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 2017.

EMPLOYMENT SECURITY COUNCIL (ESC) MEETING

Thursday, October 03, 2016
08:30 A.M.

Place of Meeting:

Live Meeting:
The Legislative Building
401 S. Carson Street, Rm. 3137
Carson City, Nevada 89701

Video Conference to:
The Grant Sawyer Building
555 E. Washington Ave, Rm. 4406
Las Vegas, Nevada 89101

Members of the Employment Security Council
Present in Carson City
Paul R. Havas, Chairman, Representing Employers
Paul R. Barton, Representing Public
Charles Billings, Representing Employees/Labor
Fred Suwe, Representing Public
Margaret Wittenberg, Representing Employers
Kathleen Y. Johnson, Representing Public
Daniel J. Costella, Representing Employees/Labor
Member of the Employment Security Council
Present in Las Vegas
Shawn Kinsey, Representing Employees/Labor
Absent in LV
Michelle S. Carranza, Representing Employers

Department of Employment, Training and Rehabilitation (DETR) Staff
Present in Carson City
Renee Olson, Division Administrator, ESD/DETR
Laurie Trotter, Senior Attorney, ESD/DETR
Bill Anderson, Chief Economist, Research & Analysis Bureau, DETR
Edgar Roberts, Chief of Contributions, ESD/DETR
Dave Schmidt, Supervising Economist, Research & Analysis Bureau, DETR
Christina Guzman, Supervising Management Analyst, ESD/DETR

Jo Anne Wiley, ESD Manager, UI Contributions, ESD/DETR
Alessandro Capello, Economist, Research & Analysis Bureau, DETR
Mikki Reed, MA, ESD/DETR
Hayley Smith-Kirkham, Economist, Research & Analysis Bureau, DETR
Christopher Robison, Research & Analysis Bureau, DETR
Sonia Prazak, MA, ESD/DETR
Martha Simas, Administrative Assistant, ESD/DETR
Joyce Golden, Administrative Office, ESD/DETR

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

Members of the Public, Media and Other Agencies Present in Carson City
Sandra Chereb, Las Vegas Review Journal
Geoff Dornan, Nevada Appeal, Carson City/NV
Thoran Towler, Nevada Association of Employers
Joanna Jacob, Ferrari Public Affairs
Cy Ryan, Las Vegas Sun

Members of the Public, Media and Other Agencies Present in Las Vegas
Virginia Valentine, Nevada Resort Association
Paul Moradkhan, Las Vegas Metro Chamber of Commerce

EXHIBITS

Exhibit A	Meeting Notice and Agenda
Exhibit B	Economic Projections & Overview
Exhibit C	UI Bond Status Update
Exhibit D	Review of Trust Fund
Exhibit E	Tax Schedule & Explanation

STATE OF NEVADA
DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION
EMPLOYMENT SECURITY DIVISION (ESD)
EMPLOYMENT SECURITY COUNCIL (ESC) MEETING

October 3, 2016 - 8:30 A.M.

I. CALL TO ORDER AND WELCOME

Chairman Havas called the Council meeting to order, introducing himself as the Chairman of the Employment Security Council and welcomed those in attendance.

II. PUBLIC COMMENT

We will now open it up to Public Comment. If you could limit public comment to five minutes per speaker. No action may be taken upon a matter raised under the public comment period unless the matter itself has been specifically included on the agenda as an action item. So, we will open the meeting to public comment.

No one responded, so the Chairman moved on with the meeting and deferred the next topic to the confirmation of the posting of the meeting.

III. CONFIRMATION OF POSTING

Martha Simas introduced herself as the Administrative Assistant III for the Management and Administrative Support Services Unit. Mr. Havas asked, was proper notice provided? Ms. Simas answered, yes, proper notice was provided for this meeting pursuant to NRS 241.0203 and confirmation was received. Mr. Havas at this point continued on.

IV. ROLL CALL OF COUNCIL MEMBERS, CONFIRM QUORUM

Mr. Havas asked if the members would introduce themselves and who they represent.

Charles Billings, representing Employees and Labor on the Council and is on the Board of Review.
Margaret Wittenberg, representing Employers on the Council and is on the Board of Review.
Fred Suwe, representing the Public.
Paul Havas, Chairman of Employment Security Council, representing Employers.
Daniel Costella representing Employees and Labor.

Katie Johnson, representing the Public on the Council and is Chairperson of the Board of Review.
Paul Barton representing the Public.
Shawn Kinsey, representing Employees and Labor.

Chairman Havas went on to ask Ms. Golden if the Council had a quorum.

Joyce Golden, Administrative Assistant to the Administrator responded that yes, we do have a quorum.

V. <u>REVIEW WRITTEN COMMENTS</u>

Paul Havas, Chairman, Employment Security Council

Chairman Havas asked who would confirm whether written comments were received.

Joyce Golden, for the record. We have not received any comments as of this date.

VI. <u>ACTION ITEMS</u>

Paul Havas, Chairman, Employment Security Council.

A. <u>Public Comments</u>

There were no public comments at this time, in the north or in the south.

B. <u>Approval of October 1, 2015 Minutes</u>

Mr. Havas asked, are there any comments or amendments to minutes? Council Members please remember to state your name for the record.

Charles Billings, for the record. I would like it to be noted that where it lists our names, under my name it says representing Employers and Labor, and it should say Employees and Labor. Maybe just a typo there?
Joyce Golden mentioned that this error has been corrected.

Ms. Olson asked if she could make a quick comment. Mr. Havas permitted the request.

Ms. Olson recorded her name and stated, just to clarify, these are the minutes from the October 1st Meeting, 2015, for the record.

Mr. Havas invited Council members for a motion on the October 1st, 2015 minutes.

Council member Daniel Costella moved to adopt the minutes as presented and amended.

Chairman Havas asked if there is a second? Paul Barton seconded the motion. There was no discussion, hearing none, the Chairman asked all those in favor of approval to signify by saying Aye. All Council members said Aye. It passed unanimously.

VII. ECONOMIC OUTLOOK AND UNEMPLOYMENT INSURANCE UPDATE

A. Economic Projections and Overview (Exhibit B)

Renee Olson, Employment Security Division (ESD) Administrator.
Bill Anderson, Bureau of Research & Analysis, Chief Economist, DETR.

Mr. Havas continued, at this point, I will turn the meeting over to the Administrator of ESD, Renee Olson. She will provide for subsequent subject on the agenda.

Renee Olson thanked the Chairman. She introduced herself as the Administrator of the Employment Security Division. Just a couple of comments and some informational items that I thought I would present today. Just to let you know, you will notice we are providing multiple opportunities for public comment today. The reason for that is when there is an action item on the agenda, we have been advised that we should provide some open public comment. There are many, many opportunities today to provide public comment. I think what you'll see next year is probably an opening public comment and an ending public comment, as we go forward based on some advice by our attorney.

I would like to start by introducing our attorney this morning. Lauri Trotter is the Attorney for the Division, and so she is a new face you will see up here. We welcome her this morning. She will be helping us make sure that we are in good form with the opening meeting law and keeping us on the straight and narrow there.

So, just a couple of updates for you from the Division. You're probably all aware that over the past course of, probably four years, we've been in the middle of implementing a new UI Tax Benefit and Appeals System. So I'm just happy to report that at this moment in time, where we've implemented all the modules of that system. We're at the end of what we would refer to as the Warranty Phase, where our contractor is working out some final programming fixes, some little things that we found in the system as we've been through our implementation. So, that's ongoing. I would just encourage everyone, there is some really nice functionality with this system for self-service, and I just wanted to encourage claimants and employers to please take advantage of those self-service opportunities. It would be more convenient for you and give you better access to see what's going on in your account. So, we hope that you take advantage of that.

