STATE OF NEVADA
EMPLOYMENT SECURITY DIVISION (ESD) AND THE
EMPLOYMENT SECURITY COUNCIL (ESC)

This meeting, conducted by the Administrator of the Employment Security Division (ESD) and the Employment Security Council (ESC), is a workshop to review, discuss and solicit comment on a proposed amendment of a regulation pertaining to Chapter 612 of Nevada Administrative Code pursuant to Nevada Revised Statute NRS 233B.061. The proposed amendment will establish the Unemployment Insurance Tax Rate Schedule for Nevada employers for calendar year 2019.

EMPLOYMENT SECURITY COUNCIL (ESC) MEETING

Wednesday, October 03, 2018; 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
Renee L. Olson, Employment Security Division (ESD) Administrator/DETR
Jeffrey Frischmann, ESD Deputy Administrator/DETR
Edgar Roberts, Chief of Contributions, ESD/DETR
David Schmidt, Bureau of Research & Analysis, Chief Economist, DETR
Alessandro Capello, Bureau of Research & Analysis, Economist III, DETR
Jeremy Hays, Bureau of Research & Analysis, Economist II, DETR
Laurie Trotter, Senior Attorney, ESD/DETR
Jo Anne Wiley, ESD Manager, ESD/DETR
Christina Guzman, Management Analyst IV, ESD/DETR
Stewart Terry, Management Analyst II, ESD/DETR
Mariruth Johnson, Management Analyst II, ESD/DETR
Brian Deem, Management Analyst I, ESD/DETR
Joyce Golden, Administrative Assistant III, ESD/DETR

Department of Employment, Training and Rehabilitation (DETR) Staff Present in Las Vegas
Don Soderberg, Director, DETR
Art Martinez, Contributions, ESD/DETR

Members of the Public, Media and Other Agencies: Present in Carson City
Ashley Staab, Representing the Nevada Association of Employers

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

Members of the Employment Security Council Present in Carson City
Fred Suwe, Chairman, Representing Public
Paul R. Barton, Representing Public
Charles Billings, Representing Employees and Labor
Margaret Wittenberg, Representing Employers
Daniel J. Costella, Representing Employees and Labor
Thomas Susich, Representing Public

Member of the Employment Security Council Present in Las Vegas
Michelle S. Carranza, Representing Employers

SUWE: All right. We're nearly at the appointed time to start, so I think we'll begin. I think all of the Council members are here. I want to say, good morning. My name is Fred Suwe and I want to thank all of you in the public and the Council and staff for your participation in today's Employment Security Council Meeting.

At this time, I would like to ask the ESD Administrator, Renee, to say a few words about our outgoing past Chairman.

OLSON: Good morning. Renee Olson, Administrator of the Employment Security Division. Today, we're announcing the retirement of Paul Havas. He was a Councilmember and the Chair of the Council for over 40 years. We just wanted to take a moment to honor his service to the State and the positive impact he's had on the Council and Nevada's Public Workforce System.

As you see this morning—well, I just also wanted to say that Mr. Havas sends his regards to the Council. I'm sure he would like to still be here. He's taking—he decided to go ahead and announce his retirement. He said it was fine that I tell everyone that he—he was going to have a medical procedure and the recovery would've been a long recovery. That he felt it was the right time to go ahead and retire.

So, we miss-we wish Mr. Havas well and we'll let all the Council Members know how he's doing when we hear back from him. I know we'll miss him.

Today I have the pleasure to introduce and announce that Mr. Fred Suwe has been appointed as the Chair of the Council by the Governor. And

so, welcome. And congratulations. And, I'll just turn it back over to Mr. Suwe.

SUWE: Thank you. See, that's what happens when you open your mail. You know, you get a letter that says, surprise. Be that as it may, during today's meeting, under Agenda Item 7, we will hear the following presentations: Economic Projections and Overview; Review of the UI Trust Fund and Bond Status; and, Tax Schedule Explanation.

Also right now, I'd like to prepare you that at 11:15, we're going to take a hard break because everybody's phones are going to go off as we get the—I don't know—

OLSON: Test of the emergency system.

SUWE: Test of the Emergency Management System or whatever. So, even if you got your phone off, it's going to blink or something. So, we'll take about a five minute break at 11:15.

As you know, the Council is required by statute to make a recommendation to the Administrator regarding average tax rate for the upcoming calendar year. The rate recommendation task before the Council today is an important one and I appreciate your service on behalf of Nevada's workforce and employer community.

At this time, I would like to start by opening the meeting to public comment. Please state your name, title and who you represent for the record. We will start in Las Vegas, are there any comments in Las Vegas? Okay. I guess, no one wants to make a comment. Very good. Moving to Carson City, are there any comments in Carson City? Hearing none, we'll move on.

Moving to Agenda Item 3, Confirmation of Posting. Stewart Terry, was proper notice provided for this meeting, pursuant to Nevada's Opening Meeting Law, NRS 241.020?

TERRY: Stewart Terry, for the record, Management Analyst for the Employment Security Division, Management and Administrative Support Services Unit. Yes, proper notice was provided for this meeting pursuant to Nevada's Opening Meeting Law, NRS 241.020 and confirmation of posting was received.

SUWE: Thank you, Terry. Moving to Agenda Item 4, Roll Call of Council Members. Oh, all right. So, if we'll start from the far left, if you would go ahead and introduce yourself, please.

WITTENBERG: I am Margaret Wittenberg, I represent Employers and I am on the Board of Review.

BILLINGS: Charles Billings, representing Labor and Employees on the Council and the Board of Review.

COSTELLA: Danny Costella, representing Employees and Labor.

OLSON: I'll go ahead and introduce myself. I'm am ex-officio Member, but my name is Renee Olson. I'm the Administrator of the Employment Security Division.

SUSICH: My name is Tom Susich. I am the Chairman of the Board of Review and I'm the at-large Member.

BARTON: And Paul Barton, representing the public.

SUWE: From Las Vegas? Would you introduce yourself please? Push—push the button.

CARRANZA: Michelle Carranza, representing Employers.

SUWE: Thank you. My name is Fred Suwe and I represent the Public and serve as Chair.

Moving to Agenda Item 5, Review of Written Comments. Joyce Golden, were any written comments received?

GOLDEN: Joyce Golden, for the record, Assistant to the Administrator. No written comments were received for this meeting.

SUWE: Thank you, Joyce. I will now move to Agenda Item 6, our second opportunity for public comment. Remember to state your name, title and who you represent for the record. We will start in Las Vegas. Are there any comments in Las Vegas?

CARRANZA: Hi, no comments in Las Vegas.

SUWE: Moving to Carson City, are there any comments in Carson City? Okay, thank you.

We will now move to the Agenda Item, approval of the October 3, 2017 minutes. Hopefully you've all had an opportunity to read them. They should've been sent to you. They are in the packet. I will accept a motion for approval of the October 3, 2017 Meeting Minutes. Is there a motion?

SPEAKER: I'll move to approve the minutes.

SUWE: Second?

SPEAKER: I'll second.

SUWE: Is there any discussion? Hearing no discussion, I will now call for a vote of the minutes. All those in favor say aye. [ayes around] Oppose? Oppose? Hearing none. It's the opinion of the Chair that the motion to accept the minutes has passed unanimously.

We will now move to Agenda Item 7. Items A-C will provide us with an economic outlook and Unemployment Insurance Update, presented by DETR Staff. We will move on to the first is, Economic Projections and Overview by Research and Analysis.

SCHMIDT: Thank you, Mr. Chair and good morning. My name is David Schmidt. I am the Chief Economist for the Nevada Department of Employment, Training and Rehabilitation, in the Research and Analysis Bureau. I used to sit just a couple of seats over working on the Unemployment Insurance Program. I've recently been promoted up to the Chief Economist position, so I am pleased to be back before the Employment Security Council today.

