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- How Much Will the Margin Tax Cost You?
- Earnings Summary of Publicly Traded Gaming Companies
- Deep Dive on Five
- RCG Nevada Jobs Flash Report

Stat Highlights

Indicator	Trend
RCG Employment Index	Red
Job Growth & Unemployment Rate	Green
Employment-to-Population Ratio	Red
Visitor Volume	Red
Hotel Revenue per Available Room	Red
Gaming Revenue net Baccarat	Green
Home Sales	Red

Indicator	Trend
Median Home Price	Green
30-Yr. Fixed-Rate Mortgage	Red
Case-Shiller Home Price Index	Gray
Commercial Market Vaancy	Green
Taxable Retail Sales	Green
Electric Meter Hookups	Green

Positive Neutral Negative

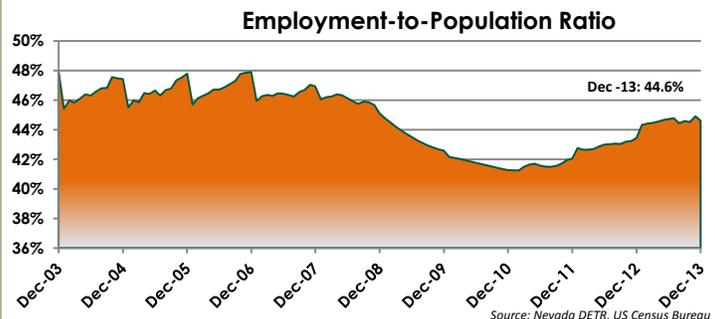
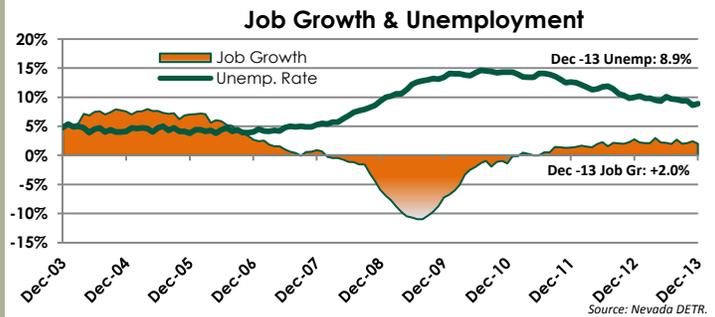
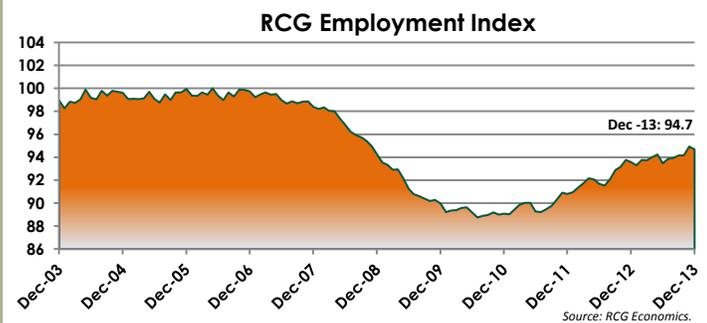
This month we note a slight softening in the Las Vegas economy. Of our 13 indicators this month, six are green, one is gray and six are red. That is down from eight green, six gray and one red in January. However, we do not view this as reason for alarm. Employment worsened a bit in January, moving up to 8.9% from 8.6% but we believe this will come back into line later in the year. The number of homes sold also moderated, but the median home price continued to climb. Economies do not move in straight lines and, as a result, we still believe that the moderate recovery continues in the Las Vegas area. □

Question of the Month

If passed, how will the Margin Tax impact employment in the Las Vegas area?