A little bit of information on the federal budget status. It wasn't as big of a deal in the news but, just recently, we entered what the federal government calls a continuing resolution that was approved on Friday. Continuing resolution isn't an actual approval of the federal budget, it just gives us authority to continue it at the current funding levels from the prior year. So, the good news is that they passed a continuing resolution on the federal budget which funds the administrative costs of our Unemployment Insurance Program.

So with that, continuing resolution came for all funding sources included in the continuing resolution, a 0.5 percent reduction in funding to all programs. So this doesn't necessarily stay in place once the larger budget deal is passed, and there are a couple of things that can happen. Congress can attempt to pass one very large appropriations bill, what they call an omnibus bill. They're also talking about several smaller bills that they're calling minibuses.

So, we're not sure which way they're going to go with that, but since the continuing resolution ends on December 9, there will have to be another decision made at the federal government whether to get that appropriations bill to fund federal programs through the rest of the federal year, by that deadline of December 9th. So, regardless of how they pass that final appropriations bill for the year, it is expected that Workforce Development and UI Funding will experience some kind of reduction nationally.

Now, each state is funded according to formula, a very complicated formula that I don't think I could explain to you - so, that doesn't necessarily hit every state in an equal ratio, but at a national level, we're looking at additional reductions to some funding. UI Funding over the course of the past few years in particular, has been hit with reductions as claim volumes have dropped over the past few years, as we've been recovering from the recession. While it's very good news that the number of claim filing is dropping, the reductions and Funding do make it very difficult as we administer the program. Administrative funding at the federal level has not actually recovered since the recession and, therefore, UI Administrative Funding provided to states is estimated to be at its lowest point in 30 years. So, because the funding at the federal level hasn't recovered, then the states don't get as big of a share of the federal dollars to run the programs.

So, while we believe we have at least stabilized operations in alignment with current funding, there is one big however we are using. Penalties and Interest Funding to support regular operations in the UI Program right now. So, there is really no extra funding for any extras or any nice things.

I wanted to just put out a special thank you to staff. It's really been a grueling process and in the midst of all of that implementing and Unemployment Insurance, new modernized system has been really - a really heavy lift. They've done a wonderful job, they've really responded and been creative in how they've addressed the funding cuts that we've experienced, and I owe them a big thank you. I really appreciate it, and the State should appreciate all of that hard work.

An update on some other things that we do within the Unemployment Insurance Program. In strong partnership with our Workforce Development folks, is our RESEA, and RESREA Programs, I'll tell you what those mean. So, one of the programs that Nevada was actually well-known for, got some great accolades nation-wide, was our Reemployment Services and Unemployment Eligibility Assessment. So, that's what those acronyms are about. Nevada was very well-known nationally for the program that we put together. It was specifically recognized as a very good evidence-based program with some really proven results to help people who are filing unemployment insurance claims, return to work sooner than they would have had they not had intervention with our Workforce Development folks to advise them and give them information about how to find a new job, and provide them information about the services that we have in our offices.

We've been very proud of that program and actually, the funding for that program was all Unemployment Insurance Funding at one time, but it only funded half the program. It only funded the piece of the program that verified eligibility of those claimants. The other piece, the important piece that was helping people get back to work, was the counseling piece in our Job Connect Offices about how to go look for a job and get a job referral possibly. So, we were funding that half of the program with our Career Enhancement Program Funding. The Federal Department of Labor used our model to go before Congress and make the claim that this is so effective for saving money to the Unemployment Insurance Program, that the federal money should be able to be used for the Reemployment side of the equation as well. So, they did that, and they agreed to that, so now we have more flexibility in the funding and we're able to use it for both pieces of that equation.

In this new program that they modeled, we are required to target those most likely to exhaust their Unemployment Insurance claim. So, that's part of the Unemployment Insurance population that we would be able to serve in helping them return to work. What we're doing is really, I would call it, we're going to double down on the success of that program, and continue to invest our Career Enhancement Program Funds to help folks on Unemployment Insurance at random. The selection of the folks that would participate in that program would be at random from the population, to include others that aren't necessarily at the highest risk to exhaust their insurance benefits. For the public, when I say the highest, most likely to exhaust benefits, it means they're going to use all 26 weeks of their Unemployment Insurance Benefits. So, it's better for folks to get back to work sooner, definitely, and it's better for the Unemployment Insurance System that we are helping them get back to work sooner because they're not pulling as many weeks of unemployment out of the system. So, that helps protect the Trust Fund balance and we're moving forward with that. We're really going to be running both programs simultaneously.

As you're aware, and Paul mentioned earlier, in accordance with NRS 612.310, the Employment Security Council provides a recommendation to the Administrator regarding the Tax Rate Schedule for the upcoming calendar year through this process. The presentations you're about to hear are intended to provide you with the information you need in making this important decision. With that in mind, my last comment today is just to ask you that as you deliberate today - and, we're looking at the calendar year 2017, from January 2017 to the end December, 2017. We believe in this year, this tax year of '17, we're going to be seeing the final payment of our bond, our borrowing of our bond. We have the opportunity in December of 2017 to call the bond early. So, there is that opportunity that we're looking forward to. We believe that we're going to be able to do that.

With that in mind, as we look for the next year, 2018, what I would like the Council to think about as you see the numbers you're presented today - you know, one of the things that we've been doing all along is, not only working to get those bonds paid off, but also to continue to build solvency in the Trust Fund. So, once that bond is paid off and there is no longer an assessment for that bond, the overall tax rate - we talk about the overall tax rate right now because we include that bond assessment, and we include our average tax rate for the SUTA Tax, the State Tax. Once that assessment goes away, I would like the Council to think about that, and consider if that is our opportunity then to try to reach our solvency target. Dave is going to explain that to you as he makes his presentation today.

I think there might be some room in there to give the employers a break in their overall tax rate, and at the same time, maybe look at what we can do to move forward faster in hitting that solvency rate. We would like to say that during the good years, the good times, we try to build up our savings so that in the bad times when the economy does have a downturn, then we can ease up on the tax rate that the employers are paying because we have a solid Trust Fund, and a well-funded Trust Fund. Just think about that as you are looking through the numbers for this year, and looking forward to what we might be able to accomplish next year.

Ms. Olson addressed the Chairman, with that, I'm going to conclude my comments and, Mr. Chairman, if it's okay with you I'm going to throw it over to Bill?

Mr. Havas replied, absolutely.

Ms. Olson responded, Bill Anderson is our Chief Economist for the Department of Employment Training and Rehabilitation. He is going to start with giving you some economic projections and an overview of what we're looking at in the State. Then he is going to pass it on through the presentations for me. Thank you.

Mr. Anderson thanked Ms. Olson, the Chairman, and members of the Council. He introduced himself, for the record my name is Bill Anderson, I am the Chief Economist in the Department of Employment Training and Rehabilitation. As Renee kind of eluded to, my role today is to provide you with a general economic overview and give you an idea of where we think we're headed in the months and years ahead. This is designed to provide you with kind of a common base of knowledge as you folks move forward and go about your deliberations and making your recommendations today. When I'm done, I'll hand it off to Dave Schmidt and Alex Capello from our shop who will kind of make the tie in between what we're seeing in the economy, and how that's translating into the day-to-day world of the Unemployment Insurance Trust Fund.

Suffice it to say that I have some pretty good news, or some very good news to share with you today. Just about every measure of the labor markets health that we monitor, is pointing in a positive direction. Perhaps most importantly, last Friday early afternoon, the Governor announced that after losing about 185,000 jobs during the recession, we here in Nevada have regained all of those jobs. Over the course of the last six years, we've added about 190,000 jobs to our payrolls. So, we are now operating at record levels of employment in the State. So, that's certainly been the most important news of late. Let me go ahead and walk you through some of the basics.