Moving on to Slide #2 of my presentation. It's a very exciting time to start in this role as Chief Economist because the Nevada economy is doing very well. It's exciting to be able to talk about each month where we're at.

Employment in the State is currently 1.389 million, closing in on 1.4 million. We added 44,800 jobs over the year. Over the month, the gain was 1,200 jobs, which was towards the small end, but we tend to look at the annual change to better smooth out the month-to-month fluctuation that you get in this series. 44,000 jobs is near the high end of the recent trend that we've seen. We're also at 92 consecutive months of year-over-year gains.

Just for some perspective, looking back to the recession, we lost almost 185,000 jobs from the prior peak to the trough of the recession. Since that trough, we've added about 270,000 jobs. We're closing in on

adding almost 100,000 jobs above where our previous peak was. So, Nevada's employment is going very strong.

The next slide shows you the trend over the last couple of years of those year-over-year changes and then the year-over-year percentage change. You can see that, we've been in a pretty steady pattern over the last year plus of about 40,000 jobs over the year. And, 3-3.5% gains in employment. That is fairly strong and the growth is fairly widespread.

Slide #4 looks at the growth year-to-date across all of the different industrial groups in the State. Construction and manufacturing, for much of the year have been sort of competing to be the industry that's added the most jobs since the start of the year. Currently, construction is leading the way with 7,300 jobs added year-to-date, which is growth of 8.9%. This is something that sometimes causes a little bit of worry for people because heading into the last recession, there was a lot of construction employment as the housing market was very hot. So, people ask, is that being replicated here and I would say no because prior to the recession, we had about 150,000 construction workers in the State. We lost about two-thirds of those. We bottomed out at near 50,000 workers. We've been adding jobs, but even now, we're only up to 92,200 jobs in construction. So, we're only about halfway back from all of the jobs that we lost. Where people are working in construction is really supported, in my opinion, by the growth that we're seeing in both of the large metro areas in the State. We see growth in both residential and construction work in both the Reno and Las Vegas areas.

Manufacturing at the same time has been the largest or the fastest growing industry. It's up almost 14% year-to-date with 6,500 jobs. This is particularly concentrated in the North, with some activity in the TRIC Center. The durable goods manufacturing subset of that industry has been growing by almost 20%. This is a really significant increase and has seen lots of growth in that area over the last couple of years.

Our larger industries, leisure and hospitality, trade, transportation and utilities, you can see are continuing to add jobs as well. The only industry that's losing jobs year-to-date is Information. There's a little under 15,000 people employed in that industry in the state. And, those declines have largely been the result of changes in the print media industry.

Slide 5 compares the growth that we've seen, heading back to before the recession and compares that to the nation as a whole. The nation, for several years now, has been running at about 1.5-2% growth, over the year. While Nevada, going back to 2013-2014 has been in the 3-4% range. Currently we're at 3.3% over the year, which is a little bit more than double the nation as a whole at 1.6%.

Shifting focus from employment to unemployment. The unemployment rate in August fell from a month ago down to 4.5%. This is down from 4.9% a year ago. So, we're in that below 5% threshold that's often thought of as being a full employment sort of situation. It is the lowest rate going back to August of 2007, since before the recession. We're also under total employment of about 70,000 which is about how many people we had unemployed at the start of the recession. That's the fourth decline we've

seen so far this year. We've narrowed the gap a little bit with the nation as a whole as the US rate was unchanged at 3.9%. So, we're down to being 0.6% points above the nation.

Really, we're getting into a range where it becomes a little bit fuzzy to look at comparisons to the nation as a whole, because there are a number of states who are currently at unemployment levels that we've never experienced in the history of this series going back to 1976. For example, agricultural states in the Midwest tend to have a different sort of employment market than the more tourism based employment base that we have in Nevada. So, it's natural for us to have a little bit more churn in our market and a little bit higher unemployment rate as a result.

The comparison I would make is that we're within a percentage point of our all time low, which is about 3.8%, which we hit prior to the last recession. So, we're closing in on the lowest rate we've ever seen and we're essentially operating at near full employment.

The chart on Slide 7, sort of visually shows that back at the start of the recession, we were actually below the national rate because our housing market was so hot, we were slightly below the total US rate. During the recession, we peaked at nearly 14% unemployment, which was more than four points above where the nation as a whole hit. Then we've been narrowing that gap as the years have gone on since the low point of the recession.

Average weekly wages in the State have been increasing and they've been increasing fairly steadily for the last several years. There's a very regular pattern when it comes to wages. You almost always have a

peak in the fourth quarter that falls off in the first and second quarters in the year due to bonus activity that tends to take place towards the end of the year.

That pattern was a little bit reversed this year where the fourth quarter was a little bit softer than we had expected and the first quarter ended up being stronger than the fourth quarter. That pushed average weekly wages in the State up to $977. That shift, in my opinion, was likely the result of some wages being moved because of the difference in tax rates between 2017 and 2018. I would expect to see that number drop back off in the second quarter as that kind of one time effect moves out of the series here.

If that effect weren't here, we likely would've seen these wages in the fourth quarter instead of the first quarter and still, so the underlying idea that wages in the State are closing in on an average of a $1,000 a week is still valid.

Looking ahead a little bit. We recently completed our long-term industry and occupational projections. This takes a look at over the length of a potential business cycle, where might we be in 2026. So, our short-term projections tend to focus on what are the current trends and what will we see if they continue.

The long-term projections that we're looking at here are looking at, where are we now, where might we be in 10 years, taking into account all of the fluctuations that we might see in the economy. And that's an interesting chart and I think an encouraging one for the diversification in Nevada's economy.

On the left side in the lighter green color, you can see the seven fastest growing occupations that we expect through 2026. About 4,000 of those jobs or about 67% of them are in occupations that are earning an average wage of over $41 an hour. You have mechanical engineers, electrical engineers, industrial engineers, software developers and these are occupations that we expect to the be the fastest growing in the state.

At the same time, Nevada has a large employment base in industries like leisure and hospitality. Even though these are not growing at the fast rate that these other jobs are growing at, they do still add lots of jobs and you can see the size of the industries that are represented there. While some of these jobs like retail sales don't pay as much, you also have mixed in here your registered nurses, growing by about 5,600 jobs, paying $40.86 an hour.

Just to give you an idea of where we expect the growth to take place and what sort of jobs we'll be needing over the course of the next 8-10 years.

Slide 10, sort of gives you a look going back to before the recession of how Nevada's private sector in particular has fared compared to other states. Back in 2005-2006, we were among the fastest growing private sectors in the nation. In the depths of the recession in 2009 and '10, we were losing more jobs in the private sector than any other state in the nation.

By 2014, we were back among those fastest growing private sectors in the top four or so states on a consistent basis from 2014 into the start of 2018. In 2017, we actually managed to have the fastest growing private

sector in the nation. The first quarter of 2018, there's a few states that have moved ahead of us a little bit, but focusing in on that, on Slide 11, Nevada's growth rate was very similar between 2017 and 2018. We were at 3.64% in the first quarter of 2017. We're at 3.56% in the first quarter of 2018.

Very consistent when you look at some of the other states on here and really, what happened is, Idaho, Oregon and Utah came in with very solid, very strong growth rates in the private sector in the first quarter. As you look through the chart on the right, what I find really interesting is, you have Idaho, you have Oregon, you have Utah, you have Arizona, you have California. Every single state that borders Nevada is also on this list of fastest growing private sectors. For Nevada's positioning as a transportation and logistics hub, going forward, I think this is very encouraging because if we were the fastest growing private sector but everyone around us was weak, that could be a potential drag on the economy. If we are growing strong and everyone around us is growing strong as well, I think that's a positive sort of outlook for the future of the economy.

