% ▲	0.4% ▲
Nevada Housing Price Index	Q4 2010	218.6	223.3	240.4	-2.1% ▼	-9.1% ▼
Nevada Residential Housing Units Permitted (1)	Mar-11	1,496	1,499	2,069	-0.2% ▼	-27.7% ▼
Clark County Commercial Permit Valuation (1)	Mar-11	\$37,664,756	\$31,342,629	\$13,405,330	20.2% ▲	181.0% ▲
Slot Machines in Nevada (2)	Feb-11	166,203	165,848	169,522	0.2% ▲	-2.0% ▼
Gaming Tables and Games in Nevada (2)	Feb-11	6,403	6,380	6,499	0.4% ▲	-1.5% ▼
NV Taxable Gasoline Gallons of Gasoline (1)	Jan-11	265,580,000	268,170,000	260,860,000	-1.0% ▼	1.8% ▲
NV Private Sector Establishment-based Empl. (2)	Mar-11	952,133	954,067	949,333	-0.2% ▼	0.3% ▲
Quarterly Wage Payments	Q3 2010	\$9,767,582,914	\$9,520,200,014	\$9,748,977,986	2.6% ▲	0.2% ▲
Cigarette Packages (1)	Feb-11	27,997,800	30,252,600	28,835,100	-7.5% ▼	-2.9% ▼
Gallons of Liquor (1)	Feb-11	19,590,115	20,599,329	19,840,678	-4.9% ▼	-1.3% ▼
Estimated Value of Real Property Transferred (1)	Feb-11	\$4,909,120,927	\$4,981,263,927	\$5,252,952,327	-1.4% ▼	-6.5% ▼
Estimated Value of Vehicles (1)	Feb-11	\$2,027,543,004	\$2,099,417,207	\$2,161,003,919	-3.4% ▼	-6.2% ▼

NOTES: (1) Trailing 3-month totals. (2) Trailing 3-month averages.



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a question for the long term, as gaming establishments which rely heavily on the domestic market face steep challenges, compared to those whose holdings include operations in Asia.

LOCAL GOVERNMENTS

Although sales, gaming, and other tax revenues appear to have halted their precipitous downward trend, property tax revenues on which local governments rely directly and the state relies indirectly are expected to continue declining through next year, in some cases by double-digit percentages. For the past decade, local revenues have been targeted by legislators seeking to augment the state budget. Often, these proposals rode on one-sided conclusions that local taxes must be more “stable” than the state’s, because some local governments carried surpluses while the state faced fiscal distress. Flaws in this logic have now been exposed, as drastic declines in local property tax revenues are now locked in for future years by “caps”. Preliminary local budget deliberations for FY 2012 reflect an accumulation of layoffs, labor concessions, and curtailment of services. Clark County is dealing with declines of over 30 percent in property taxes, and Consolidated Tax receipts at levels not seen since 2004. The City of Las Vegas has reduced its employee count by 20 percent since 2009 and, after tapping reserves and capital programs, still faces a structural deficit next year requiring more cuts. Henderson has reduced non-public safety positions by 17 percent, reduced management compensation, and has cut a cumulative \$90 million from its operations to meet a 26 percent reduction in property tax revenue since 2009 and a 29 percent drop in Consolidated

Tax since 2006, with more reductions to come. North Las Vegas’ routine budget hearing has morphed into multiple town hall meetings to address a deficit amounting to 17 percent of its budget. The City of Reno has seen its pursuit of growth turn to circumstances so grave that supervision of its fiscal affairs may be taken over by the state.

Now that local revenue streams have proven no less vulnerable than the state’s, the reasoning by those supporting diversion of local money has evolved to a simple, “It’s there. We need it. Let’s take it.”

THE LEGISLATURE

Although about two-thirds of the 120 day session is in the rear view mirror, it cannot be said

the Legislature is two-thirds of the way toward completion. Legislators and lobbyists compare every session to its predecessors in terms of the challenges at hand – recalling events such as the “Tax Shift” of the 1980’s, calls for a “broad based business tax” in the 1990’s, and the tail-spin of 2003. The 2011 Legislature will surely take its place among those memorable sessions as a colossal collision of philosophies.

