

STATE OF NEVADA  
EMPLOYMENT SECURITY DIVISION  
Employer Charging Relief & 2021 Tax Rate – Small Business  
Workshop – Transcript

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**Jeff Frischmann:** Good Morning, my name is Jeffrey Frischmann, and I serve as the Acting Administrator of the Employment Security Division. I will start with Agenda Item #1 and call this meeting to order. I would like to introduce Scott Kennedy, the Acting Deputy Administrator for the Employment Security Division, in charge of the Nevada UI program. Also joining me is the Employment Security Division Senior Attorney, Troy Jordan. Several other members of the ESD staff are available to provide assistance should you need it. This Small Business Workshop is being conducted in compliance with Nevada Revised Statute Section 233B.0608 and Nevada Governor Sisolak's Declaration of Emergency Directive 006 to solicit public comment on proposed amendments to the Regulation contained in Nevada Administrative Code 612.270 and 612.120, thereby establishing the Unemployment Insurance Tax Schedule for calendar year 2021 and providing for Employer Charging Relief. Under Agenda Item #2, we have the first opportunity for public comment. If you would like to provide public comment, please come forward. For the record, start by identifying yourself and who you represent. Public comments will be limited to 3 minutes each, and this round of public comments may last up to 30 minutes. Is there any public comment? This will be done remotely through Zoom. Is there any public comment at this time?

**Georgina Casteneda:** Georgina Castenda for the record, Management Analyst for the Employment Security Division Management and Administration Support Unit. The public line is open and working and there are no comments at this time.

**Jeff Frischmann:** Agenda Item #3 is the Confirmation of Posting. Mr. Terry, for the record, was proper notice for this meeting given, and did you receive proper confirmation of posting in accordance with Nevada Revised Statute 241.020(3) and Governor Sisolak's Declaration of Emergency Directive 006?

**Stewart Terry:** Stewart Terry for the record, Management Analyst for the Employment Security Division Management and Administration Support Services unit. Yes, proper notice was provided for this meeting pursuant to Nevada's Open Meeting Law NRS 241.020 and Governor Sisolak's Declaration of Emergency Directive 006.

**Jeff Frischmann:** Thank you Mr. Terry. Agenda Item #4 is the Review of Written Comments, Mrs. Casteneda, have any written comments been received in regard to this small business workshop?

**Georgina Casteneda:** Georgina Casteneda for the record, no written comments were received.

**Jeff Frischmann:** Thank you, Ms. Castenda. Agenda Item #5 is the Workshop to consider the proposed regulation to adopt the 2020 UI Tax Rate Schedule for Nevada Employers for the calendar year 2021. As part of the regulatory process, DETR staff will present an overview of the UI Trust Fund and the impact of

maintaining the average State Unemployment Insurance rate from calendar year 2020.

I would like to introduce the presenters for today. From DETR's Research & Analysis Bureau is Dave Schmidt the Bureau's Chief Economist, and supervising economist Alessandro Capello. Joining Mr. Schmidt and Mr. Cappello is Edgar Roberts, who serves as Chief of UI Contributions. Thank you. Mr. Schmidt?

**Dave Schmidt:** Thank you and good morning. This presentation is somewhat short than the typical presentation that we do for the economic overview due to the unique circumstances in which we find ourselves. This is a review of the State's economy to get a sense of where we're at and the outlook going forward. Currently, the total employment in the State of Nevada is almost 1.3 million. This is down 133,000 jobs or 9.4% from this time last year. It is up 6500 jobs over the month. It is clear that the policy response to COVID-19 has had a significant effect on Nevada's labor market, with a very rapid decline in jobs and a correspondingly rapid rebound in jobs. What's apparent is that never in the state's history have we seen a swing of this magnitude and size in this amount of time. This is because the employment change has largely been driven by policy, and it's important to know that what policy gives, policy can take away and vice-versa. If the State has been able to re-open businesses at normal capacity, there is the potential for a much more rapid swing in employment and unemployment levels than we would typically see in the decline and recovery of a normal recession. To give some perspective on how the state's industrial employment has been effected, and the differences by industry, this slide shows the percent change over the year in jobs across the major industries in the State. Mining

