

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

October 2, 2008

Live Meeting:

Legislative Building
401 S. Carson Street, Room 2134
Carson City, Nevada 89701

Video Conference to:

Grant Sawyer Building
555 E. Washington Ave., Room 4412
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
Kathleen Johnson - Public

David Garbarino - Employees/Labor
John Forseth - Public (in Las Vegas)

Council Members Absent

Vacant Position - Public
Vacant Position - Employers

Vacant Position - Employers
Vacant Position - Employees/Labor

Department of Employment, Training and Rehabilitation Staff

Present in Carson City

Cynthia Jones, Administrator, Employment Security Division, DETR
J. Thomas Susich, Legal Counsel for ESD/DETR
Deborah Braun, Administrator, Rehabilitation Division, DETR
Pamela June-Evans, Rehabilitation Division, DETR
Kelly Karch, Chief of Field Direction and Management, ESD/DETR
William Anderson, Chief, Bureau of Research & Analysis, DETR
Dave Schmidt, Bureau of Research & Analysis, DETR
Vickie Purcell, Administration, ESD/DETR
Donna Clark, Chief, Unemployment Insurance Contributions, ESD/DETR
Flo Bedrosian, Unemployment Insurance Contributions, ESD/DETR
Mick Coleman, Deputy Administrator, Workforce Solutions, ESD/DETR
Joyce Golden, Administrative Office, ESD/DETR

Present in Las Vegas

Terry Simonton, UI Contributions, Las Vegas Field Audit Office, ESD/DETR

Members of the Public and Media

Cy Ryan, Las Vegas Sun, LV/NV
Ed Vogel, Las Vegas Review Journal, Carson City/NV
Jim Nelson, Nevada Association of Employers, Reno/NV
Nicole Lucht, Las Vegas Employer, Henderson/NV
Carole Vilardo, Nevada Tax Payers Association (NTA), Las Vegas/NV

Exhibits

- Exhibit A - Attendance Record
- Exhibit B - Agenda for the meeting/workshop
- Exhibit C - Executive Branch Bill Draft Request for the 2009 Legislative Session
- Exhibit D - Regional Innovation Grants (RIGs) Slide Presentation
- Exhibit E - Rehabilitation Vision, Goals and Mission Statement
- Exhibit F - Review of Nevada's Emergency Unemployment Compensation and Debit Card Program
- Exhibit G - Nevada's Economy: a Review and Outlook
- Exhibit H - Review of UI Trust Fund Balances
- Exhibit I - NELP Briefing Paper
- Exhibit J - Estimated Tax Rate Schedules
- Exhibit K - Federal Unemployment Tax Act (FUTA)

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, 2008. **Exhibit A is the attendance record** of all those present. Mr. Havas expressed his appreciation of those attending and welcomed all to the meeting. Next he 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. John Forseth, Las Vegas, representing the Public. Katie Johnson, Carson City, Board of Review, representing the Public. George Foster, Reno, Board of Review and representing the Employees/Labor. Dave Garbarino, District Representative for Operator Engineer's Local 12, representing the Employees/Labor. Others on the Council: Cindy Jones, Employment Security Division (ESD) Administrator and Deputy Director for the Department of Employment, Training and Rehabilitation (DETR). Tom Susich, attorney for the Nevada Employment Security Division.

III. APPROVAL OF MINUTES FROM OCTOBER 2, 2007, EMPLOYMENT SECURITY COUNCIL MEETING (Discussion and possible action by Council)

The Chairman invited an approval and discussion of the minutes from the October 2, 2007 meeting as written and mailed. Mr. Foster 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 Jones, Administrator, Employment Security Division (ESD) Department of Employment, Training and Rehabilitation.

Ms. Jones introduced herself and thanked everyone in attendance, guests and those watching on the Internet, for participating in the Employment Security Council Meeting and Regulation Workshop.

As I start to discuss the legislative update, I want to set the stage a little bit about what's going on in the unemployment insurance world. You will hear presentations today that discuss the Trust Fund balances, our unemployment rates, and the impact of those higher unemployment rates on our Trust Fund.

Nevada is not unique. We all know that the Country is faced with severe financial and economic challenges at this point. Nevada is fortunate right now as you will see in the presentations, in that we do have money in our Trust Fund. A lot of states are struggling right now to maintain Trust Fund balances, adequate enough to pay their unemployment claims. When a state runs out of money, they are forced to borrow money from the federal government and pay interest on that money in order to pay benefits to their workers. I'm pleased to say that we are not one of those states that are considered in risk of insolvency at this point.

Regarding our legislative update, there is legislation pending at the federal level to further extend unemployment benefits. Currently this state, and all states, is paying a federal extension to unemployment benefits, as approved this July by the Congress and the President that provides up to thirteen additional weeks on extended benefit payments to unemployed workers. You will hear a presentation on that today as well. There is legislation pending as a part of economic stimulus plans that would further extend those benefits or provide a subsequent extension. Right now, as we know, the focus in Congress is on the bailout, the \$700 million bailout for the financial institutions that's stemming from the mortgage crisis in this country. So I think that's taking a little bit of a backseat, but those sorts of things are still being worked on. Our own senator, Senator Reid, has proposed legislation that would include a further extension of benefits, and also some additional worker training and workforce development funds.

For the State legislative update, we're about to engage on another legislative session in February. Our Agency has proposed a couple of Bill Draft Requests (BDRs). One of those Bill Draft Requests would strengthen the integrity statutes that protect the assets of Nevada's Trust Fund from fraud on behalf of Nevada employers. **Exhibit C is the Executive Bill Draft Request for the 2009 Legislative Session.** Unemployment insurance fraud is a growing problem across the nation. But, we are seeking to strengthen our statutes in order to prevent, detect and put measures in that act as a deterrent to unemployment insurance fraud. We have also put forward a request to amend slightly our tax methodology that would allow for group rating of employers who have similar ownership, to where they could use their same unemployment experience rate for all businesses that are related. Right now, any businesses that are required to be a legal, separate entity are required to have a separate tax rate. This would allow some flexibility and ensure the equitable distribution of tax costs across the employer community.

Beyond that, our budget requests this session will request substantial funds, approximately \$30 million, to upgrade our unemployment insurance information systems for both benefits side and the tax or contribution side. We are operating with a program whose infrastructure is thirty years old and is not quite state of the art and not quite appropriate, in order to handle the tremendous workloads we are currently facing. And it doesn't have the flexibility that we need to be able to adapt quickly to changes. For instance, different extended benefit programs. So we are very hopeful that it gets approved this next biennium. We were approved for funding in the last biennium to gather the requirements for that system and we will be concluding that part of the project very soon.

V. NEVADA'S WORKFORCE TRANSFORMATION INITIATIVE

Dr. Mick Coleman, Deputy Administrator, Workforce Solutions, Employment Security Division.

I'm the Deputy Administrator in the Employment Security Division heading up the Workforce Solutions Team. What I'd like to do for a few minutes is share some of our initiatives. This is a newly formed unit that we've been working on. Actually, some of the work has gone on over the last year, coming from the U.S. Department of Labor Initiatives. As we look at the challenges that we face in the workforce here in Nevada, we also see that there's an opportunity to really look at our regions within the State, what are the economic strengths of that and to plan for the future. So we really have tried to take a multiple prong approach in our team effort. Taking a look at the word "transformation", of working in a new way, with public and private sector partnerships, building on the work that's been done in the past and really looking at how we can strengthen our regional economies. This work has gone on across the country. Dr. Michael Porter out of Harvard has been really involved in this, with his work in Competitive Advantage; also other people like Rosebeth Moss Canter and Richard Florida.

Other states have looked at their particular regions, looking at where they can compete and I think, within our state, of course things like in the South and in the North too, with gaming and hospitality, are really destinations, global destinations, particularly in the South. But in addition to those, there are no guarantees in this kind of economy. There's a lot of competition. And we see that even with Vegas, with the competition globally with what new casinos being built in China, in Macow, Indian gaming. And so we have to look at other areas within our economy that we can strengthen. I think one of the things that we're looking at, and Nevada has a clear competitive advantage, is renewable energy. It's more than a dream in Nevada, with our geothermal.

As you go in to Reno, driving north on 395, the sign says we lead per capita the country in geothermal and how to build on that. I think, also, in recent articles about what's being explored related to wind energy. There have been meetings this week in Washoe County, and for the region, related to wind energy. Also, there are proposals in North Washoe County related to that. In the South and also other parts of Nevada, with solar energy, there is work that is already going on. Twenty-five percent of the power required at Nellis Air Force Base is supplied by solar energy. There's a solar energy farm that's under construction and development near Boulder City. Those are examples of, as we look at our economy, how to do that.