- No meaningful impact
- Modest loss of jobs
- Significant loss of jobs

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The Margin Tax Part I

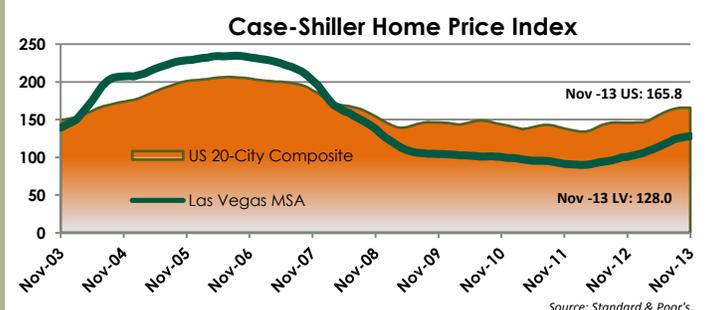
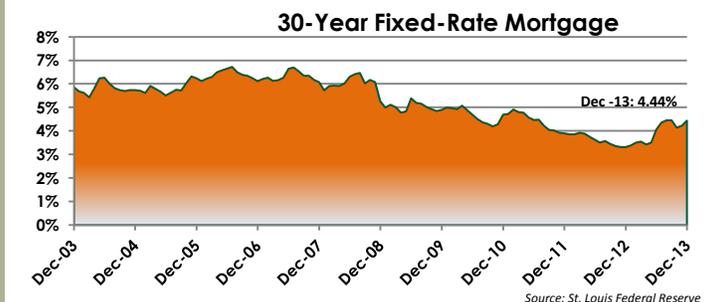
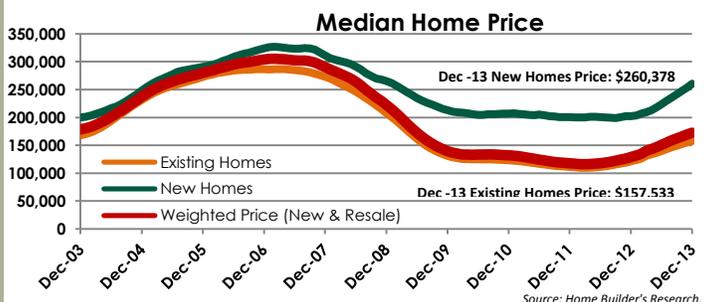
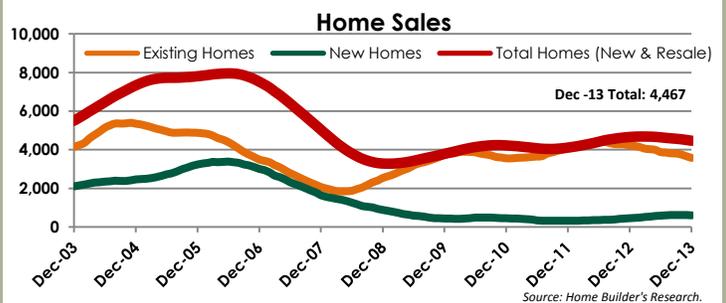
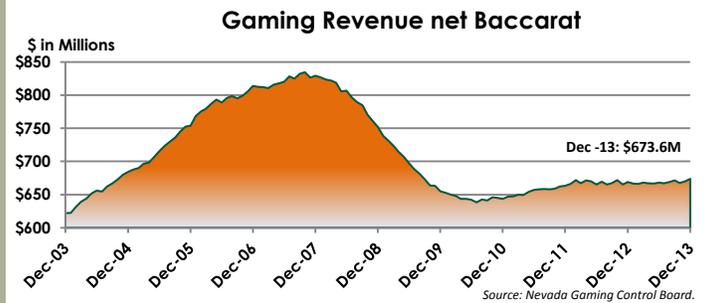
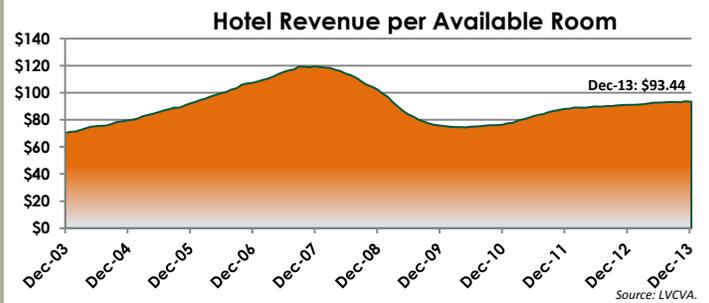
The Margin Tax, also known as The Education Initiative, is the single most important issue facing Nevada business in 2014. In this issue we welcome guest columnists Leonard C. Wright, CPA, Host of Finance Fridays Radio on KLAS 1230 and Jason Thomas, CPA, partner at [Fair, Anderson & Langerman](#) to provide an overview on the proposal and its potential impact. We will provide more information on this as the year progresses.