is actually up by 1400 jobs or 9.4% over the year due to the strong price of gold at present. In contrast, the leisure and hospitality industry has seen the most significant declines and this effects our food service industry and other entertainment and related jobs. We've also seen relatively large declines in professional and business services, particularly in administrative and support work as well as the personal services category or "other services" as listed here. In addition to there being a great deal of variation among the different industries at the statewide level, there is also significant variation in locals levels within the state. Particularly with Las Vegas, you can see here the leisure and hospitality industry has proportionally seen a lager decline than the state as a whole, being down roughly 25% over the year. As different policies are in effect in different areas of the state, and different areas have a different mix of industry, we've seen a much larger impact in Clark County and the Las Vegas area than other areas of the state. Taking a look at the unemployment levels in the state, just like employment we have never seen a swing of this magnitude with this speed in the state's history. No state has ever seen a change in the unemployment rate as large as what Nevada has experienced over the course of these few months. In February, Nevada was at its lowest ever unemployment level of 3.6%, by April we had the highest unemployment rate that any state had ever experienced in the history of consistent statistics going back to 1976. In April, the state's unemployment rate hit 30.1%. By contrast, the second highest state had an unemployment rate of about 24% so we went much higher much faster than any other state. Just about every state saw a large spike in the April 2020 time period, but because of the unique mix of Nevada's economy and the impact of the COVID-19 policy response in Nevada, that had a much sharper impact to our state

than others. Just as employment, if you look at the impacts at a sub-state level, southern Nevada has seen a particular impact from the COVID-19 shutdown. So the Las Vegas Paradise MSA has an unemployment rate of 15.5% while Reno and Carson City as of August which is the most recent data we have available. Taking a look at the county level it's important to note that there is wide variety in the state because of the strength of mining employment right now, several counties have an unemployment rate of less than 5% as of August. In contrast, Clark County has a rate of 15.5%. So the unique policy cause of the decline in employment has had particular impacts in particular areas of the state, which will effect different employers, workers, and sectors of the economy proportionately. Taking a look at the economic outlook and where things might go from here – because this is all largely driven by COVID-19 and the response to it, that's the biggest question mark going forward. How quickly will we recover, how quickly will businesses be able to open, how quickly people feel confident traveling to Las Vegas and spending money in the same way they have in the past. Another big part of the puzzle is the large amount of federal stimulus that has been made available. We sit here about 6 months removed from the peak of unemployment claim initial filing in the state and during this time period we paid out across all the different federal programs about 6.8 billion dollars in benefits. By contrast, in the regular unemployment insurance program, from 2007 to 2019, we paid out a total of about 6.4 billion in benefits, so the last 6 months have seen more than a decade's worth of benefits. Unlike a typical period of unemployment benefits, where benefits replace half or up to half of lost income, because of the federal pandemic unemployment compensation program and because of the unique mix of industries impacted, for a number of people the benefits

received may have more than replaced their lost income. In addition was the federal tax stimulus, which added an additional 2.4 billion dollars or so into Nevada's economy. So we see very significant money being directed to help the impact of these shutdowns. A large amount of money has been expended to try to help bridge the gap for people while the policy response to COVID-19 is in place. All of this points to the fact that as of the end of this calendar year, under current federal law, a lot of these programs will be going away. So there is a large question mark on the economic outlook of the state as we look at the total benefits being paid and federal supplements made available. In typical recessions, the historical experience has been that the federal government would continue to modify unemployment extension programs to push out the end date or add benefits as appropriate. Under current federal law, these programs all expire at the end of calendar year 2020. With that, I will turn over the presentation to Alessandro Capello to look at the Unemployment trust fund.

