



C I T Y O F  
**RENO**  
Memorandum

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**DATE:** December 11, 2024

**TO:** Mayor and City Council

**THROUGH:** Jackie Bryant, City Manager

**FROM:** Calli Wilsey, Director of Policy and Strategy  
Jason Gortari, Urban Economist

**DEPT:** Office of Policy and Strategy

**SUBJECT:** Economic Forum Overview: December 2, 2024

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Staff is pleased to present a new resource for Council with information about the economic conditions in the state and region. Reports on key economic indicators will be provided each month, and summaries from the State's Economic Forum process will be provided periodically.

This information on the economy and the complex economic structure that impacts City revenue and services are intended to assist Council in their broad policy decisions and understanding of the inter-related topics like employment, housing, growth, etc.

This memo provides an update on the State of Nevada's Economic Forum held on December 2, 2024 and provides a comparison of the revenue streams available to the State compared to the City.

**Economic Forum Overview and Why We Track It**

- The Economic Forum is tasked with forecasting the State's general fund revenues for each biennial budget cycle, meeting six times throughout the cycle.
- Three of these meetings are informational, offering valuable insights into broader state economic trends through presentations by private and public sector experts on topics influencing Nevada's economy. The other three meetings focus on forecasting revenues for the State's general fund. At the December meeting in even-numbered years, the forecasts are heard and approved to set the enacted budget for the upcoming biennium. By law, the forum must approve an official revenue forecast by December 3 of even-numbered years and a revised forecast by May 1 of odd-numbered years. These forecasts shape the governor's recommended budget for the next legislative session, which is adjusted during the session and finalized in June following the May forecast.

- Tracking these meetings is essential for local governments, as they rely on shared revenue sources and use state economic trends and financial forecasts to inform policy decisions and planning.

### **State General Fund Tax Revenue Performance and Expectations FY 2025-FY 2027:**

- At this meeting, the forecasts were voted on and approved. This forecast provides the first look at how much money the governor will be able to count on as he constructs his proposed budget. The forecasts are subject to be changed when the Economic Forum next meets in May, shortly before the end of the legislative session, to provide an updated revenue projection.
- Key revenue sources like sales, business, and insurance taxes are expected to grow steadily, while gaming and live entertainment taxes may decline due to fewer major events. Rising interest income, driven by American Rescue Plan Act (ARPA) investments and higher rates, has significantly boosted revenues. The State's general fund remains strong, though future growth may slow as revenues stabilize. Overall, the approved forecasts for FY 2025 were **flat** at 0.0%, followed by a slight **increase** in FY 2026 of 2.0% and a modest **increase** of 2.7% in FY 2027.

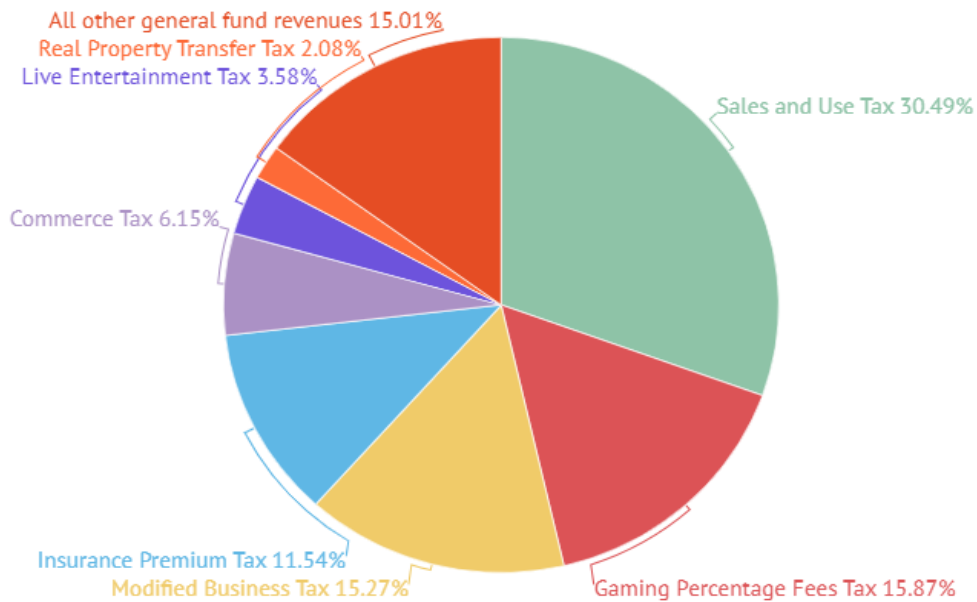
### **General Fund Revenue Source Comparison: City of Reno vs. State of Nevada**