The Education Initiative Turns California, Arizona, and Utah into State Income Tax Havens

Running a business is no small feat in today's economic environment. The negative impact of declining tax revenues from America's businesses and citizens has been felt in our local communities and is resulting in unprecedented steps being taken by municipality after municipality across the country from the California cities of Vallejo, Stockton, and San Bernardino to Harrisburg, Pennsylvania. More recently, the state of emergency in North Las Vegas to deal with their own fiscal crisis shows that we in Nevada share the pain as well. A testament to the crisis is highlighted by the percentage of gross revenues received by the State of Nevada from the Federal Government, which has increased from 29 percent just a few years ago to about 43 percent today. This makes Nevada highly vulnerable to sequestration and federal budget cut negotiations and the related rolling Federal fiscal crisis negotiations that are a long term component of the financial landscape.

In order to continue to enhance expenditures that are no longer sustainable in the current environment, our local communities, state governments, and national government are looking to squeeze revenue enhancements from those it feels that can afford to pay by attaching a small tariff to some or all portions of the river of money running through their communities. Europe has tried to levy a broad based financial transactions fee. Across the Atlantic, we too have considered taxing the flow of many financial transactions not based on profit, but some form of gross revenue stream. Locally, in Nevada, we have a different version to capture a tax on the river of money called the The Education Initiative which taxes the modified gross revenue of a business. Under this proposal, a 2 percent tax would be levied on a business with revenues in excess of \$1,000,000. It is inevitable that Texas will be referenced in the ensuing debate, as they are a similar state that does not tax income, and has implemented a similar program. The Education Initiative upped the tax ante with a rate between 200 percent to 400 percent of the Texas tax rate. The controversial and heavily challenged Texas Tax has a disproportionate application on various industries in Texas. The same will be true of the The Education Initiative, which allows businesses to exclude either; 30 percent of revenue, labor (excluding wages in excess of \$300,000 and 1099 contract labor), or Cost of Goods Sold from the tax.

As a CFO of a business looks at an additional cost, the CFO will fight to keep companies which are minimally profitable viable, and companies who have healthy profits, at their current profit levels to pay debt obligations and fund future growth. Some employers, out of necessity, may lay off employees and suppress wage increases. Suppliers may be cut, for which the cumulative impact is to reduce business activity, as well as employees at firms those firms that service businesses. If a decision to relocate a business to Nevada is evaluated to be on par with another state, such a tax may tip the decision to Arizona, Tennessee, a more competitive Texas, or some other state.



