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

October 6, 2009

Live Meeting:	**Video Conference to:**
Legislative Building	Grant Sawyer Building
401 S. Carson Street, Room 2135	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
Kathleen Johnson - Public & Board of Review
Danny Costella - Employees/Labor
Margaret Wittenberg - Employers & Board of Review
David Garbarino - Employees/Labor
Paul Barton - Public
Ross Whitacre - Public
Michelle Carranza - Employers

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

Cynthia Jones, DETR Deputy Director/Employment Security Division (ESD) Administrator
J. Thomas Susich, Legal Counsel, ESD/DETR
William Anderson, Chief, Bureau of Research & Analysis (R&A), DETR
Dave Schmidt, Bureau of Research & Analysis, DETR
Kim Morigeau, Workforce Investments Support Services (WISS)/ESD/DETR
Donna Clark, Chief, Unemployment Insurance Contributions (UIC), ESD/DETR
Deborah Braun, Administrator, Rehabilitation Division, DETR
Dave Haws, Administrator, Information Development Processing (IDP) Division, DETR
Kelly Karch, Deputy Administrator, ESD/DETR
Jeffrey Frischmann, Chief, Field Direction & Management, ESD/DETR
Mae Worthey, Public Information Officer, DETR
Edward Lagomarsino, UIC/ESD/DETR
Vickie Purcell, Administration, ESD/DETR
JoAnne Wiley, UIC/ESD/DETR
Flo Bedrosian, UIC/ESD/DETR
Steven Bauder, UIC/ESD/DETR
Joyce Golden, Administrative Office, ESD/DETR

Present in Las Vegas

W. Howard Castle, Rehabilitation Division, DETR
Robin Gerercoux, DETR

Members of the Public, Media and Other Agencies

Ed Irvin, Attorney General, Carson City/NV
Cy Ryan, Las Vegas Sun, Capitol Press Room, Carson City/NV
Sean Whaley, Nevada News Bureau, Capitol Press Room, Carson City/NV
Geoff Dorman, Nevada Appeal, Capitol Press Room, Carson City/NV
Jim Nelson, Nevada Association of Employers, Reno/NV
Rhonda Eddings, CVI, Minden/NV
Brian Burke, Legislative Council Bureau, Carson City/NV
Tray Abney, Reno/Sparks Chamber of Commerce, Reno/NV
Ray Bacon, Nevada Manufacturers Association
J. J. Johnson, Nevada Manufacturers Association
Sandra Chereb, AP
Veronica Meter, Las Vegas Chamber of Commerce, LV/NV
George Ross, Snell & Wilmer, LV/NV
Andre Rochat, Nevada Restaurant Association, LV/NV
Michael P. Colsarb, Holiday Inn, LV/NV
Danny Thompson, Nevada AFL-CIO, LV/NV
John Hinchliffe, Nevada Restaurant Association, LV/NV
Edward Lawrence, KLAS, LV/NV
Erin McMullen, Snell & Wilmer, LV/NV
Katherine Jacobi, Nevada Restaurant Association, LV/NV

Exhibits

Exhibit A - Attendance Record

Exhibit B - Agenda for the meeting/workshop

Exhibit C - American Recovery & reinvestment Act (ARRA)

Exhibit D - Reemployment Services Program Updates
Attachment 1 - Reemployment Services Program (RES or RSP) - ES
Attachment 2 - Reemployment & Eligibility Assessment (REA) Initiative - Unemployment Insurance (UI)

Exhibit E - Nevada’s Economy: A Review and Outlook

Exhibit F - Review of Unemployment Insurance Trust Fund

Exhibit G - Estimated Tax Rate Schedule for Year 2010

Exhibit H - Booklet for Estimated Tax Rate Schedules (Four Scenarios)

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 6, 2009. Mr. Havas expressed his appreciation of those attending and welcomed all to the meeting. **Exhibit A is the attendance record** of all those present.

Next he began by saying that the Unemployment Insurance Trust Fund, which is only used to pay benefits, will be depleted during the third week of October 2009. The Unemployment Insurance Program is a federal-state partnership and a safety net that's in place for states that run out of funds to pay benefits. The Employment Security Division has already been approved to borrow up to $264 billion to insure benefit payments through the end of this calendar year. Unfortunately, additional borrowings is unavoidable.

I would like to make a couple of additional comments regarding the Unemployment Insurance Program and the role of the Council. Our recommendation to the Administrator regarding the Tax Rate Schedule for Calendar Year 2010 has no impact on unemployment insurance benefits, only on how benefit payments are financed. The Unemployment Insurance Trust Fund is a separate standalone fund residing with the federal government that could only be used to pay unemployment insurance benefits. Therefore, the recommendations of this Council have no impact on the state's General Fund or any of the administrative operating budgets.

The Employment Security Council finds itself in unchartered waters, and the task before us is critical. We must work towards the goal of reestablishing Trust Fund solvency, while at the same time keeping in mind the impact on Nevada businesses during this period of economic turmoil. Our agenda today is quite extensive. Therefore, I request that all questions and comments are held until the Council discussion and public comment periods begin.

II. **INTRODUCTION OF COUNCIL MEMBERS**

At this juncture, Mr. Havas began introducing the Council members, starting with himself and went on saying, to my left, Kathleen Johnson, representing the Public and is Chairwoman of the Board of Review, Margaret Wittenberg, Employers and a Board of Review member, George Foster, Employees/Labor and a Board of Review member; David Garbarino, Employees/Labor, Ross Whitacre, Public, Paul Barton, Public, Michelle Carranza, Employers and Daniel Costella, Employees/Labor.
Exhibit B is the Meeting Agenda.

III. **APPROVAL OF MINUTES FROM OCTOBER 2, 2008, EMPLOYMENT SECURITY COUNCIL MEETING** (Discussion and possible action by Council)

The Chairman invited an approval and discussion of the minutes from the October 2, 2008 meeting as written and mailed. Mr. Garbarino made a motion to approve those minutes, which was seconded by Ms. Johnson and Mr. Foster simultaneously.

There being no discussion when asked, 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) and Deputy Director of the Department of Employment, Training and Rehabilitation.

Chairman Havas introduced Cynthia Jones, the Deputy Director, Department of Employment, Training and Rehabilitation, and also the Administrator of the Employment Security Division, to present a legislative update.

Ms. Jones greeted all in attendance with a good morning and welcomed all ,members of the Council, public, staff and all those who are participating in this hearing in Vegas and over the Internet as well. Again, my name is Cindy Jones. I serve as the Administrator of the Employment Security Division, I am the statutory secretary for this Council, and I also act as Deputy Director for the Department of Employment, Training and Rehabilitation. I'd like to provide you a brief update on legislative initiatives that has passed that have had an impact on Employment Security Division programs.

A.B. 884 passed during the most recent session and was designed to safeguard the Unemployment Insurance Trust Fund by increasing the penalties for the commission of unemployment fraud.
A.B. 338 provided a new program to make small loans to new businesses that are being initiated by veterans and senior citizens. We are in the middle of the regulatory process for the implementation of that program. The workshop has been held. And the regulations will be adopted next month. And then we can go forward with starting up that program.
A.B. 469 enabled Nevada to access nearly $70 million in American Recovery & Reinvestment Act incentive funds that are currently being used to pay unemployment insurance benefits. This Bill amended the unemployment insurance provisions to provide for an alternate base period claim process, and modified the trigger mechanism for extended benefits that now allow for benefit recipients to receive up to 20 weeks of state extended benefits, versus the traditional 13 weeks of traditional benefits. This change was made to take advantage of ARRA provisions that provide for a hundred percent funding of state extended benefits at this time.

S. B. 152 provides for the use of incentive funds contained in the American Recovery & Reinvestment Act to provide job training and the promotion of energy efficiency and the promotion of the use of renewable energy in Nevada. And, finally:
S.B. 239 authorizes the Governor's Workforce Investment Board to create industry sector councils to identify job training and educational programs that best meet their regional workforce goals. At the federal level, certainly the most significant legislation that was passed was the American Recovery & Reinvestment Act. And my next presentation will go over it in detail, how that has impacted programs.

I would also like to bring your attention to a current Bill under consideration, **H.R. 3404**, at the federal level. The bill number may have changed as of late.

But that Bill would provide, if approved, another 13 weeks of unemployment insurance benefits, yet a third federal extension. It has passed the House and is currently being considered in the Senate.

