C I T Y O F
RENO

Memorandum

DATE: December 18, 2025

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: December 2025 State Economic Forum Update

Staff is pleased to provide an update to Council on the State of Nevada's Economic Forum held on December 5, 2025 and provide a comparison of the revenue streams available to the State compared to the City. Throughout this memo, we highlight why the information presented at the Economic Forum is relevant at the local level.

Executive Summary:

The December 2025 State Economic Forum reported a generally positive outlook for Nevada's economy and State General Fund revenues. However, state analysts were cautiously optimistic, noting that issues related to the rollout of the new tax system, the recent cyberattack, and some one-time accounting anomalies have artificially inflated year-to-date revenue collections and the true outlook is more flat-to-slightly positive and on par with projections. Listed below are some key takeaways:

- **Labor market:** Nevada's labor market remains stable with modest job gains, strong wage growth, relatively low unemployment duration, and continued demand for workers.
- **Population trends:** Population growth is projected to continue but gradually slow with most growth driven by in-migration rather than births.
- **Consolidated Tax (C-Tax) implications:** C-Tax–related revenue sources show mixed performance: sales tax and liquor tax are trending above forecast, while real property transfer taxes and cigarette taxes are underperforming.
- **Structural differences:** State revenue results do not directly translate to local revenue performance because the State and local governments rely on fundamentally different tax structures.
    - The State's General Fund relies heavily on revenue sources that local governments

do not receive (modified business tax, insurance premium tax, gaming, commerce tax, live entertainment tax, etc.).
    - Conversely, local governments depend on other sources in addition to C-Tax, such as property tax, local business license fees and permits, and franchise fees all of which are not directly informed by the State General Fund forecast.
    - With a more diversified revenue structure of large revenue sources, the State General Fund is less vulnerable to fluctuations in sales tax than local government's C-Tax allocations.
- **A key message for local governments:** Statewide revenue performance primarily helps signal statewide sales tax conditions, general economic conditions, and future availability of state-funded program dollars, but it is not a strong predictor of current local entity General Fund revenues.

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.

In odd-numbered years, the December meeting is the final meeting in the cycle and provides an update and recap of the State's economic outlook and revenue performance. Presentations typically include state employment and population forecasts, forecast accuracy reports, and an assessment of how current general fund revenues are tracking relative to the budget.

The Economic Forum is expected to reconvene in June 2026 for another check in on Nevada's economy and state revenues.

Tracking these meetings is important for local governments to gauge anticipated sales tax growth over the next two years and to be informed of current statewide economic trends.

State Employment Outlook:

In September 2025, Nevada's labor market remained stable, showing little deviation from the patterns observed throughout the past year. Job growth is holding near 0.1 percent, the unemployment rate is at 5.3 percent (third highest in the nation), the labor force participation rate is 62.7 percent, and hourly wages grew at approximately 5.7 percent over-the-year. Overall, the state has been moving at a consistent pace for most of the past year.

Longer-term employment trends show that healthcare, professional services, educational services, and mining have been the most consistently strong sectors since 2019 in Nevada. Healthcare (+12.6 percent in net job gains over the past three years) continues to be the strongest contributor to overall job growth. In contrast, construction (-4 percent), manufacturing, retail trade, and wholesale trade (-2 to -3 percent) have shown signs of net job loss over the past three years. A stronger September report helped offset softer performance in leisure and hospitality earlier in the year.

Hourly wage growth remains resilient with annual increases generally outpacing inflation across most industries. This indicates real wage gains for workers and reflects sustained demand for labor. Wage growth, an important indicator of labor demand, continues to trend upward in Nevada, suggesting employers are still competing for workers. Population growth, however, is slowing, which will constrain Nevada's long-term employment base and moderate future job expansion.

Nevada was also less exposed to federal employment layoffs compared to the national average. This was evident during the October 2025 federal government shutdown when Nevada experienced a smaller increase in unemployment insurance claims from federal workers. This is likely because the state's federal workforce is concentrated in more essential operational roles rather than administrative positions.

Over the past year, unemployment insurance data shows a diverging trend: the jobless rate increased for individuals with only a high school diploma, while falling to a 10-year low for those with some college or higher education. At the same time, unemployment duration has improved with fewer long-term unemployed (6+ months) and more short-term unemployed (under 5 weeks), signaling a more dynamic and fluid labor market.