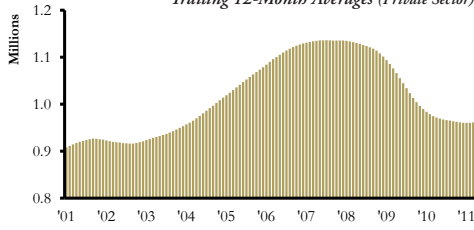
The fact that Nevada has the largest percentage budget deficit in the nation, when compared to the 2009 spending plan, has made the pieces of the fiscal puzzle impossible to assemble in the world as we have known it. As a result, each of the opposing sides has created its own puzzle, galaxies apart in size and composition – one widely circulated, balanced

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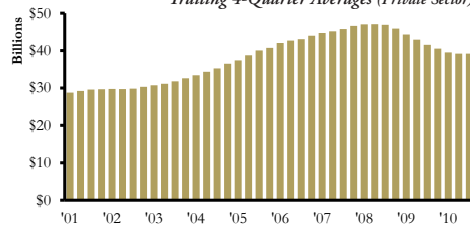
TRAILING 12-Months Series	INDICATOR VALUES				GROWTH RATES		
	Most Recent Data Available	Current 12-Month Period	Previous 12-Month Period	Same 12-Months Previous Year	VS. Previous Period	VS. Same Period Prev. Yr.	
Nevada Taxable Sales (3)	Feb-11	\$39,016,273,356	\$38,896,298,187	\$38,043,149,850	0.3%	▲ 2.6%	▲
Nevada Gross Gaming Revenue (3)	Feb-11	\$10,333,704,322	\$10,398,490,102	\$10,478,953,010	-0.6%	▼ -1.4%	▼
Taxable Rooms Revenue (3)	Feb-11	\$3,834,790,192	\$3,830,416,976	\$3,590,440,061	0.1%	▲ 6.8%	▲
Nevada Housing Price Index	Q4 2010	224.5	229.9	259.7	-2.4%	▼ -13.6%	▼
Nevada Residential Housing Units Permitted (3)	Mar-11	5,884	6,207	7,540	-5.2%	▼ -22.0%	▼
Clark County Commercial Permit Valuation (3)	Mar-11	\$161,694,598	\$134,340,698	\$604,121,062	20.4%	▲ -73.2%	▼
Slot Machines (4)	Feb-11	166,491	166,702	169,494	-0.1%	▼ -1.8%	▼
Gaming Tables and Games (4)	Feb-11	6,447	6,456	6,510	-0.1%	▼ -1.0%	▼
NV Taxable Gasoline Gallons of Gasoline (3)	Jan-11	1,098,290,000	1,093,620,000	1,099,960,000	0.4%	▲ -0.2%	▼
NV Private Sector Establishment-based Empl. (4)	Mar-11	961,308	960,525	974,633	0.1%	▲ -1.4%	▼
Quarterly Wage Payments	Q3 2010	\$39,176,385,634	\$39,157,780,706	\$41,504,672,497	0.0%	▲ -5.6%	▼
Cigarette Packages (3)	Feb-11	124,389,600	125,581,500	127,147,800	-0.9%	▼ -2.2%	▼
Gallons of Liquor (3)	Feb-11	88,155,287	88,378,798	88,840,909	-0.3%	▼ -0.8%	▼
Estimated Value of Real Property Transferred (3)	Feb-11	\$19,709,526,864	\$19,680,082,318	\$21,198,722,855	0.1%	▼ -7.0%	▼
Estimated Value of Vehicles (3)	Feb-11	\$8,711,532,784	\$8,746,825,103	\$9,285,421,922	-0.4%	▼ -6.2%	▼

NOTES: (3) Trailing 12-month totals. (4) Trailing 12-month averages.

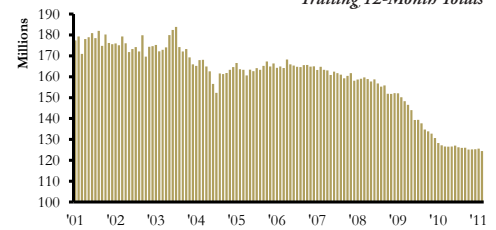
NEVADA ESTABLISHMENT EMPLOYMENT
Trailing 12-Month Averages (Private Sector)



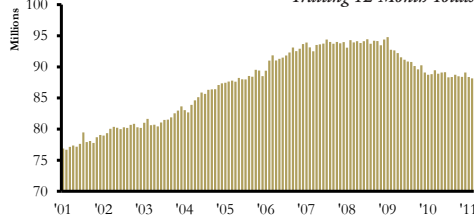
NEVADA WAGE PAYMENTS
Trailing 4-Quarter Averages (Private Sector)



