**STATE OF NEVADA**
**EMPLOYMENT SECURITY DIVISION (ESD)**
**WORKSHOP TO ADDRESS THE IMPACT OF A PROPOSED REGULATION ON SMALL BUSINESSES**

**2018 TAX RATE SMALL BUSINESS WORKSHOP**

Thursday, October 26, 2017; 10:00 A.M.

| **Place of Meeting**: | **Live Meeting:** | **Video Conference to:** |
|---|---|---|
| | Legislative Building | Grant Sawyer Building |
| | 401 S. Carson Street, Room 3138 | 555 E. Washington Ave., Room 4401 |
| | Carson City, Nevada 89701 | Las Vegas, Nevada 89101 |

**Department of Employment, Training and Rehabilitation (DETR) Staff Present in Carson City**
Jeffrey Frischmann, ESD/DETR
Laurie Trotter, ESD Senior Attorney
Edgar Roberts, Chief of Contributions, ESD/DETR
Alessandro Capello, Bureau of Research & Analysis, DETR
Brian Bracken, ESD/DETR
Christina Guzman, ESD/DETR
Joyce Golden, Administrative Office, ESD/DETR
JoAnne Wiley, ESD/DETR
Mikki Reed, ESD/DETR
Rosa Rogula, ESD/DETR
Terry A. Harmon, ESD/DETR

**Department of Employment, Training and Rehabilitation (DETR) Staff Present in Las Vegas**
Renee L. Olson, Employment Security Division (ESD) Administrator
Art Martinez, Contributions, ESD/DETR

**Members of the Public, Media and Other Agencies Present in Carson City**
None

**Members of the Public, Media and Other Agencies Present in Las Vegas**
None

STATE OF NEVADA

EMPLOYMENT SECURITY DIVISION (ESD)

WORKSHOP TO ADDRESS THE IMPACT OF A PROPOSED

REGULATION ON SMALL BUSINESSES

OLSON: Good morning. I'd like to call this meeting to order. My name is Renee Olson, and I serve as the Administrator of the Employment Security Division. I'm joined -- joining the meeting today from Las Vegas, as you can see.

In the North, I'd like to introduce Jeff Frischmann, our Deputy Administrator for Employment Security Division, in charge of our UI program. With Jeff is our Division Senior Attorney, Laurie Trotter. Several other members of my staff are available there as well. Please ask for assistance if you need it.

This Small Business Workshop is being conducted in compliance with Nevada Revised Statute Section 233B.0608 to solicit public comment on a proposed amendment to the Regulation contained in Nevada Administrative Code 612.270, thereby establishing the Unemployment Insurance Tax Schedule for calendar year 2018.

Agenda Item 2 is our first opportunity for public comment. Seeing no one in Las Vegas to provide public comment, I'll go to Carson City and ask if there's anyone in Carson City to provide public comment. If so, please come forward. Start by identifying yourself, who you represent, for the record, and please limit your comments to the issues being considered under today's Agenda. You will have another opportunity for public comment at the end of the meeting prior to adjournment.

FRISCHMANN: Jeff Frischmann, for the record.

There's nobody from the public here, Renee.

OLSON: Thank you. Okay. Then we'll move on to Agenda Item 3, Confirmation of Posting.

Ms. Harmon, for the record, was proper notice for this meeting given, and did you receive proper confirmation of posting in accordance with Nevada Revised Statute 241.020(3)?

HARMON: Terry A. Harmon, for the record, Administrative Assistant III for the Employment Security Division, Management and Administration Support Services Unit. Yes, proper notice was provided for this meeting pursuant to Nevada's Open Meeting Law, NRS 241.020, and confirmation of posting was received.

OLSON: Okay. Thank you.

Under Agenda Item 4, Review of Written Comments, Mrs. Golden, did the Division receive any written comments submitted in response to this posting?

GOLDEN: Joyce Golden, for the record, Assistant to the Administrator.

No written comments were received for this meeting.

OLSON: Okay. Thank you. Okay.

With that, we'll move right into our Workshop. Agenda Item 5 is the Workshop to consider the proposed regulation to establish the UI Tax Rate Schedule for Nevada Employers for calendar year 2018. As part of the regulatory process, a meeting of the Employment Security Council was held on October 3rd of 2017. After hearing information regarding the status of the Unemployment Insurance Trust Fund, the status of bond collections and plan to call the bond and fully repay the debt in December, we also heard about the effect of the solvency on the Trust Fund, of various average State Unemployment Insurance rate scenarios.