V. <u>AMERICAN RECOVERY & REINVESTMENT ACT (ARRA)</u>

Cynthia Jones, Deputy Director of the Department of Employment, Training and Rehabilitation; Administrator, Employment Security Division (ESD)

This presentation is in regards to the American Recovery & Reinvestment Act and the impact on the Unemployment Insurance Compensation Program, as well as Nevada's Workforce Investment Programs. The presentation is displayed on slides and in a handout. **<u>Exhibit C is the American Recovery & Investment Act (ARRA).</u>**

Ms. Jones said that she was going to take kind of a high-level overview of this, as opposed to going through the details, but there is a lot of information in this presentation for you to consider at your leisure. First, I would like to start on page one, which is really the page right after the cover, just some current unemployment insurance facts.

Our current unemployment rate for the month of August was 13.2 percent. Since July of 2008, over $1.1 billion have been paid out in regular unemployment insurance benefits. Federal studies indicate for each dollar of benefits paid, economic activity of $2.15 is the result. 120,000 weekly claims for benefits were filed last week, compared to 40,000 just a year ago. The Division released $37 million in benefit payments last week, approximately half of that being out of the state Trust Fund, the rest being the variety of federal programs and extensions.

The maximum weekly benefit amount as of July 2009 is $400 a week. On top of that $400 a week and on top of any entitlement for benefits, the Federal Additional Compensation Program, which is a hundred percent federally funded and then authorized through the Stimulus Act, provides an additional $25 payment. The maximum number of weeks right now that someone can collect benefits, if they are eligible for maximum entitlement, is 39 weeks. This compares to the maximum that was available in the recessions of the '80s of 59 weeks. 26 Weeks of these benefits are from the state Trust Fund that we are here to discuss today. 20 Weeks are the state extended benefits, the other 33 weeks are the earlier extensions. All told, one could be eligible for up to $33,575 in benefits, $23,175 of which is federally funded. And at this point, 8,800 workers have exhausted all entitlement for unemployment insurance benefits.

The Emergency Employment Compensation Program are those federal extensions that pay up to $33 million a week. The period to apply for an extension under this federal program was extended through the Stimulus Act from March of this year to December of this year, and nearly $463 million have been infused into Nevada's economy as a result of this program.

The F-A-C program, or FAC Program, the one that I had mentioned that adds an extra $25 onto everyone's benefit check, has resulted in another 81 million dollars being infused into Nevada's economy.

The State Extended Benefit Program triggered on in February of 2009, based on economic conditions in this state. A.B. 469 amended the triggering mechanism to allow us to take advantage of an extra seven weeks that was available for a hundred percent federal funding, compared to the normal 13 weeks that is available under the state extended benefit programs. So far, $44 million in these types of benefits have been paid to our unemployed workers.

The ARRA Act also allowed for federal extensions to be paid before state extended benefits. And this is beneficial in periods where the state has to contribute half of the state extended benefit payments, because it allows us to use the federal funds first to pay benefits, as opposed to state funds. And in addition, the federal extensions for reimbursable employers are covered by the federal government. So that delays any impact to our reimbursable employers until workers who are unable to secure employment move on to the State Extended Benefit Program.

ARRA temporarily waives interest payments to loans with states with depleted trust funds through December 31, 2010. As our Chairman mentioned, our Trust Fund will be completely depleted the third week of October. At the current benefit payment rate, Nevada will have to borrow approximately 100 million dollars each month that there are no funds in the Trust Fund to pay benefits. Through the Act, Nevada was fortunate in that it received $5.4 million dollars to augment our administrative funding. This helps us modernize some of our infrastructure and hire additional staff in order to support our unemployment insurance programs. Certainly the volume of work that our agency has faced has more than tripled at this point. The unemployment rate and rising payment in regular benefits is compounded by the variety of federal programs that the agency is responsible for administering.

Since we went into this recession, our staff has worked steadfast in providing benefits to our unemployed workers, working approximately 80,000 hours of overtime so far.

Through Bill A.B. 469, Nevada modernized its unemployment insurance provisions. The federal government provided states with incentive payments for implementing certain provisions in their unemployment laws that would expand eligibility. In order to be eligible for those payments, Nevada needed to implement what is called, an alternate base period claim, which basically says, that if someone is not eligible for a claim under normal circumstances, looking at the first four of the last five most recently completed quarters, we look at the most recent quarter to see if that might help secure eligibility. Through this program, over 400 workers have been identified, who may be potentially eligible for benefits, who would not have been eligible without this. And as mentioned before, these funds are currently being used to pay unemployment benefits at nearly 77 million dollars, because the regular Trust Fund assets were depleted a couple of weeks ago. At this point Ms. Jones moved on to some of the impacts on the workforce investment system.

Our JobConnect system received approximately $3.4 million for employment services, $2.1 million of these funds will be utilized for our reemployment services program - Ms. Kim Morigeau will be providing you an overview of that program shortly. The remaining funds have been used to augment staff in our Nevada JobConnect offices to address the burgeoning needs of our unemployed workforce. As a result of this funding, we've been able to serve an additional 8,300 workers so far.

The Stimulus Program also provided some additional funding for a variety of partner programs. The Vocational Rehabilitation Division received $4.2 million, the uses of those funds may be found on page 12 of the presentation.

Moving on to page 13, our Workforce Investment System programs received an additional $25.3 million in addition to their normal formula funding, 3.4 million for adult programs, youth programs received $7.6 million and dislocated worker programs an additional $14.3 million. These funds do have to be expended by June 30, 2011.

Page 14 describes the methodology of distributing funds to our two Local Workforce Investment Boards. Nevada has two, one in northern Nevada called NevadaWorks and the one in southern Nevada, covering Clark County and Nye, is called Workforce Connections. They recently had a name change. But, basically, the funds are distributed based on a variety of factors, including population, unemployment rate, plant closures, et cetera, as discussed on page 14. It just shows the distribution of the ARRA funds to the Local Workforce Investment Boards. You will note that only $21 million of the $23 million went to the workforce boards, because 15 percent is held as the -- set aside by statute, 5 percent for administration, oversight and monitoring of the programs and 10 percent for what is called Governor's Reserve to fund statewide activities and special projects.

Page 16 describes some of the services that we provide to our youth through our Workforce Investment Act programs. These programs, again, are administered by our Local Workforce Investment Boards. DETR's role and responsibility is basically, to be the pass-through agent for the federal funds and to provide monitoring, guidance and oversight to our Local Boards. It is the Local Boards' responsibility to effectively manage these programs, to insure effective use of their Employment Training Fund, and target investment to the need of their workforce and their businesses in their local communities.

The Summer Youth Program was a newer component of the Workforce Investment Act stimulus package, as some youth programs have not been funded for some time through the program.
Summer youth activities this summer resulted in approximately 430 youth in the north and over 2,500 youth having summer employment opportunities, in which they gained work experience and a workforce readiness certificate.

Services provided to adult and dislocated workers can also be found on page 18. This page talks about the number of participants that are expected to be served with the additional funds provided to the Local Boards through the stimulus package. In the north, it's expected that nearly 400 additional workers will be served, and in the south another 5,000 workers.

I mentioned before the Governor's Reserve Fund and how we use that for statewide activities and special projects. Page 20 shows the investments that our Governor's Workforce Investment Board has made in a variety of special, employment and training initiatives. We virtually use the entire balance of our ARRA funding for this purpose as quickly as we possibly could to insure maximum positive impact on our communities. The result is that approximately an additional 1,250 people will receive much needed training.

At this point I would like to bring your attention to a couple of grant opportunities. A part of the stimulus package provides for a variety of competitive grant opportunities that are being rolled out incrementally by the Department of Labor.

The first one is for a -- our Green With Envy grant that was primarily authored and supported by our Research and Analysis Bureau. This project incorporates a variety of research approaches, providing all workforce development stakeholders with the necessary information required to identify existing and expecting opportunities in our emerging green economy.

The other one is that the Department is also in the process of applying for a State Energy Sector Partnership Training grant. The purpose of this grant is to insure a strategic plan and alignment is initiated for the development of emerging green industries and to develop Nevada's green emerging sector with comprehensive partnerships and the development of a sector plan. States will be awarded between $2 to $6 million for this grant. We hope to submit that grant application very soon, as it's due in four days.

Thank you for your attention on this. And if you would like additional information, you can find that at the Department's recovery site at www.nvdetr.org/recovery. Updated information is posted weekly regarding the investments we are making into our local communities and economy with American Reinvestment funds. With this, Ms. Jones concluded her presentation.