Finally, my last few slides talk about a topic that you may have seen frequently in the news. Just some headlines from a few months ago about when might the next recession be. I know this is a question that I've received in the past from the Council and I wanted to sort of address it preemptively here.

Looking at the data, there's a few different ways that you might try to predict when you would get a recession. These four charts are looking

at economic indices. Various groups, such as CBER at UNLV or the Philadelphia Federal Reserve will put together aggregate measures that look at various pieces of an economy. For example, the Philadelphia Fed looks at employment, it looks at the unemployment rate, it looks at the average hours that are being worked in the manufacturing sector and it looks at wages that are being paid in the state. It pulls all these things together and it tries to give you one number that describes how is the state doing.

You can see the bottom left map there, Nevada, as well as a number of western states is in a dark green which represents that solid growth in that coincident index. You also have a leading index which is typically trying to look at some other measures and tell you what might happen to the coincident index over say the next six months.

It's important to note with these though that a leading index is almost always looking only a few months in the future. The difficulty is that as you get farther and further out into the future, there's a lot of different things that can happen. Trying to look at a number to tell you, is the economy going to be weak a year and a half from now is very difficult. So, that six-month horizon is really important when you're looking at the indexes and how they're trying to describe activity taking place.

Another way you might try to look for recessions in the future is to look at a single measure. For example, you could look at unemployment claims, on the top right corner. If you look at the recessions that have taken place here, unemployment claims tend to increase before the official

start of a recession as the economy is softening and some people are—more people are starting to experience layoffs.

You could look at the oil price because some recessions in the nation's past have been due in large part to oil price shocks. You can see that, while it's not consistent, that there's always a sharp increase. For example, 1991, prior to a recession, oil prices can change in the middle of a recession. You can look at also new home sales or you could look at the yield curve. The yield curve is very popular. It compares a 10-year Treasury security to a shorter term, three month or six month security and compares the difference in interest rates. The idea being, if people are expecting a recession, they might demand more interest now to loan money to even the US Government.

But on the longer horizon, shocks that you might expect over the course of the next couple of years, aren't as reflected in your longer term debt instruments. So, as the yield curve falls below zero, that reflects a desire to have more interest in the short term than you expect in the long-term.

There was, however, an interesting write-up in the—by a Member of the Atlanta Federal Reserve talking about, is that really the case now because we're in a weird situation where we've been in a very low interest rate environment for a very long time. Will that affect the predictability of recessions based on the yield curve going forward? That may well be the case.

Even though this is a signal that many people, if you look at the headlines two slides before, one of them was, an inverted yield curve, the

harbinger of recession may happen in 2019. This is something that gets a lot of attention but, is it necessarily reflective? I would say, few measures are really well suited to try to predict a recession a year and a half to two and half years in the future. Most of the headlines there, we're looking at a recession may happen in 2020. So, it's a year and a half or more out.

The difficulty is, you always have two types of errors that you can have, false positives and false negatives. If you have a very sensitive measure that shows lots of very quick variation in the economy, you'll probably have a lot of false positives where it looks like there's a recession but no recession actually happens.

If you have a very selective measure, which only indicates a recession on rare occasions, you're more likely to run into situations where that measure does not in fact predict a recession when one happens. Trying to balance those as you move in one direction, you always get more of the other type of error.

So, most leading measures are looking in the very short term and none of them currently say a recession is on the way. A year and a half, two and a half years from now, it's hard to look at the data and find anything that accurately say, yes or no to that question. So, I would say, predicting a future recession is difficult. But the option that's always available is to prepare for a recession. Some day another recession will come. I am not going to become famous for saying this because it will happen at some point, when it will happen, that's a hard

question, but knowing that one is coming, we can still prepare for it be it a year from now or five years from now.

That's the end of my presentation. I'd be happy to answer any questions you might have.

SUWE: Would anybody like to ask any questions? Make any comments?

OLSON: I have a question. Dave, when you're looking at the increase in the average weekly wage, were there any industries that stood out as those wages were increasing faster than other industries and—it's kind of a two-part question. How do the increase in wages impact the unemployment insurance program and the trust fund?

SCHMIDT: Thank you very much. Dave Schmidt again for the record. Wages and taking a look at the areas where there's high wages, there's a number of industries in the state that are kind of above and below the state average. In 2017, the state average weekly wage was $902 a week, over the course of the year.

There were a few industries, management of companies and enterprises is one that stands out because it's a limited group that pays very high wages. It has an average of $2,373 a week. Other industries, manufacturing is paying $1,086 a week on average. Healthcare and social assistance, $1,042. Construction, $1,116. Transportation and warehousing is near the average at $898. Information is at $1,269. Wholesale trade, $1,451.

The ones that I think are really interesting are those that—industries that are growing faster than the average that we've seen over

the last 7-8 years and also pay above average wages. That's management of companies and enterprises, healthcare and social assistance, construction, manufacturing and I probably would probably lump in transportation and warehousing because it's so close to that average. These are areas that are growing and pulling up the average wage in the state because they pay those above average wages and are growing faster than the state as a whole.

As your average weekly wage increases, the Unemployment Insurance Program is set-up so that both average benefits rise at the same rate as average weekly wages, or average annual wages, I should say. Your tax base that Employers are paying Unemployment Insurance taxes on, also rises at the same rate as average wages in the state.

So, the net effect to the system is sort of fiscally neutral because both benefits and contributions are rising due to that increase in wages. However, as time goes on, employers do tend to pay more and more in State Unemployment Insurance Taxes in Nevada, where that's not the case necessarily nationally because that is an optional provision we have in our state law that not every state has. Some states have a flat base of $7,000 in wages that taxes are paid on each year and after that, nothing is subject to taxation. In those states, average UI tax rates would tend to need to rise over time to keep pace with inflation. Whereas, in Nevada, we tend to have more stable UI tax rates, looking back through our history.

OLSON: Just as a follow-up to that then. Were those other states, how were they impacted during the recession and their trust

funds? Did they have—they have probably a little bit of everything there but—

SCHMIDT: With your permission, I think Alex's presentation will probably actually touch on that topic very nicely.

SUWE: Anyone else have any comments before we move on to the next presentation? No. Well, let me just say, David you're in good company, I couldn't get the weatherman last night to tell me if it was going to rain on my way here this morning, but those things happen.

Okay, then we will move on to Review of the UI Trust Fund and Bond Status.

CAPELLO: Good morning, Mr. Chairman and Members of the Council. For the record my name is Alessandro Capello. I'm an Economist within the Research and Analysis Bureau of the Department of Employment, Training and Rehabilitation.

Today, Jeremy Hays, who is sitting to my right, and I will be providing you with a review of Nevada's Unemployment Insurance Trust Fund and a very, very brief review of the UI Trust Fund Bond.

So, slide 2, if you recall from last year's Council Meeting, we talked about how our final payment was going to probably happen in December of 2017. So, I just kind of wanted to wrap that whole, long, arduous process that you guys had to go through and kind of the rubber stamp on, oh we paid it.

So, quick review. It was issued in November 2013. As I said, final payment was made last year in December. The average rate ranged from 0.56% to 0.63% and then, as we kind of always talked about in all those

presentations over those years was, the goal was to provide rate-predictability and allow the trust fund to grow towards solvency over those few years of bond assessments. So, that kind of—we—we did it.

Kind of moving on to the main part of the presentation. Here's a quick just little agenda. We're going to take a quick look at the national perspective for UI and then go to work in Nevada, UI trends and then into the—just looking at the trust fund and then finally, we'll follow that up with our 2019 Tax Rate Forecast.

