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 2016.

EMPLOYMENT SECURITY COUNCIL (ESC) MEETING

Thursday, October 01, 2015; 10:00 A.M.

Place of Meeting:

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

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

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

Department of Employment, Training and Rehabilitation (DETR) Staff
Present in Carson City
Renee Olson, Employment Security Division (ESD) Administrator
Jeff Frischmann, Deputy Administrator, Unemployment Insurance (UI), ESD/DETR
Edgar Roberts, Chief of Contributions, ESD/DETR
Bill Anderson, Bureau of Research & Analysis, Chief Economist, DETR
Dave Schmidt, Economist, Bureau of Research & Analysis, DETR
Alessandro Capello, Economist, Bureau of Research & Analysis, DETR
Neil Rombardo, ESD Senior Attorney
Christina Guzman, Management Analyst, ESD/DETR
Joyce Golden, Administrative Assistant, Administrator’s Office, ESD/DETR
Mikki Reed, Management Analyst ESD/DETR
Lynn King, Administrative Assistant, ESD/DETR
Jo Anne Wiley, ESD Manager, UI Contributions, ESD/DETR

Department of Employment, Training and Rehabilitation (DETR) Staff
Present in Las Vegas
Art Martinez, Manager, 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
Mark Tulman, Nevada Association of Employers
Parker Stremmel, Ferrari Public Affairs

Members of the Public, Media and Other Agencies
Present in Las Vegas
Bob Ostrovsky, Nevada Resort Association

EXHIBITS

Exhibit A	Meeting notice and Agenda
Exhibit B	Proposed Regulation of the Administrator of the Employment Security Division of the Department of Employment, Training and Rehabilitation
Exhibit C	Minutes of May 27, 2014
Exhibit D	Minutes of October 8, 2014
Exhibit E	Minutes of July 14, 2015
Exhibit F	Nevada Labor Market Briefing
Exhibit G	UI Overview and Forecasts
Exhibit H	Calculation of Bond Rates
Exhibit I	Estimated Tax Rate Schedule for 2016

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

October 1, 2015 - 10:00 A.M.

I. CALL TO ORDER AND WELCOME

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

II. PUBLIC COMMENT

We would invite public comment at this time. Of course this comment would pertain to the agenda of today's meeting and the like. Is there anyone in the South who wants to provide public comment? Commentary? No one responded, so the Chairman moved on with the meeting and deferred the next topic to Renee Olson on the confirmation of the posting of the meeting.

III. CONFIRMATION OF POSTING

Renee Olson thanked the Chairman and introduced herself. Saying she is the Administrator of the Employment Security Division. I would like to ask Ms. Lynn King, if she properly posted the meeting in accordance with statute and did she receive confirmation of posting?

Ms. King identified herself for the record as the Administrative Assistant to the Deputy Administrator Jeffrey Frischmann and responded that yes, all were received according to statute.

IV. ROLL CALL OF COUNCIL MEMBERS, CONFIRM QUORUM

Mr. Havas asked if the members would introduce themselves and who they represent. Starting with the back row, please, left to right.

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

Margaret Wittenberg, on the Council and the Board of Review, representing Employers.

Shawn Kinsey, Representing Labor.

Danny Costella representing Employees and Labor.

Paul Barton representing the Public.

Michelle Carranza representing Employers.

Fred Suwe representing the Public.

Katie Johnson, on the Council and Chairperson on the Board of Review, representing the Public.

Paul Havas, Chairman of the Employment Security Council representing Employers.

Neil Rombardo, Senior Attorney for the Employment Security Division. Before we do the confirmation of roll, I just want to – on the roll call and confirmation of a quorum, I wanted to go back to item three and just make sure that Ms. King is going to put in the record some type of affidavit or a statement, which is now required by NRS 241, the Open Meeting Law. So can you confirm publicly that that document will be added to the record?

Ms. King, for the record, said she would take care of it.

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. REVIEW WRITTEN COMMENTS

Paul Havas, Chairman, Employment Security Council

Chairman Havas said that he would like to have Renee Olson express to us in respect to review of written comments at this point.

Ms. Olson thanked the Chairman. Renee Olson for the record. This is just a confirmation of whether we received comments regarding the meeting. Ms. Golden, can you confirm whether we received comments or we did not? Thank you.

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

VI. ADMINISTRATOR'S REPORT (Exhibit C)

Renee L. Olson, Division Administrator, Employment Security Division

Mr. Havas said that at this juncture, we can have the Administrator's report. Renee Olson, Administrator for ESD.

Thank you, Mr. Chairman. Again, Renee Olson. I would like to just take a minute to introduce our new Deputy Administrator for the Unemployment Insurance Program, Mr. Jeff Frischmann. He is seated at my right. And you've met our attorney, Mr. Neil Rombardo previously. He's going to help us make sure that we are in compliance with the open meeting law, he is very helpful in that regard. So, what you're seeing is that there were some changes to the open meeting law at the last session, we are just trying to make sure that we're in compliance and we're following those rules properly. So he's going to keep us on the straight and narrow. And if you see us looking like we're trying to deal with some of that, you're right. We are.

And so going forward from there, this is my opportunity to give you a brief update about some important things that have been going on with the Employment Security Division.

Most recently, and for actually the culmination of the past, probably four or five years now, the biggest event we've seen in recent times is, that we implemented our new unemployment tax system, or contribution system with the UINV. UINV is our name for our new system. UINV is a fully integrated UI solution that incorporates benefits, appeals and contributions into a single operating platform.

So on Monday, we implemented the final phase of UINV to bring the tax and contribution functionality of the system online. So far, I'll report that the rollout has gone very well. And one of the things we had to do in order to perform the necessary data conversion and to bring the tax functionality online, we had to bring the benefits part of the system down last week. Prior to taking the system offline, we asked claimants to get their weekly claims filed. And over 80 percent of those claimants did so. And so there was no interruption in receiving their benefits.

Since that time, we brought the system back up and thousands of claimants have been able to file their weekly claims without technical or system issues. Because of the system down time, our phone centers right now are experiencing a fairly heavy call volume. Our folks are working hard in the call centers to catch up with that activity. So I'm very proud to report that that implementation has gone very well. We continue to urge folks that have Internet access, to file their claims online, so they don't have to wait in line. So if you have access, that's probably the best way to go. In addition to that, and bringing the employer piece of the system up, as of yesterday – I'm going to look at Jeff. We had a little over 600 employers registered. That number's probably gone up a little by now.

Jeff Frischmann introduced himself. Yes, as of about 12:30 yesterday afternoon, 602 employers had successfully signed on to the system and registered and set up an account.

Ms. Olson thanked Mr. Frischmann, saying that, that is good news. Those accounts were all successfully registered without technical issues that we're aware of. We encourage employers to go in and look at the system, get registered. Some of the new functionality that the employers will enjoy with the new system is that they will be able to review their account history and activity online. They'll be able to directly respond online to UI claim and benefit notices, complete detailed online dynamic fact-finding relating to specific claim information, review current benefit and appeals correspondence, view benefit charges applied to their accounts, and they'll be able to protect the internal confidentiality of claim information by controlling access to their individual online account. We really think that this brings employers some good benefits, some new functionality that they didn't have before. We encourage the employers to please try to register their accounts, so that we're ready go within the next reporting cycle. Is there anything else I should mention, Jeff?

Jeff Frischmann answered that he would also like to add, that the new functionality is also going to allow our employers to file their quarterly reports online. And I think that's going to be a very good feature for them, very easy to use. They'll be able to just basically do a better job managing their employer accounts, both on the contribution side of the house and also the claims side of the house.

Ms. Olson thanked Mr. Frischmann. Okay, to continue on, the Division has been doing some internal work. We recently introduced and launched our new Strategic Plan. We'll be continuing the planning process and we're going to be starting into the budget planning process for the next biennium. As amazing as that sounds, we're all already going to be thinking about those issues. We'll be looking at how to position our resources in support of our strategic goals. And this means we'll be looking at each of our programs going into the next biennium, to see what needs to be done to insure that they remain efficient and that we optimize the effectiveness of each of those programs.

We'll be also reviewing issues within the Division, where the Governor may consider Bill Draft Requests that may be necessary during the next session.

We have also been very busy on the employment services side of the house, I guess you should say, implementing a new law, the Workforce Innovation and Opportunity Act (WIOA). This Act replaces the Workforce Investment Act (WIA). It is a federal law that we receive funding for the local planning and services provided in the local workforce areas. We are currently in the midst of working toward implementing that new Act and so one of the things that changed, was the composition of the Boards. I am reporting out here that I am a member of the Local Workforce Investment Boards, representing the Wagner-Peyser Program on those boards in accordance with the law as stated in terms of composition of those boards, so I'll be working with the local boards at that level.