In terms of the unemployment rate, we peaked at about 14 percent as the recession unfolded. As of August, we're now down to 6.3 percent. You'll see a little bit of a blip there in the two or three months preceding August. We think that once we, along with our federal partners at the US Department of Labor, go through our annual revision process where we go back and take a look at our monthly estimates and re-estimate those based upon a more complete set of information, that that blip will go away and we'll continue to see that downward trend in the unemployment rate.

To give you an idea of our relative performance, at the height of the recession, we were in excess of four points higher than the national average, now we're down to less than a point- and-a-half. So, not only has our rate gone down, but we've narrowed the gap relative to the U.S. as a whole.

We're all interested in how our Veterans population is doing here in the state, you can see that throughout much of the recovery, over the course of the last four to five years, the Veterans unemployment rate has been lower than the overall average. So, that is certainly good news for that very important segment of our population.

Going back to the details concerning our job situation, as I said, we lost about 185,000 jobs during the recession. We went from close to 1.3 million in terms of overall employment, down to about 1.1 million. We bottomed out in September of 2010. We've been growing essentially non-stop ever since. In fact, measured on a year-over-year basis, we've grown in each of the past 68 straight months beginning in January of 2011. The end result is; we've added back a little over 190,000 jobs. So, as of August, we were just a tick above 1.3 million in terms of employment and that has established a new record high, as the Governor announced on Friday.

The underlying rate of growth - and there is a lot of volatility from month to month in these estimates, so I tend not to focus solely on one month, but the kind of gauge underlying economic trends. It looks to us like we're growing right around the three percent range, which translate into about 30 to 35 thousand new jobs on an annualized basis. In other words, our annual growth is hovering right around that 30 to 35 thousand mark. You can see that that's been relatively consistent over time.

Not only is our total employment levels at all-time highs, but small business employment, which is a very important part of our economy, about 98 percent of our business establishments in here the State employs less than 100 people. We've only recently within the last year or two, began monitoring this and we've realized about 21 straight quarters of small business employment growth. For the first quarter of this year, we stand at a record high.

We've exceeded the nation as a whole, in terms of job growth in each of the past 49 consecutive months. The end result of that is, we've moved up in job growth rankings. I probably said this last year, to me, this is the most important slide in here outside of the projections. This tells

Nevada's story. What we look at are the number of states that we are out-performing in terms of job growth.

You can see that going into the recession, we were the fastest growing state in the nation. We were outpacing every other state. But, over the course of three years, we went from the top of the rankings, to the bottom. By the time we got to 2009, 2010, our job losses were the most pronounced in the nation. But, then beginning in 2011, we gradually began to make up lost ground. In fact, in 2014 and 2015, our job growth ranking was No. 2 and No. 3 in the nation as a whole.

We're hovering right now, based upon information in the first quarter of this year, right around the top ten in terms of job growth. So that, to me, tells Nevada's story. We went from the top to the bottom, now we're back hovering around the top, in terms of our relative performance.

One area that we've been focusing on concerns what I like to call, the good jobs, bad jobs debate. I present the unemployment rate numbers, I present the job growth numbers every month and people will say, yeah, but they're all bad jobs, they're part-time jobs, they're minimum wage jobs. So, our staff has been looking into this and these next few slides will help summarize what we've found. The bottom line is that the vast majority of our employment growth has been full-time jobs, or been full-time in nature. During the recession, full-time employment took a tumble. Part-time employment on the other hand, that red line at the bottom of the graph, you can see it rose during the recession, which typically happens. But, since the recovery began, the vast majority of our job growth has been full-time in nature.

Another piece of evidence, we now have the capabilities through the Silver State Solutions Initiative, to take a look at online job posting activity for jobs in Nevada. About 90 percent of all job postings - again, we're talking solely online job postings, are for full-time jobs in Nevada. So, the evidence to us suggests that we are creating full-time jobs.

The other way that we like to look at this whole good jobs, bad jobs, debate is through wages. What we have seen is that wages have been trending up on an average basis. In fact, they are at all-time highs, based upon our most recent measure of wage activity, about $875 per week.

Finally, to kind of wrap this discussion up, we always talk about average wages, as I just did. It's kind of interesting to look at the situation for new hires. What we found, and we weren't quite sure what we would find when we first started doing this, but when we saw it, it made sense. New hire wages tend to be consistently well-below average wages. You hire people at the middle or the bottom of the pay scale. That's the way labor markets work. What this shows us is that looking on an average monthly basis, that new hire earnings are about 2/3 of the overall average, okay? But, that doesn't tell us really what's happening with respect to the jobs, the wages of the jobs that we're losing.

So, we now have the capabilities to look at wages of new hires, and the wages of those jobs that we lost during the recession. You're always losing jobs, there is always that churn that is going on. So we wanted to take a look at those two, and the bottom line is that the earnings of those jobs that we lose in the economy are just barely higher than, marginally higher, than those wages for the jobs that we're adding.

So, a lot of folks would leave you to believe that we're losing high paying jobs, replacing them with part-time minimum wage jobs, that doesn't appear to be the case with respect to what's going on in Nevada. I don't have a chart for this, we will actually be releasing it next month, but we looked at our new hire wages in Nevada to see how they compared to the nation as a whole, and we fall literally right in the middle. We're ranked 24th or 25th in terms of new hire wages, okay? So, I just wanted to go off on that little tangent.

I mentioned that in a vibrant economy, you always are losing jobs. Jobs are lost, jobs are added. What we report every month is the net difference. If we look at—we call them gross jobs, gross jobs lost, gross jobs added, there has been a positive difference for net job growth in each of the past 21 straight quarters.

In other words, the new jobs that we're adding more than outnumber the jobs that we're losing. Every month we report plus 2,000 jobs, minus 2,000 jobs, whatever's relative to the prior month. That is the end result of tens of thousands of what I like to call, labor market transactions. People getting jobs, people leaving jobs, people losing jobs. That's the end result, but the bottom line is that our gains have outpaced our loses for more than five straight years.

We can also look at this for establishments that are opening and closing, okay? The jobs that we're gaining in our opening establishments, have exceed the jobs that we've lost in our closing establishments in each of the last 17 quarters. So, again, all the evidence is pointing to some solid underlying good news in terms of the labor market. The nice thing about this recovery is it is relatively broad-based. We're seeing job growth in just about every sector of the economy, the lone exception is mining, which obviously impacts rural - especially North Eastern Nevada, were we're seeing jobs coming in just a little bit below year ago levels. But, we're seeing contributions from our historical drivers, construction and leisure and hospitality, but we're also getting very solid gains in such sectors as trade, transportation, warehousing, education, healthcare, professional and business services.

So, it's a very broad based recovery and we think that will help us weather any upcoming downturn. Looking at the number of employers in the State, we lost about 5 or 6 thousand employers as the recession unfolded. Now, we've regained all of those back and we currently have about 68 thousand employers, that's a record high. We have been at a record high for the past several quarters. Looking at some of the non-labor market indicators, some of the broader measures of economic activity, personal income growth has been positive in 22 of the past 23 quarters in Nevada. Looking at our version of gross domestic product, which is the broadest measure of economic activity at the state level, we have exceeded the national average in terms of growth in our overall economy in eight of the past nine quarters.