Also I think, and Deputy Director Jones, talked about the work that's going on within the Division, as far as looking at the UI Management Information System, how to modernize that. It's really an internal workforce transformation. So companies, and we, are looking at how we can work smarter together, more efficiently, have the right people and have the right tools to do our work in an efficient manner. I think another example of that was the debit card that was introduced so that we can go paperless, or electronic, with our payments to people on a more efficient and timely basis. And it's a win-win.

So with that, I would like to give my presentation. I'm not going to go through all of the slides. **Exhibit D is the Regional Innovation Grants (RIGs) Slide Presentation.** One of the things that we are working on and there's an opportunity within the U.S. Department of Labor, is that there are some resources to apply for, regional innovation grants. We've worked diligently at that and yesterday we submitted it to the regional office for a regional innovation grant for Southern Nevada. We're asking for a quarter of a million dollars. And in Western Nevada, Reno, Carson City, the counties of Washoe, Douglas, Carson, Lyon and Storey, that region were also planning to do a regional innovation grant for rural Nevada. And even though we have great strength right now with our mining, how to diversify and plan for that.

So, if I could briefly go through a couple of these slides. I don't want to go through all of them. You can read more about that. But, as we look at these regional innovation grants, they're really seed funding for planning activities. It's a comprehensive strategic plan. There's been other work that's been done similar to this and we plan to build on that work and the work of E-Dawn in Washoe County with their 20/10 program. We'd also look at how we can put our heads together, private and public sector education, economic development, workforce development, labor, business. Bottom line, what we're trying to do is, in spite of our current challenges, to be positioned for the future, to be more globally competitive, have a more diverse economy, as our economy is surviving and thriving.

They talk about a wired framework, so it's an acronym. But what we're really talking about is identifying these regional economies, to develop a core leadership group, to really take some time to look at our strengths, weaknesses, opportunities and threats, and to devise strategies to implement that. And that's what we're in the process, and that's what we've just applied to do. In the detail here, you can see a little more detail of that. I think one of the key things that is talked about is a smart strategy. So there's a lot of plans that sit on people's shelves. But we are trying to put together a plan that's multi-sector that out of it, has strategies that are specific - smart strategies they call them, but specific measurable, achievable, realistic and with a timeline. And so that is our mission that we are on with these grants.

If our grants are approved, and I think we've worked hard to put a good product in place, within the next couple of months, we'll have approval. Then we have eighteen months to develop a strong regional strategic plan that has buy-in, not only with existing resources, but how can we better align our resources; the workforce, the talent that's required, I mentioned the renewable energy and the opportunities there. We see it in the press. It's on everybody's screen. As Kermit the Frog used to say, it's not easy being green. We hear about green collar jobs and it's not only on the renewable side, the opportunity, but on the conservation side as well. And so, how can we work with our school system, higher education, to prepare people for those opportunities. Even in our research area, a Division in DETR, we have the Nevada Career Information System. So how can we work with the schools to make sure that they are aware of the opportunities. And then how can we align our infrastructure in our education at the community college and higher education to prepare our workforce?

I think the challenges are real, it is a global market. Nevada has great strength, and what we're trying to do, even in these challenging times, is to put our heads together to weather the storm and to be ready on the other side of this; and there will be another side.

We also know that as we look at other strengths, and in the North here, in Western Nevada with logistics and the warehousing and this position, we're close to big populations on the West Coast. Our business environment is good, very strong. How can we preserve that and attract investment. Bottom line is business investment and jobs, to raise our state economy, which is made up of region economies, but also the standard of living for our people. So that's what we're trying to do.

There are other efforts that we're aligning with. We've had the opportunity to be asked to participate in the National Governor's Association Policy Academy that works with this. And so we're working with that. I'll attend a meeting in a couple of weeks where we will be learning. They will pair us with a state that's further along with this, just so we don't reinvent the wheel. There's a lot of good information being shared. Next week I'll be at a conference on energy, renewable energy, but on the education side of that and looking at how we can better align our work.

VI. VOCATIONAL REHABILITATION BUREAU UPDATE

Deborah Braun, Administrator, Rehabilitation Division, DETR.

Ms Braun will be providing the Council with an update. First thing I'd like to start with is I provided a handout of our council members. I thought you might be interested in who sits on our council (part of Exhibit F). Our council is very active with our Division. In fact, we work in concert with them to develop our goals. I've also provided you with a handout relative to our Rehab Division Mission Statement, our Mission Statement and then our current goals. We worked with our council to develop these goals and this is essentially what we'll be working from this year. **Exhibit E is the Rehabilitation Vision, Goals and Mission Statement.**

I'd like to provide you some information about where we are now, relative to our performance indicators. We've had a very good history of meeting our performance indicators. The first indicators that I want to start with are the State Performance Indicators. I do not have a handout of these indicators, but I do have the presentation here.

This is a list of our State Performance Indicators. This is what we report to the legislature. The first indicator that we track is *the percent of clients with a competitive employment outcome*. So we track, out of all of the clients that we serve, the percent that are competitively employed after we provide them with service. Next, *the percent of clients with healthcare available through their employer*. One of the important things that we feel that we need to do in working with individuals with disabilities, are to get them work with an employer who has healthcare. And next, *the average hourly earnings*. We track our average hourly earnings and we set a goal each year on the amount that we track. And I'll be providing that here. *The percent of clients from ethnic minority populations*. We track this percent relative to the ethnic minority populations in the working individuals in the State of Nevada. And then lastly, *the percent of increase in competitive employments for transition students*. We work with the high schools in providing assistance to individuals, students with disabilities and transitioning them from high school to work.

So the first item here is the competitive employment performance indicator. BSB is the bureau of our blind and visually impaired bureau. And in State Fiscal Year 2008, we exceeded our goal. The goal was 55.8 and we attained 69.3. And then our Bureau of Vocational Rehab, we also exceeded our goal.

Next, clients with medical insurance. Our goal was to find employment with employers who have medical insurance at 35% and 45% for BSB and BVR. We exceeded our goal here as well.

Hourly earnings, our goal for BSB, \$12.46 and we exceeded that goal. And then for BVR \$10.48 an hour, and we exceeded that goal.

And ethnic minority populations, 35% for both bureaus. We exceeded that goal also.

Next, the federal government tracks us and requires us to track performance indicators at the federal level. It is somewhat similar information, a little bit different as far as what the data is that we collect. But, again, we track the number of closures into competitive employment. Percent of clients that are closed, rehabilitated. Percent of clients that closed, rehabilitated making at least the minimum wage. Percent of significantly disabled clients. These clients that closed rehab making at least minimum wage. The ratio of average hourly earnings compared to state earnings average. The difference between the percent of primary source of support at application versus closure. And then again, the ratio of minorities closed to the total number closed.

And for this, what we've provided you here is our four-year history. And we've been quite successful with our performance indicators here historically also. So with the first performance indicator, there are the goals that were set and what we attained.

And then closed rehab versus closed other. Again, we met and exceeded our goals. Closed rehab minimum wage, again, we met and exceeded our goals. Significantly disabled receiving minimum wage, we exceeded our goals. And then hourly wage versus minimum wage, exceeded our goals. Earning own income at applications versus at closure, we exceeded that goal. And then percent of minorities closed and we exceeded that goal.

Next I'd like to talk to you about a few other things. First, our budget forecast. As with other state agencies, we had a budget cut recently and actually lost five positions. We have had a total of 46 vocational rehab counselors statewide. In fact, we lost two counselor positions and a rehab assistant position, a vocational evaluator position and a recreational therapist position this summer. Not sure what's going to happen in the future, if there are any other budget cuts, but our Division has been experiencing the result of the recent budget cuts.

We've also been involved with the Rehab Services Administration. This is the federal department that monitors us. This year they came out and visited with us. They've been looking at our data and they've been auditing us. We're in the throes, at the end, actually, of that monitoring review.

After the review we will be receiving a report from them and we will be involved with various goals and activities with making some changes as a result of that review. It's anticipated there'll be some minor changes. We don't anticipate very major ones.

Every year we develop a state plan. Our council is very involved with us in developing the State Plan. We are required to turn that in to the federal government and we've recently received approval for that. That State Plan will be posted on our website, if anybody's interested in reviewing that.