It seems like our work on new systems never ends. We will be embarking in support of that new law on looking at replacement of our current case management system within the workforce services realm. We will be embarking on another system endeavor coming out fairly quickly here. With that, that really wraps up my remarks from the Administrator's Office. I think we are ready to move on from there, unless anybody has any questions. I'd be happy to answer any questions from the Council.

VII. ACTION ITEMS

Paul Havas, Chairman, Employment Security Council

A. Public Comments

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

B. Approval of May 27, 2014 Minutes (Exhibit D)

Thank you very much, Renee. I don't see any response from Board Members. We need to discuss and express approval for minutes for the May 27th, 2014 meeting. We'll do this one at a time from the approval of May 27th. And then it calls for October 8th, 2014 and then approval of July 14th, 2015 minutes. And I'd like to remind members of the public and from Las Vegas that they can speak to the subject of the minutes and probably limit their remarks to about five minutes. So having this in mind, I'd like to invite a motion for approval of the May 27th, 2014 minutes, as they were disseminated, or mailed.

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

Thank you. Renee Olson again, for the record. I just wanted to clarify. What you're seeing are a repeat of some minutes that we addressed at the last meeting. And the reason we are making sure that these are approved at this meeting is that we felt that the record wasn't entirely clear on the approval of those minutes. And so just as a measure of making sure that we're properly addressing these minutes. I believe it's the May and October minutes that are being repeated here. Okay. So that's just so you understand that. And that we're just trying to make sure that we have a clear record of approval. Thank you.

Mr. Havas invited Council members for a motion on the May 27th, 2014 minutes.

Shawn Kinsey made the motion to approve the minutes of May 27, 2014.

Chairman Havas repeated that a motion has been made. Do I hear a second? Council member Daniel Costella 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.

C. <u>Approval of October 8, 2014 Minutes (Exhibit E)</u>

Chairman Havas asked for a motion for approval of the October 8th, 2014 minutes.

Council member Daniel Costella made the motion which was seconded by Shawn Kinsey. There was no discussion and hearing none the Chair asked for all those in favor to signify by saying Aye. All members did so and the approval of the minutes for October 8, 2014 passed unanimously.

D. <u>Approval of July 14, 2015 Minutes (Exhibit F)</u>

Chairman Havas asked for a motion to approve the minutes of July 14, 2015, as disseminated or mailed. And if we could have a motion from a member of the Council on that.

Shawn Kinsey made the motion to approve the minutes of July 14, 2015. Daniel Costella seconded the motion. There was no discussion and hearing none, Chairman Havas asked all those in favor to signify by saying Aye, all did so and there was no opposition, thus the approval passed unanimously.

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At this point Neil Rombardo asked to be heard. He wanted to be sure that the Approvals went through as mentioned above.

Shawn Kinsey repeated what was said: I made the motion to approve on the May 27th, 2014 minutes and it was seconded by Danny Costella. He made the motion on the October 8 meeting minutes and I seconded it. And then I made the motion for July 14th minutes and he seconded.

Mr. Rombardo thanked the Council members for their help. Mr. Rombardo asked the Chairman if he could ask the South if the public had any comments. Chairman Havas did so to clarify the record.

Chairman Havas mentioned that the meeting has come to that juncture on our agenda where we are going to look at economic outlook and unemployment insurance update. The first segment will be economic projections and overview presented by Bill Anderson, the Chief Economist for R&A and DETR. Thank you. At this point the Chairman recognized Ms. Olson for some comment.

Ms. Olson identified herself as the Administrator and said she wanted to make a quick comment that the purpose of the meeting today was to consider the economic factors that will impact our unemployment insurance Trust Fund. We'll be looking at also the health of the Trust Fund now and projections. And the purpose of the meeting today is for the Council to make a recommendation to me as the Administrator of what the average tax rate will be for the calendar year 2016. And so the next presentation that you're going to see is from our Research and Analysis Bureau. Mr. Bill Anderson is our Chief Economist and he's brought his staff with him to provide you with various information that will help you make your decision today about what your recommendation will be. And then we'll see a presentation by Edgar Roberts, the Chief of our Contributions section that describes for you how the taxes and the regulation will be impacted. Thank you.

VIII. ECONOMIC OUTLOOK AND UNEMPLOYMENT INSURANCE UPDATE

A. Economic Projections and Overview (Exhibit G)

Bill Anderson, Chief Economist, Research & Analysis Bureau, DETR

Mr. Havas asked Bill Anderson for his presentation at this point.

Bill Anderson thanked the Chairman and members of the Council. For the record, I am Bill Anderson, Chief Economist with the Research and Analysis Bureau. Just to piggyback on Renee's comments. I'll provide kind of the economic context to help you frame your deliberations this morning. And then I'll hand the ball off to Dave Schmidt and Alex Capello; they will focus in and zero in on the unemployment insurance Trust Fund and the various financial aspects of that, again, designed to help you make your decisions and recommendations this morning. I have some relatively good news to share with you today.

Although the recession is still pretty fresh in everybody's mind, if memory serves me correct, this will be the fifth straight year that I've been able to share some positive news with you. And we've also seen, as we've progressed from bottoming out in 2010 on through the present, a strengthening in our various measures of labor market and economic improvement.

So with a couple of exceptions that I'll point out to you, almost all of the news I have to share with you this morning is encouraging. We'll start with the unemployment rate. And this is one of those areas of concern that I mentioned in my introductory comments. The unemployment rate peaked at close to 14 percent during the recession. We're now down to less than half of that, at about 6.8 percent. We've been trending down since 2011. Now – and over that time, we've narrowed our gap with respect to the nation. At the height of the recession, we were about 4.4 points higher than the national average. Now we're hovering right around a point and a half or so higher than the national average in terms of the unemployment rate. But this is still a relatively high unemployment rate, amongst the highest in the nation.

But I think I have to offer, to give you the complete picture, some context here. What's happening is, as our labor markets have improved, especially job prospects, which I'll get into shortly, it's attracting people into our labor force. Perhaps it's somebody that moved away, a construction worker that moved away during the recession and he or she is moving back, now that job prospects are improving. Or perhaps it's new entrants into the workforce or whatever. But we're getting a surge in our labor force at twice the rate of the national average. And what happens – and it happens at the end of every recession – is not all of those new entrants into the labor force immediately find employment. So in essence, what it does, at least temporarily, is prop up our level of unemployment.

We've done some calculations. And if our labor force held steady, so that the end result would be for every job we create, we reduce unemployment by one, our jobless rate would be at least a point lower than where it is right now. So the unemployment rate remains high, but arguably for a good reason. Because our job prospects have improved, that's attracting more people into the labor force. And it'll take them a while to be successful in their job search. In terms of the employment picture – and this is the strongest aspect of the recovery. Our job levels have increased since bottoming out in 2010, essentially nonstop. We're now at the highest level of employment since July of 2008. So we've seen almost continuous growth in jobs here in Nevada. That job growth is hovering at right around three and a half percent or so. In numerical terms, we're trending about 40,000 higher than where we were a year ago in terms of job levels.

Now, this is one of the Governor's favorite slides. We show this to him almost on a monthly basis. And it's designed to track in a simple way, our employment gains since we bottomed out. If you remember, the Governor early on in his administration pledged a goal of 50,000 new private sector jobs in Nevada's economy. So we wanted to more or less give him a scorecard to help assess progress. And obviously we've blown through that goal and we're well beyond that. But we started out in 2011. And I'll focus in solely on the private sector here. We added about 11,500 private sector jobs. That growth grew to 20,000 in 2012 all the way up into the high 30,000 range in 2014, so that by the time we got to the end of 2014, our job levels were up by almost a hundred thousand from where they were at the bottom of the recess, when we bottomed out.

This year we're adding – through August, roughly another 40,000 or so new jobs. We think that once we get to the end of the year and we go through our annual revisions, this will probably get bumped up to something in excess of 40,000. Perhaps around 45,000. So the end result is that by the time we close the books on 2015, our job levels will be up by about 140,000 or 150,000 or so, compared to where they were in 2010, when the recession bottomed out.

In terms of how we're performing vis-à-vis the nation, we've now gone 37 consecutive months with higher and stronger job growth than we've realized nationally. Specifically in August, we grew by about 3.3 percent here in Nevada, about 2.1 percent in the nation as a whole. So we've had a three-year period during which our job growth has exceeded the nation's in every month. Now, this is the Governor's probably favorite slide. And I think this really capsulizes [sic] what – or how Nevada has performed over the course of this business cycle. What we like to do, as you saw in the previous slide, is see how we're doing relative to other states and the rest of the nation.

The metric that we've developed for the Governor is to look at the number of states with lower job growth than us, okay? Let us see where we rank in terms of job growth. Prior to the recession, all 50 states had – plus D.C. – had job gains that were slower than ours. We have the strongest job growth rate in the nation. You can see that eroded very quickly, so by the time we got out to 2009, 2010, during the grips of the recession, our job losses were the most pronounced in the nation. Then beginning in 2011, we gradually started to pick up lost ground. We started outperforming 14 other states.