Now looking forward, where do we see the labor markets going? Suffice it to say that we expect a continuation of a rather steady diversified, broad-based kind of growth that I have described. As I said, we just - only within the last month, established a new record high in terms of employment. We think by the time we get out to end of 2019, we'll be about 90-thousand higher than that prerecession peak, in terms of total employment. Again, it's broad-based employment. We look at the construction sector, about 45 thousand new construction jobs. We lost 100-thousand construction jobs during the recession. We've gained back about 20 or 25 thousand of those, and we expect that growth to continue going forward. Just to put that - the Governors announcement in some perspective with respect to our record levels of employment, it also kind of addresses the broad-based nature of our recent growth. We have reestablished a new record high level of employment with about 75-thousand fewer construction jobs than we had prerecession.

Again, that talks about - it's the direct result of the broad-based nature of our growth. Looking at manufacturing, you can see some rather pronounced increases there. We're looking at another 11- thousand new jobs or so. A lot of that is attributed to a couple of well-publicized projects. Tesla, we've got the Faraday Project factored into this to some extent as well. But, you can see good solid growth in manufacturing. Retail trade will continue to grow, adding close to 2-thousand jobs annually. I wish everything was as easy to project as healthcare employment, that is pretty much just a straight line going up, and we're looking at close to 4 or 5 thousand new jobs a year in the States Healthcare Sector. Then, as far as our largest sector goes, at least in terms of employment, accommodation and food services - hotel, tourism, and gaming sector, we have already reestablished a new record high there.

We lost about 30-thousand jobs as the recession unfolded, we've regained all of those back and we expect to add another 15 to 20 thousand jobs as we go through 2019. The end result of all of this is, we expect to see continued downward pressure on the jobless rate, bottoming out at about five percent when we get to 2018, 2019. So with that, Mr. Chair and Ms. Olson, I'll conclude my remarks.

Again, the news is good, it's positive, it's encouraging. What we're seeing, and I've said before, is very broad-based but arguably relatively modest growth. I said we're seeing underlying job growth of about three percent, that compares to about six percent job growth prior to the recession. That proved to be unsustainable, so there is more broad-based moderate pace of growth, we think, better positions the state in the event of any future downturn. So with that, I'll be happy to answer any questions.

The Chairman thanked Mr. Anderson on an excellent presentation and asked if there were any other questions from members of the Council.

Mr. Fred Suwe asked, can you comment on mining? Everybody looks rosy but mining. Of course that's always a big issue during the legislative session, is the amount they pay for doing business in Nevada. Can you briefly comment on that?

For the record, Bill Anderson, Chief Economist. To put it in perspective, we're looking at - with mining, the sector with total employment of approximately 15,000 jobs. As I mentioned, most of those are concentrated in rural North Eastern Nevada. It's a very cyclical industry, lots of booms, lots of busts. Over the past several years, there has been downward pressure on gold prices and that's what has impacted that sector of the economy. Gold prices have bottomed out, and I think that there is a little bit of upward pressure on them currently. So, that - going forward, at some point we will spur additional economic activity. So, I don't think that there is anything structurally that we need to be concerned about with respect to the mining sector, it's kind of the nature of the beast. It's a very cyclical kind of industry.

Mr. Havas asked if there were any other questions or comments. There were none. The Chairman moved on to the next speaker.

B. UI Bond Status Update (Exhibit C)

Alessandro Capello, Economist, Bureau of Research & Analysis, DETR

Mr. Alex Capello introduced himself as an Economist in the Research and Analysis Bureau. This first presentation we're going to give is just a quick status update on the UI Bond, hopefully it's the last one. So, just a quick refresher, just so we can remember why we issued a Bond. The Trust Fund got hit pretty hard obviously during the recession, it fell to minus $800M in December of 2009, it went to zero, then ultimately went below $800M. Initially, we implemented special interest assessment to pay the interest cost of the federal loans. This became unnecessary as of November 2013, the state issued a bond to cover the federal loans. This totaled $592M, and then you can kind of see some of the details which are pretty typical.

Of note, the state has the right to call a final payment scheduled in - sorry, the payment is scheduled for June of 2018, and we can call it in December of 2017. Quick overview of the payments made to date. We've made the total of $325.7M in principal and interest payments. The next scheduled payment is December of this year, it totals $70.1M in principal and interest. Currently, with the Trustee, you can see the current account balance is right there, we have more than enough to cover that payment. With two more quarters of incoming funds, we're in good position to fulfill our June 2017 payment.

Next slide looks at some upcoming obligations. This is how the bond is calculated. We are required to have 50 percent coverage. So, if you look at that first line, we'll take what we'll owe in principal and we have to have 1.5 times that, which is $240M in principal. That same kind of logic goes for interest and expenses at $15M, and then we take away what we have in reserve to see what we need to collect. So, if you look at the last bullet point, we can see that we will need nearly $180M in principal, and nearly $2M in interest.

This slide just shows how we get to the baseline bond rate. We take an estimate of total taxable wages, multiply that by .95 for non-collections and late payments, to account for those, and then we divide the $179.9M by the estimated taxable wages, and we get .62 percent. Same logic for the interest and expenses which gives us $1.9M divided by $29.1B, which results in 0.1 percent. We add those together to get the total rate of 0.63 percent for 2017. This is a .01 increase from last year.

The next slide is just - I'll go through it quick. It just breaks down the tiers in defining the regulation. There are four tiers, everything is kind of like the reserve ratio, there are different brackets based on the experience ratings of different employers. Just want to point out that Tier I has the highest number of employers, and Tier III has the largest number of wages, or the highest level of wages. Breaking those rates down, this is how the overall average rate gets made up. Tier I, II, and IV, take a set multiplier and multiply that by the baseline. Tier III's rate is kind of derived to get us to the .063.

Basically, the number that you want to pay attention to is on the very bottom line, the average cost per employee at the taxable wage limit. The taxable wage limit this year in 2017 is $29,500, you multiply the 0.63 by that, and you get $185.85 per employee, that's up $11.00 from last year.

The last slide on this, it just shows where we are in the life time of the bond. The blue area is what we've paid to date, as of June. The darker grey area is the last scheduled payment in 2016 in December. The lighter gray area are the scheduled payments in 2017. Then, that last area is the callable final payment. So we expect that final payment to be called, as I said in the beginning, this should be the last time that this presentation is given because that last gray area should not have to be worried about.

If you have any questions, that's all for that one. Dave and I are going to move on to the UI Trust Fund Presentation.

C. <u>Review of UI Trust Fund (Exhibit D)</u>
David Schmidt, Economist, Research & Analysis Bureau, DETR

David Schmidt introduced himself as a Supervising Economist with DETR Research and Analysis Bureau. This presentation, now that you've heard how the bond is calculated, will give you a review of the Unemployment Insurance Trust Fund; where things are nationally, where Nevada is currently at, some current trends, and our forecasts for 2017, as far as benefit payments and the presentation of different potential Unemployment Insurance Contribution Rates.

Taking a look back to January 1st of 2010, this gives you an idea of where the country was shortly - really around the troth of the great recession that officially ended in June 2009, but being such a large recession, the effects lingered for some time. In January of 2010, Nevada had just begun to borrow, in October of 2009 is when Nevada first began to borrow after exhausting the Unemployment Insurance Trust Fund. Nevada would continue to borrow through 2010 and into 2011, eventually as Alex said, reaching a low of borrowings near $850M. But, as you can clearly see from the map, Nevada was hardly alone in needing to borrow.

Ultimately, I believe, about 29 states ended up borrowing during the recession. Nevada was somewhat unique among many of these states in that, Nevada was reasonably well-prepared heading into the recession with a Trust Fund balance of just over $800M. So, we swung from a positive $800M to a negative $850M during the recession.

Fast forwarding to the beginning of this year, the map is much greener than it was as states nationwide are rebuilding their Trust Funds. A number of states like Nevada issued bonds in the market to repay their loans. Currently, only Ohio and California are still having some federal borrowing outstanding, which really shows the depth of the borrowing that some of these states encountered. This is the beginning of this year, if you were to look at this as of today, Nevada would actually be another category greener because our current Trust Fund balance is actually out of the .25 to 0.5 range that's in here, and is up into the 0.5 to 0.75 percent range, as Nevada's high cost multiple continues to improve.