This map here is a—is one that I've shown the last few years when making this presentation. For the first time, every state on the map has a positive trust fund balance. That's been a while. California finally made it over that hump. The Virgin Islands are the lone territory that don't, but they're not that easy to map in the program, so they're not on there.

One of the things that we're going to refer to a lot throughout this presentation is the average high-cost multiple. It's kind of our most effective measure for trust funds across different states, across time. Because money, as we know, doesn't mean always the same amount or same thing over time. So, we're going to try to stick to that as much as possible.

Before I get too far ahead, I just want to define that, the average high-cost multiple, that is. What that measure does is, it takes each state's trust fund balance, it divides that by the state's total wages. So, it gives you what's called the Reserve Ratio. Then it takes that amount or that result and it divides it by the average high-cost rate.

And the average high-cost rate is the three worst years that your state has experienced in either the last 20 years or the last three recessions, whichever is longer.

So, for us, it's pretty easy because we had our three worst years in 2009, 2010 and 2011. So, we just get to take those three years and use those as our average high-cost rate. What that ultimately does is, it gives you a balance that you need to have to withstand a similar recession for one year and that gives you an average high-cost multiple of 1.0.

This is the federally recommended minimum. It means, basically, you have 12-months' worth of benefits at that kind of rate, if you experience that similar rate as those recessions and you could pay benefits for that long. A 1.5 average high-cost multiple is 18-months and 2.0 is two years.

Looking just at the map, you can finally see, we're actually in light green for the first time in a long time with an average high-cost multiple of 1.16. Before the recession, if you recall, as well, we actually did have an average high-cost multiple of 1.0 and so we were considered solvent, or at least, federally recommended minimum solvent. Despite that, we didn't have nearly enough money. If we were to show our 2011, 2010 map, most of these states also did have that same experience and were in the red just like us.

One of the things that we will notice is there are a lot of green states now. So, a lot of states have been pretty proactive in growing their trust funds. The very, very green states, you can kind of see them, they're a little darker shade. They are states that have actually grown their trust fund to greater than 2.0 in terms of average high-cost

multiple. They're opting to be very, very prepared and these states are Wyoming, Oregon and Vermont.

On the other side, you have states that are choosing not to prepare in that manner. For example, Texas is just comfortable with maintaining a very low trust fund balance and will handle it when the recession comes. This is just kind of something to think about.

Moving on to the next slide, this is kind of how—how did those states get to that point? This is how. We have had a long economic expansion. It's the second longest in our country's history. How this kind of works is, it's from the National Bureau of Economic Research. They are the ultimate recession daters.

If you look at our current final bar on the bottom, we are 112-months into the current expansion cycle. This is currently longer than obviously the average recession cycle which is that red line at 59-months and it is the second longest expansion ever. So, should it endure, this US expansion in mid-2019 would become the nation's longest ever and that's pretty clear on the chart.

Then, as we—you know, based on Dave's presentation, you know, recessions are difficult to predict. It's not like something that even economists are like terribly good at, if you started looking at our averages. There is kind of a—there's a lot of research that's shown post World War II that there is no—there's no reason to believe a recession ends just because it's longer. Like, there is no age, it's dying of old age. That kind of logic is more or less based on kind of we're due for one, but it doesn't source any sort of reason. It's just kind of like, oh

we haven't had one for a while, so we're due. I don't think that's a really great way of predicting anything.

Moving on to the next slide, this is just before—I'm going to hand it off to Jeremy after this slide, but this looks at the nation's claims levels. Dave kind of had a similar chart, but this is just a monthly total and then the red line gives you a 12-month moving average.

As you can see, we've seen a long decline in claims from the recession and it's still continuing to go down. It's really low is the way I can get it every week, we get the new report and it's a lot of the times, a low since the 70s, or low since the 60s. Just kind of as a—for number's sake, over the last 12-months, we're averaging 635,000 claims, as a nation and they haven't been at this level since the early 70s, as I said. The all-time low since they started recording was 597,000. We're like in a very, very low claims environment.

With that, I'm going to hand it off to Jeremy Hays, who is going to go over some Nevada UI Trends.

HAYS: Thank you very much Alex. For the record, Jeremy Hays, Economist with DETR's Research and Analysis Bureau. As Alex said, we're going to switch now from the national perspective to looking specifically at what's going on in Nevada, with UI trends.

Starting with initial claims, which is the previous slide that you saw for the nation. You can see that we had our pre-recession, very low levels of claims. A recessionary increase in claims and then our current levels, which are quite low. The current August 2018 total is 9,580

claims. A little bit more telling of the trend is the 12-month moving average, which is currently at 10,733.

This 12-month moving average actually puts us at levels that have not been seen since the late 90s. Further, we've seen year-over-year declines in the series in 10 of the last 12 months.

Again, perhaps a little bit more telling is the claims per job. This chart is looking at initial claims per thousand jobs in the state. What we're seeing here is we're actually at an all-time low. We're currently at 1.9 claims per thousand jobs. And, as you can see, this series is continuing to trend downward.

Along with that, a number of the measures that we consider are either trending downward or leveling off. The latter is true of the average duration. This is the average length of time a claimant receives benefits and it's currently at 13.26 weeks. Averaging 13.3 weeks, over the last 12 months. As you can see in the chart, this seems to be leveling off at what we would expect as a steady state value.

Turning now to the exhaustion rate, which is the—basically, the length of time that it takes for a claimant to find a job. We can see that this is continuing to fall. We currently stand at 33.45%, down almost three percentage points from this time last year. What this is indicating is that claimants are finding jobs sooner and sooner. This trend is expected to flatten out moving forward. For a little bit of perspective, for the lows of the 90s, we were in the 30% range.

And finally for me, taking a look at benefit payments. Kind of the result of all of these trends that I've been presenting to you is that

total benefit payments are lower. Despite our weekly benefit amount increases, which we spoke about a little bit earlier, we're still seeing year-over-year declines in monthly benefit payments, as there are fewer claimants who are receiving benefits for shorter periods of time.

The current 12-month average of benefit payments is $24.2 million. The recession-era, 12-month average of benefit payments, for perspective, was $90 million. With that, I will send it back to Mr. Capello.

CAPELLO: Thank you, Jeremy. Again, for the record, Alessandro Capella, Economist, Research and Analysis Bureau. What all that kind of comes to mean, as we can see on this chart is the Nevada—our trust fund is at an all time high of $1.4 billion. It's $400 million than it was last year, right. We crossed a billion right as the meeting, kind of that month period last year. So, of course, $1.4 billion is not shockingly the highest balance we've ever had in the state.

Just to kind of give you a little lifetime of our balance history: our previous session peak was $806 million. Our recession trough or bottom-out period or amount was negative $823 million. Then you can see that quick jump is when we issued the bonds and that was a net of $592 million. Then, our current balance is now $1.4 billion all these years later. So, from the bottom, we have grown $2.2 billion, so it's not an insignificant amount.

How we've gotten there, kind of more broken out. This chart looks at our contributions by quarter and our benefits paid by quarter. So, the blue bars are contribution totals, so that's what we take in in UI taxes each quarter. It's our inflows. Then the red bars are benefit outflows.

Effectively, when the blue bar is greater than the red bar, we see a net increase in the trust fund. For the last 10 quarters, that has happened. Our benefit levels are low enough to where we are actually growing a trust fund, even in a quarter where we don't really take in that much, in terms of UI taxes. Also, you know, we've been pretty steady with our UI taxes and trying to make sure we get that fund back into a more solid position.

Again, we're trying to not focus on balances. We're trying to look at multiples. We'll kind of bring it back to kind of three different multiples that we look at, historically that we've looked at.

The first one, which we've already talked about was the average high-cost multiple, which we're at 1.16. Again, that uses our three worst years to kind of measure what we would expect to need to handle a recession similar to that.