VI. REEMPLOYMENT SERVICES PROGRAM UPDATE

Kim Morigeau, Employment Security Division Program Specialist III
Department of Employment, Training and Rehabilitation

Ms. Morigeau introduced herself and began her presentation noting that Nevada has over 20 years experience Providing reemployment services to unemployment insurance claimants.
Exhibit D is the Reemployment Services Program Update.

In Nevada, the theme is connecting unemployment insurance claimants to reemployment opportunities. Nevada has been successful in helping unemployment customers with reemployment services and experience successful performance outcomes, because everyone works together. Besides, people receiving unemployment insurance are excellent candidates to receive reemployment services. They have established occupational skills, have good work skills, and they know how to work. After all, they're out of work through no fault of their own. They know how to work, but we can assist them in helping them find work.

One of the main reasons Nevada has been successful working with unemployment insurance claimants is because of the strong collaboration, commitment and communication between the Employment Service (ES) and Unemployment Insurance (UI) staff. ES/UI staff work very closely together to insure that everyone is on the page as it pertains to the reemployment activity of unemployment insurance claimants. This collaboration truly makes Nevada's experience in assisting unemployment insurance claimants with the reemployment effort a win-win situation.

A major disconnect occurred in Nevada, as it did in a number of other states, when UI moved out of the JobConnect centers and telephone claim filing was the method of filing. Many people have filed for UI by telephone, and they were not even aware of the JobConnect centers and the resource of reemployment services available to them.

Our Department implemented a number of processes to reconnect unemployment insurance and employment service, developed programming so a job seeker record is created after the UI claims record is created, hired and trained staff on how to provide reemployment services and also, to recognize and identify potential issues, developed a call-in selection system so unemployment insurance claimants can be called in to receive reemployment services in our JobConnect centers.

We train the UI staff on reemployment services and how to accurately assign an O*Net, or an occupational code, at the time they file the initial claim. We then measure and track UI performance outcomes after receipt of the reemployment services.

Reemployment service activity begins when the claimant files for an initial UI claim. In fact, UI staff are considered the front door to the One-Stop and are taught how to locate the claimant's O*Net or occupation code and to enter the appropriate codes in the UI system as part of the initial claim. The job seeker's registration is created real time from the UI system, which allows reemployment services to be offered immediately. Also, as part of the initial claim, the claimant is informed about the JobConnect centers and encouraged to visit the center nearest to them.

In 2001 the Reemployment Services Initiative grant, or RES, was issued by the Department of Labor for states to develop reemployment services in order to increase the number of UI claimants entering employment as a result of services and efforts provided by our Department. At this time Nevada became one of 21 states to voluntarily participate in the unemployment insurance, Reemployment and Eligibility Assessment, or REA, Initiative sponsored by the Department of Labor.

The primary objective of both of these initiatives is to assist UI claimants find jobs through the One-Stop centers. Nevada combined initiatives so the staff delivering the services in the JobConnect centers provide one-half RES and one-half REA services. During the implementation of each one of these reemployment service initiatives, it was recognized that cross-training of JobConnect and Unemployment Insurance staff was critical to insure that everyone understood their roles. Step-by-step procedures were developed. RES staff were cross-trained on UI eligibility identification and UI staff are trained on occupational coding and services offered through the One-Stops.

All reemployment service interviews are conducted in person and on a one-on-one basis. The purpose of the interviews are to assess job readiness and job search assistance and to provide specific labor market information; for example, what industries and job occupations are available in the area. Nevada JobConnect staff developed a personalized work search plan and referred the individuals to suitable job openings, to other reemployment services and/or training, as needed.
Reemployment service interviews also offer information and education to unemployment insurance claimants on their rights and responsibilities, while receiving unemployment insurance benefits.

In addition, the interview allows JobConnect staff to determine continued eligibility for unemployment insurance. There are times when it is discovered that the claimant is ineligible for unemployment and may have incurred an overpayment as a result of not meeting the continued eligibility requirements. JobConnect staff report potential eligibility issues to the UI Telephone Initial Claims centers for further determination.

Nevada's Reemployment Service initiatives, for which we use the acronyms RES and REA, each have two goals. The RES initiative has the entered employment and UI duration Trust Fund savings goals. Attached to the presentation is a handout **- Attachment 1** (one page). What this provides is information to you on, how Nevada's RES initiative is and has been operating since its inception in 2001, in the lower part of the page, there's a table; it lists by year from 2002 to present, UI Trust Fund savings that have been realized for those claimants that have participated in the RES Initiative. The annual savings to the Nevada Trust Fund has demonstrated that assisting UI claimants with their reemployment efforts has been beneficial to both, Nevada's employer community and those claimants who need assistance finding employment.

The annual entered employment rate for REA in fiscal year 2008, which represents July 1, 2007 through June 30, 2008, was 82 percent, compared to 73 percent entered employment rate for all job seekers. The annual entered employment rate for RES in fiscal year 2009, which is July 1, 2008 through June 30, 2009, was 77 percent, compared with 68 percent entered employment rate for all job seekers.

Nevada's Reemployment and Eligibility Assessment Initiative, REA, also has two goals, an annual assessment goal, which is $10,000 for this year, and savings to the UI Trust Fund. Nevada currently has an annual savings to Nevada's UI Trust Fund that has demonstrated that assisting UI claimants with their reemployment effort has been beneficial. Also attached is **Attachment 2** (two pages). First page of Attachment 2 down in the table area, demonstrate the Trust Fund savings realized for our claimants that have participated with the REA initiative, on an annual basis. As individuals return to employment after receiving unemployment insurance, their annuals -- their earnings power increases. And ***that*** ultimately stimulates Nevada's economy.

Nevada's UI Duration Report compares UI claimants who have been selected to receive the reemployment services or who have voluntarily participated through the RES initiative, with those claimants who have not been selected. As evidenced by the Trust Fund savings realized since 2002, providing reemployment services to the unemployed, also benefits the employer community. By assisting UI claimants' return to work, employers benefit, because they pay into the UI Trust Fund.

As stated in the beginning of this presentation, Nevada's goal is to connect unemployment insurance claimants to reemployment opportunities. Nevada's reemployment efforts have also been strengthened by reconnecting employment service and unemployment insurance; this goal benefits everyone. Employers win, as there is a savings to the UI fund, and they may also be a recipient of a talented employee who had become unemployed. Job seekers win as they have found new jobs, and they can continue being productive members of society.

My contact information is attached. With sharing and working together, it's the customer who truly wins. This concluded Ms. Morigeau's presentation.

At this point Ms. Jones made an additional comment regarding the effectiveness of this program. She noted that typically, the investment in this program is, depending on the year, between 400 and 800 thousand. So certainly there's a return on the investment. Another comment Ms. Jones wanted to make is to congratulate and thank Ms. Morigeau on her nationwide recognition as an expert in these programs. She is often invited to be a guest speaker to share Nevada's best practices throughout conferences and meetings throughout the state and throughout the nation. Thank you, Kim.

VII. WORKSHOP TO CONSIDER ADOPTION OF REGULATION TO ESTABLISH THE UNEMPLOYMENT INSURANCE (UI) TAX RATE SCHEDULE FOR CALENDAR YEAR 2010 (NEVADA ADMINISTRATIVE CODE 612.270)

At this point Mr. Havas turned the meeting over to Ms. Jones, the Administrator of the Employment Security Division. She reminded those in attendance that this particular meeting is conducted by the Administrator and the Employment Security Council and that it is a regulation workshop to solicit public comment on a proposed amendment to the tax schedule regulation in Nevada Administrative Code 612.270 in accordance with NRS 233B.061.

She turned to Ms. Joyce Golden, her Administrative Assistant and asked if proper notice of today's public workshop was given as required by NRS 233B.060. Ms. Golden confirmed that proper notice of the workshop was given. Upon this confirmation, Ms. Jones went on to say that in accordance with NRS 612.310, the Employment Security Council provides a recommendation to the Administrator regarding the Tax Rate Schedule for the upcoming calendar year through this process. The presentations you are about to hear are intended to provide you with information you need to make this important recommendation. At this time, I will turn the meeting back over to the Chairman to introduce the next agenda items.

A. Economic Projections and Overview

William "Bill" Anderson, Chief Economist, Research & Analysis Bureau,
Department of Employment, Training and Rehabilitation

Chairman Havas introduced Bill Anderson, Chief Economist, David Schmidt, Economist and Donna Clark, Chief of Contributions. These individuals will provide information so the Council can make an informed rate recommendation.