Then last year we got up to where we were outperforming every state but North Dakota, in 2014. And we've been able to take our first look at 2015, just recently and we're now outperforming every other state in the nation. Through the first months of the year, we were growing at about 4.4 percent. And the next group of states below us was growing at about 4.2 percent. So to me, this tells Nevada's story over the course of the last half decade or so.

We always focus, or we tend to focus our remarks on the job side of the equation. But I think it's also important to look at the employer side as well. We lost about 5,000 or so employers in Nevada as the recession unfolded, from roughly 61,000 down to about 56,000. Now we've been trending up for the last few years. And in fact, in each of the past three quarters, we've seen record levels in terms of the number of employers in the state. We're up now to about 62,500 employers. So we're seeing some good news there.

In terms of business growth, this chart is hard to read, I know. We had to collapse all 50 states into it. But in terms of the number of business – or in terms of business establishment growth, the number of Nevada businesses in the private sector has increased close to nine percent over the course of this recovery dating back to 2010. And that is the tenth strongest gain in the nation as a whole.

So again, we're seeing a relatively strong performance on the part of Nevada, vis-à-vis the nation as a whole. Now – so the news taken as a whole is quite encouraging, I think. I said – or I began with a cautionary note with respect to unemployment trends.

The other area that I'd like to see a little bit of improvement in is in terms of wage growth. Now you see here that we get a lot of volatility in average weekly wages. That's the blue line in this graph. But the underlying trend is up. We're trending up about a percentage and a half or so, measured on a year over year basis. You look prior to the recession and we were growing – again, some volatility there. But we tended to fall in the three to five percent range in terms of wage growth. So I would like to see somewhat stronger wage growth than what we've been realizing. But nonetheless, the underlying trend is one of some upward movement in average weekly wages here in Nevada.

Now, oftentimes, you know, I go and present this information. And especially the job news is quite encouraging. And folks will ask "Well, are they good jobs?" And by that, they're talking about oftentimes full time/part time. And what we've seen over the course – well, let me go back to the recession. During the recession, our full time employment measured by that upper blue line there, fell noticeably over the course of the recession. That was offset somewhat by an increase in part time employment. But you see that since the recovery started, part time employment has leveled off and we've seen just about all of our employment gains come in full time positions.

Another way to look at that is with a new tool that DETR has, and the Research and Analysis Bureau, as well as Renee's side of the shop, we're now clients of an outfit called Burning Glass Technologies. And basically, department-wide, it's going to be utilized when it's fully implemented as kind of a client management tool, or at least to assist in our client management efforts. But for my shop, what it gives us the ability to do is, go out there on a real-time basis. I can literally go back to yesterday and – or the day before, and see what job demand is out there, as measured by online job posting activity. This tool has the capability to go out and scrape or spider some 40,000 websites where jobs are posted.

And then we can look at that information and analyze it on a real-time basis. And what we've seen so far this year is that about 90 percent of our job ads in Nevada, online job adds for jobs in Nevada, are full time in nature. So that certainly gives us a good bit of comfort in terms of the quality of the jobs. So that is the economic picture to date, encouraging news. Some room for improvement, but overall, I'm very encouraged by what I see. Most importantly, I'm encouraged by our relative performance vis-à-vis the nation as a whole.

Now, in terms of the outlook, this may be the first time – we might have been able to allude to it last year. I forget. But this may be the first time we can sit here and talk to you about when we're going to be regaining all of the jobs that were lost during the recession. We lost about 175,000 jobs during the recession. As I said, when we close the books this year, we think we will have added back about 140,000 to 150,000 of those jobs. We think that by the time we get out to mid 2016 – so just several months from now – we will have regained all of those jobs that we lost during the recession, which will be a big milestone for Nevada. And in fact, by the time we get out to the end of our forecast horizon, we should be up by close to 100,000 jobs, compared to where we were at our pre-recessionary peak.

So finally in our radar is that threshold of regaining of all our lost jobs. In terms of a sector by sector look, I'll start out with construction. Construction was arguably the hardest hit sector in our economy during the recession. The most shocking statistic I can put out there is we lost about 100,000 of our 150,000 construction jobs during the recession. We're now starting to grow off of that low base.

And in fact now, construction is our fastest growing sector, growing in the high single digits, some seven and a half to ten percent on a year over year basis. We think, given what we know in our crystal ball about various projects and whatnot that are unfolding that by the time we get out to the end of 2017, we will have added back about 45,000 to 46,000 of those hundred thousand jobs that we lost in the construction sector. So, pretty remarkable growth. But it also, I think, illustrates just how severe that recession was in terms of the hit it had on construction.

In terms of manufacturing, we think that we're going to be adding several thousand jobs through the end of 2017. And that captures the early stages of the phase-in of the Tesla project. You see the numbers bump up there as we go through 2017. That reflects our projections with respect to the impacts on Tesla. Tesla's also impacting the construction numbers that I just went over. So we're seeing growth in manufacturing as well.

Retail trade, as we know, our broadly defined tourism, gaming and entertainment sector has evolved from the traditional gaming components and it now includes entertainment, retail, trade and whatnot. And we think that we're going to continue adding about 5,000 jobs on a year over year basis.

In terms of healthcare, everything should be this easy to forecast. It's pretty much a straight line over time. And again, we think we're going to be adding about 4,500 jobs or so per year in the State's healthcare sector.

And then finally, with respect to our largest employer, accommodation and food services, right now, they're trending about 15,000 to 17,000 higher than where they were a year ago. And we think that in fact, we've actually already regained our pre-recessionary peak. So anything we add going forward, will be above and beyond our previous historical high. We think we're going to be adding about 40,000 jobs through the end of 2017.

The lone sector that is arguably struggling in terms of the job picture, is mining. We are talking about declines measured on a year over year basis that total several hundred or so out of a 15,000 person job base. But the long-term decline in gold prices has impacted those industries, which obviously impacts our rural counties, especially in northeastern Nevada.

In terms of what this means for the unemployment rate, we – given this job picture, we think that the jobless rate will continue to trend down. Right now, it's down about eight-tenths of a point or so, compared to where we were a year ago. And we think that, that trend will continue, given our job prospects, so that by the time we get out into 2017, we'll be looking at an unemployment rate between five and five and a half percent. So with that, Mr. Chairman, I'll be happy to answer any questions or provide any clarification that you might need.

The Chairman said that he had a question and hoped that he could frame his question in terms that can be understood. When you have multiplier effects of dynamic, of new dynamic changes, whether it's in manufacturing or in any – like for example, in technology, can you measure those increases and then provide for a prognosis of the future and give us a sense of what the future – for example, Tesla effects might be?

Mr. Bill Anderson, Chief Economist, responded to the Chairman. We have that factored into our forecasts. The main projects that we have in our projections, and there are several, the ones that are perhaps most notable, the arena in Las Vegas, the Tesla project and the Genting project on the old Stardust property on the strip, we have a timetable for those projects.

We have employment estimates for those projects; and those filter into our projections. So, for the good of the Committee, what the Chairperson is alluding to is that we are creating the headline number 6,500 jobs at the Tesla facility. But that is going to stimulate activity elsewhere. Those workers are going to be buying goods and services. That's going to be impacting our retail trade. They're going to be spending their disposable dollars in our restaurants and perhaps casinos. The people are going to be moving here, attracted by our job prospects. And they'll be utilizing our healthcare services.

So we do have that, Mr. Chairman, reflected in here. I mean, we don't separate it out, but it is in there. And that's really the main thing that we try to capture in these forecasts. I probably should have said this at the beginning of my comments. You know, anybody can come up here and present a forecast. But I really think what's important is that that forecast – in order to for it to be reliable, it has to stay relatively consistent. I mean, if I come to you in another month and this forecast is revised up by you know, a hundred thousand jobs over the forecast period, that says to me something was wrong with what we gave you this month. But this forecast that I'm presenting, we've actually been comfortable with it since last May.

We forecast basically on a monthly or quarterly basis. And this is what we came up with last May. We continuously look at it, and we say it's accurate and it's really not worth changing. It's pretty consistent. We're very comfortable with it. So you know, the bottom line, to get back to your question is that we do make every attempt to take into account those stimulative impacts that we get from specific projects.

Mr. Havas asked if you also can draw inferences and the projections with trends, such as residential development, which seems to be increasing in a significant manner nationally and of course also statewide?

Mr. Anderson replied that that is right. As these new jobs are created, that's going to impact the construction sector, as workers need to find adequate housing and whatnot. But again, I think it's important to put that in context. That's reflected in our forecast, if you remember our construction jobs forecast. We're going to add back about 47,000, 46,000 of those hundred thousand jobs that we lost. A lot of that is due to growth elsewhere in the economy impacting the construction sector. But again, that illustrates just how deep that this recession was for the construction sector. We're turning in some rather impressive growth rates right now, but we're still only adding back about half of that hole that we have to dig out of.