The other measure that we've used in the past is the NRS 612.550 solvency multiple, so our state solvency multiple. Effectively, what this measure does is it uses the worst of the state's experience in terms of our longest duration, our worst risk ratio and then it multiplies that with benefits and employment and it gets to a number. The one kind of problem with this measure is it only looks at 10 years. So, it looks like 130-months. So, we're starting to get to that period where we're no longer going to include the recession era, kind of bad numbers in that measure. So it will all of the sudden begin looking like we're much more solid, in terms of our solvency than maybe we actually are. Kind of probably not going to pay attention to that one too much because of that.

But for just presentation purposes, we have a 0.95 multiple currently for the state solvency measure.

The high-cost multiple, just as another kind of one to throw out there. This one is basically the same as the average high-cost multiple except it only looks at the worst year. So, it's not—it just doesn't average it out. It's—all the other parts of it are very much the same as the average high-cost multiple in terms of how it's calculated, but it just doesn't use the average. For that, under that measure, we have a 0.87 multiple currently.

As we're going into our forecasts, we kind of were in a position this year where there's new questions because we've paid off the bonds and we've made that federal solvency minimum. There's a lot more to kind of think about, in terms of what are our objectives or what are the Council's objectives as a State, for the trust fund moving forward.

We always talk about counter cyclically funding and preparing for those future recessions. We know that the last one was not just a year long, so 1.0 doesn't necessarily mean you're set in stone to be good. We talked about maintaining rate stability for employers over time. Then another thing to consider is, what is that desired solvency level, you know, is it 1? Is it 2? Is it 1.5, 1.75? I mean, there's no right number, but just things to think about as we kind of go into our forecasts.

We're going to show a few slides, kind of over the next thing that hopefully kind of provide a little clarity and a little more background

information on things we found important. So, I'm going to hand it back to Jeremy for a few slides.

HAYS: Thank you Alex. Once again, for the record, Jeremy Hays, Economist with the DETR, Research and Analysis Bureau.

As Alex said in his previous slide, where do we go from here? So, I just hope to offer some perspective of what would've been enough in our trust fund in order to weather the previous recession.

What I've done, taking a look at this slide is I've basically simulated having 150%, 175% and 200% of our pre-recession trust fund balance and what that would've done holding payments and contributions constant, and net of borrowing, over the course of the recession.

What we ended up finding is that even with 200% of our pre-recession balance—so, if we had two times what we had in the bank, we still would've fallen to a negative balance. We would've seen a negative $110 million balance, again, holding all other factors constant. However, what we do find is that that negative balance duration would've been only 10 quarters, which is down from 27, net of borrowing. Even with two times what we had, we would still be in the negative, even with the average high-cost multiple at 2, we would still be negative.

Moving on, this is a bit more of a national perspective. Taking a look at recessionary effects on average high-cost multiples across the states. Again, I just want to define one more time, the average high-cost multiple takes the average of the three worst years and uses that to get our measure. Wherein, the 1.0 is one year of benefits under those worst three years.

In the pre-recession we—obviously, there were no states with negative trust fund balances and 28 states that had the—had achieved the federally recommended average high-cost multiple of 1.0. This includes Nevada which was at 1.6 this time.

Over the course of the recession, 33 states fell below the AHCM of zero; which of course, included Nevada. And 18 states remain solvent. With the latest data, we once again have zero states that are below—or, that are—zero states with negative trust fund balances and 30 states that are over that average high-cost multiple of 1.0.

I think that the important take away from this chart however is that if you look at the pre-recession states that had an average high cost multiple in excess of 2, over the course of the recession, four of the seven states that had the higher average high-cost multiples are those states that didn't have to borrow over the course of the recession. So, with that higher trust fund balance, they were able to weather the recession entirely without having to borrow federally or anything like that.

With that, I will send it back to Alex.

CAPELLO: Thank you again, Jeremy. Once again for the record, my name is Alessandro Capello, Economist with the Research and Analyst Bureau. This chart right here looks at our benefit cost rate which is effectively what we're paying out on relative to our total taxable wages and our average taxes. The red line is the benefit cost rate line and the blue line is the average tax rate line. You can kind of tell when a recession hits, which is that shaded blue area, the red line

spikes and goes way high and we generally see the blue line be below it. Meaning, we see net outflows from the trust fund and when that is reversed, when the blue line exceeds the red line, we are seeing net inflows.

One of the things I kind of want to point out though is just how low our benefit cost rate is right now. The last quarter available on this chart was Q2 of 2018. We were at 0.88%, relative to our 1.98% average tax rate. So, basically we're seeing more than a percentage of that go into our trust fund, more than a percentage of our taxes go into the trust fund. That's kind of just one thing to consider. On the other hand, we also need to know, recognize that the benefit cost rate can spike very rapidly when a recession does hit. It doesn't mean a whole lot when the—when that red line spikes. You can notice in that last recession how quickly we see it—just the slope go almost dead straight up. That's just one of those things to consider.

Moving on to the next slide, this is a little more table/number look at the benefit cost rate. This kind of just gives you perspective of how low our benefit cost rate was. Our 2017 benefit cost rate was 0.92%. If you look on those blue—on the left, the blue years. That's numbers we haven't seen in quite a while. Since World War II a lot of and then one year in the 50s. So, using that and then also looking at the table, which gives you kind of all time averages and some medians, 20 years, non-recession years. The all-time average benefit cost rate is about 1.8%. The 20 year average, 1.75%. The median, 1.74%. The non-recession years, 1.73% and during recession years, 2.2%.

What this kind of means is, we're trying to figure out a number of—where were we at, generally speaking so we can kind of figure out a rate that makes sense long-term. So, this was kind of one of the ways we thought was an effective way of showing that. So, this was the numbers that popped out.

Moving on to the next slide, this is a chart of our ranking in terms of unemployment insurance taxes. So, this—under this kind of calculation, we are the fourth highest UI tax rate. We have the fourth highest UI tax rate in the nation.

Now, part of that makes sense because we kind of had those higher, kind of steady rates over time and also, our taxable wage base is much different than a lot of these states. Some of these states couldn't achieve what we—even a rate that we've had. So, it's allowed us to become solvent and all those good things.

One thing I do want to point out is those states that we saw, if you recall from that map earlier, the very blue states, two of them are the ones that have the higher-have higher tax rates than us. So again, there are states that are actively trying to build their trust funds to a degree that they will be much more comfortable then they were in the past, if a recession were to hit. That's kind of one of those things to weigh in terms of how those—or why those states are in that position. Again, the taxable wage base really does make it difficult for us to become lower than even top 10, just the way we have it structured. It's one more thing to consider.

And then, before we present the rates, I just wanted to run over or run through my forecast from last year. Kind of where I got wrong. Once again, we've seen stronger employment growth than we've kind of anticipated. I forecasted 2.5% and it was 3.3%. So, that was why that was a little short, even though the blue chart doesn't look that far off.

Then, weeks compensated, which is kind of my estimate for how much benefits we're going to pay out. We've seen continued declines in all those different UI trends, which is—kind of results in lower weeks compensated. So, they're 16,000 lower than I estimated last year.

Then the next slide, which kind of puts it all in money terms, this looks at our revenues which were $44 million greater than I expected. That's part higher wages and higher employment, so more money coming in. And then our benefits were $7.5 million lower than I anticipated, again, that's the weeks compensated. What that nets out to is the trust fund was just under $70 million more than I forecasted last year.

Then, all right, so this is the slide that we kind of show every year that takes a look backwards at what we've done in terms of rates and kind of where we were. So, the blue part, up top is the Nevada solvency calculation which I referenced earlier. You can see that it has all those high—the high-risk ratio, the high-week duration. Those are all at their max levels and then we'll see in the next slide how they start to change because we're getting out of that window.