**Alessandro Capello:** For the record, my name is Alessandro Capello. I am an economist for DETR's Research & Analysis Bureau. This morning I will be going over some unemployment trends and take a look at the trust fund. This first slide is to provide to more perspective for Dave's presentation. These are initial claims, and it does a pretty good job of just showing how we have never seen anything like this before. In 2009, the peak initial claims in a week was around 8,900. In the first week of the pandemic, we had 6,350 initial claims and the following week we had 92,298 claims. So those first weeks were unlike anything that we've ever seen and hopefully will never see again, but it did put a tremendous amount of pressure on the program. In some ways

it is really staggering on totals. If you look at the week ending March 14<sup>th</sup>, we had 1.15 million claims through both programs. With our laborforce prior to this being in the neighborhood of 1.4 million, there are clearly a lot of claims flowing into the system. On the second part of this, this slide represents continued claims. This shows the full history of the weekly claims report and shows the scale of 2020 vs. even what was a “really bad” recession in Nevada in 2009 to 2013. That pink area in the upper chart is the emergency unemployment compensation program. The peak week for that was in January 2010, with 144,500 claimants. We have gone well above that in this pandemic recession, our peak week in may was near 700,000 claims filed across multiple programs. It’s been trending down over the last several weeks in part due to people returning to work, and claimants exhausting regular unemployment benefits and moving into the extension programs. On slide #3, this is a look at benefit payments for the regular program. This program alone (just the regular UI program) has paid 2.1 billion as of August, which will obviously continue to grow. The scale is pretty mind-numbing, on this chart the colors represent individual months. Early months look similar to previous years, but each month since has been about \$400,000,000 in payments each month. Obviously this has had a huge impact on the trust fund. We’ve seen how important it is to build up the trust fund solvency and balance, because you never know when you’re going to need it. Going into this, we had the highest balance in state history and an average high cost multiple of over 1.5. This lead us to believe that we were well prepared for a ‘normal’ recession. We are now nearing zero, somewhere around \$170 million. There has been some uptick related to transaction corrections and federal reimbursements. Looking into the future, which is definitely difficult, this is a visual that I

presented at the ESC meeting last year, which was supposed to demonstrate if we experienced a recession from where we were at, what would it look like. Each gray line is a recession and the impact to the Nevada trust fund over time. The top one is the 2001 recession, next one down is 1991, the middle one is 1981 and the really bad one is 2007's recession. This is all to show that our "worst case scenario" was nowhere near how bad that the Pandemic would turn out to be. If we had not been aggressively preparing the trust fund in the last five years, we would be in a much worse place. We have not yet been forced to borrow, while 18 states have. We will probably get there, but this is allowing it to happen more slowly. This table is the historical solvency review typically shown every year, providing a track of where we are at in different areas. The top blue area is Nevada's solvency measure for the trust fund. This measure has a short time window that it considers. The middle gray area are the cash flows, and you can see the UI contribution intake and benefits paid out from the trust fund. The last bottom area are the UI tax rates that we've had over the last 6 years. We have been pretty consistent about maintaining stability for employers, and last year we dropped that rate two tenths of a percent once we hit that 1.5 solvency rate. The next slide is the 2021 Tax Rate Estimate. Again, the blue area is the state solvency estimate. The gray area is the projected cashflows. It is hard to even know what April 2021 looks like let alone September 2021, so my hope is that we will have a much better balance in reality. This year will cost employers, on average, \$567.80 per employee (up slightly from last year related to the increase in the maximum taxable wage base). I believe that is all I have for the tax rate and trust fund review, and I can bring on Edgar Roberts from Contributions.



**Edgar Roberts:** Good morning. My name is Edgar Roberts and I serve as the Chief of contributions for the Employment Security Division. The purpose of this workshop is to discuss the recommended UI tax rate for calendar year 2021. Small business is defined as having 149 employees or less. Employer data for this workshop comes from the records of the division through reports filed by employers. All employers subject to UI contributions and eligible for experience rating will be affected by this regulation. This regulation represents maintaining the average UI contributions rate at 1.65% in 2021. Small businesses represent 52,993 or 96.2% of the 55,088 eligible experience rated employers. With no change in a 1.65% average contribution rate, the total wages subject to contributions cost paid by Nevada employers will remain the same. This regulation continues to provide tax rate stability for employers in the UI trust fund which is projected to grow by 558 million from September 2020 to September 2021. This regulation will continue to allow experience rated employers to pay contributions at a rate lower than the new employer rate of 2.95%. A statutory increase in the wages subject to unemployment contributions, which rose from \$32,500 in 2020 to \$33,400 in 2021 will cause the average cost per employee at the maximum taxable wage base from \$552.50 to \$567.80 in 2021. The cause of any change in an employer's SUTA tax rate is due to changes in their own reserve ratio and experience with unemployment. Rates that employers pay are fixed in statute, and the rate is adjusted each year in the regulatory process by adopting the range of reserve ratios that apply to the rates. Employers' reserve ratio change each year. Benefit charging from the 2<sup>nd</sup> quarter of 2020 is not being included in this year's reserve ratio computation. Looking at a 1.65% UI rate, if you look in the yellow section small employers are projected to