Why this matters at the local level:
The outlook for the State's labor market is helpful for local governments because it signals the broader trajectory of economic growth and helps identify which employment industries are expanding or contracting across the state. State-level data is especially valuable, as it is more robust and less volatile than local datasets, which often rely on smaller sample sizes. Although statewide trends are driven largely by Clark County, these indicators still offer meaningful insights for local governments in smaller counties. A growing labor market typically reflects increased business activity, rising employment, and stronger consumer spending, all of which directly influence local revenue collections through consolidated taxes (particularly sales tax). The unemployment rate also provides an important measure of labor market health: a low rate indicates a broad, active workforce and supports a stronger tax base and higher levels of spending.

State Population Outlook:

Nationally, birth rates continue to decline with far fewer teens having children compared to previous decades, a downward trend that has persisted since 1991.

In Nevada, birth rates have followed similar patterns. Rates in metropolitan areas have gradually declined, mirroring national trends, though rural areas have seen more variability. Births in Nevada peaked in the mid-2000s, declined through the Great Recession, and have since stabilized at lower levels. Nevada's fertility rate continues to fall in line with the national average and is slightly below the U.S. rate over-the-year.

In FY2024, only three counties (Clark (+4,052), Washoe (+181), and Elko (+51) recorded more births than deaths. In most rural counties, deaths now exceed births, meaning Nevada's population growth is increasingly driven by in-migration rather than natural increases.

Nevada currently ranks 35th nationally in domestic migration, reflecting the net number of people moving into the state from other states.

Looking ahead, Nevada's population is projected to continue growing through 2044, with most growth concentrated in the metropolitan regions. Population growth is expected to be 1.3 percent in 2025, gradually slowing to 0.4 percent by 2044 as demographic trends moderate.

Why this matters at the local level:
The State's population outlook is important to local governments because several key revenue sources local entities receive incorporate population growth into their distribution formulas, and accurate population forecasts are essential for long-range regional planning. The population overview presented by the State Demographer also includes trends in national and state fertility rates, which helps cities and counties anticipate long-term service demands, school enrollment, and workforce changes. In addition, understanding where new residents are coming from and how the State Demographer derives these estimates helps local governments validate whether statewide trends align with what they are observing on the ground.

State General Fund Tax Revenue Performance Year-to-Date vs. the Budget:

State General Fund revenues currently appear to exceed the forecast by 6.7 percent before tax credits, or about $102 million above the FY2026 budget projection. During agenda item nine, when Economic Forum staff discussed year-to-date performance against the forecast, the State's Chief Deputy Principal Fiscal Revenue Analyst provided important context behind this stronger-than-expected showing. The analyst noted that bottom line figure is inflated by administrative anomalies in the data and a major cyberattack that occurred. These issues shifted roughly $80 million in commerce tax payments into the current fiscal year that should have been recorded in the prior year, and a legislative change to the timing of unclaimed property transfers created a separate one-time $120 million gain.

After adjusting for these anomalies, underlying revenue performance is closer to two percent above the FY2026 forecast, not 6.7 percent. With the one-time effects removed, sales tax, the state's largest revenue source, is performing slightly above expectations, while commerce tax collections are essentially flat.

Why this matters at the local level:
The performance of the State's General Fund is important for local governments because it provides insight into the overall direction of sales tax activity and the fiscal health of statewide revenues. Certain state-funded programs provide resources to local partners, so if the State experiences revenue shortfalls, existing allocations may be impacted, or future program expansions may be limited or delayed.

Other major revenue streams show mixed results. The insurance premium tax is performing the strongest at 10.3 percent above forecast, and gaming tax revenues are 8.7 percent above expectations, though this may not be sustainable given weakening tourism indicators: Southern Nevada visitor volume is down 7.6 percent, and passenger traffic at Harry Reid International Airport has fallen by 8.2 percent year over year. Meanwhile, the modified business tax (–4.3

percent) and real property transfer tax (–4.8 percent) are both underperforming. Non-major revenues are collectively down 14.5 percent year-to-date, including steep declines in tourism-sensitive categories: the transportation connection excise tax (rideshares and taxis) is down nearly 40 percent, and short-term car rental tax revenue is down 30 percent. While smaller in dollar terms, these indicators point to continued softening in the broader tourism economy.