Mr. Anderson started his presentation saying that typically, at this point of the workshop he has been charged with providing the Council with a relatively straightforward overview of the economy. Hopefully, that's information that you have historically used to assess the various options placed before you with respect to setting next year's tax rate structure. To some extent it is a bit different this time around., because really my main objective is to give you a feel for the rather unprecedented nature of the current economic conditions that we are faced with.

As a result of these unchartered waters, as the Chairman referred to, it’s proven to be very difficult to accurately predict where the economy is headed, not only for my highly qualified staff in the Research and Analysis Bureau, but forecasters and economists throughout the nation.

Mr. Schmidt and myself will lay out the various challenges that the Unemployment Insurance Trust Fund is currently facing. Here Mr. Anderson refers to exhibit E. **Exhibit E is Nevada’s Economy: A Review and Outlook.**

The best way to start out is to try to put current trends in some sort of a historical context. Certainly, as we all know, Nevada, over the course, roughly through the middle part of this decade and for roughly two decades prior to that, led the nation in terms of economic growth, regardless of the measure used. Our population growth during that period tended to average anywhere between three and five percent on an average annual basis. And in 19 of those prior 20 years, we had the number one rate of population growth in the nation. But you can see that things changed considerably in 2008 and that those boom conditions as I would call them, basically came to a halt. And we saw our state's population barely budge relative to a year ago readings.

Looking at the employment side of the picture, what's interesting here, going back roughly three-quarters of a century, you see that in previous downturns in the early 2000s and the early '90s and the early '80s and in a few previous periods, our employment numbers barely budged. Basically, when there was a recession, the way that impacted Nevada is that it brought employment growth to a temporary halt. But during the current downturn, you can see that a couple of years ago, we started seeing outright job losses here in the state. And that's something that we really hadn't experienced before, during previous downturns.

On the unemployment front, we've had, prior to this downturn, several years of relatively encouraging unemployment statistics. We had unemployment rates averaging, over the course of the past several years, anywhere between four and six percent. But again, you can see that in 2008, that measure of labor market activity, began to deteriorate. And through the first eight months of this year, we're sitting on an 11.3 percent unemployment rate here in the state, which is unprecedented by historical standards.

So clearly, our boom-like conditions have come to an end with the onset of the current national and global recession. But even as this recession has unfolded, our experience has differed considerably here in Nevada relative to how we perform during previous downturns. If you look at the unemployment rate, this recession officially began in December of 2007; since then, our jobless rate has risen to the tune of approximately eight full percentage points. If you look back at the two prior recessions, the early part of this decade, then the early part of the 1990s, our unemployment rate barely budged during that official period of recession. In the early 1980s recession, which is often the downturn that our current difficulties are compared to, we saw that the jobless rate did increase, but still just a little more than half of the increase that we've recorded this time around.

Much the same is true with respect to our job base. Since December of 2007, we've lost in excess of 120,000 jobs here in Nevada. If you look back at the three previous recessions, and again, this goes back to that historical job chart that I showed you at the beginning of my remarks.

Our unemployment -- or our employment levels, basically, held steady during periods of recession. So, again, this recession has proven to be quite different than in the past.

In talking about the downturn, the simplest way to characterize it, is that there are three driving forces behind what's taking place. Number one, problems in the residential real estate and construction markets. That, arguably, was the first sign of recession back in the middle part of 2006, at least here in Nevada. The second driving force and somewhat related to the first, problems in national and global credit markets, which has brought commercial development almost to a halt, here in Nevada especially. And then the third driving force is weak consumer spending. Consumers have turned very cautious during this downturn and as a result, they have cut back on their discretionary spending.

If you think about these three driving forces, residential construction, commercial development, consumer spending, that's the lifeblood of Nevada's economy. That, in essence, hits at the core of our economic activity in the state. As a result, we've suffered greatly during this recession and that's reflected in our forecast from a year ago. We thought at the time that this recession would unfold in much the same manner as previous downturns had, and we were looking for an 8.6 percent unemployment rate. Year to date, we're sitting on an 11.3 percent unemployment rate and as Ms. Jones said, in August alone, it was 13.2 percent.

Last year, we were looking for relatively stable labor markets, very similar to what we experienced in previous recessions. We thought we would add about 44,000 new jobs over the next three years, but this year alone, we've lost about 75,000 jobs so far in 2009.

Hopefully, I've done an adequate job of establishing this fact that we were in unprecedented times concerning economic conditions. Now I will embark upon a rather traditional economic overview, one that you are probably very familiar with from previous years.

Our unemployment rate in August was 13.2 percent. That put it about 6.2 percentage points higher than a year ago, essentially double where our rate was a year ago in August, when it was 7 percent. And conditions have deteriorated as the year has unfolded. If you go back to January of this year, our jobless rate stood just about four percentage points higher than it was a year ago. That gap, that year-over-year comparison, has widened in a negative fashion as the year has unfolded here in Nevada.

If you look at our conditions relative to the U.S. in 2009, as I've mentioned before, we have an 11.3 percent unemployment rate. That compares to 9.1 percent in the nation as a whole. And it was only a couple of years ago where we were in the midst of a five-year-long period where our jobless rate came in well below national readings. To give you another sense of how things have deteriorated in a relative sense here in Nevada, how those three driving forces have really impacted our economy; our unemployment rate of 13.2 percent is the second highest state unemployment rate in the nation. The only one, the only state with a higher unemployment rate is the state of Michigan. I will leave specific discussions of unemployment insurance activity to Mr. Schmidt, but I do like to utilize this chart, which shows the number of folks exhausting their regular state benefits.

We are not talking about their entire 79 weeks of benefits that many of them are entitled to, but rather just the 26-week base period of regular state benefits. You can see the cyclical nature of that and how, with the onset of recession, this measure of economic health in the state deteriorated markedly.

In terms of job growth, unfortunately we have further signs of deterioration. In August, job readings were down about 6.7 percent. That's roughly 84,000 jobs lost relative to a year ago. At the beginning of the year, in January, our year-over-year decline was about four and a half percent in terms of the number of jobs. Again, the economic indicators that we track in the Research and Analysis Bureau suggests to us that conditions have deteriorated more as the year unfolded.

Looking at our job growth relative to the U.S., so far this year, we've lost about 5.9 percent of our jobs – that is roughly double the 3.7 percent loss in the nation as a whole. Again, further evidence of the relatively hard hit that Nevada has taken during this downturn. Looking at trends in our largest industries, it's obvious that this downturn has been very widespread. For the most part, it has not spared any of our major industry. Leisure and hospitality has lost 22,000 jobs this year. Construction, down some 25,000 jobs relative to the first eight months of 2008.

If you're looking for a bright spot in the state, I would argue that the state's mining establishments are holding up relatively well. They're really not growing in terms of employment numbers, but they are holding their employment base relatively stable. And indeed that leads me into a brief discussion about how this, how economic conditions differ throughout the state.

If you look at the regions hardest hit by this downturn, our research suggests that what we call bedroom communities -- and specifically, I'm talking about Lyon County neighboring Reno and Nye County neighboring Las Vegas, they have suffered the most. They have the two highest unemployment rates in the state; if memory serves me correctly, approaching about 16 percent during the month of August.

The next hardest hit regions in the state are the state's metropolitan areas; in the case of Las Vegas, largely reflecting problems in gaming and tourism. The regions that have held up the best in the state are the state's rural counties, especially those in the northeast concentrated in mining activities.

I want to give you a feel for some nonlabor market impacts of the current downturn. Several of these, I'm sure, you've read about in various media reports. Taxable sales growth, which supports the state's largest general fund revenue source, taxable sales are down, essentially trending down, close to 20 percent on a year-over-year basis. With respect to the Las Vegas visitor volume, we've had 11 straight months of year-over-year declines in the number of folks visiting Las Vegas. And then, similarly, our gaming win. If you smooth out all the ups and downs and establish a trend, you can see that roughly two years ago or so, our gaming activity peaked, and gaming win has been declining ever since. And that again, reflects some of those three driving forces, especially as they pertain to consumer spending in the way that has impacted our state.

Now, that's also reflected in job trends in our state's largest industry, leisure and hospitality. You can see that job growth gradually receded over the course of 2006 into the middle of 2007, and we've been on the decline ever since. As of August of this year, our job readings in leisure and hospitality are down close to 25,000 relative to where they were just a year ago.

