STATE OF NEVADA
DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION
EMPLOYMENT SECURITY COUNCIL MEETING

October 2, 2007

Live Meeting:	**Video Conference to:**
Legislative Building	Grant Sawyer Building
401 S. Carson Street, Room 3137	555 E. Washington Ave., Room 4406
Carson City, Nevada 89701	Las Vegas, Nevada 89101

Note: This meeting was also broadcast on the Internet at www.leg.state.nv.us.

Council Members Present

Paul Havas, Chair - Employers
George Foster - Employees/Labor
Rick Wilkening - Employees/Labor
Carol Stewart - Employers
David Garbarino - Employees/Labor
John Forseth - Public (in Las Vegas)
Kathleen Johnson - Public

Council Members Absent

Vacant Position – Public
Vacant Position - Employers

Department of Employment, Training and Rehabilitation Staff
Present in Carson City

Douglas Walther, Attorney General for Department of Employment, Training & Rehabilitation
Cynthia Jones, Administrator, Employment Security Division (ESD)
Valerie Ryan, Deputy Administrator, Employment Security Division (ESD)
Denise Miller, Chief of Unemployment Insurance Support Services (ESD)
Donna Clark, Chief, Unemployment Insurance Contributions ((UIC), ESD
Joan Richards, Unemployment Insurance Contributions, ESD
Jered McDonald, Bureau of Research & Analysis, DETR
Steve Zuelke, Manager, Integrity Programs, ESD
Jim Shabi, Bureau of Research & Analysis, DETR
Joyce Golden, Administrative Office, ESD

Present in Las Vegas

Ardell Galbreth, Deputy Director, DETR
Terry Simonton, ESD
Ashok Mirchandani, ESD

Members of the Public and Media

Jim Nelson, Nevada Association of Employers
Ed Vogel, Las Vegas Review Journal

Exhibits

Exhibit A - Attendance Record

Exhibit B - Agenda for the meeting/workshop

Exhibit C - Integrity Programs – Watchdog for the Public Trust

Exhibit D - Unemployment Insurance Internet Tax Services

Exhibit E - Nevada Economic Overview

Exhibit F - Unemployment Insurance Trust Fund Balance

Exhibit G - 2008 Estimated Tax Rate Schedules

I. CALL TO ORDER AND WELCOME

Paul Havas, Chair of the Employment Security Council, called the meeting to order at 10:00 a.m. on October 2, 2007. **Exhibit A is the attendance record** of all those present. Mr. Havas welcomed all to the meeting and began with an introduction of Council Members.

II. INTRODUCTION OF COUNCIL MEMBERS

Mr. Havas asked the members of the Council to introduce themselves to the audience. **Exhibit B is the meeting agenda.**

Paul Havas, Chairman of the Employment Security Council, representing Employers. Dave Garbarino, Las Vegas, representing Employees/Labor. Katy Johnson, Carson City, Board of Review, representing Public. Rick Wilkening, Las Vegas, representing Employees/Labor. Carol Stewart, Reno, Board of Review Chairperson, representing Employers. George Foster, Reno, Board of Review, representing Labor. Others on the Council: Cindy Jones, Administrator of the Employment Security Division, Department of Employment, Training and Rehabilitation. Doug Walther, Attorney General's Office.

III. APPROVAL OF MINUTES FROM OCTOBER 9, 2006, EMPLOYMENT SECURITY COUNCIL MEETING (Discussion and possible action by Council)

The Chairman invited an approval and discussion of the minutes from the October 9, 2006 meeting as written and mailed. Mr. Wilkening made a motion to approve the minutes as mailed and Mr. Garbarino seconded the motion. There was no discussion and the members signified their approval by saying aye. The minutes were approved unanimously.

IV. FEDERAL AND STATE LEGISLATIVE UPDATE

Cynthia A. Jones, Administrator, Employment Security Division (ESD), Department of Employment, Training and Rehabilitation

Ms. Jones introduced herself and thanked everyone in attendance for participating in the Employment Security Council Meeting and Regulation Workshop. Ms. Jones made a brief federal and state legislative update presentation.

She provided the Council with an update of legislation that occurred during the last Nevada Legislative session, as well as some federal initiatives that are being considered by Congress at this time, during 2007, the number of bills passed or failed that directly impacted Nevada's workforce. The outcome of the session included clarifications or streamlining of some process related to workforce administration and development.

AB 34 was passed last session. This is the bill that we presented last session on behalf of the Employment Security Division and we discussed it at last year's Council meeting. This bill allows the Employment Security Division to appoint appeals tribunals for unemployment insurance claims through an interlocal agreement with other state agencies; most likely being the Department of Administration, should the demand for appeals hearings exceed capacity. The bill also provided clarification regarding the roles and responsibilities of the Board of Review and the Employment Security Division Administrator regarding the activities conducted by the Appeals Section. Lastly, the bill clarified instances under which an employer's experience record would not be charged, should an employee quit for other employment.

Senate Bill 384 corrected an intended consequence of the new minimum wage law. Under the new law, all workers with disabilities would have had to be paid minimum wage, although the work that some were capable of doing would not have warranted that wage. If this bill had not passed, many rehabilitation centers would not be able to employ workers with disability, therefore barring them from active participation in the workforce.

AB 494 did not pass. This bill would have allowed workers who were unemployed, due to a lockout or a strike, to receive unemployment insurance benefits. Under current Nevada law, those involved in labor disputes are not eligible for unemployment insurance benefits. Some states do allow workers involved in a labor dispute to collect benefits under certain circumstances. However, this is currently not the case with Nevada law. We expect that we may see this legislation re-presented during the 2010-2011 session.

Senate Bill 351 would have promoted workforce education initiatives by creating industry section councils. The bill did not pass, although DETR, in partnership with state and local workforce investment boards, are interested in investigating and maybe moving forward with this concept. Sector councils are used to identify barriers to employment and job growth by industry and then developing strategies for overcoming those barriers. The Division also requested $2.6 million in its last budget for UI modernization project. The project was to conduct a business and systems requirement technical definition project for the unemployment insurance transformation and modernization project. The project is needed in order to develop business and technical specifications for the replacement of the unemployment insurance benefits and contribution systems, which are up to 30 years old in their platforms. Authority for the project was placed in reserve for the Department to come back before the legislative Interim Finance Committee for funding. This system is needed to improve system and program integrity, efficiency and effectiveness.

On the federal side of things, there are a number of initiatives that are of interest to the Agency. The Department of Labor, over the last couple of years, has put forth some legislation known as the Unemployment Compensation Integrity Act. Nevada strongly supports this legislation. This Act serves to protect state unemployment trust fund assets from fraud and provides states with some funding assistance in program activity designed to prevent fraud and collect debts due to states. The bill would also provide some financial support for program costs resulting from the mandatory state promulgation of the State Unemployment Tax Act, or SUTA Dumping Prevention Act of 2004. This Act made certain UI tax rate manipulation activities illegal, instead of tax planning or tax avoidance strategies. The Act would allow up to 5% of recovered overpayment recoveries to be used to fund integrity efforts. Up to 5% of collections from SUTA dumping would be used to fund future employer integrity efforts.

Debt collection agencies would be able to retain up to 25% of fraud overpayment or delinquent taxes, thereby facilitating the use of outside collection agencies by state workforce agencies to collect overpayments. Recovery of benefit overpayments, uncollected contributions, penalty and interest would be recoverable through offset of federal income tax refunds. The states would also be required to assess a minimum of 50% penalty on fraud overpayments and those funds recovered would be used to fund integrity efforts. The Act would also prohibit the practice of relieving an employer of charges when an employer caused an overpayment of benefits, by not providing sufficient information for an agency, to make the correct determination to start with.