- While the City of Reno and the State of Nevada's general funds share five associated tax revenue streams, their overall composition is vastly different. Nearly 67% of the State's total revenue sources are not associated with the revenue sources available to local governments.
- The state's general fund is supported by nearly 100 different revenue sources. The six largest contributors are sales tax, gaming percentage fees taxes, modified business tax, insurance premium tax, commerce tax, and live entertainment tax. Of these, only sales tax is shared with local governments. Additionally, the State's general fund has benefited significantly from investments of federal ARPA dollars and the current high-interest rate environment. For context, prior to 2020, the State's general fund received an average of \$13 million annually in interest income. In the upcoming fiscal year, interest income is projected to exceed \$240 million—a difference of more than \$220 million. The City does not benefit from significant year-over-year increases in revenues from consumer-driven taxes, such as the live entertainment tax, gaming percentage fees, short-term car rental tax or the transportation connection tax (Ubers, car rentals, taxis, etc), because these sources are not available to local governments. Similarly, revenue streams tied to state and national economic performance—such as the modified business tax, insurance premium tax, and commerce tax—are exclusive to the State and do not contribute to local government budgets.
- In contrast, the City's general fund is heavily reliant on consolidated tax (C-Tax) distributions and property tax collections. Property tax and C-Tax account for nearly 60% of the City's general fund revenues collected each year, and each of these revenue sources have specific challenges. Property tax collections are capped by statutory limits of 3% to 8% annual growth, depending on the property type. What the City receives in C-Tax revenues is constrained by the statutory formula. The C-Tax formula is designed to provide local governments and political jurisdictions with an amount close to what they received in the prior year, adjusted for inflation. Importantly, the distribution of C-Tax

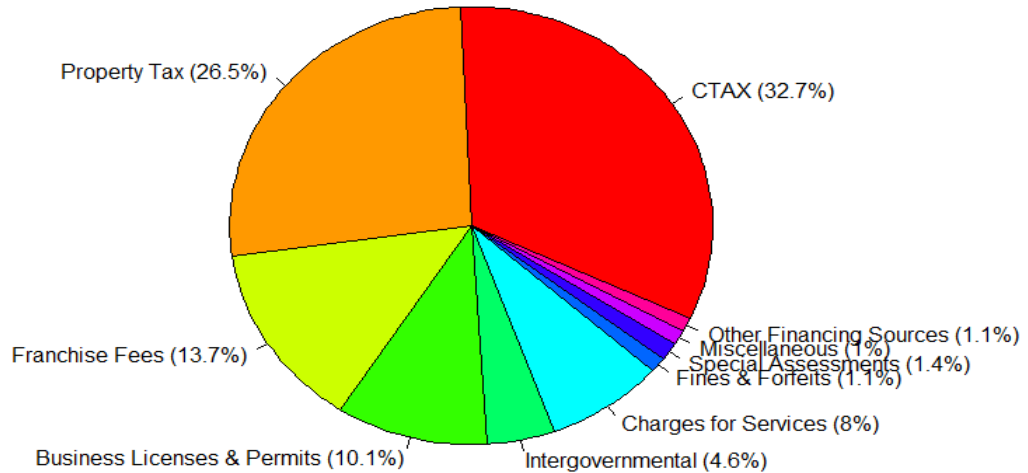
revenue is driven by the formula rather than by the geographic location where the revenue was collected.

- Given the significant differences in the types and number of revenue sources available to the State and local governments, the resources at their disposal vary substantially. These differences highlight the challenges faced by local governments, particularly during periods of economic growth when they cannot capture the same revenue benefits as the State.
- Below is a breakdown of the revenue sources comprising the State’s general fund and the City’s general fund for the upcoming periods, highlighting their key differences:

## Nevada Projected General Fund Tax Revenues 2025-2027



## FY 2025 City of Reno Projected General Fund Revenues



*(Note: The City's general fund beginning fund balance is not included in the chart above as a revenue source for better comparison to the graph related to the State).*

### **KEY DIFFERENCES: Major State General Fund Revenue That Are NOT Captured by Local Governments:**

#### **Gaming Percentage Fee Tax (Second largest source):**

The gaming percentage fee, a tax based on casino gaming revenue is the second largest State general fund revenue source. A slight downturn is anticipated due to the closure of The Mirage for transformation into the Hard Rock and the strong U.S. dollar making international tourism more expensive. The 2024 fiscal year benefitted from unique events like the Formula 1 race and Super Bowl, but these are not expected to sustain similar revenue levels in subsequent years. The Economic Forum approved a conservative forecast aligned with these trends.