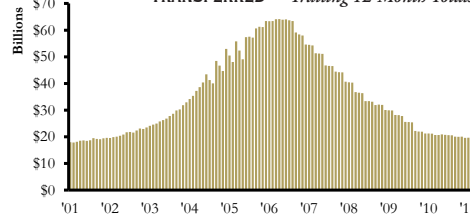
NEVADA CIGARETTE PACKAGES PURCHASED
Trailing 12-Month Totals



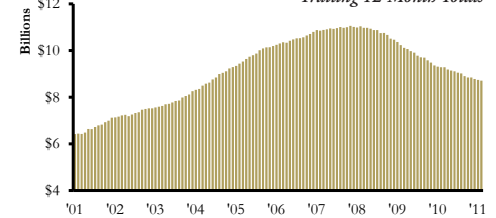
NEVADA GALLONS OF LIQUOR PURCHASED
Trailing 12-Month Totals



NEVADA ESTIMATED VALUE OF REAL PROPERTY TRANSFERRED – Trailing 12-Month Totals



NEVADA ESTIMATED VALUE OF VEHICLES
Trailing 12-Month Totals



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with more expenditure cuts and confiscation of funds earlier promised for other purposes, and allowing current taxes to be reduced: the other, a work in progress which tacitly targets restoration of the 2009 spending plan, with some cuts, and which pursues “revenue”. We have little time before the beginning of the fiscal year to find out whether resolute “shared sacrifice” will lead us to a new reality, or outrage over what may become the lowest per-student funding in the United States will win the day.

Nevada’s budgeting system provides considerable leverage to the Governor; who, on delivery of the Executive Budget, has first serve in the contest; who prescribes the agenda for special legislative sessions; and who, if positioned against revenue measures, is backed by the constitutional two-thirds legislative supermajority requirement. These mechanics can be advantageous to any Governor, but especially so if the executive sentiments lie on the prevailing side of the supermajority threshold.

In past sessions, compromises have been struck through “splitting the difference” on spending and taxes, exchanging votes on bills, and strategic distribution of “pork” appropriations. Though some may see these tools of legislative compromise as unsavory, they can facilitate closure if opponents are close enough to see each other. However, the 2011 participants are nowhere near one another on policy, and arguments over the definition of “cut” persist; based either on what was, what is, or what otherwise would be. The only two things confirmed so far are that the same numbers, selectively presented, can be cited as supporting

virtually any point of view; and that paying ongoing expenses with non-sustainable funding sources has not entirely lost its appeal.

It is not easy to write a screenplay “splitting the difference” between a world with no sunset revenue extensions and no new taxes; and one with anywhere from \$1 billion to \$2.5 billion in sunset extensions and new taxes, especially when one side says, “Will not trade.....” The supermajority requirement will not only be the pivot point for a vote on revenue, but may also draw other key issues into its vortex – collective bargaining, pensions and postretirement benefits, education reform, vouchers, tuition increases, private school funding, construction defects, and others. The choices will be harsh, as the currency of legislative compromise has never been so scarce. There is no money for “pork”, no property taxes for new buildings; and the prospects for exchange of support on critical bills may have been chilled by unflinching, high-stakes pronouncements made early in the session.

As of this report, 43 bills have been introduced proposing changes to Nevada’s economic development policy, many involving grants, tax abatements, or loans. Some measures envision reorganization of state agencies involved. Some would allocate funds for lending to targeted subpopulations or for venture capital endeavors. Some would assist certain industries or offer tax abatements in areas meeting unemployment criteria. While, in concept, all deserve a fair hearing, both the underlying premise and the details of each bill should be vigorously questioned. Since these measures are largely speculative, firm estimates of fiscal impact are often sparse; and forecasts of economic benefit

by those who would administer or receive these funds may, in some cases, be optimistic. These bills are now undergoing the usual legislative process of competing analyses, turf struggles, and pleas by potential beneficiaries; and the result will likely be no more than very few bills, hopefully with prospects for success in advancing the economy.

Closing this legislative session will be a monumental challenge for policy-makers seeking to either hold or change votes. It remains to be seen whether the needle is somehow threaded to arrive at a solution. So far, the needle has no hole. ■

ABOUT THE AUTHORS



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