Just as a refresher, we will refer to the average high cost multiple times in this presentation. This is a measure used by the federal government based on one year's worth of benefit payments, estimated - looking back to what your benefit payment rates were, at the average of the worst 3 years we've experienced in either the last 20 years, or the last 3 recessions. A multiple of 1.0 represents approximately one years' worth of benefit payments sitting in the Trust Fund, in reserve, preparing for a future draw downs. Heading into the last recession, Nevada had an average high cost multiple of, I believe about 1.03. So, we were just above that 1.0 level.

Nationwide, the states have begun to rebuild their reserve balances. You can see the effect that's had on the total Trust Fund balance across all of the states, where that balance is now back up above $40B nationwide. The borrowing, which is represented by that red line, had actually driven a total balance - the total balance nationwide, to about negative $25B in 2010 and 2011. However, as almost all of the states have paid back their federal loans, that net balance is back up above $40B. This is to be expected really.

At this point, we are 86 months into the current recovery dating from June of 2009. At 86 months, we're actually nearing the point where we would have the second longest economic expansion, going back in the 30 or so years you see here. By January of 2017, we would actually pass that economic expansion in the '80s, and we would be second only to the ten years of continuous growth that we saw during the '90s. We are already passed the expansion that we saw in the mid-00s.

So, as we are well in to the current ongoing recovery, you would expect that both nationally and in Nevada, you would be in the middle of this building up of reserves. That's really exactly where we're at. I would like to hand it back over to Alex to talk about Nevada's specific trends.

Mr. Capello started the presentation stating, this first slide looks at contribution rates and benefit cost rates since 1995. The red line is the benefit cost rate, so that is basically the benefits that we paid out as a percentage of our total taxable wages, and the average tax rate is what we collect. So, if you look at the red line, it obviously tends to rise when those shaded areas exist which are recessions, and fall after them. The blue line is the average tax rate we collected.

If we focus on the more recent portion, we've had 16 consecutive quarters where our contributions have exceeded our benefits paid. That, with over the last year, our average tax rate has been about two percent, with our benefit cost rate about 1.1 percent. So, the gist of this chart is to show when the blue line is higher than the red line, we're growing the Trust Fund, and when the opposite occurs, we're seeing outflows of the Trust Fund, so it's just kind of demonstrating that. This chart also kind of does this, but in a little more of a money wise way.

This bar chart looks at contributions and benefit payments. Again, the red are benefits paid out of the Trust Fund, and the blue are contributions collected. This is by quarter, so you see the first half of the chart is quite the red - almost always exceeds the blue which means that a lot of money is coming out of the Trust Fund. We've seen why and we know that the Trust Fund was minus 800, and this is why. The latter half are the more recent trends where starting in 2011, the Council recommended to raise taxes. So, that is when you, kind of, can see in the middle there that the blue and red line start to get closer, and then thereafter, it pretty consistently exceeds our benefit payments.

I also want to throw in there, since we already talked about the Bond, that there would be a big jump, hypothetically or in actuality, in the fourth quarter of 2013 - there would be a big contribution line but I removed that just so we could see the real intake in taxes. The combo of all of this, of the contributions exceeding benefit payments, has taken us to where we are today.

This is a chart of the Trust Fund balance over time. If you can see on the far right, we are at $664M this morning, which is the highest nominal value that the UI Trust Fund has been since 2008 in Employment Security Council Meetings. So, that's a pretty long time. If you think about the last couple of slides, and all of that, you can understand that area where we were very negative. The Trust Fund is at the best place in a long while, however, based on our recent experience, we know that that is not enough to meet recessions needs in the event of a recession. So, this chart shows two solvency measures. Dave mentioned the average high cost multiple, I will get to that one in a second.

The first one, is the state solvency calculation. So this calculation takes the worst case experiences in the last decade, and we know those are pretty bad, and gives you an estimate of what you need in the event of a recession - that was like that. So this currently is nearly $1.3B, however, I want to point out that in a few years, this state solvency calculation will probably decrease because it has a ten-year window. So once these bad years fall out of the window, the solvency level will change and will probably drop based on current trends.

Just to point this out, this was seen in 2007 when the State solvency was $550M, and then by 2010, it was $1.2B. It more than doubled in three years. So, the other solvency measure - it's a little more stable and conservative, is the federal average high cost multiple. Dave gave you a quick overview, but it uses the average of the three worst years over the last three recessions to provide a mid-range estimate of what you would need to withstand a recession.

The federal solvency multiple ends up requiring - or recommending I should say, a little more than $1B in the Trust Fund. So, if we look at where we are at today and what we need, we're at 62 percent of that. Then, looking at the total tax rate paid by employers, this just breaks down what was 2015’s rate and 2016’s rate, and it just shows how they're broken down.

They're composed of the State Employment Tax rate, the Bond Assessment rate, and the CEP Current Enhancement Program rate coming out of the recession, you will want the overall objectives from employers was to keep the tax rate stable. That has been accomplished by adjusting a SUTA Rate and so, in 2016, you can see the Bond Assessment rate rose from .56 to .62, the SUTA rate was adjusted down to maintain that rate stability. At this time, Mr. Capello advised, I am going to hand it back to Dave to discuss some UI trends.

Mr. Schmidt continued, looking ahead to the forecast, the trends I want to look at are what's going on with Unemployment Insurance and how does that potentially affect our benefit payments in 2017 and beyond? As the Administrator mentioned, we are currently seeing very low levels of unemployment insurance claims. We're actually seeing levels of claims that are most comparable to where we were near the peak of the boom, right before the beginning of the recession on a weekly-claim basis. On average over the last 13 weeks we have been at about 2500 claims. During the recession, we peaked at nearly 8,000 weekly claims. So, we're down almost 2/3 from where we were at the peak. But, you can see even over the last year to year-and-a-half, those rates have continued to drop.

This has been one of those things where we keep expecting these levels to stabilize and begin to grow because eventually, you reach a point where there is almost a floor with the number of claims that you have just because, as Mr. Anderson said, there is a regular churn in the labor market. There are a number of people gaining jobs and a number of people losing jobs on a fairly continual basis. So you don't ever expect to see initial claims fall to zero, and when we look at the overall level of claims, or we look at the level of claims as a percentage of the size of the workforce, we're at a point now where we're more like what we were during the boom than where we were, say, during the '90s and we saw those ten years of fairly stable growth.

This could be an ongoing change in the labor market, we've seen similar trends nation-wide where the level of initial claims nationally, that the Department of Labor announces every week, is at levels not seen in 40 or 50 years. We're down to 250, 260-thousand initial claims nationwide. So, we're at overall levels that are comparable with where we were decades ago, while the size of the labor force has continued to grow. We have more people working but the same number of claims as where we were back in the past.

So, what this feeds into is, if you have fewer people claiming benefits, you have fewer benefits being paid out. So, taking a look at the change in Unemployment Insurance Benefits; on a monthly basis, using a 12-month average to smooth out the volatility that we see particularly in the November, December, January time-frame, we have seen continual declines in benefits. In 2011, we were seeing declines in benefits but it was from the very high levels we were at during the recession.

As time has gone on, we've been down to lower and lower benefit levels and so we're seeing declines on top of declines, on top of declines, over the last five years. In the second to last week of September, which we got some data on last week, we paid out \$5.1M in Unemployment benefits; which is a large amount of money but during the recession, we were paying out 5x that amount. As recently as a month ago, we were paying out 5.8M to 5.9M. So, when you see benefit payments this low, we're seeing very low levels of claims, very low levels of benefit payments.