And just to expand upon your question a little bit more, arguably – and I've heard this argument, I'm not advocating it or whatnot, but one of the reasons we got into our problems during the recession was that construction was kind of driving the process; Construction, along with leisure and hospitality. Construction should really be kind of a lagging indicator. As the rest of the economy picks up, that should stimulate activity in the construction sector, not the other way around. So that's arguably why things got a little – well, got too overheated in our building sector during the recession.

The Chairman thanked Mr. Anderson and asked if there were any other questions from members of the Council. There was no response. Mr. Havas had one last comment for himself. It just appears that we have sustainable growth that's really glued well. It is cohesive and it's together. And the way you have characterized it and you depict it, we can have confidence in our forecasting. And I thank you very much for that.

Mr. Anderson answered, Mr. Chair, then given that comment, if I can quickly follow up. That is one thing, the main thing that's encouraging about this recovery. It's diversified. As I said, we're seeing growth in just about every sector but one. And it's modest. These are good numbers. And as I said, we're growing at about three and a half percent. That's the underlying rate of growth. That doesn't approach the six percent growth that proved to be unsustainable during the pre-recessionary boom. So it's modest. It's diversified. And hence, I'm quite confident in our situation going forward. Thank you.

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

Chairman Havas thanked Mr. Anderson again saying he found it very exciting. At this point he moved on and invited Mr. David Schmidt to do his presentation regarding the review of the UI Trust Fund.

Mr. Schmidt introduced himself. Good morning, Mr. Chairman, Members of the Council. For the record, my name is David Schmidt. I'm an Economist with the Research and Analysis Bureau. Today I have three main themes that I'm going to be bringing to you.

First is a summary of the national and state unemployment Trust Fund situation. The second will be the current trends that we're seeing in Nevada in unemployment insurance activity that are sort of informing our forecasts going forward for 2016. And a forecast of the 2016 conditions to help you make your recommendation about average contribution rate for next year.

The first slide that I have shows the national solvency status, going back to before the recession and where we stand now. The blue line is the trust fund balance, which is the combined savings of all 50 states in their unemployment insurance Trust Funds. And then the red line shows sort of, the actual position. Because when we got into the recession, many different states ended up borrowing. Roughly 30 states had to borrow from the federal government to fund their unemployment insurance programs. Since then, most of those federal loans have been repaid. There's still some outstanding and so there's still some gap between the red and blue lines.

But you can see that the broad picture nationally is that there is recovery and improvement in the Trust Fund balances. It is worth noting that, even though the overall situation is nearly back to where it was in 2007/2008 at about $40 billion total nationally, the economy has grown since then. From 2008 to 2015 nationally, employment is up about 1.8 percent, looking January to January. Wages are up 16 and a half percent nationally. Just as a little bit of inflation still taking place over time slowly pushing up those averages. And unemployment Trust Funds need to grow in pace with employment growth in employment and wages, because it's – growth in employment means that there are more people who are potentially eligible for benefits. And growth in wages tends to push up the average benefit that people are receiving. So if we are to take that $40 billion level that all of the states were in prior to the recession, adjusting it for employment and wages, it would actually be about $47 billion.

So just to tread water, that blue line would have to grow about another $10 billion, it's recovering; but it's not back to where it was. And even at $40 billion, the solvency measure, if you were to take it – the solvency measures that we use, the average high cost multiple, which is recommended by the U.S. Department of Labor. In 2007, it was about 0.36 for the nation as a whole. In 2008, it was about 0.27. Those are measures that the recommendation is a level of at least one. And so heading into the recession nationally, Trust Funds were generally somewhat underfunded. They didn't have large reserves in place. Many states were much closer to zero than you would like to see. And so when the recession hit, they had to begin borrowing immediately. One thing that happened in Nevada, the recession hit. We had a large increase in benefits. And while we did end up borrowing in 2010, we were able to last a couple of years through the initial hit of the recession, drawing upon those reserves that we had saved up.

My next slide shows where the 50 states plus the District of Columbia are in 2013, 2014, 2015. So you can see here in 2013, there were about 18 states that were borrowing from the federal government. By 2015, that's down to about six states. Along with Nevada, several states have taken loans from sources other than the federal government; in Nevada's case, through issuing bonds. And there are about ten states that are in that situation right now. And then you can see that there's been an increase, first in the number of states that are in the low level of solvency, as they move from having outstanding loans to slowly rebuilding their Trust Funds. And you can see some increase in each of the categories of solvency as you move along.

What's particularly interesting is that there are now six states that actually have an average high cost multiple of more than 1.5. So, states are in the process of repaying loans, rebuilding reserves and preparing for a recession at some point in the future. While we'd all love to never have another recession again, this is one of those things that we know will be coming at some point. Looking at Nevada, this chart shows the average UI contribution rate over the last 20 years, which is the blue line and the average benefit cost rate, which is a way of expressing the benefits that are paid out in terms of the average tax rate that you would need to collect to pay for those benefits.

So in that 20-year window, you can see the recession that we had in 2001 is a fairly minor blip. You can see the boom that we had in the middle the last decade, which actually pushed our benefit cost rate down below one percent for a few years. And then you can see the impact of the last recession, where at the peak, we were paying out over a billion dollars in benefits in 2009. A lower, but comparable amount in 2010, and then recovery from those levels in 2011 through 2015. You can see in 2010, when the Employment Security Council recommended an increase in the contribution rate to begin narrowing the gap between what we were paying out and what we were bringing in. You can see that that peaked in the 2012 time frame or so, which is the year right before we issued bonds to pay for the debt. I will note this doesn't include the cost of bonding. This is simply contributions that are coming into the Trust Fund and benefits that are being paid out of the Trust Fund. And you can see that rate dropped a little bit in 2014, 2015, to offset the cost of unemployment insurance bonds.

This chart shows the distribution of benefit cost rates from 1980 to the present. Just to get an idea of how frequently different levels of benefit costs are experienced. Looking at this is a good idea of sort of the baseline expectation. Because if the average contribution rate were equal to the benefit cost rate in any particular year, essentially you would have a net – no change in the Trust Fund. You would be bringing in enough money to pay for the benefits that you're paying out in that particular year. In 2015, we're at the high end of that 1.25 to 1.5 percent range. We're sitting at about 1.45 percent or so. And so that would be the average tax rate that would be necessary just to maintain the Trust Fund at its current level.

Looking at the actual cash flow and what we've seen over the last ten years, again you can see the surge in quarterly benefit payments that we experienced during 2009, well in excess of the revenue that we were bringing in. The increases as the State began to bring in enough money to start narrowing the gap and then start paying down the federal loans and rebuilding the Trust Fund. And you can see the large revenue that came in at the time of the bond issuance to repay the federal loans and put some cash flow reserves into the Trust Fund, so we could make it to the next annual cycle of unemployment contribution receipts. By the end of 2015, this shows you roughly where we expect to be versus the solvency level that would get us up to a multiple of 1.0. That multiple represents, by the various solvency measures, the level that would be required to pay out estimated benefits during a recession.

And so the State solvency calculation estimates that in a recession, we could have to pay out $1.2 billion in unemployment benefits. That's because that particular measure looks at the worst situation in the last ten years and adjusts it for your current employment and wage levels. And since we paid out about a billion dollars in benefits in 2009 and we've seen employment growth and wage growth since then, I would say, it estimates we'd need $1.2 billion. The federal measure is a little more conservative. It's a little more stable. It looks at the last 20 years, or a period of time that includes three recessions. And so it's not quite as dramatic when you hit a particularly bad year, such as 2009. And so it estimates that in a recession, we could have to pay out as much as $961 million in benefits.

The eighth slide looks at the total costs to employers, not just the SUTA or State Unemployment Tax Act or State UI contribution rates, the bond assessment rate that will be in place through at least 2017 and the CEP rate, which is a small tax paid by employers to fund career training and related programs. The State UI rate is the largest piece of this. But really what I'd like to emphasize here is that you can see the total cost to employers from 2014 to 2015 is fairly stable. And that's because when bonds were issued, one of the objectives of bonding was to help bring some stability and some predictability to what employers are paying. And so in 2015, the bond assessment rate fell from 0.63 percent to 0.56 percent. The State contribution rate increased by 0.05 percent to offset that, so that the overall rate remained fairly stable for employers from 2014 to 2015.

Moving into some trends that we're seeing how that'll affect our forecast coming up. Slide nine shows the change that we've had in our total Trust Fund benefit payments each quarter going back 20 years. You can see the spikes that we experienced during recessions. You can see the sharp decline in benefit payments that we had as we began to recover. And you can see that overall that trend has been slightly negative, but is approaching zero. And so this is reflecting the fact that we have largely recovered from the hit that the economy took, especially unemployment benefit payments, which tends to lead in many ways, your unemployment rate.