<u>*Why this matters at the local level*</u>*:*
Other major state revenue sources are affected by broader economic factors such as business activity, consumer sentiment, and tourism trends, all of which can indirectly impact local governments beyond their primary revenue streams. For example, declines in the transportation connection excise tax or the short-term car rental tax may indicate reduced tourism, which can lead to lower sales for local businesses, less hotel room nights occupied, potential business closures, and ultimately reduced business license revenue and consumer spending. Similarly, increases in insurance premium tax collections may reflect rising insurance rates or population growth, both of which can influence local government costs, including the local entities own insurance obligations and expenditures.

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

The City of Reno 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 and discuss where those revenue sources are trending.

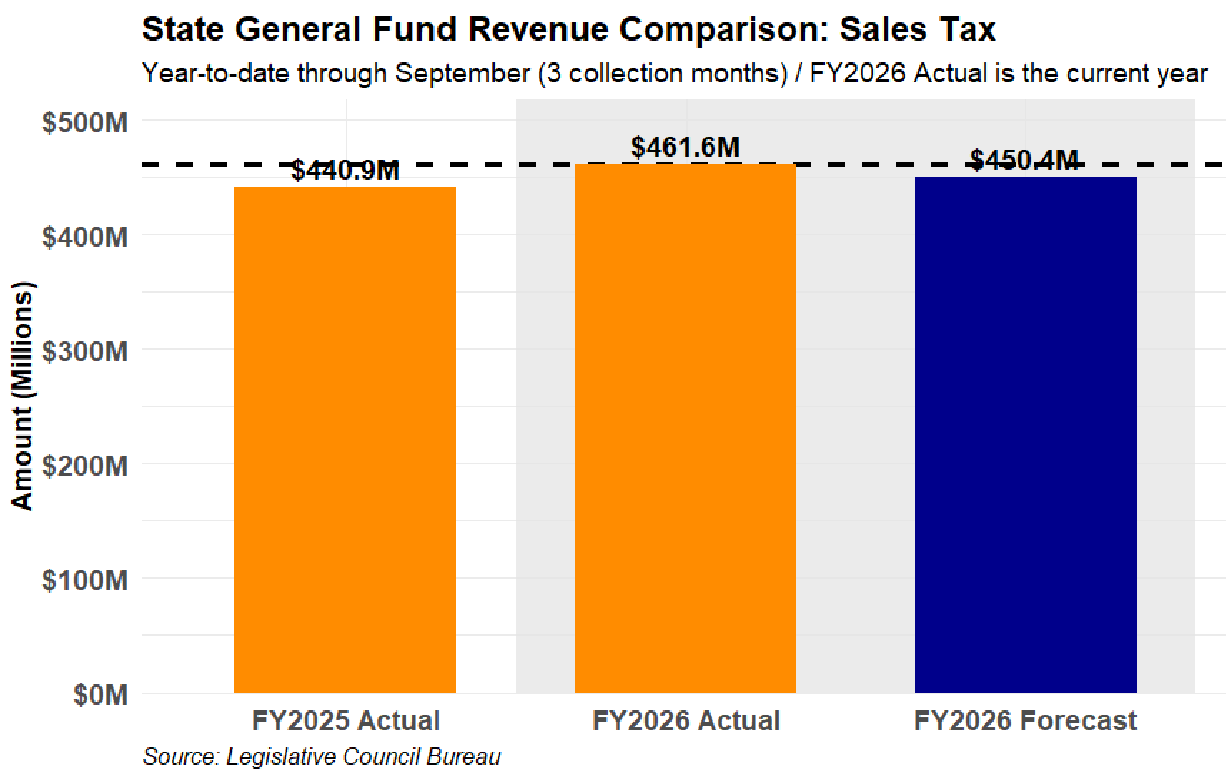
Currently, state revenue sources that are related to those that local governments receive are showing mixed performance through the first three collection months of FY2026. Sales tax, is positive, coming in 2.5 percent above forecast and 4.7 percent higher through the same period last year. However, these figures should be interpreted cautiously. Due to the state's transition to a new tax and accounting system, some collections and reporting irregularities may be temporarily skewing the numbers upward in some cases and downward in others as noted by the state's analyst.

Note: The four charts below display year-to-date actual revenue for the sources listed above through September 2025, year-to-date actuals for the same period in 2024, and the forecasted year-to-date amounts for September 2025 for perspective on where these revenue sources are trending through the first three collection months of the fiscal year for the State General Fund only.