I'm not going to run through every column, but it just—you can kind of see in the 2014, on the bond related, that was when we issued the bond. Then you can see, 0000 and then '16, that was our excess proceeds from the

bond that went into the trust fund. Then, the bottom part, you can see our various tax rates over the years. Under the average tax rate line, you see average bond assessment and you see that that was for the first time in the last few years where we did not have one. Then the very last line is the average cost per employee. This kind of just gives you an idea of what each employee on average would cost for an employer per year.

With that, I will move on to the rate options. This year, we have six various rate options. The middle ground is around 1.8%, 1.75%, somewhere in there. Again, I can kind of run through, but the blue area, you'll see that our highest risk ratio has changed from what it was in the previous page, or previous slide rather and is starting to decline. Next year, the highest week's duration will change and decline and so that solvency target will start to kind of collapse because we've seen lower values for the—it's kind of window, so it ruins the measure in a lot of ways.

Like I said, we're going to try to focus on the average high-cost multiple. You can see on the very bottom of the gray area, that's the average high-cost multiple under each of those rates at the end of the tax year. So, on September 30, 2019, and then for each rate you also see the average cost per employee, which ranges from $499.20 to $624 at the top end of the rates shown on the tables.

Then, next slide looks at just my benefit payment forecast. Over time we expect benefit payments to kind of increase just based on the fact that our average weekly benefit amount is tied to wages and we know wages have been increasing. I've kind of been wrong for the last few years

expecting benefits to just completely flatten out and/or increase. Eventually, we're going to be right on that, that there's a floor to it that's a structural floor that we know has to exist, so that's kind of one of those things we will be stubborn about for almost always. So, the red dotted line is the baseline forecast with the little confidence interval around it.

Looking at the next slide, this is a longer run look at the trust fund balance and then kind of provides some average high-cost multiple perspective. If you see the hard, or the thick blue line is the trust fund balance over time and then the dashed red line is the estimated amount in those quarters. This is under a 1.80% UI tax rate. The light—the thinner blue line is the average high-cost multiple at 1.0. We can see we've already passed that and then the dashed blue line is a 1.5 average high-cost multiple. So, under this kind of rate and carrying it forward for all of those periods, we would reach that 1.5 average high cost multiple in the second quarter of 2020. Just kind of gives a little bit longer run view of what the baseline forecast is.

Then, just so we all kind of know where the UI taxes go currently. More than half are going to just straight trust fund growth. 43% are going to pay current year benefits. That little gray portion, 3% to the CEP Program, Current Enhancement Program, I should've just said that. It just kind of gives you an idea of where things currently are going.

The next slide is an even more long-term look. This is just a table that provides estimated average high-cost multiples under each rate, if we had carried out each rate in those following tax years. So, that first

column of 1.16 is where we currently stand and then the following four show where you'd get if everything goes as I predict, which obviously is going to not probably happen, but at least, you know, just gives you an idea on to the baseline of where'd we be and what it would be in terms of an average high-cost multiple.

I think the last slide is the kind of things to consider. So, it's kind of bringing it back to when I—when we were first talking about where do we go from here slide. These are kind of questions for the Council to think about, but you know, these are things that we talked about the presentation of what might be important.

Rate stability, counter-cyclical funding, continued preparation for the next recession, a long-run solvency goal; all of these are things to consider when recommending a rate. That was kind of how I wanted to finish, just leaving you guys to think about those things. So, if you have any questions.

SUWE: Anyone on the Council have any questions? I do. I'm going to admit for the first time, I'm usually right with you and I'm looking at Chart 28, on Page 28. So, if I understand this correctly, so I'm looking at the 2018 average high-cost multiple. Why are the numbers the same between a tax rate of 1.55 and 1.95? I would intuitively think—

CAPELLO: That's the current rate, or the current amount. So, that's our 2018 right now, average high-cost multiple.

SUWE: Okay.

CAPELLO: That's why they're all the same because we—they're not different rates right now. So, that's looking at—it's probably a bad

way of presenting it, admittedly, now that you've pointed that out, but it's just showing where we are, rather than me telling you oh, yeah, 1.16. So, it's just trying to give you the ability to track.

SUWE: Well, then let me ask, if we lowered the rate to 1.55, and I'm not suggesting it, I'm just saying if we did, our high-cost multiple would increase by 0.2?

CAPELLO: Yeah. Because, we're—our benefit payment levels are pretty low right now. The difference between that amount—you don't—and that's why we show the long-run kind of perspective is you don't see a lot of separation in one year in terms of different rates. It takes time for it to build to kind of see the net effect of the different rate. A one-year rate doesn't—if nothing changes too much then yeah, you're kind of not seeing too much difference.

SUWE: Anyone else? Then we will move on to the Tax Schedule Explanation.

ROBERTS: Good morning, Mr. Chairman, Members of the Council. My name is Edgar Roberts and I serve as the Chief of Contributions for the Employment Security Division. This meeting and regulation workshop is for the Council members to receive information in order to recommend a tax rate schedule to the Administrator for Calendar Year 2019.

Turning to slide #2, the Administrator sets the tax rates each year by adopting the regulation per NRS 612.550. In addition, pursuant to NRS 612.310, it is the role of the Employment Security Council to recommend a

change in the contribution rate whenever it becomes necessary to protect the solvency of the Unemployment Compensation Fund.

Turning to slide #3. After today's meeting, the Small Business Workshop is scheduled for October 25th and the Public Hearing to adopt a regulation is scheduled for December 7.

Turning to slide #4. Employers are required to pay a federal unemployment tax or FUTA, of 6% on the first $7,000 of an employee's wages, unless they pay payroll taxes under a state program, which reduces the federal tax to 0.6%. The 5.4% reduction in the tax rate lowers the amount due for the federal payroll tax per employee from $420 to $42. The UI contributions section validates the federal tax payments through IRS Certifications, upon request from an individual, employers and through reports once a year to the IRS for all employers.

Turning to slide #5. The State Unemployment Tax, or SUTA, collected from Nevada employers is deposited into a UI Trust Fund of the US Treasury. Monies from the trust fund are used to pay unemployment benefits to qualified workers. SUTA is paid by employers and cannot be deducted from an employee's wages. SUTA rates vary according to employer's experience with unemployment.

Turning to slide #6. At the core of the Unemployment Insurance Program is a rating system known as Experience Rating, to be in conformity with federal law, all states are required to have a method of experience rating that has been approved by the US Secretary of Labor. The Nevada Rating System works as follow: the rate for all new employers is 2.95% of taxable wages. The annual taxable wage base or taxable limit is an annual

figure calculated at 66.66% of the annual average wages paid to Nevada workers. Unemployment Insurance Taxes are paid on an individual's wages up to the taxable limit during a calendar year.

Turning to slide #7. The UI taxable wage limit in 2018 is $30,500 per employee. Effective January 1, 2019, the taxable wage limit will be increasing to $31,200 per employee. Employers pay at the new employer rate of 2.95% for approximately three and a half to four years until they are eligible for an Experience Rating. Once eligible for Experience Rating, an Employer's Rate can range from 0.25% to 5.4%, depending on an individual employer's previous experience with unemployment. The 18 different tax rate classifications are outlined in NRS 612.550. The annual tax rate schedule adopted through the regulatory process applies only to Experience Rated Employers. The standard rate established by federal law is 5.4%; rates lower than 5.4% can only be assigned under a state's Experience Rating system approved by the Secretary of Labor.

The intent of any Experience Rating system is to assign individual tax rates based on an Employer's potential risk to the trust fund. Employers with a higher employee turnover are at a greater risk to the fund and pay higher rates than those with lower employee turnovers.