Next, my focus is going to be updating our Strategic Plan. Each Division with the Department has a Strategic Plan and I'm in the process of updating our Strategic Plan. That will include items regarding consumer satisfaction and then focusing on recruitment, retention and succession planning. Our Division has experienced a lot of turnover of staff. We've had a lot of staff retire lately or taking employment with other employers. Actually, it's a national problem. Other states are experiencing the same retention and recruitment issues. There aren't as many people graduating from college that are focusing or majoring in vocational rehab and every state is experiencing issues relative to recruitment and retention. So we're really focusing on this issue now.

VII. UNEMPLOYMENT INSURANCE PROGRAM UPDATE – EMERGENCY UNEMPLOYMENT COMPENSAION AND DEBIT CARD PROGRAMS

Kelly Karch, Chief of Field Direction and Management (FD&M) - North, Employment Security Division., DETR

On July 2, 2008, Governor Jim Gibbons signed an agreement with the U.S. Department of Labor for Nevada to participate in the federally funded extension of unemployment benefits approved by Congress the week before. Because the federal government will reimburse the state for all Emergency Unemployment Compensation, otherwise known as EUC benefits paid to claims, the experience rating accounts of employers will not be charged. Individuals were able to claim UC benefits starting with the effective date of July 6, 2008, with the program continuing through March 31, 2008.

On July 17, 2008, approximately 40,000 letters were mailed to Nevada citizens advising that they may potentially qualify for an EUC claim. On July 23, 2008, the Department of Employment, Training and Rehabilitation officially began accepting and processing EUC claims through the telephone call centers statewide. In the first week, 5,967 EUC claims were established. Prior to the implementation of EUC, the Division typically processed approximately 3,000 initial claims each week. Since its implementation in July, 2008, the EUC program in Nevada has established 18,292 claims for Nevadans. This represents 63% of all the initial claims in this period. The response to the surge in initial claim filing including the call centers were staffed until 7 p.m. on weekdays and 8 a.m. to 5 p.m. on Saturdays. Currently, the call centers are open to take claims from 8 a.m. until 6 p.m., Monday through Friday. And the Internet claim filing system was enhanced to handle EUC claims online.

By the end of August, the number of new EUC has stabilized to a level of 700 to 800 per week. Subsequent to every sudden increase in claim filing is a sudden increase in potential eligibility issues that must be adjudicated. Adjudicators continue to work on Saturdays to resolve these issues. And in fact, the frontline staff in the claim centers has been working overtime since December of 2007 to keep up with the demand. And these are my people, so I'm going to talk about them for just a moment. This is voluntary overtime. So they have given above and beyond to make sure that Nevadans receive their benefits.

There are two impending extended benefit programs that are being monitored. State extended benefits are implemented when triggered by the Insured Unemployment Rate, IUR. If triggered, this could occur in Nevada in about one year. Secondly, an extension to the current Emergency Unemployment Compensation program is not automatically triggered. Legislation for this must occur through the U.S. Congress. And as a side note, approximately \$34 million in federal funds have been piped into the Nevada economy through EUC. Given the million in multiplier fact, this generates \$70 million in economic activity in this state. Any questions on EUC? **Exhibit F is the Review of Nevada's Emergency Unemployment Compensation and Debit Card Program.**

Mr. Karch continued his presentation and explained about the Debit Card program. Mr. Karch showed a debit card to show the Council as to what it looked like. There's no identifiers on it. And when the folks access their benefits, there's no way for anyone to know what they're doing. So there's no stigma to accessing what they're entitled to.

Review of the State of Nevada Debit Card Program for paying unemployment insurance benefits. Since its inception in November, 2007, the State of Nevada's Debit Card Program for paying unemployment insurance benefits has issued 1,273,463 payments for a total of \$383 million statewide. This represents 93% of all payments made. 7% of the claimants have requested to still receive unemployment checks. The benefits to the State of Nevada include:

- Significant reduction in the cost of issuing payments to claimants. The State has saved \$434,000 in postage alone. And this does not include the additional expenses of check stock and printing.
- Significant reduction in the cost of processing returned checks. Typically eight-tenths of 1% of all checks are returned for inaccurate addresses. Without the Debit Card program, the monetary unit would be returning or reissuing 360 checks per week. This required one-half of a full-time employee. Currently, there are 25 checks returned per week. Debit card payments do not require the most current address to pay the claimant.
- Significant reduction in the time cost of handling payment inquiries in the call center. All inquiries regarding lost or stolen cards and slow or missing payments are returned to the EPPI Card Center. In other words, these folks, not us. It is unknown if the actual number of calls to the Telephonic Initial Claims (TIC) center has reduced, but the time per call has.

The benefits to the claimants using the debit card include:

- Reliable, fast and secure. The claimant has access to funds overnight and transiency does not affect payment. The claimant has immediate access to payments and without waiting in line to cash or deposit a check. The incidents of stolen checks has reduced significantly.
- Convenient. The claimant may use ATMs 24 hours a day and make purchases everywhere VISA debit cards are accepted, including gas stations, grocery stores, restaurants and pharmacies.
- Track spending. The claimant has access to free online account information and customer service 24 hours a day.

Mr. Karch asked if there were any questions. Councilmember Dave Garbarino asked if the debit card was mandatory or is there an option to receive a check still? Mr. Karch responded that it was voluntary. He said that it started a little slower, but it has gradually increased to well over 90%. And one of the benefits of this, as someone who works in the call center and manages the call center through my staff, is; if there's a problem with an issue for unemployment benefits, and this happens, something gets lost, something happens, we can get those payments out to them within 72 hours. Before, we had to print the checks, send it out through the mail. So, this has been, for those who access this system, a great boon for them to make sure that those payments keep coming and they come timely.

Chairman Havas thanked Mr. Karch and gave the floor to Cindy Jones, the Administrator for some comments.

Ms. Jones mentioned that this is the portion of the meeting where we move into the formal workshop to consider the tax rate for the upcoming year. She said that the Division is required to conduct an annual workshop in accordance with NRS Chapter 612 and Nevada Administrative Code as well. In accordance with NRS Chapter 333B.061. This is a public meeting and this is a time where we open the workshop to consider the tax rate schedule adoption for the next calendar year. With that, I'll turn this back over to the Chairman, who will bring up various presenters to discuss the outlook for our Trust Fund.

VIII. WORKSHOP TO CONSIDER ADOPTION OF REGULATION TO ESTABLISH THE UNEMPLOYMENT INSURANCE (UI) TAX RATE SCHEDULE FOR CALENDAR YEAR 2009 (NEVADA ADMINISTRATIVE CODE 612.270)

A. Economic Projections and Overview

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

The purpose of my presentation is basically to give you the economic environment or backdrop against which you'll be making your recommendations with respect to the UI tax rate. Let me begin by saying that there are three, what I would call main drivers of Nevada's current economic situation. One being problems in the housing market.

Secondly and related to this, volatility and uncertainty in the credit markets. And then thirdly, problems with consumer budgets. Consumer budgets are strained at this time. Spending has been reduced. Visitation has been reduced. So together, all of these things are driving Nevada's economy right now. But all three of those are really external forces. They're not anything specific to Nevada. So, the way I'll start is simply by giving you an overview of national economic conditions.

Then I'll transition into an overview of economic conditions here at home in Nevada. And then finally offer some projections to help you get started on your decision-making process. And then that will transition into Dave Schmidt's presentation. I know you've heard a lot of technical information this morning. Feel free to interrupt as I go along here and answer questions if that's agreeable to the Chair, rather than wait until the very end. **Exhibit G is Nevada's Economy: A Review and Outlook.**

In terms of U.S. economic fundamentals, our economy has been growing officially since November of 2001. Obviously though, that may be coming to an end or perhaps already has come to an end with the much publicized difficulties in the economy. Our job growth in the nation as a whole has come in at about 0.2% so far this year and that's through August. Consumer spending has grown at a miniscule 1.4%. That represents about two-thirds of our economic activity here in the nation. And when you have two-thirds of your economy only growing at about one and a half percent that can cause some significant problems. Then finally, residential investment, housing activity if you will, is down by about one-fifth, year over year relative to 2007. So, again, I think this kind of information is useful as we begin our discussion about Nevada.

Now the one thing you may have noticed that I've left off here is any mention of the much publicized \$700 billion bailout. That's, at this point, too much of a political football for me to be able to comment on. But I will use it to kind of put things in perspective. I've argued that many of our problems here in Nevada are external in nature and beyond our control. So let me just make one attempt to try to put that \$700 billion in perspective. What that equates to here in Nevada, if my math was right early this morning, is about 28 years of gaming win. We, right now, are averaging about a billion dollars a month in gaming win here in the state. And if you assume that grows at about 5% a year over time, that equates to 28 years of gaming win in Nevada. So, that's the size of the problem that is more or less kind of swamping our economy here in Nevada. So with that, let's begin our specific discussion of Nevada.