#### **Economic Forum December Projections (% = Growth Rate):**

- FY 2025: \$969,771,000 / -3.0%
- FY 2026: \$980,813,000 / 1.1%
- FY 2027: \$992,863,000 / 1.2%

#### **Modified Business Tax (MBT) (Third largest source):**

The MBT is expected to show moderate, steady growth over the next few years but without dramatic increases. The tax remains a stable revenue source, tied to wages paid by businesses, contributing significantly to the state's general fund. This is consistent with expectations of a stable economic environment where businesses slightly increase payrolls.

#### **Economic Forum December Projections (% = Growth Rate):**

- FY 2025: \$828,906,000 / 3.9%

- FY 2026: \$865,515,000 / 4.4%
- FY 2027: \$900,829,000 / 4.1%

**Insurance Premium Tax (Fourth largest source):**

The insurance premium tax is projected to grow steadily, supported by population increases, insurance product cost increases and heightened demand for insurance products.

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$683,008,000 / 5.6%
- FY 2026: \$699,556,000 / 2.4%
- FY 2027: \$735,775,000 / 5.2%

**Commerce Tax (Fifth largest source):**

The State expects growth driven by Nevada's expanding gross state product (GSP) and sustained business activity, with contributions primarily from sectors like retail, logistics, and technology.

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$353,940,000 / 3.2%
- FY 2026: \$370,063,000 / 4.6%
- FY 2027: \$390,416,000 / 5.5%

**Live Entertainment Taxes LET (Gaming & Non-Gaming: sixth largest source):**

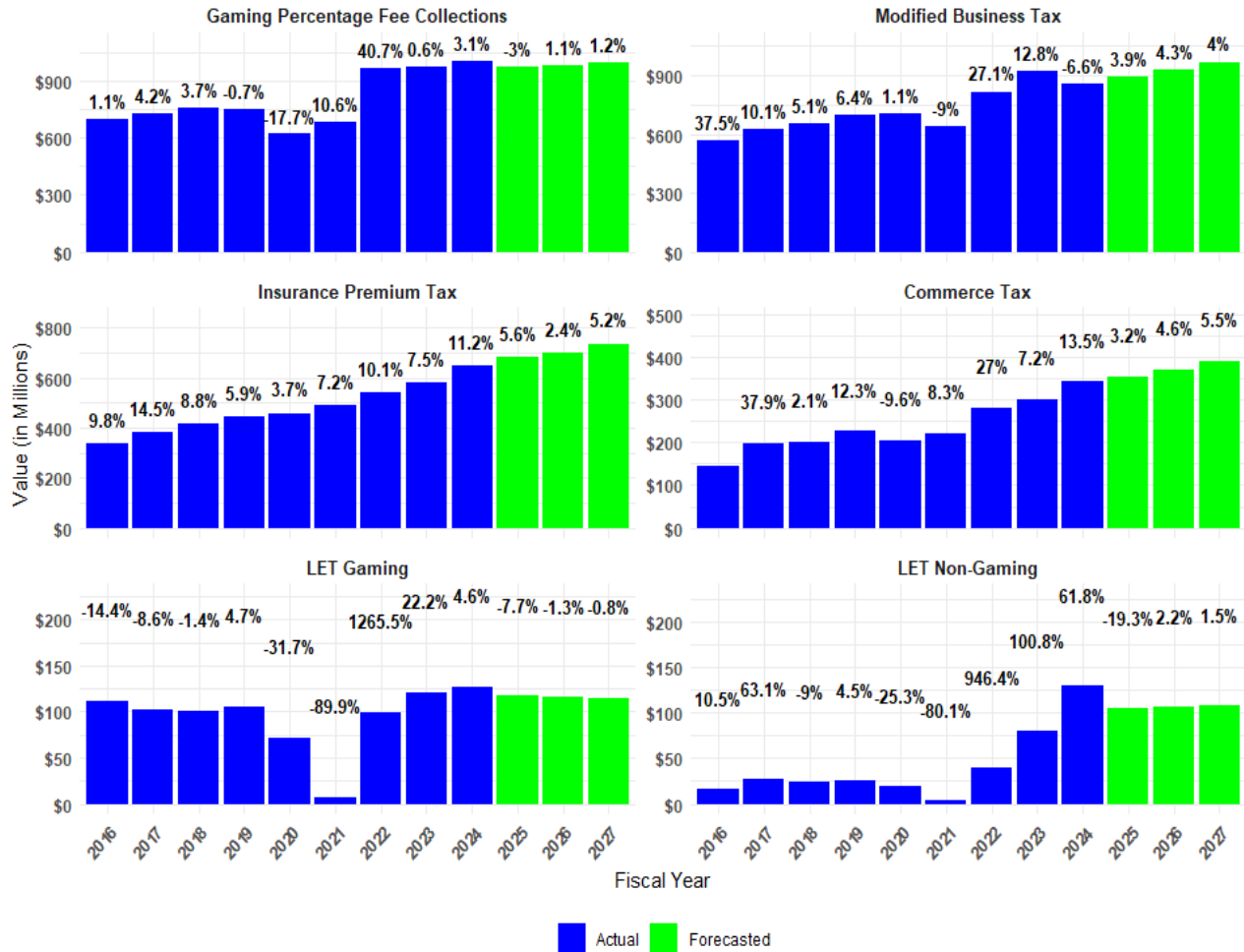
The State expects LET to decline from recent years. The drop follows a surge in 2024 revenue driven by major events like the Formula 1 race and Super Bowl. The State estimates limited growth potential for the LET's due to slower international travel and the end of popular residencies like Adele's and Garth Brooks'. While still higher than pandemic levels, the tax's future growth will likely depend on the return of high-profile events and stronger tourism.