The House Subcommittee on Income Security and Family Support conducted a second hearing on September 19th of HR 2233, referred to as the UI Modernization Act. This bill would increase administrative funding to the states for the administration and modernization of unemployment compensation programs. Nevada is in support of this bill, which would provide the states a total of $500 million over five years. The states would also be eligible for a portion of a $700 million distribution, if certain conditions were met. Nevada is well positioned with minimal changes to its laws to be eligible for this funding. The Department of Labor reports that Senator Kennedy has also introduced similar legislation that Nevada is equally in support of.

In regards to the Workforce Investment Act, this act remains un-reauthorized. During the last congressional session, versions were passed both in the House and in the Senate. However, differences remained and a conference committee was never called to iron out those differences. The legislation has yet to be reintroduced this session and it’s unlikely that it would be introduced before the end of this calendar year. So, we are hopeful that it will be introduced and reauthorization will occur over the next year.

This concluded Ms. Jones’ update on federal and state legislative matters and indicated that she would be happy to answer any questions.

Council Chairman Havas asked if there was any new legislation effective October 1st. Ms. Jones said that the legislation for the State, the one she had talked about, were effective upon passage or as of July 1st. So, nothing new as of October 1st of the ones that were discussed.

Mr. Jim Nelson of the Nevada Association of Employers, asked if we had a Bill number for the Integrity Act. Ms. Jones responded by saying that a bill number for the Integrity Act by the Department of Labor, has not been seen. This is a bill that the Department of Labor has put forth language, but it has never been introduced; the Agency is strongly in support of that bill.

V. UNEMPLOYMENT INSURANCE BENEFIT DEBIT CARD PROGRAM

Denise Miller, Chief of Unemployment Insurance Support Service (UISS), Employment Security Division

Ms. Denise Miller displayed a huge replica of a debit card for display and began by explaining

about the Division's upcoming implementation of the Nevada Visa Debit Card for delivery of unemployment insurance benefits. There are currently sixteen states operational and twenty-seven states in the planning stages or considering this method of electronic payment.
This new electronic payment system is a safe and reliable way of delivering unemployment insurance benefits. It is not necessary for the individual to have a bank account in order to take advantage of these services. The service is intended to provide more flexibility and faster service to individuals that find themselves unemployed, through no fault of their own. Claimants may have access to their funds as soon as forty-eight hours after filing a week of benefits. Claimants can use the card to make purchases, to get cash back at retailers at no cost, get cash at ATMs, anywhere the Visa debit cards are accepted.

The program provides a widespread ATM network using Wells Fargo banks and 7-11 stores. It provides unlimited bank teller cash back at Wells Fargo or any bank displaying a Visa acceptance mark. It provides automated notification via phone or e-mail when a deposit is posted to the claimant's card. A customer service toll-free number is available 24 hours a day, seven days a week, to provide balance information. Or, they have unlimited web-free access to their account and transaction history. No more lost or stolen checks and no more check cashing fees. That is what we hope to gain by this. This program will be implemented with a phased approach.

The first notification will be mailed starting the week of November 4th to those individuals that are currently filing for unemployment benefits. This mailer will advise them of the program and that, if they do not wish to participate in the program, to contact the Division by a specific date as they will be pre-enrolled after that date. The following week, all claimants contacting our call centers to file a new or reopen claim for benefits, will be advised of the program and be given the option to participate in the debit card program or receive their benefits by check. The Division will then make the conversion from checks to debit cards for those claimants that wish to participate. The conversion date is expected the week of November 26th. Ms. Miller said that the agency was proud of how nice the Visa debit card looks as the sample card displayed.

Ms. Miller thanked Ms. for her participation in the process and said that Ms. Jones was instrumental in the overall look of the card with wild horses, Lake Tahoe, Red Rock, being a good example of Nevada as a state. Ms. Jones' eye for detail makes the card very professional looking and it will have no stigma attached that identifies it as an unemployment insurance benefit card. At this point Ms. Miller concluded her presentation and was open for questions.

Ms. Jones asked for a few moments to say that thanks really goes to Denise Miller, Valerie Ryan, Donna Clark, Steve Zuelke, a lot of members on our staff who worked very hard, along with our IT shop to get this project going. And she expressed the opinion that she was really pleased with this. There are going to be some additional benefits for us as well. We're not going to have to carry and maintain inventory on the same of check stock that we would. We won't have to replace pricey printers as often as we would. So I'm really pleased that this is going to be a win-win situation for the Agency and for our unemployment insurance claimants.

In addition, Ms. Jones went to say that she would like to recognize Ms. Miller, who unfortunately, is planning to retire in November, after 25 years of service to the Division. A heartfelt thank you, Denise, for all your hard work and all your service, all your loyalty, friendship and support.

VI. UNEMPLOYMENT INSURANCE INTEGRITY PROGRAMS

Steve Zuelke, Integrity Programs Manager, Employment Security Division

Mr. Zuelke passed out a handout, **Exhibit C, Integrity Programs "Watchdog for the Public Trust"**. He mentioned that in the year since he last addressed this council, we have forged ahead with programs and initiatives that are designed to enhance the processes of insuring proper payments of benefits when due. The integrity programs have three main functions. The Quality Control Programs are designed to identify areas in need of attention within our internal processes. The Benefit Payment Control Programs are designed to limit payments to individuals, who are actually out of work and legally are entitled to receive the benefits. Finally, the collections staff is charged with recouping improperly paid unemployment benefits, regardless of the reason they have dispersed to the claimants. While each of these functions is required through federal regulation, they play essential parts in ensuring a fair tax rate to the employer, an accurate payment of benefits when benefits are due to the claimants.

The quality control function looks at all types of claims, both those paid and denied, to ensure that payments are accurate and denials are made within the intent and purpose of the law. Benefit payment control helps ensure that people are not allowed to continue claiming benefits after they have returned to work, thereby illegally depleting the trust fund, resulting in lower balances and potentially higher rates to employers. Collections brings money back to the trust fund that should never have been paid out, whether by virtue of determination of eligibility reversed in appeal, or benefits wrongfully claimed by persons who are fully employed. Of course, staff approaches the two situations differently. The repayment of those improperly paid benefits from individuals who have received them through no fault of their own is encouraged, and the use of available tools to compel repayment for individuals who chose to claim benefits when they knew in fact they were fully employed.

In years past, the programs were separate and did not coordinate. Ms. Jones' vision is coming to fruition where the units are now acting in harmony to provide an overlapping integrated approach with a focus on prevention and intervention, as opposed to our previous methodology of detection and collection. To this end, the investigative staff is engaging Nevada employers in ongoing dialogue. Through our outreach program, which was presented to the Council last year, our Agency is educating employers as to their role in fraud prevention, payment integrity and managing their tax rate through an active and consistent participation in the processes. These partnerships will yield benefits for years to come.

The outreach meetings have been received enthusiastically. Mr. Zuelke read a quote from an e-mail his office received. "*I wanted to take a moment of your time to thank you and your staff, for coming to Willstaff Worldwide to educate Unique (and that's an individual) and myself on Nevada's unemployment laws. I am excited that we are doing everything we need to do in order to ensure that we are in compliance. We have hung our posters and we have had a team meeting this morning on all that we learned. We have placed the Unemployment Insurance Recipients'*

Advisory of Benefits Eligibility in our application, so all of our associates will know we back Nevada unemployment law. Thank you, Steve, you have been a big help. Sincerely, Karen Veil, Willstaff Worldwide."