Much the same is true with respect to our construction employment trends, another significant industry that, I would argue, helped drive our boom times prior to the onset of this recession. As I mentioned earlier, I think this was one of our earliest indicators of problems on the economic front. In mid to late 2006, indeed we started seeing weakness on the job front with respect to construction. And as of August of this year, our construction job levels were down some 30,000 relative to where they were in August of 2008.

A look at physical housing activity gives you a feel for what's going on, and we have some good data from down south, good timely data. And what I've done is, over the course of the next three charts is to show you some trend lines. An agreement with the organization that provides us with this information prohibits us from actually giving you the actual numbers, but we can display them in trend lines.

With respect to the number of new home closings down south, beginning in 2006, how it has unfolded over, roughly, the last three to three-and-a-half-year period that the number of new home closings has dwindled greatly over that time period in the Las Vegas area. As a result, new home prices have been trending down. A little bit of a bright spot here, starting to look like they may have reached a bottom. I doubt that we'll see much appreciable growth in the months ahead, but it looks like prices are in the process of bottoming out.

At least on the surface, there is some good news with respect to the resale market. On the positive front, you'll see that resale activity has rebounded sharply over the course of the last year or so. And that's suggesting to us that the markets are figuring out how to maneuver through these very difficult times. However, on the flip side, looking at it from a more negative perspective, I have to point out that a lot of this new -- or a lot of this resale activity is attributable to foreclosed and distressed property. Well over half of this activity is related to that segment of the market.

For a quick look forward. There are lots of different measures of economic activity you can utilize to try to predict where we're going. The Department, DETR, partnered with UNLV, their Center for Business and Economic Research, we partnered with them and went through a collaborative research process, we came up with a leading employment index for the state that kind of brings in all of this information that I have shared with you today, or at least major portions of it, to try to aggregate all of that information and to give us one aggregate peek forward as to where we are going. It is very similar in concept to the leading index for the national economy. UNLV does some leading indexes for southern Nevada as well.

But if you look at how that leading index is behaving, we have yet to see any real signs that labor markets are going to start to improve. We have been seeing some signs that our deterioration in our labor markets may be leveling off. But in terms of outright growth, that doesn't appear to be on the horizon right now.

And indeed, that is reflected in our Research and Analysis projection with respect to employment. We look for job losses to continue through 2009, but then it will start to moderate a bit. 2010, we will look for a further loss of about 4.4 percent in terms of our employment base. And then, in 2011, we'll see some stability return.

Ms. Jones and my staff have had a couple of conversations. There are all sorts of characterizations about how the economy is going to perform over the course of the next several months to few years. You talk about a W-shaped economy. We tend to look at it, or what we are expecting, is probably something akin to a U-shaped economy. We think a lot of the deterioration is behind us, but we're going to spend a considerable amount of time more or less treading water and scooting along the bottom of that U-shaped business cycle, before we start seeing some improvement, beginning not really until 2011.

With respect to our unemployment rate, we're looking for that to top out in the second quarter of 2010 at about 14 and three-quarters percent. For all of 2010, we're looking for an unemployment rate of about 14.4 percent. And, again, you might want to keep in the back of your mind that compares to 13.2 percent currently. But then, as our job losses begin to recede a little bit into 2011, we'll start to see that jobless rate moderating a bit. But at least in the near term, we don't see us returning back to the four and five percent unemployment rates that we are used to here in Nevada. Here Mr. Anderson concluded his presentation.

B. Review of Unemployment Insurance Trust Fund
David Schmidt, Economist, Research & Analysis Bureau
Department of Employment, Training and Rehabilitation

Chairman Havas introduced David Schmidt, who is an economist with the Research and Analysis Bureau and who will be presenting information regarding the Nevada Unemployment Insurance Program. Mr. Schmidt will be going through the objectives of the Unemployment Insurance Program, also known as UI. He will be reviewing the current state of the program in light of the current economic conditions, also reviewing our 2008 forecast for this year and will be presenting some tax rate scenarios for 2010, and reviewing the wild cards that may affect the forecast moving forward.

The Unemployment Insurance Program was established following the Great Depression by the Social Security Act of 1935. It was created to provide temporary limited income replacement to workers who lose their jobs through no fault of their own. Doing this provides several benefits to the state. It provides economic stimulus to the macro economy, the largest-scale economy, by helping to act as an automatic stabilizer. Because, as unemployment rises, claimants claim benefits; and this helps reinject money into the economy to maintain demand.

As Ms. Jones mentioned before, Department of Labor research has shown that for every dollar of unemployment benefits that are spent, an average of $2.15 of economic activity tends to result. The unemployment insurance system also strengthens the economic safety net for individual workers by providing them with limited income replacement when they lose their jobs.

This helps them through periods of involuntary unemployment and helps maintain their attachment to the local workforce. These objectives are accomplished by funding the Unemployment Insurance Program counter cyclically. This means that revenues are generally collected and saved during good economic times and fed back into the economy during bad economic times.

Heading into the current recession, Nevada had a healthy Trust Fund; Nevada has a history of maintaining a healthy Trust Fund. In the quarter the current recession began, Nevada had sufficient reserves to weather the recession, according to both federal and state measurements. Nevada had the 18th strongest trust fund, a two percent surplus above the target solvency level provided by the federal average high-cost multiple and 47 percent above the target set out in Nevada statute.

As has been mentioned a couple of times before already however, this is a very unprecedented recession. It's unlike anything the Nevada Unemployment Insurance Program has ever experienced. In the past 12 months in particular, have seen levels of activity that are simply unprecedented. Using monthly data going back to 1971, Nevada has seen the following:

- The highest year-over-year growth in weekly claims, which peaked at 163 percent in May of 2009. The highest weekly duration of unemployment benefits. That's 16.26 weeks in August 2009 and a number that's expected to continue to rise.
- The highest share of claimants using their full allotment of benefits. That would be the exhaustions that Mr. Anderson showed you earlier. That is 62.5 percent of all claimants that are exhausting those benefits. That is in August 2009 and another number that is expected to continue to rise.
- The highest growth in the number of people using their full allotment of benefits. The number is up 244 percent over the year in May, as of May 2009.

Just a quick note on all the statistics I will be mentioning to you, these are all dealing with the regular Unemployment Insurance Program only. That is benefits that are paid out of the Trust Fund. This sort of sets aside any discussion of the federal extensions that are available, because those do not have a direct impact on our Trust Fund.

This recession is also the longest since the Unemployment Insurance Program was created in Nevada in 1937. Prior to this recession, the two longest recessions that the state has faced since 1937 have been 16 months, and those happened in 1973 and 1981. Through September of this year, the current recession has lasted about 22 months.

Finally, a record number of extended benefit programs are currently in place. And while this doesn't directly affect the Trust Fund, the 53 weeks that could potentially become 66 weeks shows the level of additional benefits that the federal government has said is necessary to help workers through this unusually deep recession.

In the handout dealing with the Unemployment Insurance Financing, there will be different slides that will show the unemployment rate. **Exhibit F is the Review of the Unemployment Insurance Trust Fund.** It shows you the unemployment rate going back to 1976 in Nevada.

As you can see, the unemployment rate has gone up to 13.2 percent in August of this year. And we expect it to continue to go up to an average of 14.4 percent in calendar year 2010.
As the unemployment rate has been increasing, the demand for claims has increased as well. This would be people that are coming in and filing their first claim for benefits in 2008 and 2009. So the 2008 data represents the change from 2007 to 2008, and the 2009 data shows you 2008 to 2009.

Following last October's Employment Security Council, there was a substantial increase in the number of initial claims that the program has seen and this is tied to the significant deterioration in the economy that occurred beginning in the fourth quarter of last year. For comparison, the different charts show that in 2007 there were 164,000 initial claims for benefits filed, in 2008, that rose to 254,000. And through August of 2009, which is only eight months out of the year, there have been 230,000 initial claims. With each initial claim generating a record number of weekly continued claims, this effect is magnified as we look at those weekly claims.

Now, these charts (#7 and #8) show you the same thing, the growth in weekly claims in 2008 and 2009. You can see, in 2008 we only passed growth, year-over-year growth, that is, of 100,000 once during the year, and that was in December. We also passed 150,000 that year as claims rose from 150,000 in December 2007 to 304,000 in December 2008. But looking at 2009, you can see that in only one month have we failed to pass 150,000 growth of weekly claims in a given month. So far this year, in January and twice in March and May we actually passed growth of 200,000 weekly claims. This is a dramatic increase in the demand for unemployment benefits.

