

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

**2019 TAX RATE SMALL BUSINESS  
WORKSHOP**

Thursday, October 25, 2018; 10:00 A.M.

<b>Place of Meeting:</b>	<b><u>Live Meeting:</u></b>	<b><u>Video Conference to:</u></b>
	Legislative Building	Grant Sawyer Building
	401 S. Carson Street, Room 2134	555 E. Washington Ave., Room 4406
	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  
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  
Mikki Reed, Management Analyst III, 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**

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**

Paul Moradkhan, Las Vegas Metro Chamber of Commerce  
Carlos Fernandez, Las Vegas Metro Chamber of Commerce

OLSON: Good morning. My name is Renee Olson, I serve as Administrator of the Employment Security Division. I'm going to go ahead and start with Agenda Item No. 1, and call this meeting to order.

I'd like to introduce Jeff Frischmann to my left, our Deputy Director for the Employment Security Division, in charge of our unemployment insurance Program. To my right, our Division Senior Attorney, Laurie Trotter. Several other members of my staff are available as well, so 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 2019.

Moving on to Agenda Item No. 2, Public Comment. Under Agenda Item 2, we have our first opportunity for public comment. If you would like to provide public comment, 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.

We'll start with Las Vegas. Is there anyone in Las Vegas who would like to provide public comment at this time? So, I don't see anyone approaching the table in Las Vegas. We'll move to Carson City. Is there anyone in Carson City who would like to provide

public comment? Seeing none, I will go ahead and close the first opportunity for public comment.

Under Agenda Item 3, Confirmation of Posting. Confirmation of posting, Mrs. Reed, for the record, was proper notice for this meeting given and did you receive proper notification of posting in accordance with Nevada Revised Statute 241.020(3)?

REED: Mikki Reed, for the record, Management Analyst 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: Thank you. Agenda Item No. 5-4, excuse me, under Agenda Item No. 4, Review of Written Comments. Mrs. Golden, have any written comments been received in regard to this Small Business Workshop?

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

OLSON: Okay, thank you. 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 2019. As part of the regulatory process, a meeting of the Employment Security Council was held on October 3, 2018. At this meeting, we heard information regarding the status of the Unemployment Insurance Trust Fund. We also heard

about the effect of the solvency of the trust fund and the impact of various average state unemployment insurance rate scenarios.

Taking this information into consideration, the Employment Security Council voted to recommend that the Division's Administrator reduce the average tax rate from 1.95% for calendar year 2018 to 1.85% for calendar year—for tax year 2019; which is the lowest it has been in many years.

With that, I'm going to go ahead and introduce our presenters for today. Under Agenda Item 5A, the first presentation will be a review of the Unemployment Insurance Trust Fund status and an economic analysis. Presenting this information for us today is Jeremy Hays, an Economist with the Department's Research and Analysis Bureau. Thanks Jeremy.

HAYS: Thank you very much. For the record, my name is Jeremy Hays. As you said, I'm an Economist with the Research and Analysis Bureau of the Department of Employment, Training and Rehabilitation. Today, I'll be providing a review of Nevada's Unemployment Insurance Trust Fund and going through our 2019 Tax Rate Forecast.

Before we get into that, I wanted to quickly review Nevada's UI Trust Fund Bond. The \$592 million bond was issued in November 2013 to bring Nevada back to a positive trust fund balance. The final payment was called in December of last year. The average rate to pay that bond ranged from 0.56% to 0.63%, over the life of the

bond. This provided employers with rate predictability and allowed the trust fund to build back towards solvency.

Turning to the contributing factors that serve to build and deplete the UI Trust Fund. We have the average tax rate, represented here by the blue line and the benefit cost rate represented by the red line. The basic thing to take away from this chart is that when the blue line exceeds the red line we're adding to the trust fund and when the red line exceeds the blue line, we're using the trust fund balance to pay benefits. As you can see, the average tax rate has exceeded the benefit cost rate for the past six quarters.