As Mr. Anderson mentioned, the unemployment rate will remain high if people are re-entering the labor force, but these people might not be eligible for benefits. So unemployment benefits, because they have some limited duration and they're tied to your previous employment, will tend to decline faster than the unemployment rate as a whole. And that's what we've seen. Our benefit payments have largely stabilized. They're still down by roughly five percent on a year over year basis as far as what we're paying out each week. We're paying out between six and a half and seven million dollars typically right now, which is a few hundred thousand dollars less than where we were this time last year.

Slide ten shows the change in new initial claims. These are people who are filing for unemployment benefits for the first time. They don't have an existing benefit year. So when they file, they've recently been separated from unemployment. And you can see that this trend has for the last couple years been very close to zero, sometimes above, sometimes below, just because of differences in the numbers in any particular month. But overall, the flow of new people into the unemployment system has largely stabilized. This is something that I expect to see begin to increase slightly, just because as the level of employment grows, the number of people who are coming into the system, even if things are at a steady state, should rise to keep pace with that.

We have seen an ongoing decline in the number of weeks that are claimed. This is still somewhat high. If you look back over time, you can see it's actually close to where we were following the 2001 recession. So even with the economic growth that we've seen, this is a fairly high number still. One reason for that is because we have people moving into the labor market, because we have that higher unemployment rate, there is some competition for jobs still.

And so the job search is not quite as rapid as it was during the boom before the recession, where it seemed like if you wanted a job, you could get a job somewhere pretty easily. People are still having slightly longer job searches. This is something that's declining. So that could put some downward pressure on the total amount of benefits that we're paying out. Even if the number of people that we're paying starts to increase, if the number of weeks that we're paying each of those people continues to fall slightly, that would keep some downward pressure on our unemployment benefit payments.

One area where we're seeing an increase is our average weekly benefit amount. This is roughly in keeping with the slides that Bill showed you showing some moderate but positive growth in our average weekly wages. Because the maximum weekly benefit and the benefits that anyone receives are tied to their prior wages, as wages grow, so does the average amount that people are eligible for. And this has been trending up and is near, but not quite at the peak that we saw right around the middle of the recession. There's a little bit of a lag here, and so the highest benefit payment in 2009 and 2010 was looking back to wages in 2008. So there was a little bit of an offset there, which is why you see some of that increase during the recession.

Before I give you the forecast for 2016, I always like to take a look back and see where did we expect to be last year at this time on October 1st, today. The average unemployment rate has been a little bit higher than we expected. We expected to see it declining faster than it has. I think the largest explanation there is, we have seen much higher than national trends in increasing labor force and people re-entering the labor market here. So while the unemployment rate is high, it's high for a good reason. This is sort of the opposite of something we saw during the recession, where there was a comment "The unemployment rate is falling, but it's because people are leaving the labor force." So then it was going down for a bad reason. Now it's going – or it's staying higher for a good reason now, which is positive news.

You can also see here that our total employment growth is a little bit above what we expected to see, which is some positive news as well. Our covered employment, because of that faster unemployment growth rate, is a little bit higher than we expected to see by about 13,000 jobs or so. Our total volume of unemployment weeks that was claimed is down a little bit. So our unemployment rate is higher. The number of UI payments that we're sending out is lower. And again, this sort of reflects that change where unemployment really is higher, not because we have more people claiming unemployment benefits, but because we have people who are being counted as unemployed that aren't necessarily eligible for benefits. And the most likely explanation, there are probably new entrants or re-entrants to the labor force.

Overall, where does this leave us? Our average – or our total revenue for the course of the last 12 months is a bit lower than expected. That's because wage growth has been kind of stagnant and didn't quite keep up with the increase that we saw in the total level of employment. Our benefit payments were somewhat lower, due to the smaller number of weeks claimed. And this leaves the Trust Fund in a little bit better place than where we expected to be. At the current average tax rate, we expected to be at about $395 million. We're actually at about $409 million. And it's nice to note that our Trust Fund is now higher than the previous 12 months worth of benefits being paid out. I like to point that out, because while our solvency measures are one year's worth of benefit payments in reserve that you might have to make during a recession, one nice milestone along the way is one year's worth of benefit payments that you just paid out in reserve. And so the State is continuing to make progress in rebuilding the Trust Fund in advance of a future recession.

Slide 16 shows the last five years. It shows in the blue section at the top a calculation that's laid out in NRS 612.550, where you take the current level of covered employment, the highest risk ratio in the last ten years, which is the percent of covered employment that received a first payment in unemployment benefits, the highest duration of benefits in the last ten years and the current average weekly payment amount. You multiply all those together to get an estimate of how much unemployment benefits you might have to pay out during a recession. In the gray section, you see the overall cash flow.

I will note there's a little bit different number here, with $408 million. That's because this table wasn't updated with the very latest information at the time that we had to publish this and get it out the door. But the balance as of October 1st was $409 million. The total revenue to the fund, we brought in $534 million in unemployment contributions. We received from the federal government $7.5 million in interest, based on that trust fund being held with the U.S. Treasury. We paid out $350 million in unemployment benefits. That resulted in net change to the Trust Fund of just under $200 million over the course of the year. That leaves us at a State solvency multiple of 0.33 and an average high cost multiple of 0.42.

So because the federal level of money that we need to reach to have a year's worth of benefit payments is lower, the amount of money that we have is a little bit closer to that objective, which is why it's higher. The average tax rate for 2015 is two percent. The bond assessment rate for 2015 was 0.56 percent and the CEP rate is 0.05 percent for a total cost to employers of 2.61 percent and an average cost per employee at the taxable wage limit, which was $27,800, of $725 per employee.

The next three slides show three different solvency measures, how we might gauge the health of the current Trust Fund balance. The first slide shows the number of months of benefit payments that we're holding in reserve in the Trust Fund. So you can see we're at about 12 months right now. We're just above what we've paid out over the last year. You can see before the recession in 2006, we had almost 40 months worth of benefit payments in reserve. And that's because in 2006, we weren't paying out an awful lot of money. And because we had such huge employment and wage growth in the State, the Trust Fund was much higher than what we were currently paying out. You can see how quickly that situation changed as we got into the recession. And so this is a valuable measure, in that it's easy to imagine. It's easy to go 12 months worth of benefit payments and hold that in your head. But it can swing pretty widely as benefit payments rise and your Trust Fund balance falls as you go into a recessionary time.

The State solvency measure is on slide 18. You can see the blue line represents the dollars that that calculation gives us, as to what a year's worth of benefit payments would be. The red line shows the Trust Fund balance net of our federal loans. And then the gray section shows the gap between those two lines. Where the blue line jumps dramatically in 2009, you can see that is reflecting some of that volatility by only looking back at ten years and only taking the worst point in those last ten years when we got to the recession in 2009. That number jumped up by over $500 million. It went from estimating that we would need $550 million to over a billion dollars like that. It's useful in that it is very recent. And so it says here's what you've recently experienced. Here's what you're likely to experience in the future. But again, because it's so volatile, it's not necessarily a stable measure that you might use to predict how things are. If your worst period was 15 years ago or you had one very bad month or one very bad year, but everything else was pretty steady, it can be heavily influenced by that. And so for the last several years, we've been bringing to the average high cost multiple, which is a federal measure. And you can see that here, that blue line, while it has increased over the last several years, because it's an average of three years and because it has a slightly longer memory, it was looking back to the worst recessions that we had in 1981, 1991 leading into the last recession.

And so when our benefit payment surged, while it increased, it didn't increase nearly so rapidly or so dramatically. And so this is a more stable measure. It gives us a pretty good idea of what we might need in a recession. And you can see that as we have begun to rebuild the Trust Fund balance, by all of these different measures, we are narrowing the gap and we are improving our solvency position.

Slide 20 shows you five different options for calendar year 2016. In the blue section up top, you can see that we expect covered employment to increase. As of March 31st, the solvency target that we have is $1.2 billion, again, heading up toward $1.3 billion. We do expect that average weekly benefit payment to continue to rise as well. The rates that we're presenting range from 1.9 percent to 2.1 percent. I've highlighted in yellow the areas that are most affected by this change, which is the average tax rate number, and then how that affects our intake to the Trust Fund, because the expected payout is $380 million, so that would represent something – a bit of an increase from where we are this year, to reflect the employment and wage growth that we expect. These different options would bring in a total change to the fund of between $160 and $217 million. Down at the bottom, you can see the average bond assessment rate.