Sales Tax Forecast (2% Only):

Sales tax revenues are growing more than anticipated despite softer tourism levels and consumers' pessimistic economic outlook amid evolving national policy. This growth likely reflects higher prices for goods rather than increased sales volume. While it is still early in the fiscal year, and there are ongoing concerns about data accuracy due to the State's new tax system, this revenue source warrants close monitoring. Flat-to-modest growth is expected in FY2026 and FY2027. It is important to note that the State sales tax forecast is heavily influenced by consumer activity and collections in Clark County. State revenues are trending 2.5 percent above forecast through the first three months of the fiscal year. However, analysts noted during the meeting that part of this early growth reflects anomalies tied to the rollout of the state's new tax system.

Why this matters at the local level:
The state sales tax corresponds to the Basic City-County Relief Tax (BCCRT) and the Supplemental City-County Relief Tax (SCCRT), which are the two sales tax components of C-Tax. BCCRT and SCCRT make up the two largest components of the C-Tax, collectively accounting for approximately 85 percent of total C-Tax distributions.



Economic Forum Projections (FY26 Actual's Percent Difference Relative to the FY26 Forecast):

- FY 2026 year-to-date through September: $461,634,185/ 2.5% above forecast

Government Services Tax (Not Discussed):

This tax source was moved from the State General Fund to the State Highway Fund and is no longer voted on or considered by the Economic Forum.

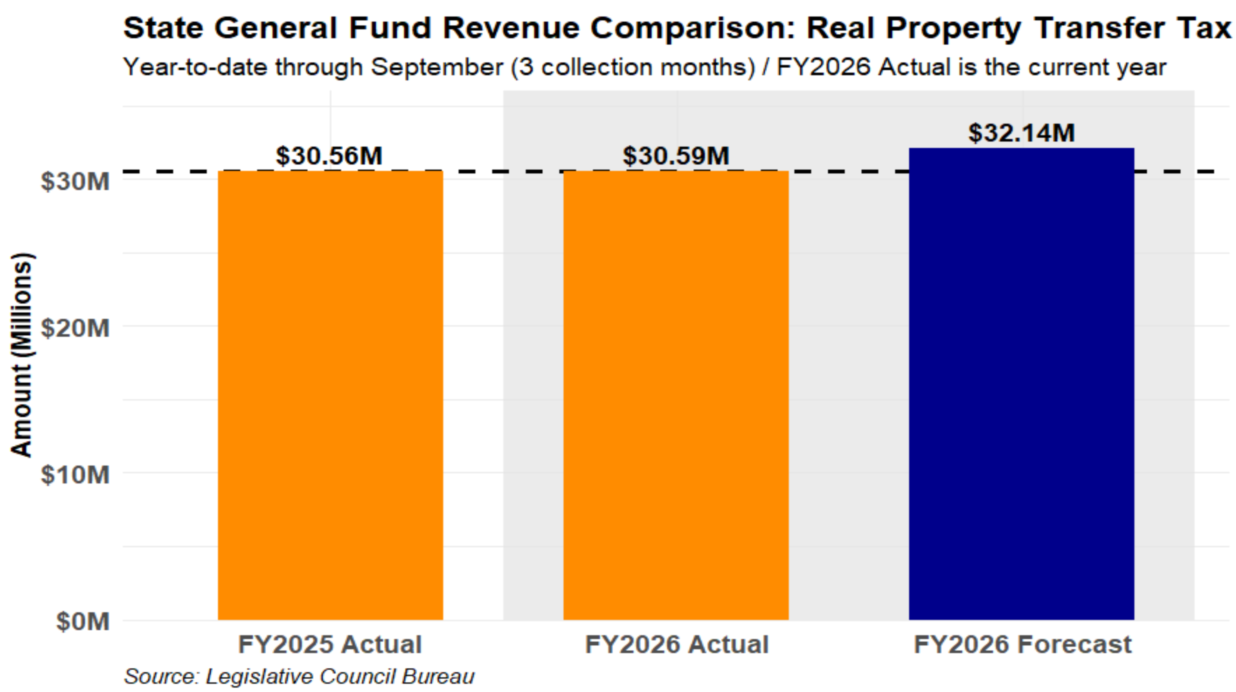
Why this matters at the local level
There is a portion of the total tax rate that goes to local governments. This tax source accounts for approximately 13 percent of total C-Tax distributions, making it the third-largest contributor to C-Tax.

Real Property Transfer Tax:

High interest rates, combined with many homeowners being locked into low-mortgage loans, have reduced real estate market activity among Nevada residents, dampening property transfer volume.