So, the aggregate impact of these UI trends is that Nevada's trust fund stands at \$1.4 billion right now. This is \$400 million higher than the last—than this time last year and not shockingly, the highest balance that we've ever had. The pre-recession peak for this—for the UI Trust Fund was \$806 million. The recessionary trough was a negative \$823 million. The bond proceeds, as I said, were \$592 million. From the recessionary low, the trust fund has grown by \$2.2 billion. So, we've done a lot of work gaining lost ground.

So, what does that \$1.4 billion balance really mean? Using the average high-cost multiple, which considers the average of the state's three-highest benefit cost-rate years in the last 20 years of the last three recessions, which of course, all of our highest benefits cost rate years were during the recession. An average

high-cost multiple of 1.0 means the state has a balance that is estimated to last one year, if the state were to experience a similar recession. Currently, with the data being presented, we're at an average high-cost multiple of 1.16.

Another measure is our state solvency multiple, which uses the worst of the State's experience in terms of risk ratio, but only for the last 10 years. What this means is, as we get further and further away from the recession, the dollar amount required to meet that solvency level will decline because we're moving away from the recession. So, it may seem as if we're in a better position as we get further away from that, then we probably are. We've tried to advise the Counsel not to heavily this measure, but we are currently at 0.95, almost the recommended minimum of 1.

Then the last measure here is the high-cost multiple, which is the same concept as the average high-cost multiple, except it uses only the worst year in the state's history and that measure is at 0.87. So, we'd be able to survive about 87% of a year based on that worst year.

So, we've achieved the federally recommended minimum trust fund solvency measure, with the trust fund growing by leaps and bounds. So, where do we go from here? So, the recommended average UI tax rate recommended at the meeting of the Employment Security Council is 1.85%, which is highlighted here in this table. This is down a tenth of a percentage point from the 1.95% average rate that was paid from 2016 to 2018, as the Administrator eluded to.

What this means in aggregate for employers is that the average cost per employee is going down from \$610 this year to \$593 next year.

Just to give a little bit of perspective as to where these UI contributions go. The 2019 contributions forecast shows that 54% of these contributions will be going toward growing the UI trust fund. 43% of contributions will go toward paying UI benefits. 3% of contributions will go toward the Career Enhancement Program.

In order to give some perspective using the National Bureau of Economic Research's Business Cycle Dating, we are 112-months into the expansion cycle nationally. This is well past the average cycle in US history, which is generally 59-months, which is indicated by the red line on the graph. This is the second longest expansion that we've seen ever. Should it endure the US expansion, would in mid-2019, become the nation's longest ever. Again, based on the National Bureau of Economic Research figures that go back to the 1850s.

We know that recessions are difficult to predict but there is research that shows the length of an expansion is not predictive of a future recession. Much of that is kind of a confirmation by us of saying that we're due for a recession. As such, being prepared for a recession is preferable to being able to predict when the next recession will occur.

So, what does that mean for the future of the trust fund itself? As mentioned previously, we surpassed the federally

recommended minimum average high-cost multiple of 1, indicating that we're able to—likely able to weather a year of recession, similar to the last one. With the 1.85% tax rate, we're on track to reach an average high-cost multiple of 1.5% in the first half of 2020 indicating we'd be able to do a year and a half of a similar recession. Looking a little bit further out, and assuming a constant tax rate of 1.85%, an average high-cost multiple of 2 will likely be achieved in early 2022.

With that, I would be happy to take any questions that you may have.

OLSON: Thank you. I don't have any questions. So, we will go ahead and continue on with Agenda Item 5B. Our next presentation provides an explanation of the Unemployment Insurance Tax Rate Status and Small Business Impact Statement. I'd like to introduce Mr. Edgar Roberts, the Chief of Contributions for the Employment Security Division.

ROBERTS: For the record, my name is Edgar Roberts, I serve as the Chief of Contributions. The purpose of this workshop is to discuss the recommended UI Tax Rate for Calendar Year 2019 on Small Businesses. A small business is defined as having 149 employees or less. The Employer data for this workshop comes from the records of the Division through reports filed by Employer's.