This has certainly helped the Trust Fund, because the Trust Fund for 2016 came in roughly $80M higher than we expected this time last year. This has been an on-going trend. It helps to rebuild the Trust Fund, but on the other side of that same token, when another recession comes, these can increase very quickly. So, it's to our advantage to take advantage of the low-benefit payments and use those declines to help continue to rebuild the Trust Fund, because we're at very low levels. So, we do continue to expect to see increases.

Looking at the number of unemployed people in total, as compared to the number of unemployed people receiving UI Benefits, this chart compares those two. During the recession with all of the extended benefit programs that were taking place, we are at a point where a little over 80 percent of everyone who was employed, was actually receiving unemployment benefits, which helps to stabilize the economy. You have a large chunk of the workforce that is displaced and unemployment benefits do help to mitigate the shock that people have with losing their incomes, and hopefully assists them with transitioning to a new job.

Those extended benefits expired in 2014, and since then, the State has been consistently below about 30 percent except for some occasional swings due to changes in the unemployment rate. Right now, we see about 26 to 28 percent of everyone who is unemployed in Nevada actually being eligible for unemployment benefits. This could be because of changes in the workforce as we see people coming back into the labor force who were perhaps not looking for work because they didn't think there were any jobs for a long time. These people wouldn't have any wages, they wouldn't have any eligibility for unemployment benefits, so that could be a part of this depending on the mix of the unemployed.

You could also have relatively recent entrance into the labor force. If they should lose their jobs, they may not have had enough time in the labor force to build up a base period sufficient to be eligible for unemployment benefits. Another trend that we see is the exhaustion rate, which is the number of people who exhaust all of their benefits, as compared to the number of people who begin receiving benefits. This has been continuing to fall, it's just below 40 percent in the last few months. It peaked at about 63 percent during the recession. It is actually still higher than where we were in the boom period, it's comparable to where we were about the worst point following the 2001 recession, being just below about 40 percent. In the '90s, in the '00s, and during the boom, it was more commonly in the 30 to 35 percent range.

So there is still some room for this measure to fall, which would put some downward pressure on unemployment benefits as people are claiming fewer weeks of benefits, fewer people are exhausting those benefits. That would mean fewer dollars being paid out to people, hopefully as they are finding jobs sooner. Now I'll turn it back over to Alex to review our 2016 forecast.

Mr. Capello continued, as Dave said before, we'll get into the 2017 forecast, we're going to look back on what we got. Some went right and some went wrong. First, taking a look at the average unemployment rate, it came in a little higher than we anticipated. If you recall Mr.

Anderson's presentation, there were some up and down movement that we expect to be revised at the end of the year. So, I wouldn't be surprised to see this closer to being right.

Looking at the 2016 first quarter employment growth, it's a little higher than we anticipated. This slide goes along with the next slide which looks at the raw total. So, we expected 1,076,000 in covered employment and it's 1,088,000 in covered employment as of March of this year. Continuing in looking at weeks claimed, it's much, much lower than we expected. As Dave was just talking about, almost everything is down, benefit payments, weeks claimed, exhaustion rate. So, it's not surprising to see this much lower than we had expected.

When you consider all of that and pull it into how much benefits were paid, and contribution levels, and ultimately the Trust Fund, it's pretty easy to understand why they were off. If we just take a look at revenues, they're up 12.1 million more than we expected at $572M covered employment growth. More employees that their employers are paying taxes on, then benefit payments are $59.2M below the estimated based on all of those trends that we just saw. Then, this net effect has allowed the Trust Fund to grow to nearly $664M, which is $79M more than estimated last year. So, that makes sense based on all of those trends that we saw.

This chart is showing - it looks back at the various tax rates, solvency levels over the last few years. We will start in October of 2015. We began last October with $419 million in the Trust Fund, took in $560 million in taxes, earned nearly $12M in interest, and paid out $324 million in benefit payments. The result was a $244 million increase in the Trust Fund on net, and an ending balance of $663.7 million. This leaves a state solvency multiple of 0.52, and an average high cost multiple of 0.63.

Looking a little bit lower at the total cost to employers, it shows our last year's tax rate at 1.95 percent, the Bond Assessment rate at 0.62 percent, and the CEP rate added on, a total all-in rate of 2.63 percent, paid at the maximum taxable wage limit of $28,200, which was the 2016 level. The average cost for employee was $738.84. So, that's where we are at as of this year. As you can see, even looking at that total cost per employer line, it's been pretty steady as we've been trying to keep that stability level in place. I'm going to hand it back to Dave for the forecast for 2017.

Mr. Schmidt advised that he would like to back up one slide just to point out one interesting thing with the way that the solvency multiples work, which sort of bears on the 2017 numbers. You can see, if you look at that solvency target line from 2012 to 2016, in this chart it rises from $1.05 billion to $1.29 billion over this five-year window. This is because while all of these solvency measures take a look at previous recessions for what might you need to pay out, they're actually typically adjusted for what are your current levels of employment, and your current level of wages, so that the Trust Fund is keeping up with any growth that you have in the economy. So, from that $1.29 billion in 2016, we expect the solvency target to rise to $1.36 billion in 2017, as we continue to see growth in employment and also increases in wages and, therefore, unemployment benefits.

This chart presents a range of potential UI tax rate options for your consideration. In this chart, the only thing that changes from column to column is the tax rate, the total taxes that are received, and then minor changes in interest due to different balances over the course of the year that they're being paid out. We expect about $330 million in Unemployment Insurance Benefits next year. This is a slight increase from where we are in 2016, reflecting our ongoing assumption that at some point we are going to hit that floor, and benefit payments will start to rise more in line with the growth that we're seeing in the economy.

Obviously, as you saw in our forecast review, this is something we keep thinking is going to happen and the opposite keeps happening. We think it's still best to present this as the baseline scenario, as some level of increase in benefit payments. All of these different options from 1.9 percent on the far left, 2.1 percent on the far right, would leave us with a new nominal high for the Trust Fund as of September 30th, 2017. Prior to the last recession you will recall that we peaked at about $803 million. All of these options would leave us with a Trust Fund balance of between 940 and $980 million dollars, however, as employment and wages have risen in this State, we should expect that the Trust Fund balance would put us in a position where we're prepared for future recessions, would rise as well.

With the Bond Assessment for 2017 of 0.63 percent, and the CEP rate being a constant 0.05 percent, you can see the total cost to employers have rates here between 2.58 percent and 2.78 percent. With the small change to the Bond Assessment rate, maintaining the rate at 1.95 percent, would be the rate that keeps the overall average in 2017 closest to the average rate that we experienced in 2016.

This slide shows our forecast for benefit payments by quarter. It's something kind of new that we have this year that we haven't had in previous years. It's, sort of, a range of potential benefit payment rates because, obviously, we don't actually know what's going to happen in the future, we're giving you our best estimate of where it will be. But, this range shows you one standard deviation on either side of the average for the benefit payment forecast, to show you that within about 2/3 of all the potential benefit payment scenarios that you might see, we would expect that 2/3 of the time, the actual rate for next year would fall somewhere within this shaded window.

If you were to expand that to a couple of standard deviations, you would actually see the bars increase pretty dramatically because that's encompassing about 95 percent of all your potential scenarios. It starts to look more like - within that sort of range, you could see a repeat of the recession like we just had. Most of the time it would be somewhere in this range of small growth in benefit payments, to some small ongoing decline in benefit payments.