The task is daunting. With over 55 thousand employers in the State, we are now assessing methods of delivering this message, informing these partnerships, in a manner that is cost effective for the Division. We are implementing the National Directory of New Hire in the next calendar quarter, with a result being a reduction in the size of overpayments generated through the commission of fraud. We have implemented a procedure to carefully review all situations where the claimant has been reported as returning to work by employers, as opposed to a random review of those reports, as has been conducted in the past. This process, however, will not be as comprehensive as desired, as a distressing percentage of Nevada employers do not follow the law and properly report newly hired employees. The Outreach Program that we are presenting, addresses this requirement and explains to employers its impact on their tax rates as well.

Our recovery has been somewhat hampered by the inability to compel repayment of fraudulently claimed benefits. Mr. Zuelke went on to mention that Ms. Jones effectively persuaded the previous Director of the Department of Employment, Training and Rehabilitation, that the Employment Security Division needed to implement wage garnishment as allowed by law to ensure that claimants, who chose not to repay fraudulent overpayments, would not be allowed to retain those public funds. This process is in its final development stage at this point and should also be implemented within the next calendar quarter.

There are many tools that may assist our efforts. Unfortunately, these come at a cost. Notwithstanding the UI modernization project that Ms. Jones alluded to, the Agency continues to look for funding opportunities to incorporate those merging technologies. Many states receive additional funding from their state legislatures to achieve this goal. We are not so fortunate. This results in processes that are performed manually, that could be handled automatically, if the technology could be secured and implemented.

Finally, a thorough review of where we have been and where we would like to go has identified that Nevada's existing laws are comparatively lax on situations such as unemployment insurance fraud. The Division's Integrity Programs office has drafted proposed legislation for the 2009 Nevada Legislature that would strengthen our laws and send a clear message to those that would flaunt the unemployment insurance law. This legislation would impose a penalty on those committing fraud as recommended by a Department of Administration audit in 2005. This legislation would severely restrict individuals who have committed fraud, from becoming repeat offenders. Mr. Zuelke concluded his presentation by saying that the proposal would also give the Agency the authority to spend penalty and interest funds on activities designed to further enhance the integrity of the unemployment insurance program, to ensure the stable tax rate employers have enjoyed, as well as further secure the viability of the trust fund that will pay benefits to unemployed Nevadans for decades to come.

Mr. Jim Nelson of the Nevada Association of Employers asked a question regarding garnishments. He mentioned that there are a couple of laws already regarding an employer's ability to garnish. Mr. Nelson wanted to know if the Employment Security Division would be able to allow garnishments for these overpayments, despite unilateral decision with DETR, or would it have to be an actual legislation to amend the current statutes that we have?

Ms. Jones responded to Mr. Nelson's question by stating that our statutes currently allow for us to be able to implement the wage garnishments and that they do tie into those other statutes. Mr. Zuelke could probably site the general wage garnishment statutes. We do currently have the authority, it is a matter of implementation. So, the Division is moving forth with that. And we're starting with the fraudulent overpayments first. As an aside on that, Washington State has been very successful in collecting of their overpayments using garnishments. Ms. Jones believes the recovery rate is upwards of 80% at some point.

Mr. Zuelke informed the Council that the State of Washington actually is successful in recovering over 90% of overpaid benefits. That state does have a variety of tools at their disposal, including wage garnishments, the ability to accept credit and debit cards. They utilize outside collection agencies. They are able to attach state income tax refunds, as well as lottery winnings and a few tools that are not available here in Nevada.

At this point Ms. Jones thanked Steve Zuelke and said that typically we have taken the task of detection and collection regarding overpayments. Mr. Zuelke has been a very forward thinker since being appointed to this chief position, in education and prevention activities in regards to unemployment insurance fraud. You will notice some overlap between the federal legislation that's being proposed and some of the initiatives that Steve is proposing, that we be proactive in Nevada in implementing and we will hopefully be going forth with some of those concepts to the next legislative session to put some teeth into our unemployment insurance fraud laws.

VII. INTERNET SERVICES FOR EMPLOYERS UPDATE

Donna Clark, Chief of Unemployment Insurance Contributions

Ms. Donna Clark, the Chief of Contributions for the unemployment insurance program within the State of Nevada, presented the Council with an update on the success achieved with the Department's comprehensive Internet site for unemployment insurance tax services. Using a special grant awarded from the U.S. Department of Labor, the Department expanded its electronic business options for Nevada employers in the area of unemployment insurance taxes. The site provides streamlined methods for employers to conduct business with state government. It also allows easy access to detailed information about unemployment insurance tax requirements. New employer registration guides businesses through a ten-step process to register for unemployment insurance. In most cases, an employer will receive their unemployment insurance account number and their new employer tax rate immediately in registering on the Internet.

Implemented in April of 2005, an average of 47% of all new employer registrations are now submitted via the internet site. A variety of electronic methods for quarterly tax and wage reporting were also opened to the public. Employers may now choose to submit reports using online data entry, which provides an option to download employees' social security numbers and names from a previous report that they filed, or they may upload a small file attachment, such as an Excel spreadsheet. For larger transmission, the site also offers a secure file transport method, using a familiar state federal format for W-2 reporting.

Implemented in August of 2005, Internet filing options for tax reports have continued to grow with each calendar reporting quarter. Currently 40% of employer UI tax reports are filed using some version of a paperless method. Either magnetic media, such as CDs, diskettes or cartridges, or the Internet options that were just outlined. Of these 6.5 million wage records submitted annually, approximately 62% of those are uploaded through electronic submissions.

A variety of payment options are also included on the site. After completing their electronic tax report, employers may still choose to print a payment voucher, which summarizes their current account balance and mail a check to the Agency. Or for those who prefer electronic banking, two electronic check options are provided in the form of automated clearing house debit or credit transactions. Implemented in October of 2005, electronic payments now comprise approximately 40% of the total dollars deposited each calendar quarter. The use of banking options for automated clearing house credit transactions has actually helped reduce Agency banking costs for UI tax payments as these transactions are processed at no cost to the State.

The new website also offers a number of general account services. Employers or their authorized agents may create a secure password protected online account. Using this internet account, employers may then view confidential account information, update their account information, or reopen or close their accounts.

The UI tax services website also provides extensive information and customer service support features. These features include general information on unemployment insurance and new hire reporting, reporting specifications and forms, employer handbooks, laws and regulations, frequently asked questions, online help features and edits, as well as help desk and Agency contact information.

Ms. Clark showed several slides, **Exhibit D, Unemployment Insurance Internet Tax Services.** The first slide provides a visual display of the UI tax services home page. The extensive menu has been divided into two categories. General Services is open to the public to answer questions and provide general information on program requirements. This service also provides the guided process for new employer registration. The Confidential Services menu requires registered employers and authorized agents to answer a set of security questions and create an online account. Employers and agents may then submit reports, make payments and view or update account information within a secure environment.

The second slide is presented as a display of the scope of the information available behind each of the menu options on the home page. For example, after choosing the option for unemployment insurance information, the public will be able to access a variety of general program information that ranges from frequently asked questions to handbooks, laws and regulations.

The response from the public has been very positive. Most employers report that the site is very user friendly, is easy to navigate and contains an impressive amount of useful information. The

State of Arizona recently indicated that after conducting a survey of state websites, they plan to model their new site after Nevada's UI Tax Services.