pay 190 million of the total tax collected of 558 million and looking in the yellow area, if you look at the highest tax rate of 5.4%, it's estimated that 1,900 employers will be in the highest tax rate, or 3.59% of employers. Going down to the lowest .25%, 7,201 employers will be in that rate or 13.59% of employers. Of the total contributory employers, 52,993 are small businesses (or 96%). As stated, 190 million will be collected from the small business employers. This regulation complies with the federal regulations governing UI contribution rates. Employers maintain eligibility for a full 5.4% credit toward their federal unemployment insurance taxes. This regulation helps to pay off unemployment benefits, and on average, for each dollar in UI benefits, 2 or more dollars are generated for the Nevada economy. A 1.65% average rate will continue the stability of the overall tax employers pay into the trust fund. The UI system helps to maintain the attachment of workers to the local workforce and facilitates a faster return to work. The tax methodology used for Nevada's Unemployment Compensation program is based on an experience rating system approved by the US Department of Labor. The rating system is designed to ensure that employers are rated fairly, based on their unique experience with unemployment, regardless of size or industry type. There is no additional cost for the enforcement of this regulation. Funding for the UI program is provided to the department by the US Department of Labor. NAC 612.270 is adopted each year to set employer contribution rates and is required by NRS 612.550. This regulation adheres to the federal compliance regulations governing UI contribution rates. An average UI tax rate of 1.65% is expected to produce 558 million for the trust fund in calendar year 2021. Small businesses will account for 190 million of the total revenues. Due to the distribution of small businesses,

employers closely matching the overall distribution of all experience rated employers in the state and the US Unemployment Insurance law does not allow states to assign rates of less than 5.4%, except on the basis of an employer's prior experience with respect to unemployment; the agency believes that there is no major contrasting impact to small businesses due to this regulation.

**Jeff Frischmann:** Thank you gentlemen for your presentations. Agenda Item #6 is a review of the proposed amendment to the regulation regarding Employer Charging Relief.

The proposed amendment to NAC 612.120 adds the following language: *For the second and third quarters of 2020, upon the declaration of emergency by the Governor and based on the detrimental effects of the COVID-19 pandemic on Nevada Employers, the Administrator shall provide all contributory employing units with relief from all charging of benefits to its experience record.*

The proposed amendment to NAC 612.265 adds the following language: *For the second and third quarters of 2020, upon the declaration of emergency by the Governor and based on the detrimental effects of the COVID-19 pandemic on Nevada Employers, the Administrator shall reduce the reimbursements in lieu of contributions that are due by up to 50% of the amount owed.*

Agenda item #7 is the administrator review of regulation pertaining to the average Unemployment Contribution rate for calendar year 2021. This proposed amendment to NAC 612.270 will continue the average employer contribution rate from calendar year 2020 of 1.65% and carry that average contribution rate forward to be the average contribution rate of calendar year 2021.

Agenda Item #8 provides the final opportunity for public comment. If you would like to provide public comment, please come forward. For the record, start by identifying yourself and who you represent. Public comments will be limited to 3 minutes each, and this round of public comments may last up to 30 minutes. Is there any public comment?

**Georgina Casteneda:** Georgina Casteneda for the record, Mr. Frischmann the public comment line is open and working and there have been no comments at this time.

**Jeff Frischmann:** Thank you, Ms. Castaneda. With no one coming forward through our virtual system, we will move to adjournment. With that, I hereby adjourn the meeting.