Despite our economic difficulties of late, our population continues to grow. For all intent and purposes, we've been the fastest growing state in the nation for two decades running. There was one year, just a few years ago, where Arizona surpassed us, but we have since bounced back up ahead of them in terms of population growth. So we continue to grow. And that puts pressure on our economy. It puts pressure on public finances. Growth doesn't always pay for itself. And that's especially true when our economy is not performing quite up to speed.

Our unemployment rate here in Nevada, most recently reached 7.1% in August. That's the highest it's been in about 23 years. We bottomed out, as you can see, at about 4.1% back in the early to mid 2006 period. And we've been rising pretty much ever since. And as I said, we've most recently reached about 7.1% in August. That period between roughly 2002 and 2006 is really remarkable. And I would argue that it really illustrates the vitality of our economy here in this state. During that time, we were absorbing anywhere from 3 to 5% population growth.

We were generating jobs. So much so, that we were able to drive down our unemployment rate while our population was booming. And that's really, I think, a remarkable story. I come from back in the industrial Midwest around Detroit and this doesn't happen back there. So for Nevada to be able to pull this off and absorb those population inflows and generate enough jobs to drive down our unemployment is, as I said, really, really remarkable.

We have been hit relatively hard by our current economic difficulties. For several years running, Nevada had an unemployment rate that was below the national average. Upwards of about a percentage point or so back in 2004 and 2005. However, given the fact that this downturn, through its impact on housing, through its impact on development, through its impact on consumer spending and tourism, we've been hit hard. And right now our unemployment rate has jumped back up above the national average here in Nevada.

The unemployment insurance piece of information that I'll show, because Mr. Schmidt will show a lot more, but the one that I will show I think really kind of illustrates the human toll that our current economic difficulties are placing upon Nevadans. This chart shows the number of unemployment insurance exhaustions, folks who run out of their unemployment benefits. And you can see the cyclical nature of that. You can see how it declined during our very strong economic times through 2006 and how it has been trending up ever since.

Switching from unemployment to employment, our job growth so far this year has actually been slightly negative. We're down year-to-date about four-tenths of a percent. You can see us coming out of our very strong period back in the early part of 2007 and how growth has gradually declined, and as I said, recently turned negative, as the economy has continued to slow.

Again, in terms of our performance relative to the U.S., Nevada, over the long haul, has always been able to outperform the U.S. economy, regardless of the economic measure used. And you can look back at 2004 and 2005 especially and our job growth back then was four times the national average. We were up at about 6%. The nation as a whole was up at about 1.5%. But again, because of the relatively strong impacts that the economic slowdown has had on Nevada, we've lost that advantage.

Now, looking at trends, very quickly on an industry basis or sectoral basis, our largest industry leisure and hospitality has been relatively flat so far this year. Trade transportation and utilities, driven in large part by retail trade, has actually added about 5,500 jobs. Professional and business services jobs are down by about between 3 and 3½%. Perhaps most notably, but probably certainly not surprising, we've lost about 12,000 construction jobs in the first eight months of this year, relative to the first eight months in 2007.

Now very quickly leaving the labor markets for a moment, just some other economic indicators. Taxable sales activity, we've all read a lot about the fiscal difficulties that the state is facing and local governments are facing. Our taxable sales have declined every month but one so far this calendar year. Visitor volume to Las Vegas, you can see is topped out and in fact, in the last couple of months, we've seen visitor volume decline anywhere from 3 to 4% year-over-year. Gaming win growth has been negative every month so far this year. So again, you can see that these problems aren't just impacting the state's labor markets, but they're impacting other components of our economy as well.

Now I've mentioned construction a few times because I think that's one of the major drivers of our economic situation here in Nevada. In terms of job growth, you can see that we're approaching year-over-year declines in construction jobs of about 15,000. August 2007 to August 2008, we lost roughly 15,000 construction jobs here in Nevada.

Looking at real estate activity, I've just shown you some trend lines here for a couple of different measures. I've gone down to Southern Nevada because we have a pretty good handle data-wise on what's taking place in their housing market. But, you can see the pronounced drop in new home closings or new home sales that have been ongoing since 2006. You can see the decline here in new home prices that's been taking place for roughly the last year and a half or so. Then finally, on the resale market, you can see how things have ticked up a bit down south. With respect to the number of resales. I will tell you that a lot of that recent activity is the result of banks selling the homes that they have foreclosed upon that have come back into their possession. And they put those out on the market and they've had to cut prices in order to move those properties. So that's one big explanation of why we're seeing some apparent improvement on the resale side of the market.

Now let me switch focus to the last thing I'd like to do and that's present you with some projections. Personally, I think it's very important when somebody comes to appear before a public body such as this to kind of establish your projections record. Anybody can come up here and say we think the unemployment rates going to be this. We think job growth is going to be this. In the Research and Analysis Bureau, we've undertaken an exercise to take a look at how accurate we've been in the past with respect to our projections. And I know that Mr. Schmidt will talk about the same thing with respect to last year's trust fund projections. But what we've found is that we do a commendable job, I'm patting my staff on the back here. We do a commendable job of projecting our employment numbers during normal times.

If you go back into the early and mid-2000's, our forecast errors were, in the first year or two of a forecast, tended to be less than one percent off from actual results. So we did a pretty good job. Now, obviously, in the current environment, it's hard to get a handle on things. We've struggled to get a handle on things. If you'd have asked us two years ago or even a year ago if we thought things would be this soft in 2008, we wouldn't have said they would. But we think now, especially with this last round of projections, that we've got a pretty good handle on things.

So this is what we were facing about a year ago. I really like this chart. It shows our job growth. I also show major expansions in the gaming industry, in our leisure and hospitality sector. Not surprisingly, our peaks in job growth are associated with major expansions in gaming capacity. You go back to 1994 or 1995, roughly, with the Luxor and Treasure Island and MGM and then New York, New York in '96 and '97, a big round of expansions beginning with the Bellagio in 1998 or 1999. And then on through Steve Wynn's property. You can see that our job growth peaked with the opening of these mega resort type properties. So that's what we were looking at when, a year ago, when we were developing our projections. And at that time, we were looking at some significant new openings.

The Palazzo has already occurred. Encore, City Center, Cosmopolitan, each with significant numbers of new jobs. Notice I've highlighted Echelon Place because of the delay in the construction of that resort. But we have a lot to look forward to. But, what happened for the first time in recent memory, is that we just simply didn't get that bounce up that we usually get associated with major construction, mega resort construction projects. You can see that I've updated two slides ago, we just didn't get that rebounding job growth that we're used to. And again, that's the first time that's happened in recent memory.

But in terms of the specifics of the forecast, what we're looking at for all of 2008 is a job decline of about 1.1%. That will be followed by some stability. In 2009 we're looking for job growth to once again go into positive territory, about 0.3%. And then in 2010, 2011, we're expecting to see some more pronounced job growth. Nothing like the boom period that we just got out of in the middle part of this decade, but certainly some much needed new job growth in upcoming years.

In terms of highlights of the forecast, we're looking for about 44,000 new jobs through 2011. Accommodation in food services growth will peak in 2010 and that's going to be associated with three major mega resort openings. As far as constructions goes, we think that there will be some gradual stability in the construction sector with a return to growth in 2011. Financial services will benefit from some stability in the residential and commercial markets and job growth there will pick up beginning in about 2010. And then in rural Nevada, which has been one bright spot in our economy of late, our lowest unemployment rate is actually in Elko County, it's about 4%. But we're looking for about 1,000 new mining jobs in our mining sector.

As far as the unemployment rate goes, we have a formal forecasting process for the job side of the picture. As far as the unemployment rate side goes, we kind of try to fit our unemployment rate projections so that they're consistent with our job projections. And given our job projections, we're looking at an unemployment rate in 2008 that will end up between 6 ½ and 7 percent on an average annual basis. That will rise to roughly 8½% in 2009. And then we'll see some stability. It's important to note, I just laid out a scenario where, over time, we expect things to improve. We expect to return to job growth. Well, if that's the case, why doesn't our unemployment rate go down. Well, I'll refer back to roughly my third or fourth slide, the population slide, we're continuing to draw people to Nevada. As I said, we're the fastest growing state in the nation and they're going to be coming here. But at least for the short term, their job prospects aren't as bright as they used to be and that will put some upward pressure on our jobless rate. Mr. Anderson concluded his presentation here .