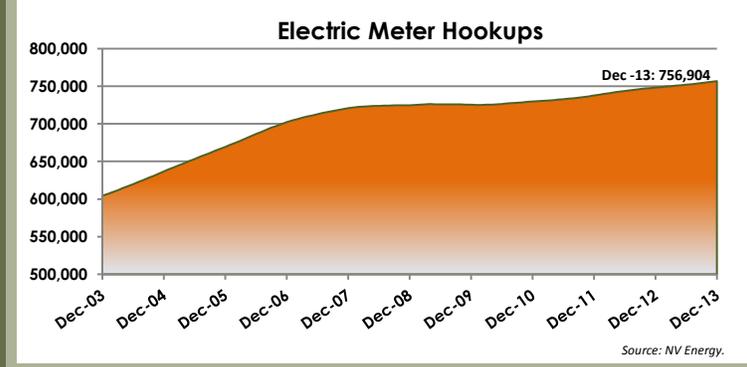
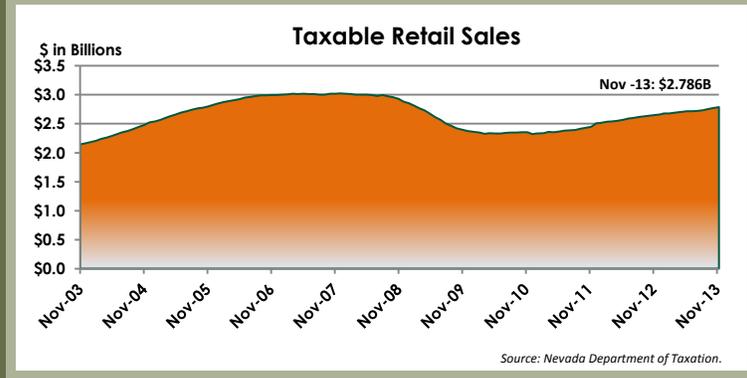
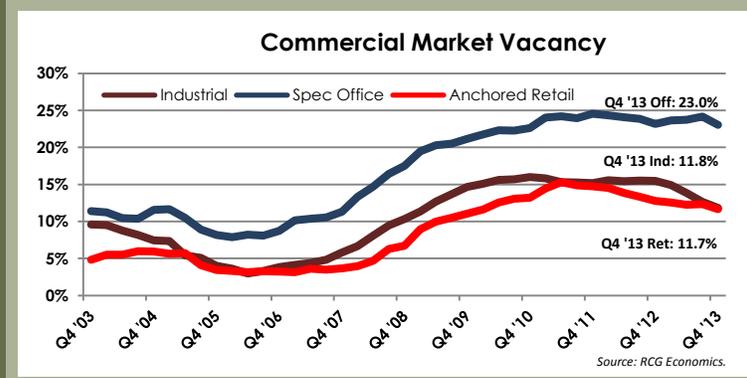
The result would be to reduce Nevada’s competitiveness and evolving and emerging business sectors at the very time when we need their support to begin to reduce our vulnerability and dependence as a state upon our Federal Government.

Texas recognized the potentially devastating impact on the retail sector and cut the rate applicable by 50 percent to the retail sector. There is a significant negative impact on many types of businesses in our great state: Assume a \$100m gross revenue firm that has \$30m in Labor or Cost of Goods Sold that had a three percent profit margin, or \$3m profit. The business faces a state business tax of \$1.4m under The Education Initiative. What business owner would want to effectively pay nearly 48 percent of their profits to a state business tax? This is not to mention roughly another \$544,000 of federal tax liability if the business is a C Corporation. The business would be required to pay roughly 67 percent of its income in combined state and federal taxation, with the lions share going to the supposed low tax environment state of Nevada. What is left for the business is about \$1m in profit. This does not take into consideration additional taxation to the S Corporation Business Owner due to the expiration of the Bush tax cuts and rising federal tax rates on “wealthy” tax payers. While the above result is significantly more negative if a firm posts a loss.

Below is a table of projected net tax on operating profit by industry compiled by Jason A. Thomas, CPA, Partner at Fair Anderson and Langerman, based on the compiled tax return information by Sageworks’ Profit Sense, a national database of tens of thousands of filed tax returns of middle market small businesses. Profit Sense is a detailed industry report that provides real time industry data. It is highly likely that the effective rates in the table below will be significantly greater in certain industries such as legal services, physicians offices, and architectural and engineering due to the The Education Initiative’s requirement that salaries over \$300,000 and contract labor is carved out for deduction purposes. There are also numerous cost of goods sold carve outs. Profit Sense data is not compiled consistent with The Education Initiative’s requirements around how to compute labor and cost of goods sold pursuant to Initiative requirements, meaning that cost of goods sold and labor is likely over deducted in this hypothetical analysis. The below report was computed based on the lesser of 70 percent of sales, revenues less cost of goods sold, or revenue less labor.