With that, the -- with that information in mind, the Employment Security Council voted to recommend that the Division's Administrator set the average State Unemployment Tax -- Insurance Tax rate at 1.95 percent for calendar year 2018. This rate continues to build the solvency of the Trust Fund while the overall rate would reduce to 2 percent, and Employers will see the decline significantly with -- in taxes with the elimination of the bond assessment.

Just a bit of history of tax rates over the past few years, this year, the overall tax rate would consist of the regular UI tax rate and the Career Enhancement Program tax rate of .05 percent. So the 1.95 percent plus the .05 percent would total 2 percent. In 2015, the overall tax rate was 2.61 percent, in '16, 2.62 percent and in 2017, 2.63 percent; and those three rates all included the additional assessment for the bond repayment.

So with that, I'm just going to go ahead and introduce our presenters for today. Under Item 5A, the first presentation will be a Review of the Unemployment Insurance Benefit Payment Trust Fund and an Economic Analysis and Review of the Small Business Impact. Presenting this information for us today is Mr. Alex Capello, an Economist with the Department's Research and Analysis Bureau.

And so go ahead, Alex. Thank you.

CAPELLO: Thank you, Renee. For the record, this is Alessandro Capello, Economist, Research and Analysis Bureau for DETR.

So I'm going to start off, and it will kind of piggyback on what Renee just mentioned. With the -- for 2018, we will not have a bond assessment rate. So this slide kind of just breaks down the last five years -- or last four years and including this current upcoming year, what the average total cost in terms of tax rates that were charged to Nevada employers.

So as you can see with the four previous years with the bond assessment, one of the goals was to maintain very stable rates over the life of the bond. We did a pretty good job about that. As Renee just mentioned, the rates are between 2.61 and 2.63 for the life of the bond.

So this year, we're going to see the 0.63 decline in the overall rate, which will ultimately, as Renee just mentioned, make the all-in rate, basically which is composed of the CEP rate and the UI tax rate, to a total of 2 percent. So kind of what that means in dollar terms, the overall average employer will pay $610 per employee at the taxable wage base, and that is compared to last year where that number was $775.85. So that's where we're going to see the biggest change overall, and so it's a big kind of part of this year for employers. And so just kind of -- as on aside, the bond will just need, as of this morning, only 16.8 million more in funds, which we expect to get in the next couple weeks. So that will take care of itself.

So moving on from there we kind of look at the overall average rates and the average -- the average tax rate, excuse me, and the average benefit cost rates, which is just kind of a similar measure, but instead of contributions, we look at benefits. So you can see over time the red line represents the benefit cost rate, so that's kind of where we're at. And benefits, you can see it surged during recessions and fall during normal periods. Any time the blue line, which represents contributions, or the average tax rate, essentially -- any time that is higher than the red line, we are seeing growth in the Trust Fund. So for the last 20 quarters, we've had contributions exceed our benefit level payments -- benefit payment levels. So that's led to one of the big kind of things this year.

And I'll continue on the next slide, a record balance in our Unemployment Insurance Trust Fund. So at the end of the third quarter, we saw a balance $994.3 million, which is the highest for any quarter. Our prerecession record was $807 million in the third quarter of 2007. So we've gone a little past that. Much of the last quarter we were actually over a billion just with the cyclical part of the Trust Fund. It dropped down just a little bit below in the last couple weeks, but we expect that to get back over the $1 billion mark here in the next two weeks. So kind of what this all means, you know, the balance, as a number, doesn't, you know, carry a whole lot of weight in terms of what it means going forward.

So we like to look at solvency, and that's measured in a couple different ways. So we have the State and federal solvency measures. So I'll go over those real quick so we can kind of understand the difference between the two. So the State measure is a ten-year window, and it looks at the last -- the worst of the last ten years in the State in terms of all the worst measures in UI benefit payments, average duration, the risk ratio. These are all kind of stats that basically get built into the rate in the last ten years. So that's a pretty short window, and it gives you the State solvency total. So that's the left side of the bar chart, and currently, at the end of the third quarter, it was $1.37 billion. So that's kind of a measure that's in the NRS.

We've tended over the last few years to focus more so on the federal average high-cost multiple level -- or solvency level, rather, and the reason for that is it has a wider window, and it enables us to kind of keep things in perspective and not just weigh our most recent experience too heavily. And so that is basically a 20-year window for the last three recessions, and it looks at those and averages them.