As displayed in slide #7, in 2018, Experience Rated Employer's annual cost per employee for Unemployment Insurance ranged from $1,647 per employee to $76.25 per employee. In calendar 2019, the maximum annual cost per employee will increase slightly by 2.3% due to the increase in the average annual wages and the annual taxable wage limit.

Turning to slide #8. To measure an employer's experience with unemployment, Nevada, along with a majority of the states, use the reserve ratio experience rating system. Under this system, the Division keeps separate records for each employer to calculate their reserve ratio each year. In the formula used to calculate each employer's reserve ratio, we add all contributions or UI taxes paid by the employer and then subtract the benefit charge to the employer. The result is divided by the employer's average taxable payroll for the last three completed calendar years. This calculation establishes employer's reserve ratio. The purpose of using this method is to put large and small employers on equal footing without regard to industry type.

For example, if an employer paid $60,000 in contributions, had $20,000 in benefit charges with an average taxable payroll of $400,000, the employer would have a reserve ratio of a positive 10%. The higher the ratio, the lower the tax rate will be for an employer. If an employer has received more benefit charges than they have paid in taxes, the employer's reserve ratio will be negative and the employer will generally have a higher tax rate.

Turning to slide #9. Each employer's reserve ratio is applied to annual tax rate schedule to determine which tax rate classification will apply to the calendar year. Before setting the annual tax rate schedule for the next calendar year, NRS 612.550 requires the Administrator to determine the solvency of the trust fund as of September 30th. Projections then are developed for subsequent calendar years. These projections include estimates of the number of active employers, the amount of taxable

payroll, the amount of UI benefits that will be paid and the estimated revenue that the trust fund will need to meet those benefit payments to maintain solvency. Using the employer's reserve ratio data, several possible schedules are produced with a variety of average tax rates and revenue projections.

So, if we look now at your estimated tax rate schedules, we have six schedules here and there's also a summary page on there. Out of those, I will be talking about two of them in my presentation.

SUWE: Excuse me, Edgar? Will this take a little while? It seems to me, it might. Is this a bad time to ask for a break?

ROBERTS: No, it's probably a good time to ask for a break.

SUWE: Okay. Then, I'm going to call for a recess until 11:20.

OLSON: So our phones can all go off?

SUWE: Yes, thank you.

OFF THE RECORD

ON THE RECORD

SUWE: I'm going to call the meeting back to order. Edgar, are you going to run us through the fun stuff now? All right.

ROBERTS: Edgar Roberts, for the record again. In your estimated tax rate schedules, I'm going to talk about two rate schedules and the summary.

Right now, we're going to look at the average tax rate of 1.95%. In this schedule, as well as the others in the handout, the 18 tax rates

displayed in the fourth column of the charts do not change. These classes range from 0.25% to 5.40% are fixed by statute, NRS 612.550.

Furthermore, the statute requires the Administrator to designate the ranges of reserve ratios to be assigned to each tax rate classification for the year and the increments between the reserve ratios must be uniform per NRS 612.550.

In the estimated tax rate schedule for 1.95% which is the existing tax rate today, the reserve ratio ranges are from a positive 15.2 to a negative 10.6 with increments of 1.6 between each of the reserve ratios. In this example, if an employer's reserve ratio is a positive 15.2 or better, the employer receives the lowest rate of 0.25%. An employer with a reserve ratio less than a negative 10.6 would receive the highest rate of 5.4%. As you can see, the rest of the employers fall somewhere in between. In this rate schedule, approximately 10.1% of eligible employers are in the lowest rate of 0.25% and 5.5% of eligible employers are in the highest rate of 5.4%.

As you review the various schedules, you will see the number of employers change in each of these estimated tax rate schedules. Out of the 75,170 total employers, as of September 30, 2018, there are 48,513 employers eligible for Experience Rating, which we estimate under this first schedule of 1.95% would generate $617 million in revenue to the Unemployment Trust Fund. In addition, $76.7 million from new employers at 2.95%, not eligible for Experience Rating is added for a total revenue of $693.76 million, attributed to the rate of 1.95%, which is the current rate we have today.

Turning to slide #11. This rate schedule displays a detail for the average rate of 1.80%. To achieve this average rate, the average range of reserve ratios is from a positive 14.2 to a negative 11.4. The estimated revenues decrease to $640.9 million and the number of employers in each rate classification, once again shifts with 12.9% of eligible employers being in the lowest rate of 0.25% and 5.2% of eligible employers being in the highest rate of 5.40%.

Turning to slide #12. This chart displays a summary of the average rates of 1.55% through 1.95%. The summary shows a range of reserve ratios, increments, average employment insurance tax rate, estimated revenue and the distribution of eligible employers with each rate class. As a note, you will also see, on each schedule, there's an additional 0.05% tax for the Career Enhancement Program, which is a separate State Training Tax set by statute, NRS 612.606.

In closing, no written comments have been received by the Division regarding the impact of a potential rate change and this concludes my presentation. Thank you.

SUWE: Thank you, Edgar. At this time, I'm going to offer public comment. At this time, is there anyone in Las Vegas who would like to provide public comment?

CARRANZA: Hi, no thank you.

SUWE: Okay. And then, I'm moving to Carson City, is there any public comments in Carson City? Okay. We will move on. We will now have Council discussion on the rate recommendation. Members please—Council members, please remember to state your name for the record.

I guess we'll start by having someone make a—I'll accept a motion for the average rate recommendation for 2019, then we'll get a second and then we'll get into discussion.

So, do any of the Members, or would—you know, I'm willing to have discussion first. I'm not sure I would be ready to make a motion. I know that's the order, but seems to me it's a little premature to make a motion.

SUSICH: Mr. Chairman, Tom Susich. I'm just a little bit confused and I apologize. It's the first time on the Council. What is the rate this year?

ROBERTS: Edgar Roberts for the record again, 1.95%.

SUSICH: And, are you making a recommendation of a rate?

ROBERTS: I don't make a recommendation. We present the information for the Council to make a recommendation to the Administrator.

SUSICH: Is there any consensus, do employers expect a reduced rate? Is that what they're looking for or are they more concerned about having good reserve in case of future recessions?

ROBERTS: Edgar Roberts for the record again. We have not received any comments from employers to that effect, whether—whether it's a greater reserve rate or continuing with the current rate or reduced rate.

SUSICH: Okay, thank you.

OLSON: Just, Renee Olson, for the record. I think we have representation on the Council from employer's perspective, as well, that could comment on that too, if they wanted to. The Division doesn't

have a recommendation, necessarily for the Council. It's pretty much the Council considering the options that have been presented by the folks here and then the Council can kind of discuss some of that information and come to a recommendation.

WITTENBERG: Margaret Wittenberg, Employer Representative. I just want to comment on being the fourth highest tax rate currently in the nation, I think is quite significant. The solvency is obviously protected and I've been on this Commission, or the Council where we have been raising the rate over the years, you know, during the recession and at this point, perhaps not a reduction, but simply, I would—I'm thinking to just hold it at the rate it is currently, would not be an unreasonable recommendation.

SUWE: Let me ask the question. And, I was a little taken back that we're the fourth highest nation [sic], but isn't that coupled with we have a capped taxable wage base. I mean, some states would have a much higher taxable wage base and maybe a lower tax rate, but they would pay more taxes.

CAPELLO: I'll take on—Alessandro Capello, Research and Analysis Economist, for the record. So, yeah we do have a higher taxable wage base than a lot of states, so what ends up happening, some states have like $7,000. So, even if they raise their rates, like really high, they can't ever catch up to us. Why that's good for us is that we always kind of maintain or well, keep with, kind of average wage increase, inflation and kind of maintain our trust fund balance in that respect. If that answers your question.