Charts #9 and #10 show you the total number of weekly claims by month, going back to 1971. You can see the surge in benefits that took place over this time. In 2007 there were a total of 1.3 million weekly claims over the course of the year. In 2008 the total rose to 2.1 million. And through August of 2009, again only eight months, there have been 2.7 million weekly claims. So in eight months, we've passed the total that we had in 2008 by 600,000 claims, and we have four months yet to go. This growth in claims has a direct impact on Nevada's Trust Fund as 92 percent, in general, of weekly claims turn into weekly benefit payments.

The next few charts are very similar. It shows you the compensation that's been paid out of the Trust Fund based on those claims. You can see benefits growing from under 20 million per month to over 100 million per month in the last four to five years. And the bulk of this increase, again, has come since the last Employment Security Council. In November 2008, we paid out about 48 million in benefits. In March of 2009, we paid out about 105 million.

Chart 11 shows the average duration of benefits. Again, this is for regular unemployment claims in that first up to 26 weeks of benefits. You can see that 16.26 peak that we've hit and how it compares to the last 10 years or so. And you can see that sharp increase again in just the last couple months, the end of last year, and the beginning of this year.

Chart #12 is one that I typically present at the Council. It shows you the contributions that are received from employers for unemployment insurance, the benefit payments that are made. And if you'll note, the little red hash marks are contributions plus interest. This represents all money generated by the state in order to fund its Unemployment Insurance Program.

You can see, in the few recessions that are included here in the early '80s, the early '90s and in 2000, the benefit payments do typically exceed the level of revenue that the state is bringing in to fund benefits. This is example of the countercyclical nature of the program where, during recessions, the Trust Fund is drawn down and used to pay those additional benefits. You can also see in 2008 and especially 2009 the significant increase in benefits over revenues. On chart #13 you can see how that's impacted the Trust Fund, with the Trust Fund falling from a little over $800 million to where we expect to borrow about $200 million by year end.

Before I provide you with the forecast for next year, we're going to review the forecast that we made for this year. The unemployment rate, as Mr. Anderson mentioned, is higher than we were expecting. These numbers are a little different than the numbers he gave you. That's because I'm looking at the October through September time period, which throws off the averages just a little bit. As you can see (chart #14), the unemployment rate has gone up from 8.3 percent, which we were expecting, to 10.6 percent over that time frame. And the employment growth rate, which we were expecting to be slightly negative, at a little under one percent, actually fell at an 8.3 percent rate over this time period.

Looking at our expected covered employment (chart #15) on March 31st, we were off by 43,000, which is a 3.9 percent difference. But the total weekly claims over the past year is where there was a significant difference, with claims coming in 1.2 million above what we expected, which was 51 percent higher. Finally (chart #16), you can see that revenues were about 40 million below what was expected, while benefit payments were much higher than what was expected, by a little over 400 million. And this has led directly to the decline in the Trust Fund, to the point where we do have about $60 million remaining as of the end of September 2009. And we'll begin borrowing, as the Chairman mentioned, in early October to pay benefits.

Chart #17 presents the solvency calculation that is laid out in NRS 612.550. We multiplied four factors: recovered employment, the risk ratio, the highest week's duration, and the average weekly payment, in order to estimate the total benefit obligations the state might expect in the next year. By multiplying these numbers out, we come up with a number that is intended to estimate the total amount of benefits the state would be able to pay from the Trust Fund without bringing any additional revenue into the program. You can see, in 2006 through 2008, the solvency level was approximately 500 million to $550 million. However, as we've moved through this very long recession, the beginnings of that recession are beginning to be picked up in this calculation, and the requirements rose, has risen to $787 million.

The large driver of this is the increase in the risk ratio, although increases in the highest week's duration and average weekly payment also had some impact. This offset the fall in employment which, all other things being equal, would have led to a decline in the solvency requirement. The bottom half of this slide shows the cash flows through the Trust Fund, with estimated benefits and contributions numbers through September 30th and the final balance that was available for paying unemployment insurance benefit payments on September 30th. At the very bottom of the chart is the solvency of the trust fund as a multiple of the recommended balance determined by both state and federal measurements. The state measure looks back on the last 10 years, and the federal measure looks back on the last 20 years in an attempt to estimate what level of solvency we would require in the Trust Fund to continue paying benefits.

Chart #18 shows you the solvency of the Trust Fund with respect to that state solvency level. Zero on this chart represents the solvency level defined in NRS 612.550. As you can see, the fund is 92 percent below that level, since we are expecting to actually have to borrow and hitting zero in the Trust Fund. These solvency levels, again, represent estimated funds needed to pay unemployment benefits in a single year without any additional revenue.

Chart #19 shows you the solvency of the Trust Fund with respect to the federal average high-cost multiple. In this chart, zero represents having zero dollars in the Trust Fund, and 1 represents the recommended balance. And you can see, again, that we are well below that target level.

As in the past, slide #20 presents you with four potential tax rate scenarios for the Council to consider. Included here for consideration are a reduction in the average unemployment tax rate to 1 percent, keeping the average tax rate at 1.33 percent, and raising the average tax rate to either 2 or 2.33 percent. Under each of these scenarios, the state will need to borrow money from the federal government, which are known as Title 12 loans, in order to continue paying unemployment benefits, as benefit payments are expected to exceed $1.2 billion in 2010. Even with an increase to the average tax rate of 4.33 percent, which is not on the chart here, the state would still bring in only about $1 billion in unemployment tax revenue, which is still short of the demand for benefits that we expect next year.

Please note there's a slight difference between this Power Point presentation and the printed materials presented to you. We caught it too late to change the printing. But the beginning Trust Fund balance on the printout should be 60.6 million. And this also carries through to the ending fund balance, which should be higher by about 23 million, and the solvency multiples, which are about two to four percent off. So those numbers, again, the beginning fund balance on this chart should be 60.6 million in your written materials. The ending fund balance, if I can just read across the four scenarios, should be 89.8, negative, 82 -- 827.9 rather, 669.8 and 591.8 for the ending fund balance. And that same change is continued through the solvency multiples below.

Because of the large level of benefit payments that we are expecting, the Employment Security Council has three financial goals to consider over the short to long term. The Trust Fund is, of course, established to pay unemployment benefits. Looking further ahead, the unemployment tax will be needed to repay the loans that are being taken out to pay benefits now. And even further ahead, we want to restore solvency to the Trust Fund in advance of any future recessions. These goals can be considered while keeping in mind the impact on Nevada employers of any unemployment tax increase and the countercyclical nature of the Unemployment Insurance Program.

To provide you with some historical perspective for unemployment tax rates and some idea of the long-term problem that the state faces, for program years 2010 to 2013, that would be October through September, we estimate that Nevada will be paying out about $3.8 billion in unemployment insurance benefit payments. With the current average tax rate, which is 1.33 percent, we would expect to bring in approximately $1.3 billion in unemployment contributions. This creates approximately a $2.5 billion shortfall, which the state will need to address.

Obviously, this assumes that the Council would keep the tax rate flat through four years, which is not something that we necessarily expect, but it's just to provide you with an illustration of the difference between current benefit payments, expected payments and the current average tax rate. Further, Nevada will be required to pay interest to any borrowing for the first time in state history. Through the ARRA stimulus bill, though it waives all interest payments during calendar year 2010, the state will begin accruing interest on all outstanding loans, beginning in 2011, under the current law.

In 2008, Nevada's tax rate was very close to the Department of Labor's adequate financing rate, which is a tax rate calculation they do that takes into consideration the expected benefit obligations, based on the last 10 years and the level of revenue that would be necessary to achieve solvency that is an average high-cost multiple of 1.0 in five years. And as you can see, in 2008, Nevada's tax rate, which is indicated by the red arrow, was, essentially, right at that adequate financing rate. That is to say, our tax rate was where it was expected to be.

Looking ahead, chart #24 compares from 1950 through 2009, the average tax rate in place in Nevada and the benefit cost rate, which is the tax rate that would have needed to be charged in order to pay benefits during that same calendar year. You can see, especially in 2009, the sharp increase in that rate is due to the incredible increase that we've seen in unemployment benefit payments. You can also see that the actual tax rate has been much smoother, because Nevada historically had a Trust Fund balance that it can use to smooth the difference between recession and growth bases in the economy.