At this point Chairman Havas asked for any comments from the Council and from the public. Hearing none, the Chairman gave the floor to David Schmidt.

B. Review of Unemployment Insurance Trust Fund

David Schmidt, Economist, Research & Analysis Bureau, DETR

Mr. Dave Schmidt will be talking about the forecast and projections for the Unemployment Insurance Trust Fund for 2009 and will be going over the objectives of the unemployment insurance program. He will review the current economic conditions as it pertains to the unemployment insurance system and take a look at the current balance of the trust fund and the money flowing in and flowing out. He will be going to look at the forecast we made last year and where the numbers actually ended up. Also he will give us an insight at the tax rate alternatives for 2009, go over a few wild cards that could affect the projection, most of which have been sort of floated here already. And then will recommend a tax rate for 2009.

The program objectives of the unemployment insurance system is to provide temporary limited income replacement to people who lose their jobs through no fault of their own. This accomplishes a few objectives economically for the state. On a big scale, macroeconomic picture, it helps to strengthen the entire labor market. When people lose their jobs, they don't have income that they can spend. So, by providing some limited income replacement people will spend it on the basics of daily living like food and rent. Mr. Karch mentioned people who can swipe their debit cards at the pharmacy and the grocery store, this is where unemployment insurance money is generally spent, because people have less to spend so they spend more of it on their basic requirements. So this helps support spending through the entire economy.

The Department of Labor in 1999 had a research paper to say what's the effect of unemployment insurance and they found that on average, there was about a 2.15 multiplier that's applied to benefits. So if you spend 100 million in benefits, the actual effect on the economy is roughly 215 million. So we help maintain spending in the economy and we also help individual workers who are going through a tough time when they lose their job and don't have money. So we help protect individual households by providing them with some income stability. We accomplish these countercyclical funding, as Ms. Cindy Jones mentioned earlier. This is where we raise taxes, generally during good times, to build a reserve so that we have money available, because benefit payments tend to spike when the economy goes through a downturn like we're experiencing right now.

So we built a reserve during the good times that Bill Anderson highlighted for you earlier. We ended last year at about \$803 million. We have this reserve available so that when things go south, we have that reserve and we can draw it down and pay benefits without requiring any additional taxes on employers when times are tough.

Moving on to the current conditions. **Exhibit H is a Review of the Unemployment Trust Fund Balances.** This chart shows you the change over the last twelve months in initial claims. So for each individual month, you're looking at 2008 compared to 2007 or 2007 compared to 2006. These are initial claims, the first claim that's filed by someone who has lost their job.

You can see here that there's been a marked increase from 2008 compared to 2007. In 2007, we're starting to look a little shaky and things have gotten worse for the program over the past year. Through August of 2008, we've seen a total increase from 2007 of just under 40,000 initial claims. That's an average of 4,963 per month. And you can see on this chart here that the only time, we don't actually pass that level at all in 2007, the 4,600 per month. The highest time we had in 2007 was an increase of just under 4,000 from 2006. So far through 2008, an increasing number of people have been claiming initial benefits.

The second chart shows you continued claims. This is the weekly claims. So one person claiming unemployment benefits for an entire month would have four claims show up in this cycle. It shows you the total volume of claims that we're dealing with. And again, it's the change from the year before. You can see that we've been peaking here in the 70 to 80,000 claims per month range, compared to 2007, which again, was at a higher level than 2006. So far through August, we've had 372,000 more continued claims than we had the year before. That's an average of 46,537 claims per month. And you can see that only one time in 2007 did we have a single month go above 46,000 and that was in December, which was since the Council meeting. We've been increasing at a rate that we hadn't seen for a while. This is a large change. It represents, on a weekly basis right now, we're in the 50 to 60% more claims right now than what we had in 2007. And this places a significant strain on the unemployment insurance program.

This shows you the total volume of continued claims each year and what we're looking at for 2009. You can see, when you have a downturn, it's pretty typical to have a very large increase. The numbers that are listed on this chart are two years apart. So we have 1990 to '92, 2000 to 2002, and then 2007 to 2009. You can see in 1990 we went from 579,000 claims to 1.1 million claims, an increase of roughly 550,000. In 2000 to 2002, we had an increase of about 720,000 claims from 1 million to 1.7 million. And then from 2007 to 2009, we're looking at a larger increase still of going from about 1.2 million to about 2.4 million claims. And these are the claims that people, if the claim is approved, these are what we'll be paying unemployment benefits on. And so, this is the sort of demand that we're looking at the Trust Fund being able to meet. And again, this is why we have a reserve. When things increase like this, we have this reserve that we built when claims were low there in 2006, 2005, to pay the additional benefits we're going to need.

The average duration of unemployment benefits after bottoming out near the end of 2006 at 12.63 weeks per claimant has risen to just under 14 weeks. This is a twelve-month average. So it's actually a number that is probably lagging the current state of the economy a little bit. And that's why in 2004, things were going pretty well. We were recovering, but the number was still high because it's looking back a year. And this is comparing the total number of payments that are made to the total number of first payments that are made over that year for comparison. So this is a number that's been rising and should be expected to continue to rise as we've seen more people, as Bill pointed out, running out of benefits. And for people who exhaust their benefits, you're generally looking at about 21 weeks that they've claimed.

So the average person right now, over the past year, has claimed about 14 weeks of benefits. But there are an increasing number of people that are running all the way up to the end of their available benefits and getting 21 weeks, 26 weeks, and then moving on to the federally funded EUC program (Emergency Unemployment Compensation). So this represents again, growing demand on the system.

This projection shows the contributions, benefits and the effect of interest earned on the Trust Fund over the past 22 years, and it does include our forecast for 2009. You can see when there's an economic downturn, benefits generally rise above the level of total income to the fund, which will draw down the Trust Fund. And this is just to highlight that this is a typical thing. You can see also that they fall. And they fell in an unusual way during 2005, 2006, which helped us to build the reserve that we currently have in the Trust Fund.

This slide adds in the Trust Fund balance. That would be the blue line on the handout. The red line there is going to be the total payout from the system. And the grey line is the total income to the system. You can see the cyclical activity of the Trust Fund here, where it peaks and then falls off during downturns. And then when the economy starts to recover, the Trust Fund builds up again. The Trust Fund balance, will drop or rise depending on the difference between the income and the payout from the fund. So you see right at the end of 2008 there, we had a total payout from the fund that was about \$50 million above the income to the fund, which caused the Trust Fund to drop a little bit. And as the economic situation is still uncertain and still in that growth pattern of being up 50 to 60% from a year ago, we're expecting that to continue into 2009. Where contributions are going to be a little flat and following the increase in claims, the total payout from the fund is expected to rise, and that's in the neighborhood of 640 million there.

Getting into our estimates from the 2007 Council Meeting for 2008, we were looking at having a covered employment that was a growth of 22,000 jobs from '07 to '08. We actually declined by about 1,000 covered workers over that time period, so we had a difference there of about 23,000. The weeks claimed, this is the number that really jumped up on us. We had the situation deteriorate significantly in the fourth quarter of 2007 and so far this year, against expectations of 1.3 million claims, we had about 1.7 million claims. We had about 400,000 more than we were looking for. And that's an increase of about 48%. You can see the total unemployment in the state was up about 19.3% from what we were expecting from 69,000 to about 82,000 out of work.

Looking at our forecasts for the Trust Fund balance. Because we had slightly fewer jobs than we expected, the total income to the fund declined. We were expecting 416 million to come in. We actually realized about 395 million. That's a combined effect from having fewer jobs than we expected and also earning a little less interest than we expected on the Trust Fund because we had that \$50 million draw down over the course of the year. Because our weeks claimed was off a little bit, because of the difficulties that we've had this past year, our projected benefits were, instead of the 340 million we were expecting, we had \$450 million that we paid out from the Trust Fund in this past year. So you'll remember in 2007, we had about \$803 million in the Trust Fund. We paid out more than half of that over the past year.

We had about \$395 million worth of income to the fund, so we didn't actually drop half of the Trust Fund balance, but it just shows the level of payouts that you can see when the economy is in a slow time like it is right now. These two effects added up so that instead of an increase of \$70 million to \$873 million, we declined, again by about 50 million to about \$745 million as of the end of September.