Despite this slowdown, real property transfer tax revenues are still forecasted to increase due to strong housing demand and increasing home prices in the Silver State. Future revenue growth, however, will depend on both a potential decline in mortgage rates and improvements in housing supply. Through the first three months of the fiscal year, State revenues ran 4.8 percent below forecast.

<u>Why this matters at the local level</u>
There is a portion of the total tax rate that goes to local governments. This tax source represents approximately 2.5 percent to three percent of total C-Tax distributions, making it the fourth largest contributor to C-Tax.



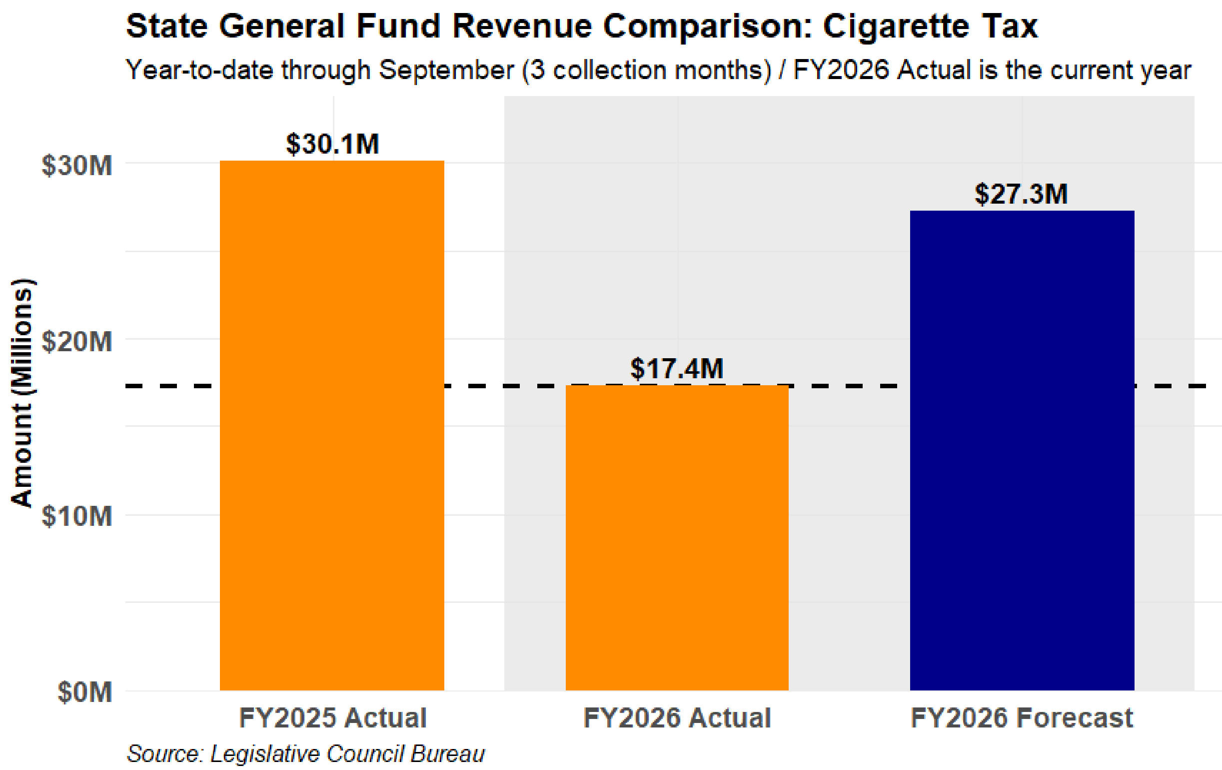
<u>Economic Forum Projections (FY26 Actual's Percent Difference Relative to the FY26 Forecast):</u>
- FY 2026 year-to-date through September: $30,590,862/ -4.8% below forecast

Cigarette Tax:

The cigarette tax revenue continues to decline as smoking rates decrease nationally. Furthermore, this revenue source is expected to contribute progressively less to government revenues as consumer behavior shifts and people become healthier or switch to other types of tobacco or nicotine products that do not fall under this revenue source. State revenues for the first three months of the fiscal year are 36.4 percent below forecast. This early decline is due in part to issues associated with the State's transition to its new tax system.

<u>Why this matters at the local level</u>
There is a portion of the total tax rate that goes to local governments. This tax source represents less than one percent total C-Tax distributions and is the fifth largest contributor to C-Tax. It is also important to note that the portion of the cigarette tax allocated to local governments is

significantly smaller than the state's share, which is why this revenue source contributes only modestly to the C-Tax system.