The next chart, which is #25 in the handouts, shows you the average tax rates in place during the last four recessions and then following the recession, the year in which the unemployment tax peaked. For example, you can see in the 1974 recession, which is the only other time that the state has needed to borrow; during the recession, the tax rate was 2.7 percent. Following the recession in 1976, the tax had increased to 3.22 percent, which is also the highest rate that has been paid in the state's history.

Nevada is not alone in needing to borrow in order to pay unemployment benefit payments. On September 29th, 21 states, plus the Virgin Islands, have had to borrow money in order to pay benefits. Chart #26 shows you how much they have had to borrow. It is a little behind the times, as I checked it this morning, I believe, and California was already over 4 billion in borrowing. But it shows you how many other states have been faced with borrowing. The Department of Labor has estimated that as many as 40 states may need to borrow during this recession in order to continue paying unemployment benefit payments.

Nevada is alone in one important respect. Chart #27 shows you the unemployment rate at which each state began borrowing. That is the unemployment rate that it has when it first started borrowing in order to pay benefits. You can see that two states, for example, began borrowing from the federal government to pay benefits, when they had an unemployment rate of under five percent. The majority of states have had to borrow when their unemployment rate was around seven or eight percent. A few states made it to having an unemployment rate of just over 10 percent when they began borrowing. Nevada is far off on the right there as we have an unemployment rate of 13.2 percent when we can begin borrowing.

This shows the sound nature of the unemployment program in Nevada in the past and that we were well prepared for a recession. It took an unemployment rate of over 13 percent in the state to get us to the point where we have to begin borrowing to pay benefits. Talking about borrowing, in order to pay interest on any federal loans that we take out, the state cannot use any federal unemployment money that we get, and it cannot use any state UI money. So the state unemployment tax cannot be used to pay the interest on any loans that we take out. In the past, most states have used a special assessment, which they collect alongside the unemployment tax. Nevada doesn't currently have a mechanism for that. This is just sort of informational.

The interest rate that is charged on any borrowing is currently about 4.6 percent. To put that into harder numbers for you, we would expect in a given year for every $250 million of borrowing that a state does, the interest expense on that would be about 11.4 million that is charged each year. Of course, if we have a larger balance, the interest expense would go up accordingly.

There is an additional cost of borrowing, which is known as the FUTA offset credit reduction, which Ms. Clark will mention, about how the federal unemployment tax works. Essentially, beginning with the second year the state has outstanding loans, the federal government begins to reduce an offset against an employer's federal unemployment taxes that they pay, and which amounts to an increase of about $21 per employee per year. So in the first year, they would increase that tax by about $21. In the second year, it would go up to $42. In the third year, 30 -- $63, and so on. Then that money is applied by the federal government to a state's outstanding loans.

Finally, obviously, we are facing unprecedented times. That means we have no historical precedent to look back to say what we should expect the Unemployment Insurance Program, how we should expect it to perform over the course of next year. Moving forward, we do expect significant pressure on employment, as Mr. Anderson mentioned. How this will play out with the federal unemployment extensions in place, remains to be seen. It may be that the unemployment rate will remain high, but the pool of former workers eligible for workers could begin to decline, which would have a downward measure on actual benefit payments.

And, finally, this recession is very unique, and so there's a great deal of uncertainty about any actions that the federal government may take to provide relief to the states based on the fact that so many states are going to be borrowing during this recession. This concluded Mr. Schmidt's presentation.

Chairman Havas thanked Mr. Schmidt for his presentation and introduced Ms. Donna Clark for the next presentation.

C. <u>Tax Schedule Explanation and the Small Business Impact</u>
Donna Clark, Chief of UI Contributions, Employment Security Division
Department of Employment, Training and Rehabilitation

Ms. Clark introduced herself and went on to mention that the purpose of this meeting and workshop is to recommend the unemployment Tax Rate Schedule for Calendar Year 2010.

State law requires the Administrator to set the tax rate each year by adopting a regulation. Pursuant to Nevada statute 612.310, it is the role of the Employment Security Council to recommend a change in contribution rates, whenever it becomes necessary to protect the solvency of the Unemployment Compensation Fund.
Exhibit G is the Estimated Tax Rate Schedules for Year 2010.

Bill Anderson talked to you about economic conditions, and David Schmidt 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. The rate booklets that were passed out to you, will provide you with four tax schedules for the Council to consider and give us a recommendation and, of course, to receive any comments from the public. To complete the regulatory process, a small business workshop has also been scheduled for ***Monday, August 12, 2009, followed by a Public Hearing tentatively scheduled for December 7, 2009.***

Before we review the schedules contained in your booklets, I would like first to give you a brief review of how the unemployment compensation tax system works. **Exhibit H is the Booklet of Estimated Tax Rate Schedules (Four Scenarios).**

The Unemployment Insurance Program, as you have heard, is a joint state/federal partnership. The way this partnership works is, the Federal Unemployment Tax Act, or FUTA, imposes a payroll tax on all employers at a rate of 6.2 percent of each employee's wages up to $7,000. This equates to a federal payroll tax cost of $434 per employee per year.

If however, a state maintains an unemployment insurance system approved by the U.S. Secretary of Labor, employers are allowed to offset 5.4 percent of the federal unemployment tax, so that they actually pay at a rate of 8/10ths of one percent, thereby reducing the cost of the federal tax to $56 per employee per year. Now, this is the FUTA offset reduction that David Schmidt talked about that would increase once we begin borrowing and, at the point at which that offset credit is reduced, would increase by $21 per employee per year.

The 8/10ths of one percent employers pay back to the federal government is passed back to the states to cover their administrative costs for the state unemployment insurance programs. The funds are also used to build a reserve, a federal reserve from which states may borrow, if necessary, to pay benefits. So this is the fund from which we would be borrowing.

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 to 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. 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 percent of taxable wages. In 2010 the taxable wage base or taxable limit will be $27,000 per employee. Employers pay at the new employer rate of 2.95 percent for approximately three and a half to four years until they are eligible for an experience rating.

Once eligible for an experience rating, an employer's rate can range from .25 percent to 5.4 percent, depending on their previous experience with unemployment. There are 18 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 59,000 employers, more than half, or 59 percent, of all employers are eligible for an experience rating, while the balance pay at the standard rate of 2.95 percent of taxable wages.

The standard rate established by the federal law is 5.4 percent. Rates lower than 5.4 percent can be assigned only under an experience 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, at higher rates than those with low employee turnovers.

Nevada, along with the majority of the states, uses a reserve ratio experience 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, 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 reserve ratio. Contributions are, of course, the quarterly taxes paid by the employer, and benefit charges are the employer's portion of unemployment benefits paid to former employees. The purpose of this method is to put small and large employers on equal footing without regard to industry type.

In the example on this slide – page four of exhibit G,, the employer paid $6,000 in contributions and had $2,000 in benefit charges, with an average taxable payroll of $40,000, which gives him a reserve ratio of positive 10 percent. 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.

Now, to the detailed schedules. As shown in this sample slide, the detailed tax schedules contained in your booklet show the result of four different estimated average unemployment insurance tax rates. This sample chart, which is listed as Chart 2 in your booklet, displays an average rate of 1.33 percent, which is the average UI tax rate currently in effect for calendar year 2009.

In setting the schedule, the 18 different tax rates displayed in the third column of the schedules 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 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 in the lower tax rates. The law also requires that increments between reserve ratios must be uniform. In this sample schedule, the ranges are from positive 5.2 to negative 17.2, with increments of 1.4 between each of the reserve ratios. If an employer reserve ratio is positive 5.2 or better, he gets the lowest rate of .25 percent.

So in our previous example, where the employer had a positive reserve ratio of 10 percent, he would get the lowest rate. An employer with a reserve ratio of less than negative 17.2 would get the highest rate of 5.4 percent. And the rest fall somewhere in between. In this particular chart, approximately 55 percent of eligible employers are in the lowest rates of .25 percent.

There are 35,166 eligible employers from which we estimate will generate 249.04 million in revenue to the Unemployment Insurance Trust Fund. To that, we add the estimate for employers not eligible for experience rating, 64.61 million, for a total revenue of 313.65 million and an average rate of 1.33 percent for the unemployment tax. You will see that these numbers change for each one of the scenarios, charts 1 through 4, that we have provided for you.