The next slide presents the solvency calculations that are defined in NRS 612.550. We're to take the covered employment as of March 31st, the average for the last year, because that's the most recent information we have there, the risk ratio, which is first payments divided by covered employment. It's to give us an idea of how many people might go into unemployment. And that's the highest number from the last ten years. The highest weeks duration in the past year, and this is to say, of those people that begin receiving payments, how many weeks of payments might we expect them to claim. And then the current average weekly benefit, and that's just the current number because that's one that usually rises pretty steadily over time because of the effects of inflation. So we have a calculated solvency target of \$560 million for 2008. And I'd like to take just a second to talk about the solvency level and what we're looking at it for.

In your packet, we have a paper that was produced by the National Employment Law Project (NELP). **Exhibit I is the NELP Briefing Paper.** This is an advocacy group. They talk a lot about unemployment benefits. And on page four of that, they're just defining some targets that they use to measure the solvency of a trust fund. One of those is the average high cost multiple. It's in a little box on the top of the fourth page. And in that it says, the Advisory Council on Unemployment Compensation, a federal advisory panel, recommended in 1995 that states maintain a prerecession average high cost multiple of 1.0. Table 2 at the end of the paper provides the AHCMs for each state as of 2007.

In 2007, based on the time that they calculated this, Nevada had a Trust Fund balance with a multiple of 1.02, which was above the minimum level that they recommend there. But I'd just like to highlight the fact that what they're talking about is a pre-recession target. They're not saying that you always have to have this money in your trust fund, but this is the balance we recommend before you go into a downturn, before you know that times are soft. And so I'd like to highlight that because, the goal of the Trust Fund is not to just have money sitting around doing nothing, the goal is to build up reserves during good times so that you have it available to absorb the impact of the additional strain because of benefits during downturns so that you don't have to place an additional burden on employers to finance unemployment during tough times.

The average high cost multiple by the way and the Nevada solvency target here are slightly different in how they're calculated. The Nevada target looks at the last ten years for the highest risk ratio and highest weeks duration. And as you could have seen from Bill's numbers, the last ten years for Nevada haven't been that bad. We've been pretty decent. We had a slowdown in 2001, but by historical standards, that was a fairly weak recession. It didn't really hit us as hard. Whereas the situation we're in right now is already, we have an unemployment rate that's the highest it's been in over 20 years. So, the average high cost multiple here, they mention and I have it at the bottom of the slide here, is a longer time. It looks at 20 years, or a period of time sufficient to include at least three recessions.

Because it says, you might need a little bit more in your Trust Fund if your reserves weren't that good. But by both targets in 2008, we were above that. We have in the Trust Fund right now 33% more than the target by the Nevada standard. And we're about 4% below, actually, in 2008, as of what we're projecting for the end of this year, than what they would recommend before you go into a downturn. But we're already probably in a downturn. And so, to have less than that 1.0 isn't necessarily a bad thing. In fact, it should be expected.

The bottom half of this slide shows you for the last four years, how much we've taken into the Trust Fund via the unemployment insurance tax, the State tax. And we have the interest that's been earned on the Trust Fund balance. We have the total payout from the fund. And we have any redact expenditures. This is based on distribution that the State received from the federal government in about 2003 of about 65 million, roughly. And this is any money that's spent out to either pay benefits or to help improve the unemployment system to provide services to claimants in the State.

I'd like to point out, in the payout section, you can see the regular benefits in 2005 were just under 220 million, whereas, in 2008, it was over 450 million. This is, again, just showing the level of increase that you can see over a fairly short time. Even in 2007, it was just 304 million. So that's an increase of about 50% from 2007 to 2008 in the demand that we've seen on the unemployment system.

The next slide shows what we're looking at for 2009. We're looking at an estimated covered employment of 1.1 million. This is down about 14,000 from the 2008 levels. This reflects that negative employment growth that Bill pointed out earlier. We'll still have the highest risk ratio and highest weeks duration at 11.03% and 15.76 weeks respectively. And we're looking at an average weekly payment by the end of 2009 of about \$297 per person. This would give us an estimated solvency target of a little under 570 million. Depending on the tax rate that's set, the estimated intake to the Trust Fund can change. We go, in the tax rates presented at the bottom of the page here from about 352 million to about 395 million in taxes. But even at the high end of this range, which would represent a tenth of a percent increase in the tax, we're still below the level of benefits that we've seen in 2008. And since we're projecting an increase in that demand in 2009, we'd be still well below that.

The payout from the Fund is constant across all four columns here. We're looking at paying out about \$641 million in benefit payments. And we're looking at a \$4 million payout from the Fund for the Reed Act money for the Unemployment Insurance Modernization project, which Cindy Jones mentioned earlier. This is to bring the system actually into compliance with some Department of Labor (DOL) reporting requirements that we have as well to help modernize it. This is an important thing. And this is for a part of that project, just what we're expecting from October 1st of 2008 through September 30th of 2009.

The net change in the Fund is presented here. This will give you an idea of how much we expect the Trust Fund to change depending on the tax rate that we set. In each of these situations, we're looking at drawing over \$200 million out of the Trust Fund. But this is the reason that we've built a reserve in the Trust Fund.

When times are good, we stock this money away. And then when times turn down, we have this money available to help pay back out into the economy. So this draw down of \$250 some odd million is money that we're expecting to feed back into the Nevada economy to help stimulate spending. Using that 2.15 multiple, if we pay out 253 million from the Trust Fund, this could represent a boom to the Nevada economy of over \$500 million in additional economic activity that it wouldn't see otherwise. And looking at the total payout from the Fund with what's coming out of the economy in taxes and what's going back in through benefit payments, at \$640 million, 2.15 times that is in the neighborhood of \$1.2 to \$1.3 billion of increased economic stimulus from the unemployment insurance program for the economy that's having some tough times.

With each of these tax rates, we would have an ending Fund balance that's below the solvency target. But again, that's expected. During a downturn, you pay out a lot in benefits and you have the reserve in the Trust Fund there to absorb the blow so you don't have to increase taxes to pay for it. Depending on the tax rate that's chosen by the Council, the solvency level would be between 100 million below the target and about 50 million below the target. If we were to actually try to hit the target, we'd have to actually increase the tax rate by about 3/10th of a percent to 1.63 percent and that would put us at that \$570 million level and still represent a drawdown in the Fund that's pretty significant but not quite as much. So really, during a downturn, to try to pay for benefits at that time is much more difficult than what we've done historically, and that's building a reserve slowly when times are good.

This chart shows you where we would be in 2009 with the tax rate we're going to recommend of 1.33%. That would put us 14% below the Nevada solvency target. This is something we haven't seen since the early 80s, but again, we have an unemployment rate that we haven't seen since the early 80s, so this is probably pretty comparable. It represents a drop from the peak that we had in 2006 of 47% above to 14% below. It's a drop of about sixty points. And in previous recessions, we've seen between usually about fifty to fifty-five points in a drop there. So this is a pretty typical measurement.

Looking at the average high cost multiple, which is mentioned in the NELP paper, which we've been presenting here for a few years now, we go from a peak of 7% above the solvency target in 2007 to we're looking at about 37% below the target in 2009. This is a low point in the series looking back to 1990. And it's again, comparable with where we were in the early 80s. Of course, the situation is pretty uncertain right now.

There's a lot of questions at the national level. And as Bill pointed out, that trickles down and affects what's going on here in the State. We face three threats with tight credit, falling housing prices and high energy prices that specifically impact Nevada. Because we have a tourist economy and it's a lot more expensive for people to travel to Nevada than it has been in the past. They're still coming, but this is a pressure on the amount that they have to spend and the amount that the State can expect to receive. And that affects jobs and a number of things in the economy. Credit, the reason for the \$700 billion bailout that's being discussed in Congress, is the financial markets and the credit situation. This is a tight thing and not being able to have as much access to credit affects a company's ability to spend money for construction.

I was reading some articles that talk about the ability of companies to issue short-term commercial paper to meet payrolls before big projects end up paying off for them. So this is something that also affects the Nevada economy. And falling housing prices. Nevada saw a large boom during the earlier parts of this decade and now Nevada's being hit much harder with the result of falling house prices and foreclosures. And how this all pans out will obviously affect the employment market and the number of benefits that we're expecting to pay.