This is something that Alex will be walking you through shortly to show how that was calculated. That will be rising to 0.62 percent for 2016 as our bond – the structured bond obligations that we're paying, rose a little bit faster than the wage growth that we're seeing, because that – our taxable wage growth has been slower, because average wages have not been growing as quickly as we expected. To maintain the balance, that bond assessment rate does have to increase a little bit. And so the total cost to employers is the red row just above the bottom. You can see in 2015, the total rate or the total cost to employers was 2.61 percent. And so the 1.95 percent rate would keep that fairly stable. Currently, the rate is two percent. And you can see if we were to maintain a two percent rate in 2016, that would cause total cost to employers to rise a little bit, due to the increase in the bond rate.

Some long term perspective on where these different rates would leave us, the same range of rates from 1.9 to 2.1 percent is presented here. And you can see that over the years, if you have a higher or lower rate, you have a widening spread between where your solvency position would be. All of these different rates would leave us in a position where we are continuing to rebuild solvency of the Trust Fund. The only question is how fast. By 2021, a 1.9 percent rate would leave us with an average high cost multiple of 1.2, while a 2.1 percent rate would leave us with an average high cost multiple of 1.5. In dollar terms, that's from $1.6 billion on the 1.9 percent side to $2 billion on the 2.1 percent side. You can see the total interest that we'll receive also increases over time with higher rates, because if you have more money in savings, we're bringing in a little bit more money in interest.

Two other points to consider. I've presented this the last several years. And just to remind you that the average length of time from the end of one recession to the start of the next over the last 50 years is about five and a half years. So by that measure, we should have seen or could have seen a recession start in December of 2014. We're not in a recession. We're still growing, so we've already passed that particular mark. The longest time from the end of one recession to the beginning of the next one over the last 50 years is ten years. And that would put us in June of 2019 for the next recession. These aren't necessarily predictions of when a recession will occur, but rather points of comparison as we look at ahead to see when might we want to have rebuilt – or by when might we have want to – wanted to rebuild the status of the Trust Fund. And you can see in 2019 with 1.95 to a 2.1 percent rate, we would expect to hit an average high cost multiple of at least 1, whereas 1.90 percent rate would leave us a little bit short of that mark in 2019.

Slide 22 is something I haven't showed you before. This is "where do employer's unemployment insurance contributions go and how is this money used." So, looking at the total cost to employers, that 2.61 percent that we had in 2015, this gives you an idea of where that money goes. So, a little bit more than half of the money in the dark blue section at the bottom goes to pay for the cost of unemployment benefits in a particular year. About a quarter of the money is currently being used to rebuild the Trust Fund, where we're seeing that increase from $200 million to $400 million over the course of the last year. About a quarter of the total cost goes to pay our unemployment insurance bonds. And then a little piece of it goes to the CEP Program.

Finally, this is my wild card slide, where I get to say, if I actually knew the future, I would be a much wealthier man and probably wouldn't be here today. We don't know what's coming; we're trying to give you our best idea of given the current trends, if those were to continue, where might we be. Again, five and a half to ten years length of time between recessions, because we had such a huge recession, a lot of the national projections continue a slow but steady recovery, sort of continuing the current trend. And that's in many ways what we've been seeing in Nevada. We've been seeing moderate stable growth over the last several years.

Obviously there's a lot of turmoil going on nationally and internationally. Oil prices have been swinging pretty wildly. The economic situation in Europe has been unstable, to say the least, over the last year. There's the effect of what's going on in Syria and large number of refugees entering Europe and how that might alter the balance of the economy there. China's been seeing some difficulties. And so there are a lot of question marks, you might say nationally on the horizon. And all of those have, to one extent or another, capacity to impact what's happening here in Nevada. As oil prices change, you might have more people willing to drive or fly into Nevada to experience the entertainment center that we have here. You could also see people relocating out of the oilfields and as those are – fewer wells are being drilled and employment prospects there are shrinking. You could have people moving back to Nevada, as we're growing rapidly in our private sector employment growth. So there are many different things that could impact our economy, and all of those would affect our forecasts for the future.

And then finally, to reiterate. When we issued the bonds, one of the main objectives was to provide employers with some stability and predictability in their unemployment rates. So 1.95 percent rate would be the closest of those scenarios I presented here to maintaining overall rate stability as far as what employer are paying from 2015 to 2016. While the two percent rate would keep the average UI rate steady, but result in a small increase to the total costs that employers are paying. And that concludes my presentation. I will be happy to answer any questions on it.

C. <u>UI Bond Status Update (Exhibit I)</u>

David Schmidt, Economist and Alex Capello, Economist – Research & Analysis Bureau, DETR

Chairman Havas asked if there were any questions for David Schmidt? There was no response. Chairman Havas thanked Dave and suggested to proceed and to continue with Dave's presentation pertaining to the UI bond status update.

Dave Schmidt continued and said he would like to introduce Alex Capello, who is a staff economist here at the Research and Analysis Bureau and Alex would be presenting most of this presentation. I'll come back and wrap it up sort of at the end.

Alex thanked Dave and the members of the Council. Good morning, Members of the Council. My name is Alex Capello. I'm an economist with DETR Research and Analysis. As Dave said, I'm here to present the bond history and kind of where we stand on it and the rates going forward. So before I get kind of too far into it, I wanted to kind of give you all a refresher, just because it's kind of a once in a year thing. So you got from Dave's presentation, that the recession hit the Trust Fund pretty hard. It fell below $800 million, which forced us obviously to borrow from the federal government. Initially what occurred was a special interest assessment, which was implemented to pay the interest costs of the federal loans. This assessment obviously became necessary as we issued bonds in November of 2013, which were deemed cheaper than continuing to borrow or loan money from the federal government.

So once that was issued, we received net proceeds of $592 million. Most of that went to paying off the loans. And then a small portion went to the Trust Fund, to give a small positive balance, just so we had a little cash in the bank, so to speak. Then below that on the slide, you can see some of the kind of characteristics, which are pretty standard for any kind of bond. The notable part is that we have the right and we plan to call away the final bond payment, which would be in June of 2016 in December of 2017. Oh sorry, 2018. Sorry, June of 2018, instead of December of 2017.

This next slide will do a little better job of showing that. So to date I kind of wanted to show you first how far we've gone. To date we've paid – made three payments, which totaled about $175 million in principal and interest. So for a little perspective, the slide or the bar chart on the right kind of shows you where we're at and where we will be a year from now, two years from now and a little thereafter. So we've paid about 28 percent of what we will pay. The next scheduled payment is December of this year totaling 64 and a half million in principal and interest. You can see that we currently have $84.2 million with the trustee, which is more than enough to cover the next payment. And that does not include two quarters worth of contributions. So we look to be in really good standing to fulfill all our coverage requirements and build reserves before the June of 2016 payment.

Getting into the steps of the bond rate calculation, I would like to first say that all these are set by the bond's regulation. There's nothing to be adjusted or altered. We basically plug in numbers and it tells us what we're gonna have to pay. So this was all – to provide the bond holders the security in knowing that we're always going to attempt to collect 50 percent more than we would have to pay in the year. So we've never come up short, it really gave the State a strong bond rating at the time.

So now looking into what we have obligated to pay or what we are obligated to pay. In 2016, we look at the principal and interest payments and we multiply them by 1.5, which covers the ratio that I just mentioned, and you can see covered 209.6 million in principal and 25.8 million in interest. In reserves, we expect to have, and this is after the December payment that I mentioned, 63.6 million in principal and 8.4 million in interest. And so basically, you just subtract that amount from the expected obligation to get 146 million in principal and 17.4 million in interest for the upcoming year.

So to calculate the baseline rate, we first estimate taxable wages, which we expect to be about 28 billion and then we multiply that by 95 percent, which accounts for non-collections and late payments. And then we take that result, which is 26.6 billion and we divide the principal and interest obligations, which we calculated on the previous slide and we divide them by the 26.6 billion to get our rate. So for principal interest rate, we get 0.55 percent and for interest, we got a 0.7 percent interest rate, which if you just saw them, gives us the 2016 total rate of 0.62 percent. This, as Dave mentioned, is a little higher than last year at six hundredths of a percent higher than 2015, which was kind of the combo of expected taxable wages rising less than the upcoming bond obligations.

Now that we have the average rate, we can look at of how it's going to impact employers. Much like the UI tax rate, we have tiers or brackets that split up employers into various tiers, based on their experience rating. Tier one is new employer, our new employers. Tier two is the negative reserve ratio employers. Tiers three and four make up the positive rated employers. And then below that, you can see where wages and the number of employers lay, kind of the distribution of those things. They're pretty typically like this. Tier three makes up most of the wages and tier one makes up the most of the employers.

So then this slide breaks down the various tiers, basically, the structure of the bond. Tiers one, two and four were just set in multipliers. So you would basically take the average calculated rate and multiply them by that multiplier. And then tier three is a derived rate, which basically forces the average tax rate to 0.62 percent, which was previously calculated. What it all ultimately means is that employers are going to pay $174.84 per employee at the taxable wage rate, or taxable wage base rather, which is about 15 – or $19 higher than last year. As I said earlier, that's due to the decrease or the slow rate of wage growth and the increase in obligations.