The UI Tax Services' website is only one of the many employer services DETR provides. Through this site, The Department has continued its commitment to maximize the use of the Internet to make government services more accessible and convenient to meet the needs of our very diverse business community

Chairman Havas gave Ms. Jones the floor for a statement. Ms. Jones thanked the Chairman for the opportunity and went on to say that the Council is now moving to the portion of the Agenda where they were going to conduct the workshop to consider the adoption of a regulation to establish the unemployment insurance tax rate schedule for calendar year 2008. The regulation that will be amended is Nevada Administrative Code 612.270. In accordance with NRS Chapter 612.550, Section 7, Ms. Jones is required each year to update this regulation for the tax schedule. This is a public meeting being conducted in accordance with Nevada Revised Statutes, Chapter 233B.

VIII. WORKSHOP TO CONSIDER ADOPTION OF REGULATION TO ESTABLISH THE UI TAX RATE SCHEDULE FOR CALENDAR YEAR 2008 (NEVADA ADMINISTRATIVE CODE 612.270)

A. Economic Projections and Overview

Jim Shabi, Economist, Research and Analysis Bureau, DETR

Mr. Shabi gave out a handout **Exhibit E, Nevada Economic Overview**, for the next section of the meeting.

Mr. Shabi mentioned that he would give this next presentation on behalf of Bill Anderson the Chief Economist for the Department, who had to be at a meeting out of state. Mr. Shabi said that his mission here today is to provide a look at the Nevada economy as it currently stands and as we see it going forward over the next couple of years. And this part of the presentation may take a little longer than normal, because in Nevada you can usually say we're going to grow faster than everybody else, thank you, goodbye. Right now, we're not in that situation. So we're going to take a look at a couple of the factors that have caused the recent slowdown.

At this point Mr. Shabi showed a couple of background slides. This first slide takes a look at the Nevada labor market, which is divided officially into three metropolitan statistical areas, Las Vegas, Reno, and Carson City. Those are defined by the federal government. And for our purposes here, everything else, balance of state. The point to be made on this slide is, at it comes as no surprise, is just how dominant Las Vegas and to a lesser degree Reno are in defining the Nevada economy. The Las Vegas Paradise MSA, which is Clark County, has 71% of the state's labor force. The Reno/Sparks area, which is Washoe County and Storey County, has another 17%. So with just those two big counties and one very tiny one, it shows 90% of Nevada's economy. So, even though the rural counties in Nevada right now are in many cases doing very well because of the boom in mining, several counties have very low unemployment rates compared to the rest of the state, when we're talking about the impact on the unemployment insurance trust fund, things like that, we're essentially talking about the factors that are driving the big city economies.

The second background slide presents the employment mixed by industry in Nevada. There are two industries to talk about in particular, because they are very much the driving forces in what's been happening in the economy in recent years. Up at the 1 o'clock area of the map, you see construction, which in Nevada accounts for about 11% of all jobs. That figure compares to about 6% nationally. So the construction sector is very vital to Nevada. We've been a growing state. We're constantly building and as a result, construction is a much bigger part of the pie here.

The other one comes at no surprise. Over in the 8 to 10 o'clock area of the pie chart is the casino, hotels and gaming sector, which makes up about 17% directly. And then the rest of leisure and hospitality, which includes your restaurants and your golf courses, ski areas and other recreational type activities, which make up another 10%. But that leisure and hospitality sector, including casino hotels, is more than one quarter of all the jobs in our economy, which compares to about 10% nationwide. Obviously, these numbers don't come as a surprise to anybody, but what happens in those particular industries, very much drives what the economy as a whole is doing.

Now we're going to take a look at what the economy is doing right now. This chart is a historical look at unemployment going back to 1991. I moved it back that far for a couple of reasons, because it does illustrate some trends. One line on the chart is Nevada's unemployment rate, the other line represents the national unemployment rate. If you take a look over on the right hand side of the Nevada line, you'll see that we hit a nice low point about the middle of 2006. We were sitting at 4.1% unemployment for I believe three months in a row there. And then for the last fifteen months or so, we've been creeping steadily upward.

An unemployment rate of 5% in August was reported. That may have been skewed by the start of the school year a little bit, but the trend has been clear. We've been drifting upward roughly at a tenth of a percentage point every month for over the last fifteen months. We've also moved higher than the national unemployment rate, which in and of itself isn't significant. It does happen occasionally, but for five years in a row, we reported lower rates than the national average. Right now we are running a few percentage points higher than the national rate. The other thing to note on this slide is that, even though our unemployment has been on an upward trend, it is still considerably below the peaks we hit during the 1990-1991 recession, and in the post 9/11 recession that hit us so hard in the tourism industry. So with any luck, we won't see those rates go quite that high during this particular period.

The next slide is a similar time frame but it's showing the rate of job growth, both in Nevada and nationally. Again, Nevada is one line on the chart with the national economy being the other line. Clearly, Nevada's line has been far above the national line. We've outperformed the national economy, usually by substantial margins over this period. What you see right now is those lines have moved much closer together in recent months as the Nevada economy has slowed at a much more rapid rate than the nation as a whole. During that period, not only has Nevada outperformed the national economy, it's actually led the nation in job growth, about twothirds of the time. I believe it's 12 of the last 18 years that Nevada was number one in job growth. Right now, we're very much in the middle of the pack among all the states.

The next thing I'd like you to notice on that graph is there are essentially four peak periods, periods of peak growth. The really tall one in 1993-1994, we were both coming out of a national recession and there was a wave of casino construction in Las Vegas. In 1996-1997, we had a smaller peak but growth still went to about 8%, triggered by another wave of casino construction in Las Vegas. The third peak in 1999 was in the middle of the Bellagio, Mandalay Bay, and Paris wave of five mega resorts that were built. Again, we had a peak in employment growth. 9/11 happened, we had that aberration on the map.

But what we saw on that fourth peak, is that it lasted from probably late 2004 through the middle of 2006 was a peak. It was much longer in duration. Not quite as high as the others. That one was not fueled by casino growth, it was the housing boom. We had one mega resort opening in that period, instead of the three or four or five we'd had in those previous growth booms. We had the Wynn opening and some good size local casinos in Las Vegas, but that essentially was a housing boom. It lasted for two-and-a-half years. But since that housing boom slowed, and it really triggered right in mid-summer, right about the first of July last year, we saw numbers start to drop and I've got some charts to show that. You see our growth rate coming down dramatically from that point forward.

At this point, there were some technical difficulties in the video conferencing and a 10 minute break was called.

Mr. Shabi continued his presentation by saying he had one more point to make on the job growth slide he presented earlier. Each of those economic peaks you'll see is a little bit lower than the one before it. They probably created similar numbers of jobs, but as the Nevada economy grows, the percentage gains get a little less impressive over time. At the beginning of that chart, Nevada had probably somewhere slightly over 600,000 jobs. We're now at 1.3 million plus. So the economy has doubled in that fifteen or sixteen year period. So you add 60,000 jobs fifteen years ago, you had a 10% gain. You add the same 60,000 jobs now, you're at 5%, so keep that in mind.

The construction specific slide is busy and there are several different key points on it. One of the line bars this slide represent actual jobs in the construction industry. This goes back just to the start of 2003. The other line is the rate percentage growth of construction employment on a quarter-by-quarter basis. This is based on actual data, these are the unemployment insurance records that come in to us on a quarterly basis through the first quarter of 2007. It's not based on monthly estimates. Monthly estimates are showing the same trend.