State Extended benefits, this is something that Kelly Karch touched on briefly earlier. Right now, we're not expecting to trigger federal state extended benefits. This is something that's in the law. It's written into NRS 612. It's in Sections 377 to 3786. It says that if we have an insured unemployment rate which is 20% above the average for the last two years, and that's calculated as a thirteen-week average, if we're 20% above the average of the last two years and at least 5%, then we trigger this program where the federal government and the state government each pay 50% towards an additional up to thirteen weeks of benefits. It's very much like the EUC program that's currently in place, except that this is 50% from us and 50% from the feds, where the EUC program is 100% from the feds. If this were to trigger on, and we were to need to payout benefits, this could have an impact on the Trust Fund, because the money for them has to come out of there. Right now we're not expecting to hit it. We're expecting to have an insured unemployment rate that reaches in the 4.5 to 4.6 range, so we'll be coming close. And depending on how the situation unfolds, we may yet actually trigger it or we may not.

Right now we're at about 75% above the average of the last two years, so we're well above the other half of that measure. So the real question is, will we hit 5% with the IUR. If that were to happen, we could expect to pay out about 50% of what's been paid out through the EUC program, because they're very similar except for the funding. So far through the EUC program, as Cindy mentioned earlier, we have about 34 million that we've paid out. We may pay out 50 to 60 million total that's funded by the feds. But about 50% of that would mean that Nevada could be responsible for 30 to 50 million in our share of extended benefits, if that were to trigger, depending on how the EUC programs from the federal government come out. You know, our exposure to that is pretty uncertain, but it's something that could be out there and so it's important to sort of try to take it into consideration.

The business climate in Nevada, as Bill pointed out earlier, we're looking at a new wave of openings in Las Vegas. And this affects or could affect employment. Will we see the sort of rebound that we saw in the charts that he presented earlier or are we going to stay kind of flat? That's a good question. Normally, we've seen a strong rebound and Nevada has been a very robust economy in the past where we tend to bounce back fairly quickly. How quickly this will happen will also affect unemployment and the level of benefits we can expect to pay.

And finally, employment growth. Nevada is used to having a very strong employment growth and a very quickly growing population. And as these things are a little different right now, the question is, how are we going to adapt to it? Are we going to bounce back or are we going to maybe level out at a slightly lower pace than we have before. That's something else that could affect, again, the projections that we're presenting here.

Finally as I mentioned before, we're going to recommend to leave the tax rate unchanged in 2009 at 1.33%. We do not think this is a good time to try to get more money into the Trust Fund by taxing employers. Or rather, we're going to recommend that we draw that \$250 million out of the Trust Fund and use that to pay benefits because this is why we have a reserve. So when times are good, we acquire a reserve and then pay that back into the economy when times are tough like they are right now. Again, that \$250 million is going from the Trust Fund out into the Nevada economy as people spend their unemployment insurance benefits on things like rent and groceries and pharmacy and the basic necessities that they need to get by.

This would leave us again, \$77 million below the solvency target in 2009. But, since that target is generally thought of as a pre-recession target that you want to have this much reserves available in order to pay benefits, when we're looking at a time during downturn like we are right now, the bigger consideration is not are we at this target, but do we still have money to benefits. And with over \$450 million still in the Trust Fund, then we would have a reserve going forward into 2010 to do that.

This concluded Dave Schmidt's presentation.

Chairman Havas asked: "Obviously, initial question is, when is a state compelled to borrow from the federal government and at what point in time is that established?"

Ms. Jones responded to Mr. Havas' question by saying it would be when we hit zero. Mr. Havas said, that is clear. Ms. Jones said, yes it is pretty clear. There are states, and I wanted to make some comments to tag on to the presentations that we've had; there are states that are facing certain insolvency. According to the paper that Dave and Bill have referred to, the National Employment Law Project, four states, Michigan, Missouri, New York and Ohio face immediate solvency issues and will be having to borrow funds from the federal government to pay benefits. And another fourteen states are on the cliff. We're starting to see some states fall over.

I just read an article this morning where California is expected to have to borrow from the federal government pretty soon in order to continue paying their benefits. So, even at this recommended rate, yes, we will be lower than we would like to have in a pre-recessionary time as our Fund balance rolling forward, however, as Dave has said and those of us who've been around this Council for a while, you know, we tend to store away nuts for the winter during the good times. And, you know, we've been successful in that. We've been fortunate that the State's been successful in applying the tentative countercyclical funding.

Chairman Havas noted that we're very fortunate in Nevada because if, obviously, it appears that we will remain solvent. If you become insolvent and you have to borrow from the federal government and you do not make your payments, the employers' tax rates go up as I understand it. And that can be calamitous for Nevada employers. So, we're in a very good position from that standpoint. Mr. Havas asked if there were any questions or comments from the Council, or comments from the public.

Mr. Jim Nelson. Executive Director of the Nevada Association of Employers asked if the NRS requires that we maintain that 1.0 solvency standard, if we're allowed to fall below it.

Ms. Jones responded: Mr. Nelson, no, it does not. It just provides us a benchmarking mechanism to determine what our solvency balances should be. Now, at a solvency level of 1.0, what that means is that we have enough money in the Trust Fund to pay benefits for one year under the very conservative methodology, using the highest expected claims rate and the highest duration that's been experienced over the last ten years, to be able to pay benefits for one year without another single dollar coming in. So, that's unlikely that we will have zero taxes coming in, but it does provide the mechanism in order to have a reserve to pay benefits during times of high unemployment.

Mr. Nelson: And, I'm certainly not in for increasing taxes as being an employer advocate as I am, but I'm concerned here. One thing that concerns me is there was a tremendous underestimation for '08 in terms of benefits, contributions, number of people unemployed. What happens if we underestimate this year? Right now we're going to keep our tax rate 1.33, or the average. Are we going to have to take a bigger, make a bigger increase in our tax rates next year to make up for the loss to the Trust Fund? Is it better that we chip away at it a little bit right now? I mean, I'm just wondering if those considerations have been made before we settled on the 1.33.

Dave Schmidt: Last year we were using an estimated unemployment rate for this year of 5.1%. So we were a lot more optimistic in our outlook for the unemployment rate, whereas, next year we're looking at an increase to 8.6%, which is a much larger increase than we're using from 2007 to 2008. Looking ahead, I think we're being a lot more cautious in our estimation of what could happen with the economy. So I don't expect to see that magnitude of an increase next year.

Cindy Jones: And if I might add to that, Mr. Chairman, no one across the country expected the economic downturn that we're experiencing. And I certainly can't fault our economists for not having that clear of a crystal ball as no economist across the country did. To put a little perspective on that, in order for us to go insolvent, I believe our benefit payments would have to double what we expect them to be before we would hit zero. So we'll still have another 450 million sitting in the Trust Fund with the high unemployment that's being projected. Do I have that correct, Mr. Schmidt?

Mr. Schmidt responded with a Yes. Ms. Jones asked Mr. Nelson if that helped. Mr. Nelson answered yes to that. Chairman Havas said that we have the added subsidy from the feds on extended benefits if things worsen. Mr. Schmidt said that that was correct. Historically, the federal government has tended to distribute money. Mr. Havas asked, without debiting the Fund? Mr. Schmidt said, the Reed Act. Well, yes, that's included right now in the Trust Fund balances, the additional money from 2003. Mr. Havas noted that that is included in the calculations as well as we can project them. Mr. Schmidt agreed to that comment.

Cindy Jones: The states are also hopeful for what's called a Reed Act distribution. We're not sure if that's in the cards. And what that is, is a special distribution to the states that Dave discussed in his slides that can be used by states to pay benefits or to pay for infrastructure costs, those sort of things. So the states in general are advocating for another Reed Act distribution from the federal reserves from the FUTA taxes employers pay, in addition to the State Unemployment Tax, but we'll see if that's in the cards. You know, the FUTA reserves are being drawn down because of extended benefits right now. But if there's a Reed Act distribution that would just further bolster our Trust Fund balances. David discussed, we do have some projected expenditures out of our Reed Act balances right now that we have in the previous distribution of about \$4 million, and that's to support the initial phases of the Unemployment Insurance Modernization Program. But I believe we still have about \$65 million of our last Reed Act distributions that are sitting in the Trust Fund that help support the Fund balance so that we are able to help stabilize the tax rate for the employer community.

Chairman Havas thought that is interesting. He asked if there were any other questions and hearing none, called for the next presentation.

C. **Tax Schedule Explanation**

Donna Clark, Chief of UI Contributions, Employment Security Division, DETR

As you are well aware, the purpose of this meeting and workshop is to recommend the Unemployment Tax Rate Schedule for calendar year 2009. State law requires the Administrator to set the tax rates each year by adopting a regulation. Bill Anderson talked to you about the economic conditions and David Schmidt discussed the condition of the Trust Fund and the forecast for next year. I'm now going to provide an overview of how the unemployment insurance tax system works and how the annual average tax rate is developed.