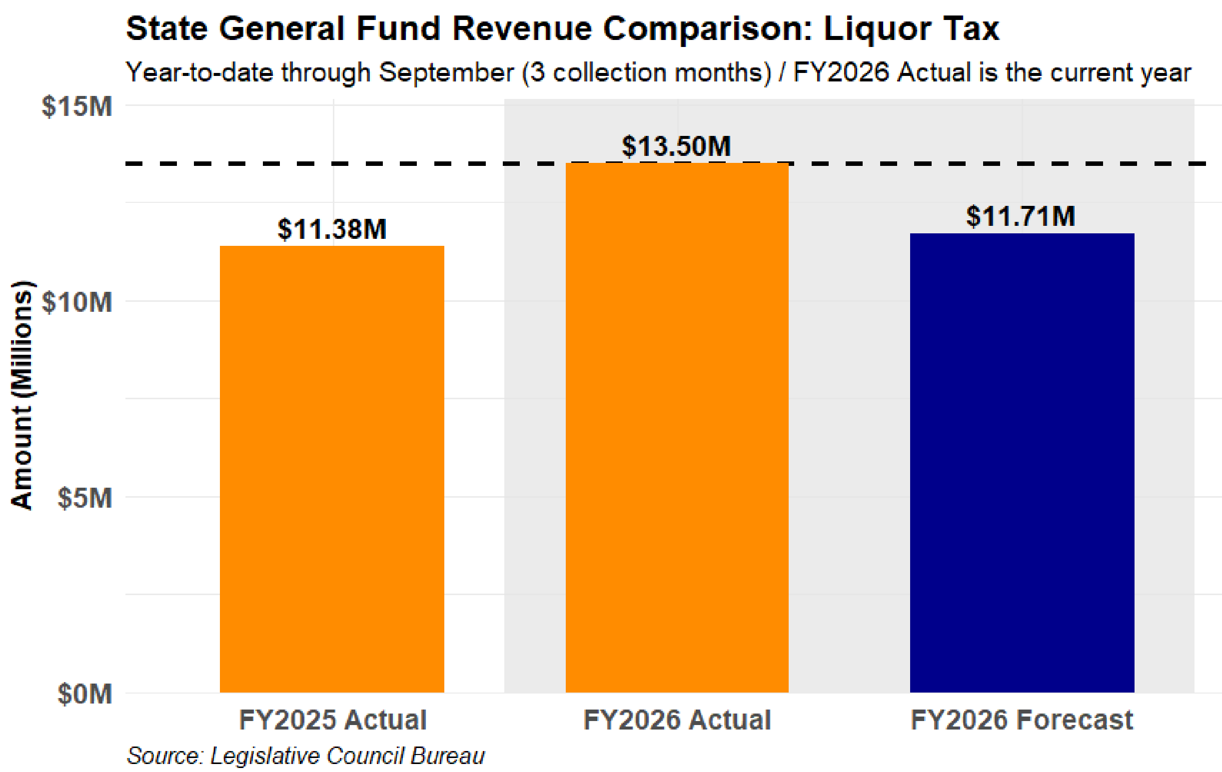
<u>Economic Forum Projections (FY26 Actual's Percent Difference Relative to the FY26 Forecast):</u>

- FY 2026 year-to-date through September: $17,359,798/ -36.4% below forecast

Liquor Tax:

The Liquor Tax is expected to increase modestly in the State General Fund in FY2026. However, this revenue source has underperformed in recent years and year-to-date due to broader trends of reduced alcohol consumption. Through the first three months of the fiscal year, State revenues are running 15.2 percent above the forecast.

<u>Why this matters at the local level</u>:
There is a portion of the total tax rate that goes to local governments. Liquor tax revenue represents less than one percent of total C-Tax distributions, making it the sixth-largest contributor overall. It's important to note that local governments only get a portion of the tax on liquor containing over 22 percent alcohol and do not get a piece of the liquor tax on other alcohol types such as beer, wine, hard seltzers, or malt beverages. The State General fund receives tax dollars based on all types of liquor and alcohol.



<u>Economic Forum Projections (FY26 Actual's Percent Difference Relative to the FY26 Forecast):</u>

- FY 2026 year-to-date through September: $13,497,634/ 15.2% above forecast

Common misconception: Many assume that the State's General Fund revenues translate directly or even proportionally to local government budgets.