This slide shows the total effect on the Trust Fund with an assumption of 1.95 percent UI Tax Rate. What would the effect of that potential range of benefit payment distributions be on the Trust Fund balance? You can see through 2017 and into 2018, we're generally maintaining that path of getting closer to solvency with very low benefit payment levels, pushing us closer to the average high cost multiple, which is the dotted line - where higher benefit payments would leave us a little bit short of that target.

This table shows you over the next four years, since 2016 is the column on the far left, with various rates if we were to keep the rates steady at 1.9 percent '17, '18, '19 and '20, too, keep it steady at 2.1 percent in '17, '18, '19 and '20. What would the effect be on our average high cost multiple? Within all these scenarios, you can see in 2017, the average high cost multiple is in a range from about 0.85 to 0.9 percent. With all of these rates in 2018, we would expect the average high cost multiple to actually rise to above 1.0.

So, in all of these scenarios, if the tax rate were held steady over two years, we would expect to have an average high cost multiple in 2018 that exceeds the target level that is recommended which currently is about $1.05 billion. What is also rising each year is the number of people working.

For comparison, I like to include this figure where you look over the last 50 years, what's been the average length of a period from the end of one recession to the beginning of the next. That average is actually just 5.4 years, which if you date it from June of 2009 when the last recession ended, on average, we would have started a new recession in December of 2014, however, we are continuing to grow with 86 straight months of recovery. We're already beyond that mark.

The longest period of time over the last 50 years from the end of one recession to the beginning of the next, has been 10 years, which we experienced during the '90s. It was dated from June of 2009 that would suggest a new recession in June of 2019. There are arguments - this is obviously not a prediction that there will be a recession in June of 2019, but rather this is sort of the range that we have typically observed in the past. We had a very deep recession just recently and so you can make a good argument for a very long recovery, perhaps longer than this ten-year mark. You could also say, we just came out of a very big recession, perhaps the economy is still kind of shaking and weakened, and perhaps more prone to a recession.

Being Economists, we have opinions on every side of this sort of target because it's the future, and the future is fundamentally unknown. This is just sort of a benchmark for, how are we doing in rebuilding the Trust Fund, thinking about the potential for recessions in the future coming down the pipe? I believe that when we began Bonding, one of the goals was to bring stability to employers and begin to prepare the Trust Fund for future recessions. I believe over the last several years, the Council has done a good job of maintaining those objectives, it's putting us in a good spot to be prepared going forward.

This slide looks at, where do the cost employers pay for unemployment benefits go. You can see that roughly 1/3 of employer payments in 2017 will go toward paying for unemployment benefits in 2017. A little bit less than 1/3 will be going to rebuild the Trust Fund and continue to move closer to those solvency targets. The remainder largely goes to pay for the Unemployment Insurance Bonds, with a small piece going to support the CEP program.

The final slide in this presentation is our typical, we don't know the future, slide. There is a lot of potential questions going forward, particularly in Europe with the uncertainty that results from the vote for Britain to leave the European Union. There are a number of countries down south, in South America that are struggling. China has some question marks surrounding it.

So, as we do every year, there are big question marks globally for what the future holds and what's going to be coming down the pipe.

I think from Mr. Anderson's presentation, from the information that we're seeing right now, at least as of this moment, Nevada is looking like it's in a fairly good spot and well-positioned going forward. With that, I would be happy to answer any questions.

Chairman Havas asked if there were any questions for Alex or David? There was no response. Chairman Havas moved on to Mr. Roberts for his presentation.

D. **Tax Schedule Explanation (Exhibit E)**
Edgar Roberts, Chief of Contributions, ESD/DETR

Mr. Edgar Roberts introduced himself and stated that he serves as 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 the Tax Rate Schedule for calendar year 2017. The Administrator sets the tax rates each year by adopting a regulation. It is the role of the Employment Security Council to recommend a change in the contribution rates whenever it becomes necessary to protect the solvency of the Unemployment Compensation Plan.

This slide outlines the meeting schedule for the 2017 Tax Rate, the Small Business Workshop is scheduled for October 27th, and the Public Hearing to Adopt a Regulation is scheduled for December 8th. Turing to slide four, employers are required to pay a federal unemployment tax of 6.0 percent on the first $7,000 of an employee's wages unless the pay roll tax is under a state program, which reduces the federal tax to 0.6 percent. The 5.4 percent reduction in tax rate, lowers the amount due for the federal payroll tax per employee from $420 to $42. The UI Contribution section validates the federal tax payments through IRS Certifications upon request from individual employers and through reports once a year to the IRS for all employers.

Turning to slide five, the State Unemployment Tax, or SUTA, collected from Nevada's 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 an employer's experience with unemployment.

Looking at slide six, 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 the method of Experience Rating, that has been approved by the US Secretary of Labor. The Nevada Rating System works as follows: a rate for all new employers is 2.95 percent of taxable wages, the annual taxable wage base or taxable limit is an annual figure calculated at 66 and 2/3 percent of the annual average wages paid to Nevada's workers. Unemployment Insurance Taxes are paid on an individual's wages up to the taxable limit during the calendar year.

Turning to slide seven, the UI taxable wage limit in 2016 is $28,200 per employee. Effective January 1, 2017, the taxable wage limit will be increasing to $29,500 per employee. Employers pay at the new employer rate of 2.95 percent for approximately 3-1/2 to 4 years until they are eligible for an experienced rating. Once eligible for an experienced rating, an employer's rate can range from 0.25 percent to 5.4 percent depending on the individual's employers previous experience with unemployment. The 18 different tax classifications are outlines 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 percent. Rates lower than 5.4 percent can only be assigned under a States Experience Rating System approved by the Secretary of Labor. The intent of any Experienced Rating System is to assign individual tax rates on an employer's potential risk to the Trust Fund. Employers with higher employee turnover are at a greater risk to the Fund and pay higher rates than those with lower employee turnovers.

On slide seven, in 2016, employers' annual cost per employee for unemployment insurance range from $1,522.80 per employee, to $70.50 per employee. In calendar year 2017, the maximum annual cost per employee will increase by 4.6 percent due to an increase in the average annual wages, and the annual taxable wage limit.

On slide eight, to measure the employers experience with unemployment, Nevada along with the majority of states, use the Reserve Ratio Experienced 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 benefits charged to the employer. The result is divided by the employers average taxable payroll for the last three completed calendar years. This calculation establishes the employers 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 $60K in contributions, had $20K in benefit charges, and an average taxable payroll of $400K, the employer would have a reserve ratio of 10 percent. 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 employers reserve ratio will be negative and the employer will generally have a higher tax rate.

Turning to slide No. 9, each employer's reserve ratio is applied to an annual tax rate - schedule determine which rate classification will apply to the calendar year before setting the annual tax rate schedule for the next calendar year. Nevada's Unemployment Law requires the Administrator to determine the solvency of the Trust Fund as of September 30th. Projections are then developed for the subsequent calendar year. 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 revenues that the Trust Fund will need to meet those benefit payment payouts to maintain solvency. Using the employer reserve ratio data, several possible schedules are produced, and a variety of average tax rates and revenue projections established.

Now, let's look at the estimated tax rate schedules in your handout. It's a blue pamphlet. In the estimated tax rates schedule handout, we provide the Council with five tax rates to consider. This information, along with any public comment, will assist you with giving the Administrator a recommendation for the 2017 average tax rate. The detailed tax schedules display the reserve ratio incriminates between rates, ratios assigned to each rate, the estimated number of percentage of employers in each category, the estimated taxable wages with percentages, and the projected total revenues.

As an example, we will look at the average rate of 1.95 percent. In this schedule as well as others in your handout, the 18th tax rate is displayed in the fourth column of the charts, do not change. These rates range from 0.25 percent, to 5.40 percent, are fixed by statute NRS 612.550. Furthermore, the statute requires the Administrator to designate the ranges of reserve ratios to be signed by each tax classification for the year, and increments between the reserve ratios must be uniform. In the estimated tax rate schedule of 1.95 percent, the ranges are from a positive 13.3, to a negative 12.1, with increments of 1.6, between each of the reserve ratios.