In the rate booklets that were passed out to you, we have provided four tax rate schedules for the Council to consider and to give us a recommendation, and, of course, to receive any comments from the public. **Exhibit J is the Booklet of Estimated Tax Rate Schedules.** A public hearing will also be held prior to the adoption of the regulation. Before we review the schedules contained in your booklets, I would like to first 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, or FUTA, imposes a payroll tax on all employers at the rate of 6.2% of each employee's wages up to \$7,000. **Exhibit K is the Federal Unemployment Tax Act (FUTA).** This equates to a federal 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 that they actual pay at a rate of eight tenths of one percent, thereby reducing the cost of the federal tax of \$56 per employee per year. The eight tenths of one percent employer's pay to the federal government is passed back to the states to cover their administrative costs for the state unemployment insurance programs.

The State Unemployment Tax, or SUTA, 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 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. This fund does earn interest.

In Nevada, the rate for all new employers is 2.95% of taxable wages. In 2009, the taxable wage base or the taxable limit per employee will be \$26,600. Employers pay at the new employer rate of 2.95% for approximately three-and-a-half to four years, until they are eligible for experience rating. Once eligible for experience rating, an employer's rate can range from the lowest rate of .25% to the highest rate of 5.4%, depending on their previous experience with unemployment. There are eighteen different tax rates.

The annual tax rate schedule adopted applies only to experience rated employers. It has no impact on new employers. Out of approximately 61,000 employers, more than half or 55% 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 experience rating system, which has been approved by the Secretary of Labor.

The intent in the 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 with low employee turnover.

Nevada, along with the majority of states, uses what is called a Reserve Ratio experience rating system. Under the Reserve Ratio system, the Employment Security Division keeps separate records for each employer to calculate their reserve ratio each year. In the formula displayed here (Exhibit K), we add all contributions paid by the employer and subtract the benefits charged. The result is then divided by the average taxable payroll to establish the employer's individual reserve ratio. Contributions are, of course, the quarterly taxes paid by the employer and benefits charged are the employer's portion of unemployment benefits paid to former employees. The purpose of this method is to put large and small employers on equal footing without any regard for industry type. In the sample, the employer paid \$6,000 in contributions and had \$2,000 in benefit charges, with an average taxable payroll of \$40,000. This gives him a reserve ratio of positive 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 will generally have a higher tax rate.

So now I'd like to move on to the detailed schedules. The chart noted as page two in your booklet (Exhibit J), shows the result of an estimated average unemployment insurance tax rate of 1.33%, which is the average UI tax rate currently in effect for calendar year 2008 and as you previously heard, is the recommended tax rate for 2009. In setting the schedule, the eighteen different tax rates do not change.

These rate classes are fixed by statute. Rather, the law requires the Administrator to designate 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, of course, the total estimated revenues. In other words, if you want to increase taxes, you adopt a reserve ratio schedule that puts more employers into the higher tax rates. And to lower taxes, you select one that puts more employers into the lower tax rates. The law also requires that ranges between reserve ratios must be uniform. In this particular schedule, the ranges are from positive 6.9 to negative 15.5, with increments of 1.4 between each of the reserve ratios.

If an employer's reserve ratio is positive 6.9 or better, he gets the lowest rate of .25%. So, in our previous example where the employer had a reserve ratio of a positive 10%, he would get the lowest rate. An employer with a reserve ratio of less than negative 15.5 would get the highest rate of 5.4 and the rest, of course, falls somewhere in between. In this particular chart, almost 46% of eligible employers are in the lowest rate of .25%.

There are 33,666 eligible employers which we estimate will generate \$277.4 million in revenue to the Unemployment Insurance Trust Fund. To that we add the estimate for employers not eligible for an experience rating, which is \$88.5 million, for a total revenue estimate of 365.9 million and an average rate of 1.33% for the unemployment tax.

As a note, you'll notice that there is an additional .05% tax for the Career Enhancement Program (CEP), which is a separate state training tax set by statute. This is being provided for informational purposes only and is not included in the projected revenue amounts.

The four schedules in your booklet 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, of course, the projected total revenue. Within this system, we can produce an infinite number of charts, therefore, we generally present several different schedules to give you an adequate number of choices. In the front of your booklet, we also have provided a summary page to make it easier to do those comparisons. The summary shows the range of reserve ratios, increments, average unemployment insurance tax rate, estimated revenue and the distribution of employers that would fall within each rate class.

As a final note, on the final page of your booklets, we have provided a few definitions and basic explanations of the items shown in the tax schedules and the summary page. Also included is the reserve ratio formula.

D. Council Discussion

Paul Havas, Chairman of the Council

Cynthia Jones, Employment Security Division Administrator

Chairman Havas thanked all presenters and opened up the meeting for Council discussion.

Ms. Jones commented that all present received some sobering news today. She felt that the current state of the economy is no surprise to anyone. It's been the subject of virtually all news outlets, national, local and international as of late. She felt that staff did a great job in providing the Council information and she appreciates it. She invited some discussion from the Council on the recommendation that's been made by the Research and Analysis Bureau and the Contributions Unit regarding keeping the average tax rate the same.

Mr. George Foster commented: "Mr. Chairman, I'd like to agree that I think the staff did an excellent job". Chairman Havas said "I would echo that".

Mr. Foster: forecasting where we're going in 2009, it's really difficult and I don't think what we've been told today has come as any great shock. I'm not making a motion, but I would favor keeping the tax rate at 1.33, or recommending that rate for 2009. I think it would be a wise decision on our part to make that type of a recommendation.

Mr. John Forseth: I would agree, first of all that the staff did an excellent job of presenting. I did have one question on the interest on the Fund. How is that taken into calculation? Can you just explain that a little bit more.

Mr. Dave Schmidt: The interest on the Trust Fund in 2009, we're expecting about \$27 million. The interest comes from the federal government. The Trust Fund is actually held by the federal government and then they invest it in a variety of treasury bills and bonds and securities. And we earn a fairly reliable interest rate with that. Because we're drawing down the Fund by about 250 million, the interest that we're expecting to receive is going to decline by about 8 million in the projections.

Mr. John Forseth: So that's already been taken into account with all of these?

Mr. Dave Schmidt: Yes. That's in the chart that shows all the tax rates for 2009, there are two rows under in the intake to the Fund and that's the contributions and then the interest that we're expecting to get.

Mr. John Forseth: With that, I would agree that this is a rate that's a good recommendation by the staff as well as reasonable to expect for employers as well as the public to ensure that the Fund is there for everyone.

IX. PUBLIC COMMENT

Chairman Havas asked for any comments from the public on the subject, saying the Council would welcome input and any suggestions and comments. He asked if anyone in Las Vegas had anything to say. Terry Simonton from the Las Vegas office said that there were no questions for the panel at this point.

Council member Dave Garbarino: Hearing no other comment, I would like to make a motion that we take staff recommendation and leave the rate at the 1.33.

X. DISCUSSION AND POSSIBLE ACTION ON THE TAX RECOMMENDATION FOR YEAR 2009

Chairman Havas: There has been a motion provided for retention of the current tax rate of 1.33 and that David Garbarino has made that motion for retention of the 1.33. Do I hear a second? Mr. John Forseth: I second the motion.

Chairman Havas: Mr. John Forseth has seconded that motion. Any discussion? Hearing none, all of those Council members here who are in favor of that motion signify by saying aye. The Council signified with aye. Those opposed? Chairman Havas noted: Allow the record to reflect that there is no opposition and that the motion is carried unanimously. Here he gave the floor to Ms. Cindy Jones, the Administrator.

Ms. Jones: Thank you Council Members for your participation and your recommendation and I am going to accept that recommendation. This workshop has been conducted in accordance with NRS Chapter 612.550, Section 7, where I am required each year to update the regulation 612.270 for the tax schedule rate for the upcoming calendar year. You will see a public notice shortly that will provide the date that the formal regulation adoption hearing will be held to formalize acceptance of the regulation. And this meeting has been conducted in accordance with NRS Chapter 612.333. Ms. Clark, if you might, would you verify that this meeting was properly noticed in accordance with those open meeting law requirements?

Ms. Donna Clark: Yes, for the record. All notifications were posted in accordance with regulation for this public meeting. Thank you.

XI. ADJOURNMENT

Chairman Paul Havas invited a motion for adjournment. It was so moved, seconded and the motion carried. The meeting adjourned at 12:00 Noon.

NOTE: These minutes have been approved at the Employment Security Council meeting on October 6, 2009.