Please note that employment at the beginning of 2003 in construction, the state was somewhere in the neighborhood of 90,000 jobs. By 2006, before the downturn started, we were up to nearly 150,000 jobs. That's an addition of 60,000 construction jobs in a little over three years. It was an incredible period of growth. Unprecedented in terms of the numbers in construction alone. Noted earlier, the real downturn began in the third quarter, right in July of 2006, it is shown as a flat line in the summer, at a point where construction employment is normally going to be going up for seasonal reasons. In the third quarter of last year it flat lined again and has been on a straight downhill run ever since. From about the fourth quarter of 2003 through the second quarter of last year, construction growth was 10% or more per year, on a year-to-year basis, this was maintained for more than two-and-a-half years; it peaked at over 20% growth during the fourth quarter of 2004. However, in the first quarter of this year, construction employment was actually down 5% over the year. It's a tremendous drop from plus 20% to minus 5% in just a couple of years.

What we're seeing right now is a real dichotomy between what's going on in the commercial sector and the housing sector. Sales are down, permits are down, not a whole lot of activity. From the first quarter of 2006 to the first quarter of 2007, we actually saw an increase in the special trades' contractors sub-industries, nineteen industries compare nicely between residential and non-residential in the special trades. We saw 5,600 jobs added in the special trade contractors on the commercial side, but we lost 12,600 jobs in the special trades on the residential side. So even though commercial is extremely strong, especially in Las Vegas, it is not offsetting the entire problem that the housing market has created. So, we are expecting those numbers to continue to go down a little bit.

We're not seeing a turnaround in housing real quickly. Because construction is 11% of our job market here, a much higher percentage than in most parts of the country, the effect on the overall economy has been dramatic. At the point at which we had a 20% growth rate over the year, construction was adding a full 1.5% to growth. In December 2004, we were growing across every industry other than construction at a rate of 5%, a very substantial rate of growth. Construction alone pulled that growth rate up for all industries to 6.5%. That's a dramatic effect. It was accounting for one quarter of the growth all by itself. And it was only 11 or 12% of employment at the time. Right now, because it's losing jobs, construction is creating a drag on the economy; that drag is running, depending on whether we're looking at the monthly data or the quarterly data, it's somewhere between a half percentage point and a full percentage point. Based on the August monthly estimates that are done on just a subset of the employer base, we were growing at about a 2% rate across all other industries, but construction was pulling it down to 1.4%. So the effect is pretty dramatic.

However, construction's not the only industry that's slowing. In the next chart I am showing 11 major super-sectors and split out a few other industries like casino hotels and gaming, but it represents major industry sectors, rate of job growth over two periods, June, 2005 to June, 2006, when we were still very much in our growth phase, and then the subsequent twelve months, June, 2006 to June, 2007, when we know that construction sector had started to slow. You'll notice that nearly all of the blue bars, which are the first of the two years, very strong growth rates in nearly every industry. You know, some pretty dramatic, construction was at 10% growth. Professional business services was over 9%. But the red bars are representing the second year. The most recent June to June period. You see much slower rates of growth in nearly every industry. The only two exceptions are education and health care and the government sector, which is largely driven by local school districts. So that school district growth fueled the growth in those industries, but nearly every other one is growing at a slower pace than the previous year.

We've seen a slowdown in the economy. But there is still a business cycle, it hasn't been eliminated. We were at a very strong long peak with the housing gain. Two-and-a-half years we were around a 6% rate of growth. We're now probably approaching the trough of the business cycle. That curve keeps going up and down and we're hitting a low point, in general, it can be seen across all the industries. Our very largest industry, the casino industry, had some unfortunate timing incidents, because, as they're preparing for the next wave of growth in Vegas, properties are closing. The Stardust closed within this period, and it is reflected there. The New Frontier in Las Vegas closed right after this period and it really isn't included. It was probably another 1,000 jobs or so at the time it closed, lost in the casino industry.

There were a lot of mergers and consolidations. Some of the casino companies have implemented economies of scale, eliminating redundant functions, especially in administrative jobs. Casino employment is actually in the hole at the current time and is dragging on the economy as well. We really hit the housing downturn at the same time our biggest industry was also shedding jobs for a series of totally unrelated reasons.

The next chart is the Las Vegas casino industry. This is the room count stats from the Las Vegas Convention and Visitors Authority. All the blue bars represent the number of the year-end room counts going back fifteen years or so. One can see a progression of room additions through the '90s. A relative flat line over these last six or seven years is seen. The one bump in there is about the time Wynn opened around 2005. But, we haven't added a lot of rooms in Las Vegas over the last several years. Going forward, the 2007 projected room count, it shows that the Palazzo is supposed to open and the Venetian before year's end. Next year there will be a couple of smaller openings. Wynn should be opening either very late 2008, 2009, an absolute explosion in the casino industry in 2009 and 2010.

Project City Center in and of itself is adding about 6,000 rooms. In 2010, the Echelon Place project with another 5,000 or so. Over a four or five-year period the addition of another 40,000 new rooms will be seen, which is a 30% increase in a market that's been adding rooms at a very rapid rate for two decades. So we know we're going to have room count in Vegas added that's going to create thousands and thousands of new jobs. However, because that peak is in 2009 and 2010, it's not going to have an immediate impact on your work here today. But it is a good sign for the future.

So how does this relate to the numbers that really matter? First of all, we'll look at the job growth. This is an annual average job growth for the last several years. We had a very strong run from 2004 to 2006, although we lost a little bit of growth at the end of 2006. What we are seeing is some really unprecedented type forecasts. We redid these numbers about two to three weeks ago. Every time the new quarterly data comes in, we are re-looking at these estimates, because the construction side keeps coming in weaker than anyone was anticipating. We expected it to fall off at some point. The drop has been fairly dramatic. So what we're looking at for 2007 as a whole is a 1.7% job growth statewide. We're currently averaging about 2.5, but we anticipate when we benchmark the data against the quarterly reports early next year, that we're going to bring the job growth down. So currently our estimate is only 1.4% in August.

Because we don't anticipate an immediate correction of the housing problem, we're also calling for a modest growth next year of 1.9%. Again, two years in a row in Nevada of less than 2% growth. The couple of experts that track the Las Vegas housing market were originally calling for the rebound next year. They're now saying 2009 or 2010. There's just too much inventory available. The inventory of houses on the market is growing. There are fifteen year lows in permits going on for new homes. And due to all these things, we just don't see the rebound happening very quickly. As long as construction continues to drag on the economy, we'll continue to see relatively tepid growth numbers. You'll notice in 2009, we are calling for the start of the rebound.

The gaming properties coming on board are going to give that a big boost. We're hoping by that time we do see some rebound in the housing market, although we're certainly not guaranteeing that one at this point. And if you look at jobs created in 2009, it would probably be a more dramatic number than 3.6%, but since we're looking at annual averages, City Center's going to come out in the fourth quarter that year, so we're not going to get the full effect of those new jobs showing up in our data really until we get into 2010. It's not on the chart, but at 2010, we're seeing that growth back up over 5%, which is what Nevada has become much more used to seeing.

And finally on the unemployment side, we are seeing unemployment continue to creep upward and then stabilize somewhat as the housing fallout stops, and keeps us from losing more jobs. We're projecting 4.7% average unemployment this year. There's a chance it may sneak up a little, maybe 4.8%, because we're at 4.6% through August and those numbers have been rising. But we're figuring we're going to be somewhere upwards of 4.5% this year. We see it going to 5.1 next year. Again, we don't see the jobs coming on line fast enough to make up for the jobs we're losing. There's certainly going to be some monthly peaks that are well above that. If you're going to have an average of 5.1%, we're going to see some months with some numbers that we aren't too comfortable with. We're hoping that will stabilize and hold at that 5.1%. And given the lag on unemployment, given the fact that the 2009 properties tend to come on late in the year, we're seeing that number stabilize over that next two-year period.