In this example, if an employer's reserve ratio is a positive 13.3 or better, the employer receives the lowest rate of 0.25 percent. An employer with a reserve ratio of less than a negative 12.1, would receive the highest rate of 5.4 percent, and as you can see, the rest of the employers fall somewhere in between.

In this particular chart, approximately 12.9 percent of eligible employers are in the lowest rate of 0.25 percent, and 6.7 percent of eligible employers are in the highest rate of 5.4 percent. So you review the various schedules, you will see the numbers of employers change in each of the estimated tax rate schedules. Out of the 68,389 total employers as of September 2016, there are 44,831 employers eligible for Experienced Rating, which we estimate under the first schedule would generate $531.95M in revenue to the Unemployment Insurance Trust Fund. In addition, $64.90M from new employers at 2.95 percent, not eligible for Experienced Rating, is added for a total revenue of $596.85M associated with the average rate of 1.95 percent.

Turning to slide No. 11, this chart displays the detail on an average rate of 2.10 percent. To achieve this average rate, the range of reserve ratios is from a positive 14.2 to a negative 11.2. The estimated total revenue increases to $641.83M, and the number of employers in each rate classification, once again, shifts with 10.4 percent of eligible employers being the lowest rate of 2.5 percent, and 6.9 percent of eligible employers being in the highest rate of 5.4 percent.

Turning to Slide No. 12, this chart displays a summary of the average rates of 1.90 percent through 2.10 percent. The summary shows the range of reserve ratio increments, average employment insurance tax rate, estimated revenue, and the distribution of employers within each rate class. As a note, you will see on each schedule that there is an additional 0.05 percent tax for the Career Enhancement Program, which is a separate State Training Tax set by statute NRS 612.606. In addition, the average Bond rate of 0.63 percent is displayed and added to the total tax rate.

For the record, no written comments have been received by the Division in regards to the impact of a potential rate change. Mr. Chairman and Members of the Council, this concludes my presentation.

Mr. Havas asked if there were any questions for Mr. Roberts when technical audio issues arose. Mr. Edgar did answer the unheard question by answering, Mr. Chairman and Members of the Council, the Employment Security Division gives you the information so that you can recommend a tax rate to the Administrator.

Again, there were audio issues with Mr. Havas' microphone and the question was unable to be heard, however, Mr. Roberts answered, for the record, Edgar Roberts, Chief of Contributions. We have not received any information or feedback from employers regarding the rate scheduled for 2017. If someone here from the public would like to address that?

Ms. Olson asked to make a comment and stated, Thank you, Mr. Chair. Renee Olson for the record, Administrator of the Employment Security Division. Thinking about this questions, you ask us this question every year and we always try to throw the ball back in your lap because we do rely on the recommendation from the Council. But, thinking about it from my perspective over the past few years, we've really set a goal when we bonded the debt, when we refinanced the Trust Fund debt, of trying to save employers money and trying to stabilize the tax rate during the period of time where we were still paying the Bond back.

I think that we've been on a really good track to do that and accomplish those goals. So, with that in mind, we do have one more year of paying for those Bonds, just my perspective is that we have about another year of holding true to those goals, and then we can look beyond that time frame when it comes to next year's meeting, and really look at what we're doing to hit that target on the solvency. Those would be my comments in terms of what rate the Council should consider.

Mr. Havas asked if there were any additional questions or comments? Mr. Daniel Costello asked, if the rate remained the same, would that be something that is acceptable to the Administration? Or did they come to this meeting needing an increase? Is the stability in jeopardy if the rate stays the same?

Mr. Havas stated that he thinks that Ms. Olson eluded to that and asked her to elaborate.

Ms. Olson stated, I think that what you're looking at if you leave the rate at 1.95, considering the new rate of the Bond assessment of 0.63 that would achieve that tax stability and still allow us to continue to grow the Trust Fund toward that solvency rate. It doesn't accomplish the solvency target, but it does continue to let us build our balance in the Trust Fund.

Mr. Costello thanked Ms. Olson for her response and asked, I just was wondering the projections being - you know; they can be hit or miss. If it goes in a positive direction, it would actually grow more than—there is a possibility of that too, correct?

Mr. Havas answered, we’re certainly doing that. We would adhere to our philosophy of being counter cyclical in our recommendation.

Ms. Olson asked to make a comment and stated, I think what you're talking about is kind of what we experienced this year as well. That we had a projection for what we thought we would collect, we collected a little bit more. I'm looking at Dave Schmidt because he tells me I'm right. He's giving me the head nod there. We did collect a little bit more than what was estimated - looking into the future that can be sometimes - it's an imperfect perspective there, but we do get pretty close. So we did collect a little bit more, and claims were lower than we had anticipated. So the impact of those two things happening meant we padded the Trust Fund by more than we were expecting and that same thing could happen again this year, yes.

Mr. Havas asked, if we retire the Bonds, what kind of savings does that constitute for employers in the State of Nevada? Ms. Olson stated that Mr. David Schmidt was coming forward and would be able to elaborate on the question. Mr. Schmidt answered, going back to our Bond presentation, I think a useful piece of information here is at the bottom of this slide. It shows that in 2017, at the average bond rate of 0.63 percent, the average cost per employer is $185.85 for the bond. The total cost to employers once all of these rates are rolled together, is about $785M. So, this represents somewhere, a little bit less than a quarter of the total cost to employers. So once the Bond goes away, if the rate was maintained at the current level, the cost employers are paying would drop by about 25 percent.

Mr. Havas thanked Mr. Schmidt and asked for Mr. Costello to make a motion because he facilitated the discussion. Mr. Costello asked, actually, if they're looking at getting such a break if the Bond is paid off, would that warrant a slight increase in the tax rate? Would that be something that would be - does the Chair have a recommendation?

Ms. Olson asked to make a comment for clarification. She stated, I feel like I need to clarify that that Bond Assessment won't go away until the year after the year that we're talking about right now, which is '17. So, that Bond Assessment doesn't go away until we can call the Bonds at the end of that year, for the next year.

Mr. Havas reiterated that it needed to be called first.

VIII. PUBLIC COMMENT

There was no comment from the public.

IX. COUNCIL ADOPTION OF THE RECOMMENDED UNEMPLOYMENT INSURANCE (UI) TAX RATE SCHEDULE FOR CALENDAR YEAR 2017

Council Member Mr. Daniel Costella stated, he would make a motion that we maintain the current level of the tax rate.

Ms. Olson asked to make a comment. Chairman Havas permitted. Ms. Olson stated, just to clarify that the proposed motion is to maintain the current state tax rate - average tax rate of 1.95 percent.

Ms. Katie Johnson stated, Katie Johnson for the record. I second that motion.

Chairman Havas continued by saying, we have had a motion and a second. Any discussion? Hearing none, all those in favor of the motion please signify by saying aye? The Council responded by saying AYE. It carried unanimously.

X. CLOSING PUBLIC COMMENT

Chairman Havas stated, on the agenda we have a meeting open for a final public comment. We will start in Las Vegas. Any comment? Mr. Kinsey answered, no comment in Las Vegas. Chairman Havas asked, Carson City, any comment? There was no comment.

XI. ADJOURNMENT

Chairman Havas invited a motion for adjournment.

Councilman Shawn Kinsey: motion to adjourn. Mr. Charles Billings seconded the motion.
Chairman Havas said that it had been moved and seconded that we adjourn the meeting.
Chairman Paul Havas announced that the meeting is adjourned.

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, 2017.

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