Under estimated impact—all Nevada Employers subject to UI contributions and eligible for experience rating will be affected by this regulation. This regulation represents lowering the average UI



contributions rate to 1.85% in 2019. Small business represent approximately 46,000 employers, or 96% of the 48,500 eligible experience rated employers.

The beneficial impacts—with a 1.85% average contribution rate, the cost per employee will decrease from 2% to 1.90%, of wages subject to contributions. This decrease is attributed to a healthy trust fund. This regulation continues to increase the reserves of the Unemployment Trust Fund which is projected to grow by \$413.7 million, allowing the State to exceed the solvency target specified in NRS 612.550. This regulation will continue to allow experience rated employers to pay contributions at a rate lower than the new employer rate of 2.95%.

Under adverse impacts—with the rate decline, there are no significant adverse impacts to this regulation. An increase in the maximum wages subject to UI contributions from \$30,500 in 2018 to \$31,200 in 2019, affects the average cost per employee earning \$31,200 in 2019.

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

Looking at the average UI tax rate of 1.85%. The total eligible contributory employers, if we look in the yellow section, 46,621 employers, or 96% are from small businesses. The revenue that small businesses will provide is \$185.20 million for small businesses. If we look at the chart in the highlighted yellow, the highest tax rate of 5.4%, 2,531 employers, or 5.49% land in the highest tax rate and the lowest tax rate of 0.25%, 5,792 or 12.42% of our employer base of small businesses will land in the lowest tax rate. 1.85% plus the SEP will equal the 1.90%. Estimated to bring in \$658 million.

Indirect impact. This regulation continues with the federal regulations governing unemployment insurance contribution rates. Employers maintain eligibility for a full 5.4% credit, towards their federal unemployment insurance taxes. This regulation adds to Nevada's solvency, which helps to pay for unemployment benefits in the future. On average, for each dollar in UI benefits, \$2.00 or more in economic activity results. Employer benefits as funds are returned to the economy through UI benefit payments, helping to mitigate drops in consumption.

Implementing a 1.85% average tax rate will continue stability. 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 US 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's no additional cost for the enforcement of this regulation. Funding for the administration of the UI Program is provided to the Department by the US Department of Labor. NAC 612.270 is adopted each year to set the employer's contribution rates and is required by NRS 612.550. This regulation adheres to federal compliance regulations governing unemployment insurance contribution rates.

Anticipated Revenue. Implementing an average UI tax rate of 1.85% is expected to produced \$658 million for the trust fund in 2019. Small businesses will account for \$185.2 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.

Conclusion of the Impact of the Regulation. Due to the distribution of small business, employers closely matching the overall distribution of all experience rated employers in the state and that the US Unemployment Insurance law does not allow states to assign rates of less than 5.4% except on the basis of an employer's prior experience with respect to unemployment; the agency believes

that there is no contrasting impact on small businesses due to this regulation.

That concludes my presentation, thank you.

OLSON: Okay, thank you gentlemen. I appreciate your presentations today. Agenda Item 6, we're going to have another opportunity for public comment. This will be the closing public comment. Is there anybody—we'll start again with Las Vegas. Is there anybody in Las Vegas who would like to provide public comment, please come to the table. Go ahead and please state—[crosstalk] Excuse me, go ahead and state your name and who you represent and we welcome your comments.

MORADKHAN: Great. Good morning Madam Administrator. Paul Moradkhan with Las Vegas Metro Chamber of Commerce, for the record. The Chamber would like to offer its support for the recommendation that has been brought forward by the Security Employment Council. We appreciate the ongoing efforts by this Division to lower the unemployment insurance rate for our employers—for our members and the employers of the state. Also, commend the efforts to bring additional solvency to the trust fund, especially since the downturn in 2013 and of course, paying off the loan in 2017, end of last year. So, thank you and we'll be at the December meeting to offer comments for the record. So, thank you very much Madam Administrator.

OLSON: Thank you. Is there anyone else there that would like to provide public comment? Okay, I don't see anyone

else coming to the table so we'll move to Carson City. I don't see anyone in Carson City here to provide public comment either.

With that, we appreciate your participation today and I'd like again to thank our presenters. With that, I'll adjourn the meeting, thank you.

[end of meeting]