And then looking ahead, this kind of breaks down where payments are by year. As I mentioned, the structure of the bond is so that we always collect 50 percent more than we'll pay in a year. Those reserves roll over to next year. The hope is that in 2017, we'll be able to call that 2018 payment using those reserves. This is definitely dependent on 2017 collections, but the bond was structured with that in mind. As far as rates, it's expected for them to remain relatively stable. As I mentioned earlier, the six basis point – or six hundredths of a percent increase was for that combo of larger obligations and lower taxable wages relative to last year. But if you look at from 2014, which was the first year where the rate was calculated, we're kind of basically in line with that rate. So going forward, we expect it to be right around there. And that's all I got for you. I'd be happy to answer any questions. Otherwise I'm going to hand it over to Dave and he's going to reshow you a slide to go over the total cost to employers.

Chairman Havas asked if there were any questions. Mr. Havas asked what kind of an effect a possible increase in short term interest rates mean to us as far as the capital markets are concerned?

Mr. David Schmidt responded that those won't affect our bond rates at all. All of our interest rates there are fixed and defined in the bond documents. If there is an increase in the U.S. Treasury rates, that could increase the amount of interest that we're earning on our Trust Fund balance. And so there could be a positive cash flow there, but that won't affect our bond obligations at all.

Chairman Havas stated that he should have stated it in the context of anticipated revised rate structures. In your estimation, you don't see any kind of consequence? Mr. Schmidt said that no, there will be no increase in our bond obligations, those are all fixed and defined already.

David Schmidt, again for the record, I just wanted to back up and reiterate, now that you've heard the calculation of the bond rates, to bring you back to how does that tie into our 2016 overall picture. And essentially what that is, is that shows you the calculation of that average bond assessment line on this chart, to show you where that 0.62 percent comes from. And so I just wanted to tie that presentation back into the discussion of the average UI contribution rate, which is what the recommendation that the Council will be making shortly. What the purpose of the meeting here today is, to make that recommendation. And that really is it.

At this point Chairman Havas asked for a 15 minutes break.

All in attendance took a 15 minutes beak at this point.

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

After the break Mr. Havas called the meeting back to order and called upon Edgar Roberts, Chief of Contributions for EDS/DETR to provide his presentation pertaining to the tax schedule.

Mr. Roberts introduced himself: My name is Edgar Roberts and I serve as the Chief of Contributions for the Employment Security Division. This meeting and regulation workshop is for the Council Members to receive information, in order to recommend a tax rate schedule for Calendar Year 2016. The Administrator sets the tax rates each year by adopting a regulation, per NRS 612.550. In addition, pursuant to NRS 612.310, it is the role of the Employment Security Council to recommend a change in the contribution rates whenever it becomes necessary to protect the solvency of the unemployment compensation fund.

Slide three outlines the meeting schedules for the setting of the 2016 tax rate. The Small Business workshop is scheduled for October 27th this month. And the Public Hearing to adopt a regulation is scheduled for December 8th, 2015. Turning to slide number four Mr. Roberts pointed out that employers are required to pay a federal unemployment tax or FUTA of six percent on the first $7,000 of an employee's wages, unless they pay payroll taxes under a State program, which reduces the federal tax rate to 0.6 percent. The 5.4 percent reduction is the tax rate, the 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. The State unemployment tax or SUTA collected from Nevada employers is deposited into the UI Trust Fund of the U.S. 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. At the core of the Unemployment Insurance Program is a rating system known as experience rating. To be in conformity with federal law, all states are required to have a method of experience rating that has been approved by the U.S. Secretary of Labor.

The Nevada rating system works as follows. The 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 two-third percent of the annual average wage paid to Nevada workers. Unemployment insurance taxes are paid on an individual's wages up to the taxable limit during the calendar year. In this slide, the UI taxable wage limit for 2015 is $27,800 for an employee effective January 1, 2016. The taxable wage limit will be increasing to 28,200 per employee. Employers pay at the new employer rate of 2.95 percent for approximately three and a half to four years, until they are eligible for an experience rating. Once eligible for an experience rating, an employer's rate can range from 0.25 percent to 5.4 percent, depending on the individual employer's previous experience with unemployment. The 18 different tax classifications are outlined in NRS 612.550.

As you can see on slide seven, the lowest rate for 2016 is $70.50 and the highest is 15.22 [sic]. The annual tax rate schedule adopted through the regulatory process applies only to experience rated employers. The standard rate established by the federal law is 5.4 percent. Rates lower than 5.4 percent can only be assigned under a State's experience rating system approved by the Secretary of Labor. The

intent of any experience rating system is to assign an individual tax rate based on an employer's potential risk to the Trust Fund.
Employers with higher employee turnovers are at a greater risk to the fund and pay higher rates than those with lower employee turnovers. As displayed in slide seven, in 2015, employer's annual cost, as previously stated, the high in 2015 was $1,501 and the low was $69 per employee. And again, in calendar 2016, that maximum annual cost per employee will increase slightly by 1.4 percent, due to the increase in the average annual wage and annual taxable wage limit.

Slide number eight shows how to measure an employer's experience with unemployment, Nevada, along with the majority of the states, uses a reserve ratio experience rating system. Under this system, the Division keeps separate records for each employer to calculate the reserve ratio for 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 charge to the employer. The result is divided by the employer's average taxable payroll for the last three completed calendar years. This calculation establishes the employer's reserve ratio.

The purpose of using this method is to put large and small employers on equal footing without regard to industry type. For example, if an employer paid $60,000 in contributions and had $20,000 in benefit charge with an average taxable payroll of $400,000, the employer would have a reserve ratio of a positive 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 employer's reserve ratio will be negative and the employer will generally have a higher tax rate.

Slide nine shows how each employer reserve ratio is applied to the annual tax rate schedule to 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, NRS 612.550 requires the Administrator to determine the solvency of the Trust Fund as of September 30th. Projections are then developed for the subsequent calendar year. Those projections include estimates of the number of active employers, the amount of taxable payroll, the amount of UI benefits that will be paid and the estimated revenue that the Trust Fund will need to meet those benefit payouts to maintain solvency. Using the employer's reserve ratio, several possible schedules are produced with a variety of average tax rates and revenue projections.

So now, if you'll look at your estimated tax rate schedule handout, which is in blue, in the estimated tax rate schedule handout, we have provided the Council with five tax rates to consider. This information, along with any public comment, will assist you in giving the Administrator a recommendation for 2016 average taxable rate. The detailed tax schedules display the reserve ratio. Increments between the rates, ratios assigned to each rate, estimated number of – and percentage of employers in each rate category and the estimated taxable wage, with percentages and projected total revenue.

As an example, turning back to the presentation on slide number ten, we'll look at the average rate of 1.95 percent. In this schedule, as we have with others in your handout, the 18 tax rates displayed in the fourth column of the charts do not change. These rate classes range from 0.25 percent to 5.4 percent are fixed per statute NRS 612.550. Furthermore, the statute requires the administrator to designate the ranges of reserve ratios to be assigned to each rate classification for the year and the increments between these reserve ratios must be uniform. In the estimated tax schedule for 1.95 percent, the ranges are from a positive 12.2 to a negative 13.4 with increments of 1.6 between each of the reserve ratios.

In this example, if an employer's reserve ratio is a positive 12.2 or better, the employer receives the lowest rate of 0.25 percent. An employer with a reserve ratio of less than 13.4 would receive the highest rate of 5.4 percent.
And as you can see, the rest of the employers are falling in between the low and the high. In this particular example, approximately 20.2 percent of the eligible employers are in the lowest rate of 0.25 percent. And eight percent of eligible employers are in the highest rate of 5.4 percent.

As you review the various schedules, you will see the number of employers change in each of the estimated tax rate schedules. Out of the 62,428 total employers as of September, 2015, there are 38,386 employers eligible for experience rating, which we estimate under this schedule would generate $475 million in revenue to unemployment Trust Fund. In addition, $70.8 million from new employers at the 2.95 percent not eligible for the experience rating is added for the total revenue of $546 million associated with 1.95 percent.

The chart in the next slide displays the detail for an average rate of 2.10 percent to achieve the average rate and the range of reserve ratios is from 13.1 to a negative 12.5. The estimated total revenue increases to $587 million. The number of employers in each rate classification once again shifts, with 13.9 percent of the employers being in the lowest, 0.25 percent and 8.3 percent of the eligible employers being in the highest rate of 5.4 percent. The chart in the last slide displays a summary of the average rates of 1.90 percent through 2.10 percent. The summary shows the ranges of reserve ratios 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 of the schedules that there's an additional 0.05 percent tax for the Career Enhancement Program, which has previously been discussed by Dave, which is a separate State training tax by statute, NRS 612.606. In addition, the average bond rate of 0.62 percent is displayed and added for a total tax rate. And in addition, for the record, no written comments have been received by the Division in regards to the impact of the potential rate change. So this concludes my presentation. I'd be happy to answer any questions.