The Education Initiative Tax Rate by Industry

Industry	Effective Rate	Industry	Effective Rate	Industry	Effective Rate
Software/Tech	25	Lessors of Real Estate	11	Building and Material Suppliers	27
Residential Construction	14	Architectural and Engineering	15	General Freight	28
Non Residential Construction	11	Legal Services	6	Restaurants	29
Real Estate Related Activities	19	Equipment and Supplies Wholesalers	15	Hotels	30
				Doctors	10
				Medical and Diagnostic Hospitals	24
					35



Graphs developed by RCG Economics. Information is believed to be reliable but cannot be guaranteed.

Every business owner with over \$1m of revenue will experience different issues that confront the business. Businesses that are unprofitable may resolve more quickly rather than struggle to survive waiting for the economy to turn around. The result may be increased dependence of Nevada on the Federal Government as we continue to expand our unemployment roles. The complexities an unprecedented wave of taxation will have is far reaching and beyond the scope of the margin tax discussion. Unfortunately, like in California which could become a tax haven for Nevada businesses under this legislation, it is often too easy to bifurcate, isolate, and eradicate the true impact of the tax hike. A concern for every business owner should be the debate that is shaped over this well meaning legislation. While we can articulate clearly to legislators, the public battle that ensues is one of sound bites to the residents of Nevada, who may not appreciate the negative short and long term impact on Nevada. And, like California whose voters supported a tax on business that did not impact the vast majority of her residents, the residents of Nevada may vote it into law which may result in potentially catastrophic unintended consequences for both the Treasury of Nevada and her residents. Detroit is a hallmark that illustrates the depths residents reach in harmful business policy to get additional revenue.

While there is variability of the individual experience, this much is certain; many successful businesses simply will not be able to locate or stay in Nevada. We must, as the great community and state that we are, discuss in a non-partisan fashion, the impact that a significant increase in taxation will have on the lives of our family, our friends, and our community. □

How Much Will the Margin Tax Cost You?

Courtesy of the CPA firm, [Johnson Jacobson Wilcox](#), you can estimate how the margin tax, if passed, will affect your business by downloading this [Nevada Margin Tax excel template](#). □

Gaming Earnings for 2013

Earnings for Las Vegas-based gaming companies are only now beginning to be released. In this issue we highlight four major players: Wynn, Las Vegas Sands, Bally Technologies and Penn National Gaming.

Wynn's earnings per share grew 42% while its share price rose 76% in 2013. As a result of the continued strong growth of the Macau market, only about 28% of their revenue comes from their two Las Vegas properties. They continue to target early 2016 for the opening of their third Macau resort, the Wynn Palace located on the Cotai strip.

Las Vegas Sands earnings rose by 50% and its share price grew by 71% in 2013. In addition to their strong Macau presence, they also have one of the two gaming resorts in Singapore. This has pushed the Las Vegas component of their overall revenue down to 11% of the total. They are also considered a leading candidate to win one of the gaming licenses in Japan, should that legislation pass in 2014.

Bally Technologies reported record quarterly revenue of \$285 million and that they have closed on the SHFL acquisition. They expect cost synergies of "at least \$40 million on an annualized run-rate basis by the end of calendar 2014." Additionally, they note that they have paid down \$58 million of debt since they closed the acquisition.

Penn National Gaming reported that they completed, in November, "the tax-free spin-off to its shareholders of Gaming and Leisure Properties, Inc. (GLPI)." This creates a "separate publicly traded company which owns the real estate assets associated with 19 Penn National Gaming casino facilities." □

Deep Dive on Five

Note: We prefer looking at our monthly indicators on a moving average basis, because it smoothes them. This average does not forecast the *direction* an indicator is headed, instead it illustrates the *current* direction the indicator is headed with a lag.

1. Revenue Per Available Room

There are a number of ways to compute Revenue Per Available Room ("RevPAR"). According to www.wikinvest.com, "RevPAR is a hotel industry financial metric calculated by multiplying the [Average Daily Rate](#) by the [percentage occupancy](#)." Additionally, "RevPAR can also be calculated by dividing the total room revenue in a given period (excluding discounts, sales tax and meals) by the number of available rooms in the same period. Conceptually, RevPAR represents the success the hotel is having at filling its rooms. Increasing RevPAR means either that rates or [Occupancy Rate](#) are rising, or both."