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$221,533,000 / -13.6%
- FY 2026: \$222,243,000 / 0.3%
- FY 2027: \$222,923,000 / 0.3%

## Select Major State General Fund Revenue Projections: December 2024 Economic Forum

Note: Local Governments Do NOT Receive These Sources



### Other Large State Revenue Sources in the “Other” Category That Local Governments Do Not Receive:

#### **Treasurer’s Interest:**

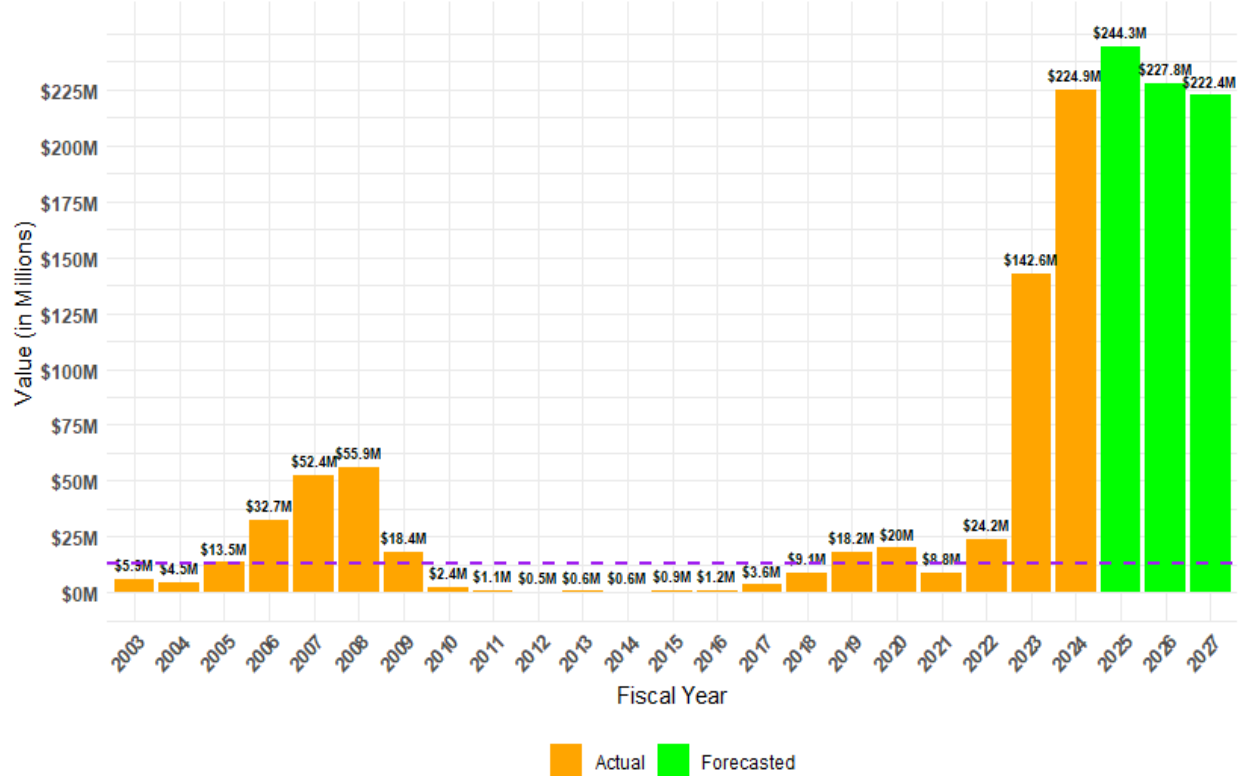
Rising interest rates are expected to significantly boost the State’s general fund through increased interest income from the Treasurer’s investments, with FY25 poised for strong gains. However, projections indicate that interest rates may stabilize or decline in future years, potentially moderating this revenue stream's growth. In recent years, this revenue source has surged due to the investment of ARPA funds and post-pandemic rate hikes. Pre-pandemic, the average annual revenue was approximately \$13 million, compared to current totals exceeding \$220 million.

#### Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$244,289,000 / 8.6%
- FY 2026: \$227,770,000 / -6.8%
- FY 2027: \$222,379,000 / -2.4%

## State General Fund Treasurer's Interest Actual & Projected

Dashed Lined: \$13M average prior to 2020 ARPA Dollar Investments and Interest Rate Increases



### Unclaimed Property Revenue:

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$62,980,000 / -11.3%
- FY 2026: \$62,860,000 / -0.2%
- FY 2027: \$65,426,000 / 4.1%

### Short-Term Car Rental Tax:

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$79,579,000 / 0.9%
- FY 2026: \$81,077,000 / 1.9%
- FY 2027: \$82,626,000 / 1.9%

### Transportation Connection Excise Tax:

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$47,987,000 / 19.5%
- FY 2026: \$46,263,000 / -3.6%
- FY 2027: \$53,817,000 / 16.3%

### Business License Fee:

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$125,502,000 / 2.3%

- FY 2026: \$127,473,000 / 1.6%
- FY 2027: \$129,294,000 / 1.4%

**Commercial Recordings:**

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$91,028,000 / 2.1%
- FY 2026: \$92,176,000 / 1.3%
- FY 2027: \$93,369,000 / 1.3%

**City of Reno Impacts: C-Tax Revenues and Implications:**

The City relies on the distribution of the C-Tax. The State general fund receives its share from five of the six revenue sources included in C-Tax. During meetings of the Economic Forum, analysts from the state present their estimates and discuss the revenue outlook for the upcoming fiscal years.

Collectively, they expect these revenue sources to increase compared to the same time last year, although at a much slower pace than in previous years, which will result in tighter budgets. Additionally, cigarette tax collections are expected to realize sizable declines.

**Sales Tax Forecast:**

Sales and use tax revenues are projected to grow at a slower rate due to reduced consumer spending and high interest rates limiting purchases. Modest growth is expected over the next biennium.

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$1,867,618,000 / 0.2%
- FY 2026: \$1,942,884,000 / 4.0%
- FY 2027: \$2,005,637,000 / 3.2%

**Real Property Transfer Tax:**

Rising interest rates and limited housing supply are slowing Nevada’s real estate market, impacting property transfers. The forecast for real property transfer tax revenues is expected to increase, due to the signs of slight improvement in 2024. However, challenges like limited housing inventory and land availability continue to impact affordability and accessibility. Future revenue increases are contingent on both a potential decrease in mortgage rates and improved supply.

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$118,525,000 / 8.8%
- FY 2026: \$125,982,000 / 6.3%
- FY 2027: \$132,195,000 / 4.9%

**Cigarette Tax:**

The cigarette tax revenue continues to decline as smoking rates decrease nationally. This revenue source is likely to decline due to legislative changes impacting tax rates on premium cigars and

declining popularity. Furthermore, this revenue source is expected to contribute progressively less to the general fund as consumer behavior shifts and people become healthier.

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$113,863,000 / -7.4%
- FY 2026: \$108,463,000 / -4.7%
- FY 2027: \$103,638,000 / -4.4%

**Liquor Tax:**

The liquor tax is expected to decrease in the first year of the forecast period and then increase slightly in the following two years. This slight decrease is primarily driven by stabilizing consumer demand, as well as broader trends of moderate alcohol consumption. Additionally, inflationary pressures and shifts in consumer preferences are contributing factors to the slight projected decrease.

Economic Forum December Projections (% = Growth Rate):

- FY 2025: \$47,633,000 / -2.9%
- FY 2026: \$48,511,000 / 1.8%
- FY 2027: \$48,707,000 / 0.4%

**Government Services Tax (Not Discussed):**

S.B. 452 requires 100% of the proceeds from the portion of the Governmental Services Tax (GST) generated from the 10% depreciation schedule change, approved in S.B. 429 (2009), to be permanently allocated to the State Highway Fund, effective July 1, 2023. As approved under this bill, the State General Fund will no longer receive proceeds from this tax beginning in FY 2024.

# State General Fund Revenue Projections: December 2024 Economic Forum

Note: These Sources Are Associated With 5/6 C-Tax Revenue Sources