A couple of risks to the forecast in terms of the potential accuracy of it. If the U.S. economy goes into a recession, which the economists nationally are saying there's a 30% chance or so, if it slips into a recession, our forecast may be optimistic. We're hoping that's not the case. But, the Reno area in particular gets hit very hard in a national recession because all the transportation and distribution industries that are affected even more than tourism would be. On the upside, if housing does surprise and rebounds more quickly, we're hoping these are pessimistic forecasts and the numbers look better. But at this point, we're not willing to go out on that limb, given inventory levels and lack of permitting activity.

Mr. Shabi conclude his presentation and would answer any questions at this point.

A question was raised. *When you were talking about the room availability in Las Vegas, do you take into consideration the condo leaseback situations that they have like at the MGM?*

Mr. Shabi responded by saying that yes, they are counting total room availability for tourists. Some of that is going to be part-time residential and part-time tourist, but those numbers are included in LVCVA's count. No other questions were asked.

B. Review of Unemployment Insurance Trust Fund
Jered McDonald, Economist, Research and Analysis Bureau, DETR

I will be providing you with a historical review and projected analysis of the Nevada Unemployment Insurance Trust Fund. My presentation topics will include a review of program objectives, a look at current trust fund balances, a review of the 2007 forecast and tax rate alternatives for 2008. We'll wrap up with forecast wildcards and a tax rate recommendation. Before I go on, I'd like to say that we take a lot of the projections that Jim provided. So you'll hear me echoing a lot of the themes that he talked about. **Exhibit F - Unemployment Insurance Trust Fund Balance.**

This slide presents the primary objectives of the Unemployment Insurance System. The UI System is set up to provide macroeconomic stimulus and stability to the economy and microeconomic support to households. This macroeconomic stimulus seeks to mute the effects of a downturn in the business cycle and provides an automatic stabilizer that comes into play when individuals apply for benefits. These benefits are usually spent on day-to-day living expenses and thus maintain aggregate consumption during a recession. The added stimulus provided by payouts is magnified through a multiplier effect where every dollar injected into the system results in a $2 to $3 increase throughout.

The microeconomic support seeks to protect households when faced with unexpected job loss, by providing temporary and limited income support to maintain a worker's connection to the workforce, supported job search and help pay bills. These objectives are achieved through the principal of countercyclical funding, also known as forward funding. Under this principal, the trust fund accumulates a reserve during times of economic growth and pays out significantly higher benefits than it takes in during a recession.

This slide highlights the flow of funds into and out of the trust fund. You can see that during periods of economic growth, the taxes paid into the trust fund exceed benefit payments. And the opposite is true during a recession where the benefit payments will exceed contributions and interest payments. This kind of highlights the need for forward funding. If Nevada were to wait for a recession to try to fund all the unemployment benefits, a so called pay-as-you-go approach, taxes would have to be increased significantly in the midst of a recession, placing an even larger strain on employers just at a time when they can least afford it.

Our next slide shows how the overall balance of the trust fund has faired over the years. You may observe that the fund, even at the low point of the most recent recession, is roughly 4 ½ tons larger than it was in the early 80s. There are two reasons for this. First, Nevada's population and therefore the number of eligible employees who need to be covered by the unemployment system has increased significantly in this time. The increase in covered employment means that the trust fund must grow accordingly to cover for these additional workers. Second, prices and wages and by extension, the average unemployment benefit check, have increased over time as well. In order to maintain purchasing power to individual households and in the economy at large during a recession, unemployment benefits need to keep pace with this growth, which is why benefits are tied to an individual's wage and the statewide average wage.

Our next four slides look at the performance of the Fund over the past year compared with the forecasted performance I presented here last year. This will allow us to analyze the changes in the fund that have occurred over the year. You can see here that covered employment was higher in 2007 than predicted by 1.3% or 14,000 workers. You can also see that the total number of weeks of unemployment insurance benefits claimed was higher than forecasted by 76,000, or 6.8%. Finally, average unemployment was just slightly higher than forecasted so far.

This slide shows you the historical trend for continued weeks of unemployment benefits claimed and I would like to highlight just three points here. The first is that during a recession, the demand placed on a system increased significantly, nearly doubling over the last two recessions. The second is that as Nevada's labor force experiences growth, the demands placed on the system have increased significantly. Thus, we would expect to see continued claims climb over time, especially during times of recession. You notice the long-term trend here is definitely going up. Lastly, just to look at a more recent trend, you can see that following four years of declining claims, we turned around in 2007 and have seen a significant increase. You can see that 2006 was particularly low compared to the long-term trend. So last we had forecasted this to go up and with the construction and everything, it went up a little bit more than we thought it was going to.

This slide shows us the effect on the fund the recent labor conditions have caused. In 2007, fund reserves exceeded expectations by less than 1%. On the other hand, benefit payments were higher by about 15% and the overall balance of the fund ended about 6% below the forecasted level. The fund came in lower than expected due to an increase in benefit payments, initially driven by construction and associated industries, but are now becoming broader based. Recently, weekly continued claims broke from a stable trend of roughly 25% annual growth and are showing an increasing trend since June. The week ending September 1 had the highest annual growth in continued claims since June 1, 2002.

To further highlight the state of the economy, we can take a look at the average duration of unemployment. Since the beginning of the year, the average length of time a claimant has spent on unemployment has increased by about 3 days. Not only are more people claiming unemployment, the amount of time spent on unemployment has increased. These contributing factors have increased the unemployment and duration of unemployment has resulted in a higher than forecasted benefit payments.

This slide provides us with the fund balances for the last four years. The top portion in blue gives us the state's solvency figures as determined per NRS 612.550, Section 7. These solvency figures represent the needs of the fund based on the system needs over the last ten years. On the top section of the slide, the requirement for solvency is calculated. We do this by multiplying each factor, that being covered employment, the highest risk ratio experience in the last ten years, the highest week's duration experienced in the last ten year by the average weekly payment. And that's how we reach our trust fund requirement. Down below you can see our intake into the fund. We have our contributions and interest.

Then we have our benefit payments and Reed Act expenditures, which gives us our end fund balance. We have a solvency level, which is the difference between the requirement and the end fund balance, and then a multiple which gives us a percentage over the requirement. So for instance, in 2006, we were 40% over the requirement. In 2007, we're looking to be about 47% over the requirement. At the bottom here is our average tax rates over the last four years. We are currently at 1.38. We also have the average high cost multiple here and I'll talk more about that in just a few moments.

This slide presents us with the forecast for 2008. Four different tax rates are presented to help the Council compare the effects these rates will have on the fund. In all scenarios, benefits, Reed Act expenditures and the solvency requirement are held constant. The variables are the average tax rate, the resulting tax receipt based on those rates and the interest. As you can see, in each scenario, the fund is above the state solvency requirement from about 50 to 58%, here, and the average high cost multiple by about 8 to 14%. The average high cost multiple is a federal solvency standard that takes in more history than the state solvency multiple. It includes at least the last twenty years or a period covering three recessions, whichever is longer. In this case it's longer because we're counting back to the early 80s. It gives more variation and potential costs in the state's solvency multiple. The number represents the years of benefits the system could pay in recession, equivalent to the average of the three worse periods in the time frame.