And so the reason why we like to do that is once we get past that ten-year window for the Nevada State solvency measure, we'll kind of -- the worst will drop out, and we'll look to solve it almost.

So we try to focus on this federal measure in terms of kind of keeping track of where we're at. So in terms of that, we meet 1.1 billion as of today in order to consider ourselves federally minimally solvent. So we're getting there. As of the end of the third quarter, we were at a solvency multiple of 0.9. So kind of the minimum goal is 1.0, and then any more than that is just beneficial in the long run.

So as Renee mentioned, the ESC -- the Employment Security Council recommended a 1.95 percent rate. So this is kind of the rate offerings that were shown at the council meeting and with the highlighted recommended rate. So what this kind of does is this chart kind of breaks down what the future solvency target would be in 2018 and then shows what are estimated kind of benefit payments, contribution levels, interest earnings and things of that nature.

So kind of breaking that down, we expect a total of $647 million to be taken into the fund. So this is composed of taxes and interest and then some possible excess bond revenue, and taken away from that is the total output -- payout of the fund, rather, and so that -- we expect that to kind of level out this year. It's been declining pretty steadily over the last few years, and so kind of see it as we're at the floor. So we expect benefit payments to be approximately 293 million, and then all kind of that coming together with -- we expect the balance to be $1.35 billion next year. And so that will -- the kind of the number to focus on here is the average high-cost multiple, which I just kind of went over a few moments ago, and that is our federal solvency measure, and we expect to be around 1.1615 for that measure. And so that's with a 2 percent rate.

And then moving forward, kind of where does that money go? And so it's kind of a 50/50 split at the moment. So half of the contributions in the year are going to pay benefits, and the other half is funding -- or is helping reeling in the Trust Fund. So that's kind of just the easy breakdown. It's a nice, even number at the moment. So it's kind of answer -- what does the money do.

And then we kind of always show this sort of chart each year to kind of give you guys an idea of where we're at in terms of the U.S. recovery. So this is currently the third longest economic expansion in U.S. history, and this just kind of provides a baseline. This has allowed us to grow the Trust Fund and get back kind of on our feet and pay off the bond and all of that. And so this isn't some sort of bad thing. This is just kind of a, hey, this is where we're at. You know, the average length of time in history between recessions is 59 months. We're already at over a hundred. And so it's kind of a, hey, we're here. It's not bad. It's not predictive by any stretch, but the goal for this whole -- for the Trust Fund is to be prepared for a recession, and so this is kind of why we continue to grow the balance.

And so the next slide is the forecast slide that stretches out a few more years. You'll see kind of two dotted lines, and the lower one is the 1.0 average high-cost multiple, and then the one a little bit higher that's dashed is the 1.5 for an average high-cost multiple. And so the reason why I kind of show that is kind of where the next, you know, even number, I suppose, is.

So this kind of stretches out to the end of the third quarter in 2019, and it just shows where we would be at given a little bit of variability and with the 1.95 carried out through those years.

So during the ESC Council Meeting, I kind of showed what states -- or I spoke about which states kind of made it through the recession more so than others in terms of not needing a balance -- or to borrow, rather, for their Trust Fund, and a lot of them had around 1.5 average high-cost multiples for the Trust Funds. So it's kind of a number that means a little bit more maybe now than it did before the recessions, so that's kind of why I chose to show that.

And then kind of continuing forward, this is an even longer look out, and it’s just the 1.95 rate held constant in terms of the average high-cost multiples. And looking out to 2021, again, these are all constant rates. So this is just the 1.95 that was recommended. So if we kind of carry this through the next few years, you can see we would get to 2.0 by the end of -- or by 2021. And obviously this is subject to a lot of change since the tax rates can change from all these years going out, but it just kind of gives you an idea of where we're going under the current kind of estimates. And I think that's it for my presentation.

Any questions?

OLSON: Thank you, Alex.

Did we have any questions? I didn't -- no? Okay.

All right. So then we'll move on to Item B. Our next presentation provides an explanation of the Tax Rate Schedule. I'd like to introduce Mr. Edgar Roberts, the Chief of Contributions for the Employment Security Division.

Mr. Roberts?

ROBERTS: For the record, my name is Edgar Roberts. I serve as the Chief of Contributions.

If we go to slide two -- the purpose of this Workshop is to discuss a recommended UI tax rate for 2018 on small businesses as proposed by the Employment Security Council on October 3rd. A small business is defined as having 149 employees or less. The employer data for this Workshop comes from the records of the Division for reports filed by employers.