OLSON: Renee Olson, for the record. The way I look at it is, our average taxable wage base changes each year to adjust to what's happening with the wages and the economy. So, as that changes, other states' wage base don't change, they might be stagnant. So, they're having to raise their rates higher in relation to that and they don't bring in the same amount into the trust fund because their wage base is stagnant. It's really hard, but ours adjusts annually to try to keep pace with what's happening with wages in the economy.

SUWE: Thank you. Fred Suwe, Chair. Let me—I can't put my hands on the chart that talked about the high-cost multiple. We're at 1.16 now. And then, I think there was a chart that shows, if you raised the different rates, it would change the high-cost multiple. Do you know off-hand which chart that was?

CAPELLO: Jeremy's got it up there for you guys.

SUWE: Oh, 28.

CAPELLO: Page 28.

SUWE: Okay. And so, I guess one of the things that this Council needs to consider is, what is our goal for the high-cost multiple. So, we're—we've met the solvency test, but if a recession hits, the high-cost multiple is indicative of how quickly we'll exhaust the fund. I think one of the things that we want to avoid is being in a position where we have to borrow money, either from the federal government or ask for another bond. I don't know what that number should be—I don't know what that high-cost multiple should be. You know, so we're a little better than a year and a month or so. Are we inclined to make it one and half

years? Are we inclined to make it two years? Where we could withstand what our experience was during the recession, for how long.

So, I don't know if maybe this is the appropriate time to get some sense of, what is our goal? Because what's going to happen is, if we—you could conceivably give a significant cut to the tax rate now and give the employers a break, but they will be in a much bigger bind if we have a recession. Where, right at the very time they don't want to be paying higher taxes, that in order to catch solvency, we're going to have to hit them with another some kind of incentive to get back to solvency.

I don't know what the magic number is for the high-cost multiple, but 1.16 seems rather low to me. So, if that's the case, if we kept it at 1.95%, it seems to me we would have a fairly good shot at raising that high-cost multiple, if I'm understanding this chart to 1.43.

COSTELLA: Mr. Chairman?

SUWE: Yeah, Danny.

COSTELLA: Danny Costella, for the record. I'd like to make a motion that we maintain the current level.

SUWE: Of?

COSTELLA: Of 1.95%.

SUWE: I have a motion to—

WITTENBERG: I would second that motion.

SUWE: Okay, I need to get this down, wait. So, 1.95% was made by Danny. And, was that seconded by Margaret? I'll entertain discussion.

SUSICH: Mr. Chairman, Tom Susich. So, my understanding is, what we're doing today is merely a recommendation. And that will, the final determination will be made by the Administrator after public comment at the Regulatory Meeting, is that correct?

SUWE: Renee?

OLSON: The next step in the process is the Small Business Workshop. It gives the businesses an opportunity to understand the impact of the rate change to those businesses and provide public comment. Then the third step which is December 7th, we'll hold the hearing where the rate will be formally adopted. From that point, it goes to the Legislative Commission to consider, because this is a regulation change and that occurs sometime in late December. We don't know yet an exact date for that. So, that's the process from here out.

SUWE: Tom, you weren't here last year, but the bond got paid off, so there was an automatic reduction, what employers had to pay. While I would dearly love to have the employers continuing that trend, I— when you look at the other states have and their high-cost multiples, I guess I would feel a little more comfortable maintaining the rate just to try to continue to grow that solvency because I don't know when the next recession is, but I would sure hate to borrow money again. Paul?

BARTON: I'd just comment that we raise the taxable wage base, which is going to take up some of this, that we're talking about in the multiple. Plus, even if you go down to 1.8, there's $640 million that goes to the trust fund, am I reading this right, which puts you over the $2 billion.

So, in my mind, I think the rate could be lowered slightly and we still could be in a very good position, considering the multiple and considering our trust fund. Just a thought there that we have increased the taxable wage base, so to stay even, it would take actually a reduction.

SUWE: Yes. Alex?

CAPELLO: Alessandro Capello for the record. So, just to kind of clarify on the 1.8 rate, or in any of the rates, we don't reach $2 billion. We take in that much in taxes, but you also have to account for the outflows of benefit payments. So, if you go and look at the slide, even the 1.8, which is the third from the left, the net change in fund line shows a $402 million year-over-year increase.

SUWE: Any other comments or discussion?

SUSICH: It's Tom Susich again, I'm sorry to ask this again. What is our reserve now? It's $1.1 billion?

CAPELLO: Our current reserves—Alessandro Capello for the record, sorry—are $1.4 billion. So that top—if you look at that same line, fund balance, in millions, it's the slanted, because it's a slightly estimated total because it's just the way of counting, but yeah, $1.4 billion.

SUSICH: So, at 1.80% it would increase to about $1.8 billion?

CAPELLO: Yeah. So, you see that on the fund balance line, right below net change in fund, you see a $1.8 billion, the other rate that's been discussed, the 1.95% would be $1.848 billion.

SUSICH: And, one last question. Did you indicate what you thought a comfortable reserve would be?

CAPELLO: There is no absolute, 'you're good' number. That's why I say, each state has their own kind of preference. As we showed, there are states that are aggressively building and continue to, despite having strong balances and strong average high-cost multiples. And there's states that it's not in their priority. Texas, they have their own way of calculating it, even though they're quite low, they gave their employers a fund break because they just don't—they don't mind borrowing, so that's kind of their preference. It's just—yeah, that was why in my presentation, I had those questions because there's a lot to consider on that perspective.

SUSICH: Thank you. Mr. Chairman, Tom Susich again. I know there's a motion on the floor. I'm inclined to think that perhaps we could give the employers a bit of a break, maybe reduce it to 1.85% and still make a substantial contribution to the trust fund. That's just my thought.

SUWE: Are you amending the motion?

SUSICH: I would move to amend the motion to change it to 1.85%.

SUWE: Margaret, would you agree to the amended motion? It's moving—

SPEAKER: Danny moved.

SUWE: Oh, Danny moved. I'm sorry. Wait, wait, wait.

COSTELLA: I'd agree to that recommendation motion.

SUWE: So now, Margaret, will you agree to that?

WITTENBERG: I will agree.

SUWE: Okay. So, now we have an amended motion of 1.85%, right? Down from 1.95%. Still—okay, actually, I need you to withdraw your motion.

SUSICH: I'll withdraw my motion.

SUWE: Yeah. So, he's amended his motion. She has seconded the amended motion. So, what I have now is—is there any other discussion? No. Then I will call a vote for the amended motion of the rate being at 1.85% which was made by Danny and seconded by Margaret. Any discussion? I'll call for the vote. All those in favor, say aye. [ayes around] Opposed? Opposed. Okay. So, we have—and the Chair votes aye. So, we have—one nay and the rest are ayes.

[crosstalk]

SUWE: Oh, I'm sorry, did you aye in Vegas?

CARRANZA: I did, yes.

SUWE: Oh, okay. I'm sorry, I thought it was a nay. Okay it passed unanimously. At this time, I think I ask for public comment. Let's see. Okay. At this time, I will offer one final opportunity for public comment. Is there anyone in Las Vegas, that would like to comment?

CARRANZA: No.

SUWE: Hearing none, is there anyone in Carson City who would like to comment? Okay, then at this time, I will accept a motion to adjourn?

BARTON: I'll motion to adjourn.

SUSICH: I'll second the motion. Tom Susich.

SUWE: So, Paul and Tom. Any discussion? All in favor say aye. [ayes around] Opposed? Thank you very much, this meeting is closed.

[end of meeting]

NOTE: These minutes have not yet been approved by the Employment Security Council and are subject to revision/approval at the next Employment Security Council Meeting scheduled for October 3, 2019.