Our next two slides will demonstrate the changes to the solvency requirements over time. This slide shows you the trust fund balance as measured by the Nevada Solvency Standard. Recessions were experienced in 1980 and 1981, 1991 and 2001. Notice that there is a lag between the official duration of recession and the peak demand placed on the U.S. system. This is because it can take several months for an economic shock to work its way through all segments of the economy. In addition to this, the 1991 and 2000 recessions both differed from historical standard in terms of employment recovery, taking significantly longer to recover to pre-recessionary levels. These jobless recoveries mean that the U.S. system needs to be prepared to handle a prolonged need for benefits until the job market picks up steam. You can also see from the slide that the fund has returned to pre-recession levels reached in 2000, at about 46% here. We're looking at 2007 compared to 2000, right before we had a recession in 2001.

This slide presents the historical behavior of the federal standard mentioned before. The average high cost multiple. As mentioned before, this measurement tells us how many years of benefits without any income to the fund the state could afford to pay in a recession. A multiple of one equals one year of benefit payments. The standard for this target is debatable among economists but is generally in the 1 to 1.5 range shaded in the top part there. Note that while the previous slide compared the trust fund balance to the state requirement, this measurement deals with the absolute balance of the fund. If the multiple hit zero, then the trust fund balance is zero. Also, notice from the graph, based on the average high cost multiple, we were returned to pre-recession levels during the next year. We're projected to, anyway. That being at 1.1% compared to 2000.

This slide presents some potential wild cards to account for in planning for the future of the fund. The top economic concern in 2008 as it was in 2007 will be the construction downturn and its drag on the economy. The housing industry enjoyed five years of booming sales and construction activity, but has cooled over the last sixteen months under the impact of higher rate mortgages and higher home prices, leaving an extensive amount of oversupply on the market.
A stealth housing market has had a significantly negative effect on the U.S. system in 2007. The severity of the downturn and the ripple effect it is having on other industries such as manufacturing, real estate, mortgage and investing relating industries will likely worsen in the months ahead. The latest forecast for a return to growth predicted a turnaround in 2009. Growth in the commercial industries has been a bright spot in Nevada, but won't be able to offset all of the job losses due to residential construction.

Another variable remains the possibility of a significant terrorist attack or war and other things like that across the globe. It could particularly have an effect if we conflict near or around oil-producing companies which would raise gas prices and drag down the economy as well. So we try to keep an eye on that type of stuff. And while it's impossible to predict something like terrorism, we always need to be able to account for the possibility while planning for the future.

Next I'd like to discuss California. We all know that what happens in Las Vegas stays in Las Vegas. But in the world of economics, what happens in California doesn't tend to stay in California. And that has both positive and negative ramifications for Nevada. As the world's tenth largest economy, changes in California can affect Nevada significantly due to its proximity. For instance, over the last three years, many companies have relocated to our comparatively business-friendly state, bringing jobs and investment that have contributed to record growth and economic diversification. Other new proposed policies in the Golden State that may have spillover effect in Nevada include an employer mandated health coverage bill, which would increase the cost of business and efforts to expand any gaming which would increase by thousands the number of slot machines allowable by law. These and other potential policy changes can have a significant effect on Nevada's economy and we need to be mindful of them.

In conclusion, the Nevada economy has performed below expectations, but has still allowed the fund to return to near pre-recession levels. In light of current tax fund balances and expectations for the future, the Research and Analysis Bureau recommends lowering the average tax rate to 1.33%. At this level, the fund will continue to grow with employment and wages, while providing some needed economic relief to burdened Nevada employers. At this rate, the fund should increase and reach a state solvency level of 53% and an average high cost multiple of 1.1% in 2008.

C. <u>Tax Schedule Explanation</u>

Joan Richards, Management Analyst
UI Contributions, Employment Security Division

The purpose of this meeting and workshop is to recommend the unemployment tax rate schedule for calendar year 2008. State law requires that the Administrator set the tax rates each year by adopting a regulation. Jim Shabi talked to you about the economic conditions, and Jered McDonald discussed the condition of the trust fund and the forecast for next year. I am now going to provide an overview of how the unemployment insurance tax system works and how the annual average tax rate is developed. **Exhibit G – 2008 Estimated Tax Rate Schedules**.

In the rate booklets that were passed out to you, we provided four tax schedules for the Council to consider and give us a recommendation. And to receive any comments from the public. A public hearing will be held prior to the adoption of the regulation. Before we review the schedules contained in your booklets, I would first like to give you a brief review of how the unemployment compensation tax system works.

The unemployment insurance program is a joint federal/state partnership. The way this partnership works is the Federal Unemployment Tax Act imposes a payroll tax on all employers at a rate of 6.2% of each employee's wages up to $7,000. This equates to a payroll tax cost of $434 per employee per year. However, if a State maintains an unemployment insurance system approved by the Secretary of Labor, employers are allowed to offset 5.4% of the Federal Unemployment Tax so they actually pay at a rate of .8 of 1%, thereby reducing the cost of the federal tax to $56.00 per employee per year. The .8 of 1% employers pay to the federal government is passed back to the states to cover the administrative costs for the state unemployment insurance programs.

The state unemployment tax that we are considering here today is deposited into a trust fund which can only be used to pay benefits for unemployed workers. It cannot be used for any other purpose. The tax is paid entirely by the employers. There is no deduction from an employee's paycheck. The tax rates will vary based on the employer's previous experience with unemployment and under federal law, these funds must be deposited with the U.S. Treasury and cannot be invested in any other manner. The fund does earn interest. In Nevada, the rate for all new employers is 2.95% of taxable wages. In 2007, the taxable wage base will be $25,400. Employers pay at the rate of 2.95% for approximately three and a half to four years until they become eligible for an experience rating. Once they are eligible for an experience rating, an employer's rate can range from a quarter of one percent to 5.4%, depending upon their previous experience with unemployment.

There are 18 tax rates. The annual tax rate scheduled adopted applies only to experience rated employers. It has no impact on new employers. Out of approximately 60,000 employers, more than half, or 53% of all employers are eligible for an experience rating while the balance pay at the standard rate of 2.95% of taxable wages. The standard rate established by federal law is 5.4%. Rates lower than 5.4% can be assigned only under an experienced rating system approved by the Secretary of Labor. The intent of any experience rating system is to assign individual tax rates based on an employer's potential risk to the trust fund. Basically those employers with high employee turnover and a greater cost to the fund pay higher rates than those employers with low employee turnover.

In Nevada, along with a majority of the states, we use a reserve ratio experience rating system. Under the reserve ratio system, the Employment Security Division keeps separate records for each employer to calculate the reserve ratio each year. In the formula displayed here, we add all contributions paid by the employer and subtract all benefits charged. The result is then divided by the average taxable payroll to establish the employer's reserve ratio. The contributions represent the quarterly taxes paid by the employer and benefits charged are the employer's portion of the unemployment benefits paid to former employees.

The purpose of this method is to put both large and small employers on an equal footing regardless of industry type. In the example on this slide, the has paid $6,000 in contributions, had $2,000 in benefit payments, with an average taxable payroll of $40,000, which gives him a reserve ratio of 10%. The higher the ratio, the lower his tax rate will be. If an employer has received more benefit charges than he has paid in taxes, his reserve ratio will be negative and he'll have a higher tax rate

Now I'm going to move on to the detailed schedules. The chart which is noted as page 2 in your booklets shows the result of an estimated average unemployment tax rate of 1.33%, which is a decrease from the 1.38 average unemployment insurance tax rate currently in effect for calendar year 2007. This is the recommended tax rate for 2008. In setting the schedule, the 18 different rates do not change. The rate classes are fixed by statute. Rather, the law requires that the Administrator designates the ranges of reserve ratios to be assigned to each tax rate. By doing so, the number of employers in each of the tax rates is changed, which increases or decreases the average rate and the total estimated revenues. In other words, if you want to increase taxes, you would adopt a reserve ratio that puts more employers into the higher tax rates. And to lower taxes, you would put more employers in the lower tax rates.