Turn to three. All Nevada employers subject to UI contributions and eligible for experience rating will be affected by this regulation. This regulation represents maintaining the average UI contributions rate at 1.95 percent in 2018. Small business represent approximately 44,881 employers or 96 percent of the 46,714 eligible Experience Rated employers.

With a 1.95 average contribution rate, the total cost per employee will decrease from 2.63 to 2.0 percent of wages subject to contributions. This decrease is attributive of paying off the UI bonds in December. This regulation continues to increase the reserves in the employment Trust Fund projected to grow by $354 million, bringing the State closer to the solvency target. This regulation will also allow Experience Rated employers to pay contributions at a rate lower than the new employer rate of 2.95 percent. With the overall rate decline due to the end of the bond assessment, there are no significant adverse impacts to this Regulation. Additionally, an increase in the maximum wage is subject to UI contributions from $29,500 in 2017 to $30,500 in 2018 affects the average cost for employee

$30,500 in 2018; however, the average cost per employee will decrease, as previously stated by Alex, from $775.85 in 2017 to $610 in 2018 due to the overall rate decline with the ending of the bond assessment.

The principle cause for any change in an employer's SUTA tax rate is due to the changes in their own reserve ratio and experience with unemployment. The rates that employers pay are fixed in statute. The average tax rate is adjusted each year in the regulatory process by adopting the range of reserve ratios and applying that to the rates. Each employer's reserve ratio changes each year depending on the net balance of UI contributions and benefit charges from and to their account.

This slide shows the estimated revenue and employer distribution for small employers, which is highlighted in the yellow section, and as we can see, of the total eligible contributory employers, 44,881, or 96 percent, are small employers, which will bring in a revenue of $182 million or approximately 29 percent of the total revenue of $623 million.

In the breakout for small employers, if we look at the lowest tax rate of .25 percent, there are 5,656 employers for an estimated 12.6 percent. And going to the highest tax rate of 5.4, the number of employers are 2,849 or 6.35 percent. The small employers taxable estimated revenue and distribution matches pretty close to the overall employer rate, if you look in the distribution of the number of employers.

This Nevada Regulation complies with the federal regulations governing Unemployment Insurance contribution rates; therefore, employers maintain eligibility for the full 5.4 percent credit towards their federal Unemployment Insurance taxes. This Regulation adds to Nevada's solvency, which helps to pay for unemployment benefits in the future. And on average for each dollar in UI benefits, two dollars or more in economic activity results. That's the employer's benefit as funds are returned to the economy through UI benefit payments, helping to mitigate drops in consumption.

Turning to slide nine, implementing a 1.95 average tax rate will continue the stability of the overall tax. The UI system helps to maintain the attachment of workers to the local workforce and facilitates a faster return to work both through job search and training services and through mandatory work search requirements.

The tax methodology used for Nevada's Unemployment Compensation Program is based on an experience rating system approved by the U.S. Department of Labor. This rating system is designed to ensure that employers are fairly rated based on their unique experience with unemployment, regardless of size or industry type.

There is no additional cost for the enforcement of this Regulation. Funding for the administration of UI programs is provided to the department by the U.S. Department of Labor.

NAC 612.270 is adopted to each year to set employer contribution rates and is required by NRS 612.550, and this Regulation adheres to the federal compliance regulations governing Unemployment Insurance contribution rates.

Maintaining the average UI tax rate of 1.95 percent is expected to produce $623 million for the Trust Fund in 2018. Small businesses will account for $182 million of the total revenues. This Regulation does not duplicate or provide a more stringent standard than any other regulation of federal, state or local governments.

In conclusion, due to the distribution of small businesses, employers closely matching the overall distribution of all Experience Rated employers in the State and that the U.S. Unemployment Insurance Law does not allow states to assign rates of less than 5.4 percent except on the basis of an employer's prior experience with respect to unemployment, the agency believes there is no contrasting impact to small businesses due to this Regulation.

This concludes my presentation. Thank you.

OLSON: Thank you, Edgar.

Did we have any questions? I can't see people down there.

FRISCHMANN: There's no questions from the North.

OLSON: Thank you. Okay.

So Agenda Item 6, Public Comment, this is the final opportunity for public comment. Seeing no one in Las Vegas to provide public comment, I'll ask if there's anyone in the North prepared to provide public comment.

FRISCHMANN: There's no one from the North to provide public comment.

OLSON: Okay. Thank you. With that, I'm going to adjourn the meeting. Thank you.

[end of meeting]