Chairman Havas noted that he noticed that the number of companies that qualify for an experience rating, that percentage has increased. And that's very positive. Mr. Roberts said that there are new employers coming into the State. Mr. Havas asked Mr. Roberts that from all this, could he infer what staff is recommending? Or does he want to recommend? Mr. Roberts responded to the Chairman that information was provided to the Council to give the Administrator the next 2016 tax rate. Mr. Havas noted that it did come down to these five mentioned. Mr. Roberts replied in the affirmative.

Chairman Havas said that philosophically we always look at good times and say okay, fine, we can increase it in good times and we'll be there when times are not as good. But we kind of have diverted from that. We have changed our philosophy to some degree on that question. But you know, what should we think about? And I invite Members of the Council to discuss this. This is our responsibility. Please. And when you do express yourself, please give your name. Thank you. Renee.

Renee Olson thanked the Chairman, and continued that just as some points of thought, one of the things we still need to do is work on restoring the Trust Fund solvency. So we're still working at that goal. We've provided some scenarios that we think can achieve the goal of a stable overall tax rate. We also provide scenario that provides a stabilized UI SUTA rate, so then the overall tax rate would be increased a bit. That would provide a little more growth within the solvency of the tax fund. So, just thinking about not only what we have to pay over the next year, but building the solvency of the Tax Fund and what we have to do to pay our bonds down. That's all part of your consideration today. And so we still have work to do to increase the solvency in the Trust Fund. But we can achieve that with maintaining the stability that we talked about, wanting to create with the bonding that we did a few years back.

Danny Costella asked to be recognized and had a question to ask. Chairman Havas told Mr. Costella to go ahead. Mr. Costella's question is that if we left the tax rate the same, are we still on a good course as far as the future? I mean, because I don't think – in these numbers, have you considered the increase in new employers coming? Are there employers that – jobs that have started that you haven't figured into the factor?

Mr. Dave Schmidt responded to Councilman Costella and the Board. There is some increase in employment and wages factored into the expectations here for 2016. If you take a look at slide 20 of my presentation, you can see that for 2016, we're expecting an increase in the level of benefit payouts that we have to $383 million. So that reflects some increase in benefits from the growing employment base and the growing wages that we're seeing. So that is factored into the estimates for 2016. And you can see that for all of the rates presented from 1.9 to 2.1 percent, the Trust Fund balance estimate for next year would rise to between $570 and $620 million.

Chairman Havas recognized Ms. Renee Olson. She wanted to also make another point. When you asked what would create a stable rate, you can think about it in two different ways. Keeping a stable just SUTA tax rate or keeping an overall tax rate stable. So I just want to point out there are two different ways to look at that. And so I'm not sure which – if you were talking about the overall rate or just the UI tax rate. Mr. Costella said that that was his question. Which one are we, is it important for us to maintain as a stable rate? Is it apples and oranges?

Dave Schmidt response was that the two rates that Renee mentioned just now are 1.95 percent or 2.0 percent. The 1.95 percent rate would maintain the overall stability. It would take into account the increase in the bond rate by lowering the UI rate a little bit to compensate. It would result in a total cost to employers of 2.62 percent and an ending Trust Fund balance of $585 million. The two percent rate would maintain the State UI tax rate at the current level of two percent. It would result in the total cost to employers rising a little bit to 2.67 percent. And it would leave the Trust Fund about $13- $14 million more positive than the 1.95 percent rate.

The Chairman asked in what year would the bonds be paid off.

Mr. Schmidt said that the bonds will be paid off hopefully in December of 2017. The final scheduled payment is June of 2018. However, that is planned to be called in December with that extra 50 percent coverage. Mr. Havas commented that of course that component will be analyzed at that time, right? Dave Schmidt said that that was correct.

Chairman Havas recognized Councilman Paul Barton at this point. Paul Barton noted that looking at the picture as it sits right now with good job growth, with a fairly stable outlook for the next year and not really talking about recession – and I don't see a recession coming at all at this point in the markets and everything else. I would like to make a motion that we recommend a rate of 1.95 and maintain a stable rate for the employers.

IX. <u>PUBLIC COMMENT</u>

Chairman Havas mentioned that before we entertain that motion, we need to call for public comment. Are there comments from the North? There was no response. Are there comments from the South? It looks like we have someone from the South.

The Chairman recognized Mr. Ostrovsky. Yes, Mr. Chairman. For the record, Bob Ostrovsky representing the Nevada Resort Association, which would be a trade association representing the largest employment base in all of these schedules. We just wanted to be on the record of supporting the Division. One, we think they've done a good job of managing these funds and preparing for today's hearing, as they have in prior years. Our concern was and remains that we would like to see the bonds extinguished as soon as possible without negatively affecting the UI fund. I think what I heard today was that is the same goal as the administration here, to extinguish those funds as early as possible under the bond covenants that exist. And we certainly would support the bond rate proposed or perhaps even higher, if we thought they could be extinguished earlier under the bond covenants.

But from what I hear today, there's no interest rate risk for us. Those are fixed rates. So we would support that bond rate. As far as the UI rate, even the 1.95 is in fact, an increase, in I think – if I read this properly, in the actual dollars paid, due to the increase in the wage base. Not by a lot. I think by about $14 per employee for – on the average. And every employer obviously is affected differently, depending upon where they fall within the schedule. So we would – assuming that my analysis of the bonds is correct, we would support the proposed motion to establish the 1.95 rate for UI. I'd be happy to answer any questions.

Mr. Havas thanked Mr. Ostrovsky and next recognized Ms. Renee Olson.

Ms. Olson thanked the Chairman. She continued, I think we need to come up north and make sure there's no one in the North that needs to or would like to make public comment and that there's no additional public comment in the South. [No response]. Okay, it doesn't appear that there's anyone else coming forward to make public comment. And if I may, Mr. Chairman, can I just make a couple points of clarification, based on the last speaker? Chairman Havas said that that would be okay.

Renee Olson spoke and said: "I just wanted to say that it is our intention, based on our projections about what we will be collecting with the bond assessment, that we will be able to call the bond early. And that's definitely our hope to do so. And I just wanted to clarify for the record that the bond calculations are set in regulation. There's really not an option that I'm aware of, unless Dave corrects me, that we could increase that bond assessment rate at this point. So it's all based on a calculation and regulation. And so that's really a set rate. And so the real rate under consideration today is just the SUTA, the State Unemployment Average Tax rate.

X. <u>RECOMMENDED UI TAX RATE FOR YEAR 2016</u>

Chairman Havas Continued the meeting, okay, we will entertain then, a motion and Paul Barton, could you restate your motion, please?

Councilman Paul Barton, acknowledging that it does slightly increase, because of the wage base, I still believe it adds stability to this by recommending and making a motion to adopt a 1.95 rate. Councilman Shawn Kinsey said he would second that motion.

Chairman Havas continued saying that it has been moved and seconded that we adopt the average tax rate of 1.95. Do I hear any further discussion? [No response]. Without any discussion, I call for a vote. All those in favor of this adoption of 1.95 average tax rate, signify by saying aye.

The Council signified by all saying AYE. Chairman Havas continued, those in opposition, there was no Response. No opposition.

Let the record show. It has been carried unanimously by the Council. 1.95 rate will be the average tax rate.

Any other expression by the public from the North or South?

XI. <u>CLOSING PUBLIC COMMENT</u>

Ms. Olson, I just wanted to express my thanks to the Council today. I appreciate your time and effort in making a recommendation to me on the rate. And of course I'd like to express my thanks to the staff and – of research and analysis and my staff here today that have brought this information forward to you. So that's just my public comment is to thank you.

XII. <u>ADJOURNMENT</u>

Chairman Havas asked if there was anything else. There was no response. All right, I will invite a motion for adjournment.

Councilman Shawn Kinsey: I make a motion to adjourn. Councilman Danny Costella seconded the motion. Chairman Havas said that it had been moved and seconded that we adjourn the meeting. All those in favor signify by saying aye. The Council responded by saying AYE.

Hearing no opposition, Chairman Paul Havas announced that the meeting is adjourned. He thanked all those in attendance.

<u>NOTE</u>: 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, 2016.

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DETR
Nevada Department of Employment, Training and Rehabilitation

MEMORANDUM

RE: **Employment Security Council (ESC) Meeting**

FROM: **Lynn King, Administrative Assistant III, ESD** LK

DATE: **October 1, 2015**

SUBJECT: **2016 Tax Rate – ESC Meeting Public Notice**

Proper notice according to NRS 241 - Open Meeting Law, for the 2016 Tax Rate – Employment Security Council meeting was provided and confirmation of posting was received.

LK:mr