The law also requires that the ranges between the reserve ratios must be uniform. In this particular schedule, the ranges are from positive 7.2% to negative 15.2%, with increments of 1.4 between each of the reserve ratios. If an employer's reserve ratio is a positive 7.2 or better, he would get the lowest rate of one quarter of one percent. So in our previous example where the employer had a reserve ratio of 10%, he would get the lowest rate. An employer with a reserve ratio of less than negative 15.2 would get the highest rate of 5.4%. The rest will fall somewhere in between. In this particular chart, almost 44% of the eligible employers are in the lowest rate of one quarter of one percent.

There are 31,691 eligible employers which we estimate will generate $272.74 million in revenues to the unemployment insurance trust fund. To that, we add the estimate for the employers that are not eligible for an experience rating of 97.35 million, for a total revenue of $370.09 million, and an average rate of 1.33% for the unemployment tax. As a note, you will notice that there is an additional .05% tax for the career enhancement program, which is a separate state training tax set by statute. This is being provided for informational purposes and is not included in the projected revenue amounts. The four schedules in your booklets range from an average rate of 1.28% to 1.43%. Each schedule shows the reserve ratio increments between tax rates, the ratios assigned to each rate, the estimated number and percentage of employers, the estimated taxable wages with percentages, and a projected total revenue within this system. We can produce an infinite number of charts. Therefore, we generally will present several different schedules to give you an adequate number of choices.

In the front of your booklets, we have provided a summary, a page which makes it easier to do comparisons among the four schedules. The summary shows the range of the reserve ratios, the increments, the average unemployment tax rate, the estimated revenue and the distribution of the employers within each rate class. On the final page of your booklets, we've provided a few definitions and explanations of the items shown on the tax rate schedules and the summary page. Also included is a reserve ratio formula.

D. <u>Council Discussion</u>
Paul Havas, Chairman of the Council
Cynthia Jones, Employment Security Division Administrator

Chairman Havas addressed the members of the Council and asked them to offer their questions at this time, and the meeting was open for discussion. Mr. Havas gave Mr. Wilkening the floor.

I'm just concerned about the level of the fund and maybe I'm an optimist or a pessimist to be honest with you. The economy of the United States, from what I've been reading, is kind of marginal. And I keep reading stuff that makes me concerned about what we're going to be doing with Iran between now and the end of 2008. This concerns me and I'd kind of like to get a feel for maybe what a war or a new war would do to the fund.

Mr. Jered McDonald responded to Mr. Wilkening's concerns, saying that he touched on the subject briefly and he stated, that if there is a conflict near countries that produce oil, there will be negative impacts. Gas prices will go up and that will definitely be a drag on the economy. You will expect benefits payments to be higher than we predicted and the Trust Fund to be lower than we predicted.

Mr. Wilkening asked if Mr. McDonald felt comfortable with the recommendation. To this Mr. McDonald spoke in the affirmative and said he felt comfortable. He said that we are definitely at a crossroads, because the fund has pretty much just reached where we were before the last recession. And we're not predicting a full blown recession. So we are projecting employment growth, so we do need the fund to continue growing at least to keep up with that. At the same time, the more money we have in the fund, it's an opportunity cost. That's money that could be in employers' pockets. So we're definitely at a debatable point. But the difference between 1.38 and 1.33 I don't think is a really big difference.

Ms. Jones spoke and added that the difference between holding the rate steady as opposed to providing the minor rate reduction I believe is approximately $12 million over the year. So when it comes to the overall health of the trust fund, it's not going to have an adverse impact. However, the tax rate reduction I believe would provide a positive economic stimulus to the economy for Nevada businesses, albeit a minor one. But it does hold to the tenants of countercyclical funding. As you know, we raised taxes three years ago in order to build our reserves up so that we could reduce taxes at a period where the economy starts to suffer, as opposed to having to raise taxes during that period when employers could least afford it as was alluded to by our economists earlier. So I just wanted to make those comments as you debate the recommendations by the Research and Analysis Bureau.

Chairman Havas directed a question to Ms. Jones. He said that, previously we invited an opinion from the Attorney General's Office on frequency of meetings on this subject and we have an annual meeting on tax rates and establishment of that tax rate. As I understand it, we are precluded from meeting at any other time to establish a different rate in the course of the year, is that correct?
Ms. Jones answered to Mr. Havas question, that the Council can meet up to four times a year. However, statutorily, we only adjust the rate once a year. We are actually fortunate in Nevada that we do have a flexible system where we can adjust the rate once a year through recommendation and through regulation setting, instead of having to go through the legislative process as is the case with other states. So if we find that this rate is too low, we'll still have sufficient balances to pay benefits, but we would have an opportunity a year from now to adjust that. But I'm confident in the projections made by the Research and Analysis Bureau. They are that, just projections. There are wild cards. But I'm confident that the trust fund balance is adequate to sustain payment of benefits without risking solvency in the next year.

Chairman Havas said that this gives us ample time and he thought that there is some servitude here that we have to give ample time to prepare ourselves for that meeting a year from now. Does everyone understand what Ms. Jones is saying here? Okay, good.

IX. PUBLIC COMMENT

Chairman Havas opened the meeting for public comment at this time. There were no comments from the public in Las Vegas at this time.

Council member John Forseth in Las Vegas noted that he agreed with the rethinking as of three Years ago that we increased it and agreed that we should consider businesses and $12 million is Significant to the economy in Nevada and I would support the recommendation.

Ms Jones asked if there public comments in Northern Nevada. There were no comments.

X. DISCUSSION AND POSSIBLE ACTION ON THE TAX RECOMMENDATION

Hearing no further comment, we can open it up for a motion. Mr. George Foster made a motion That we endorse the 1.33 rate for next year. Mr. Rick Wilkening seconded the motion. Chairman Paul Havas noted it been so moved and seconded that we adopt a 1.33 average tax rate.

He asked if there was any further discussion. Hearing none, all in favor signify by saying Aye. Any opposition? None was heard. It was carried unanimously.

Ms. Jones thanked the Chairman and members of the Council and said that as Employment Security Division Administrator, she accepted that recommendation. As Ms. Richards had mentioned, we will be holding a public hearing for the regulation adoption at a date to be determined.

There have been some changes in the regulatory process this year that extend the time frame. So once we have a date solidified, that will be announced per required postings and notifications, in accordance with Nevada Open Meeting Law. I would also like Ms. Richards to state for the record that the Notices of this workshop were posted in accordance with NRS Chapter 233, if she might. Just so we have that clear.

Ms. Joan Richards, for the record said yes, there were posted in accordance with NRS Chapter 233.

Ms. Jones took a moment to make and introduction. We have our new Deputy Director for the Department of Employment, Training and Rehabilitation present in Southern Nevada. Ardell Galbreth has been with us a couple of months now. Ardell, welcome. We hope you found this meeting educational and interesting. And feel free to take the mike.

Mr. Galbreth responded by thanking Ms. Jones and saying that he hoped that the information that Ms. Jones and her team provided the Council were really helpful in guiding them to their decision. Thanks so much and appreciate the hard work.

XI. ADJOURNMENT

Chairman Paul Havas invited a motion for adjournment. Mr. Wilkening moved for adjournment and all members seconded the motion. Hearing no opposition, the meeting/workshop was adjourned at 11:45 a.m.

NOTE: These minutes have been approved at the Employment Security Council meeting on October 2, 2008.