In reality, aside from broad economic trends and general statewide sales trends, there is very little one-to-one connection between the State General Fund revenues and local revenue streams aside from sales tax.

Even within sales tax, the statewide numbers are largely driven by economic activity in Clark County, and the State's revenue does not flow through the confined, formula-based distribution systems that cities and counties rely on (e.g., C-Tax). In addition, certain state-level revenues (like the cigarette tax and liquor tax) are deposited into the State General Fund at higher tax rates or with a broader taxable base than what local governments receive. Conversely, the governmental services tax is a key revenue source within C-Tax for local governments but is not a revenue source for the State General Fund.

As a result, the Economic Forum's statewide revenue estimates are far less applicable or predictive for local governments than the public often assumes, especially with the State General Fund having no property tax dollars in it. Property tax is typically the largest or second largest revenue sources for local governments depending on the entity type.

<u>Why this matters at the local level</u>:
While it is important for local governments to stay informed about broader economic conditions and the State's revenue performance, especially since grants and certain statewide programs can indirectly affect local budgets, the State General Fund is built on a very different mix of revenue

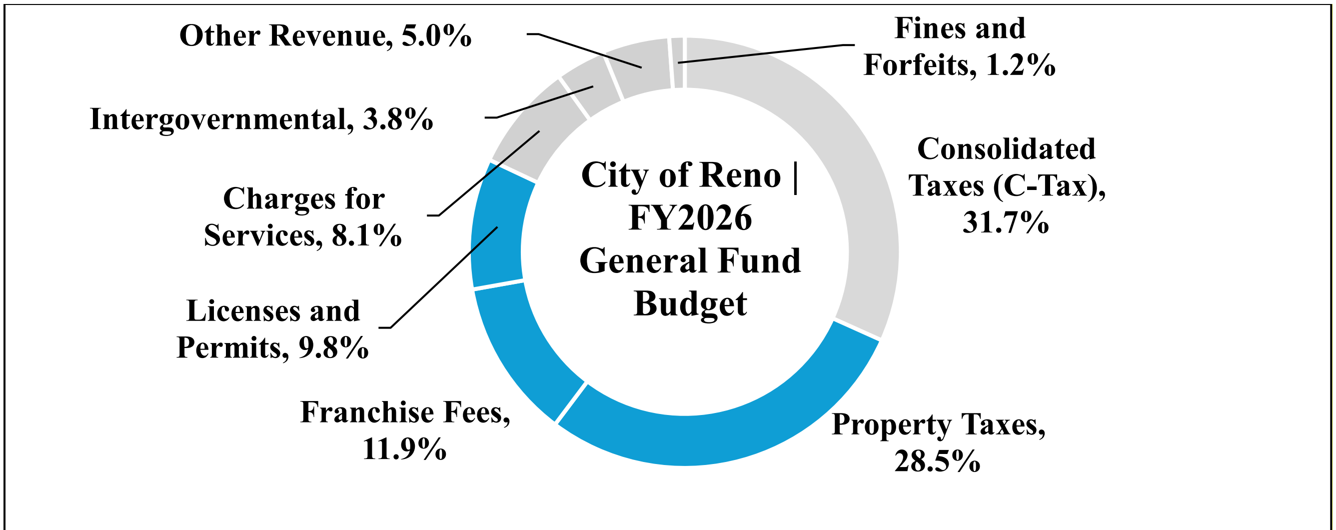
sources than local general funds. As a result, strong State revenue performance does not necessarily translate into strong local revenue performance, and weak State performance does not automatically signal challenges for local budgets. In short, the two systems are structurally different, and comparing them directly is often an apples-to-oranges exercise.