According to the Las Vegas Convention and Visitors Authority, Southern Nevada's lodging properties ended 2013 with an average RevPAR of \$93.44 on a 12-month moving average ("12-MMA") basis. The December 2013 estimate was \$75.72. In the case of RevPAR, the moving average in December 2013 represented a 2.5% increase over year-end 2012's \$91.18. RevPar generally improved monthly through 2013. It hit its moving average maximum during the last 11 years in December 2007 (the official starting month of the Great Recession) when it peaked at \$119.43. Its lowest point was in December 2003 when RevPAR was \$70.16.

2. Gaming Revenues Excluding Baccarat

RCG prefers to look at gaming revenues net of baccarat, because they are more reflective of gaming demand by the average gambler. Baccarat is almost entirely driven by a very few wealthy gamblers (aka high rollers), whose winnings and losses can have relatively large impacts on gaming revenues in any particular period. The Nevada Gaming Control Board reported that casinos won \$679.2M in gaming revenues (exclusive of baccarat) in Clark County during December 2013. On a 12-MMA basis, these revenues reached \$673.6M by the of 2013, representing a .7% increase compared to year-end 2012's \$668.8M. Gaming revenues generally improved monthly throughout 2013. They hit their MMA maximum during the last 11 years in October 2007 when they peaked at \$834.1M. Its lowest point was in December 2002 when gaming revenues in Clark County were \$600.8M.

3. Median House Price

According to Home Builders Research, Southern Nevada's median house (new-\$298,601 and resales-\$167,500) price was \$187,201 in December 2013 and \$172,578 on a 12-MMA basis. The MMA at end of 2013 reflected a 34% increase over year-end 2012's \$129,140. Clark County median house price steadily appreciated throughout 2013. The 12-MMA peaked in 2006 during the last 11 years at \$305,333. Its lowest point was in March 2012 when the median home price was \$116,913.

4. Commercial Vacancies

RCG and The Lied School of Real Estate have started working together in preparing quarterly commercial real estate services. For the fourth quarter of 2013, they have reported the following trends:

OFFICE

The Las Vegas Valley's speculative (for-lease, multi-tenant buildings) office vacancy stood at 23% at the end of 2013, relatively unchanged from a year prior. There was also 470,400 square feet of net absorption in Q4, 2013, which broke a nine-month trend of negative absorption.

INDUSTRIAL

The industrial market had an 11.8% vacancy at the end of the fourth quarter, which is 3.7 percentage points below Q4, 2012. There was 885,400 square feet of demand for industrial space at the end of 2013, for a total of 4.6 million square feet in 2013. This marked the highest recorded highest level since 2007.

ANCHORED RETAIL

The anchored retail center vacancy rate fell to 11.7% in the fourth quarter, or 0.7% lower than the prior quarter and 1.1% below Q4, 2012. There were 312,100 square feet of positive retail space absorption in the fourth quarter and 484,500 square feet of total absorption for 2013.

5. Taxable Retail Sales

The Nevada Department of Taxation reported that \$2.7B in taxable retail sales were generated in Clark County during November 2013. On a 12-MMA basis, these sales reached \$2.8B at the end of 2013, representing a 5.2% increase compared to year-end 2012's \$2.6B. Monthly taxable sales generally improved throughout 2013. They hit their MMA maximum during the last 12 years in December 2007 when they peaked at just over \$3.0B. Its lowest point was in February 2002 when taxable sales in Clark County were nearly \$1.8B. 

For More Information About the Las Vegas Employment Picture

The Jobs Flash Report from RCG Economics is a new monthly report that discusses the details of the job market in the Las Vegas MSA. It can be accessed here: 

<http://www.rcg1.com/publications-presentations/job-flash-report/>

We want your feedback and ideas for stories. Please email Mike PeQueen of HighTower Las Vegas with your thoughts and comments at: MPeQueen@HighTowerAdvisors.com

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