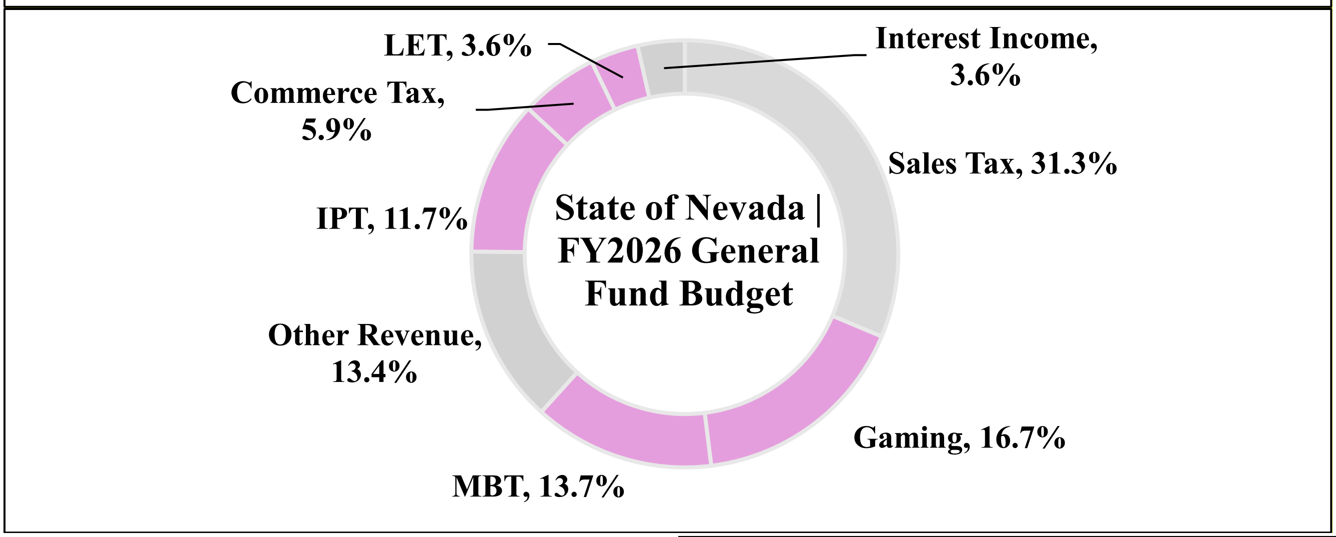
Why are Local Government Budgets Different? State of Nevada vs. City of Reno General Fund Composition:

To illustrate the structural differences between the State General Fund and local government budgets, the pie charts and tables below break down the major revenue sources for each. The City of Reno's budget does not include the beginning fund balance for comparability to the State's budget. In the City of Reno's FY2026 budget, major revenue sources unique to most local governments are highlighted in blue, while major revenue sources unique to the State General Fund are highlighted in purple. The amount of blue and purple in each chart makes the point clear: these systems rely on fundamentally different tax structures. Where you see the grey is where our revenue stream types somewhat overlap or are similar in some ways.

Several major State General Fund revenues are not available to local governments, including the insurance premium tax (IPT), modified business tax (MBT), live entertainment tax (LET), the commerce tax, state gaming taxes and fees, and the state's portion of the sales tax and associated administrative collection fees. Although portions of the overall sales tax rate flow to local governments through C-Tax, the State's share is levied at different rates and does not pass through the formula-driven distribution system used for cities and counties. For this illustrative comparison, C-Tax and sales tax were not highlighted in purple or blue to show that even after removing these partially related elements, significant structural differences remain. The State General Fund also contains a variety of smaller miscellaneous revenues that local governments do not receive.

Conversely, local governments rely heavily on major revenue sources that the State General Fund does not receive. These include property tax, franchise fees (sewer, cable, telecom, garbage, energy, and water toll fees), and local business licenses and permits. Local governments also depend on a range of smaller revenue sources, including charges for services, fines and fees, and other miscellaneous categories, that further distinguish local general fund budget structures from the State's.





City of Reno General Fund Budget FY2026

Revenue Source	Amount	Share
C-Tax	$98.9 M	31.7%
Property Tax	**$89.0 M**	**28.5%**
Franchise Fees	**$37.2 M**	**11.9%**
Licenses and Permits	**$30.6 M**	**9.8%**
Charges for Services	$25.2 M	8.1%
Other Revenue	$15.6 M	5.0%
Intergovernmental	$11.7 M	3.8%
Fines and Forfeits	$3.6 M	1.2%
Total	**$311.9 M**	**100%**

State of Nevada General Fund Budget FY2026

Revenue Source	Amount	Share
Sales Tax	$1,889.4 M	31.3%
Gaming	**$1,007.2 M**	**16.7%**
Modified Business Tax	**$827.2 M**	**13.7%**
Other Revenue	$810.6 M	13.4%
Insurance Premium Tax	**$707.2 M**	**11.7%**
Commerce Tax	**$356.5 M**	**5.9%**
Live Entertainment Tax	**$219.3 M**	**3.6%**
Interest Income	$214.4 M	1.2%
Total	**$6,031.6 M**	**100%**

Source: City of Reno and the Legislative Council Bureau; totals may not add due to rounding.