As a note, you'll notice that there is an additional .05 percent tax with the Career Enhancement Program, 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 booklets range from an average rate of 1.0 percent to 2.33 percent. 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 the projected total revenue. Within this system, we can produce an infinite number of charts. We generally present several different schedules to give you an adequate number of choices.

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

As a final note, in compliance with Nevada administrative procedures, the Employment Security Division solicited comments from small businesses to help gauge the impact of a potential rate change. A total of three written comments were received. Copies of the comments have been made available in your packets there and at the workshop here. Here Ms. Clark concluded her presentation.

D. <u>Council Discussion</u>
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.

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I'm going to take the Chairman's prerogative and continue. We will commence with the Council discussion on the subject at hand, the tax rates. And I will defer to members of the Council to express themselves and voice their opinions.

Council Member Dave Garbarino addressed the Council and Chairman with just a question. In increasing the tax rate, even though it's going to create more revenue for the fund, are we going to put more strain on small business to where it will actually be a burden on -- in other words, there will be more people applying for the unemployment?

Ms. Cindy Jones asked the Chair if he would like her to respond to that question. Mr. Havas gave the floor to Ms. Jones. She stated her name and said that: “It is very difficult to address the impact on any individual business. And as Ms. Clark explained, Nevada's unemployment system is designed to where it is equalized. The impact on a small business is no different than the impact on a large business. The size of the employer, the type of industry is not part of the equation that is equalized out through the process. Therefore, the impact on a small business is no different than any impact on a large business. Now in general, it's very difficult to say or to gauge what the actual impact would be to business. And, I think, David, you had had a statistic that had to do with how the change of employment would be impacted by the change of rates, the one that you discussed with Mr. Ramirez yesterday, that might be helpful.”

Mr. Dave Schmidt answered at this point by saying that did have some numbers sort of going the other way. We were talking about if you were to reduce tax rates, what level of employment change would you need, to see to have a noticeable impact on the Trust Fund. And the numbers we ran said, essentially, if you reduce the tax rate by, say, 10 percent, that would be to 1.2 percent, you would need to see an increase in employment of 11 percent to actually have -- offset the impact on employers. And that same sort of math would work in reverse. If you increase the tax rate by 10 percent, in order to actually have the Trust Fund collect less money, you would have to see a decrease in employment of about 11 percent in order to see that negative result come about.

Chairman Havas asked if there were additional comments by Members of Council. Hearing none, he went on with the meeting and asked for comments and input from the public.

VIII. 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.

Mr. Tray Abney: Thank you, Mr. Chairman, members of the Council and Ms. Jones. For the record, my name is Tray Abney with the Reno-Sparks Chamber of Commerce. I am going to submit a letter for the record, which I gave one copy to Ms. Golden, but I have several copies here.

First of all, I want to thank you for your service to the state. I know you're in a difficult, a very difficult position in trying to make this fund whole and exercising your fiduciary responsibility to make sure that this fund does what it is supposed to do and has the money to do that. I represent 1,500 members, and of course, with the Chamber of Commerce, most, a vast majority of those members are small businesses.

You've heard how unprecedented the times we are in. And of course, most of my members tell me that they have never seen anything like this, ever, in this state. It's the worst that they can remember. I would urge this Council to maintain the tax rate for now, exercise all options using federal funds. It's usually not our position to fund government needs and government programs by borrowing, but in these unprecedented times, in addition to the tax increases that my members have already sustained after the 2009 Legislative Session, we just feel that this would be a very difficult additional burden to be placed on the business community at this time. So when times do improve, this chamber and my members pledge to work with you to make sure that we do what it takes to make that fund hold then and take care of that issue. hank you very much for your time. I appreciate it.

Chairman Havas: Thank you..

Mr. Ray Bacon: Thank you, Mr. Chairman. For the record, Ray Bacon, Nevada Manufacturers Association. Let me give you a little more depressing data since you haven't had enough yet today. The recession in the manufacturing sector on a national basis goes all the way back to 1978. Nationally, the manufacturing sector has been losing jobs since 1978. There has been blips in that, but that's fundamental when the depression in the manufacturing area or recession in the manufacturing area started.

That, the job losses that have taken place over that period, or since then, have fundamentally gone in three areas. Number one, and this is the most important one from my standpoint, about a third of the job losses have resulted from improvements in productivity. Now, that's bad news and good news. That means that we're getting more efficient and better in the process of what we're doing. But, simultaneously, those jobs never come back, they're gone permanently.

About a third of those jobs are jobs that have gone oversees from whatever. As you're well aware, because of our labor rates in this country, it's one of those things where those high labor intensive jobs, they tend to be in consumer goods, but that's not universally true. Those jobs have gone to China. Well, they first went to Japan, then Taiwan, then China. Now they're going to southeast Asia and whoever knows where next.

And then the fourth one is that one that tends to ebb and flow. And that's the one that goes away during poor times. And as I think this group is well aware, during the early 2000 -- starting in July of 2000 and going through the end of 2003, the recession in this country was almost exclusively in the manufacturing area. It was our guys that took the hit. During that period of time that was -- we were gifted with one of those rare occasions when Nevada was the only state, for about an 18-month period, to actually show growth in manufacturing jobs. Every other state was upside down. And we actually showed a growth in manufacturing jobs. Now, it was 400 jobs, which is insignificant in the total picture. But when 49 states are upside down, and we were the only one positive, that was pretty good news. At this stage of the game, the vast majority of my members are going through substantial reductions. If you talk to Mr. Anderson, and he starts to take a look at his individual data sector by sector, the manufacturing sector, for the first time in Nevada, is actually taking a fairly healthy beating. Most of my members' businesses are down in the range of 30 to 40 percent. I talked to one the other day whose business is down 85 percent.

We used to steal companies from California. At this stage of the game, the thing that Bill mentioned in his presentation is the loss of commercial credit. There are companies that want out of California. The comment I have been accredited with and I will have to take the fall for and say that it's true, because that's what I did say, it's easy to look good when you live next door to stupid. California does some things that are just plain stupid. But at this stage of the game, for the first time ever, the commercial credit issue is companies that would love to leave California, because of the stupid things that they do, can't. They can't get that relatively small loan that it takes to move. They can't leave California. They're effectively handcuffed to the environment that they live in.

The secondary thing where we've seen job growth historically in the state of Nevada has been in the manufacturing sector, has been people that need to be reasonably close to that California environment. Which those of us that have been in this state for a while remember it was listed as the fifth largest economy in the world as little as six years ago. It's now down to the eighth largest economy in the world. And that means you got a drop by a whole bunch of folks in that relatively short period of time.

So people that used to have that burning urge to be close to their customer base in California now have seen that customer base in California decline substantially. And so that urge for people from the Midwest or the East Coast to get a Nevada presence so they'd be close to their California customers but not in California, that's gone, too. So the growth and economic growth in the manufacturing sector that we have enjoyed for the best part of 25 years is pretty well gone.

We recognize the reality of the situation and would love to say come up, you know, stand up and raise our hand and raise the flag and say lower the rate. We know that that's not realistic. We know that there will continue to be cuts that'll take place in our sector. All we would urge you to do is go as lightly as you possibly can and be as realistic as you possibly can, because we know that whatever we do from a rate increase is going to continue for a long period of time.

So that's -- you've done a great job in the past. I learned all this stuff at the -- by going to lunch one day with Stan Jones probably 20 years ago, and it has served me very well, and he served the state very well. And, I think, part of the reason this Trust Fund is in the shape that it is, is the imprint that Stan left on this, this operation, for what, he was with the Department for about 20 years, if I remember correctly. So, anyway, with that, go as lightly as you possibly can. And thank you.

Chairman Havas: Thank you Ray Bacon.

Mr. James Nelson: Good morning, Members of the Council. Jim Nelson. I'm the Executive Director of the Nevada Association of Employers. And I'm kind of in a unique position here, because I grew up in the unemployment business. I am totally aware of responsibilities that this Council has with respect to maintaining a solvent Trust Fund. So it's difficult for me to -- I certainly don't want to see higher taxes. It doesn't do good for -- you know, I represent 400 small businesses myself. But in looking at the proposed increases that we have, we go from 1.33 to 2.0. That's kind of a big bite.

And to this gentleman's question earlier, how many businesses would be impacted by these rate changes, if you just go from the 1.33 to the 2.0.

Chairman Havas: May I interrupt just for a second? We do not have to focus entirely on the four sheets here. We can, you know, we can opt for something else.

Mr. Jim Nelson: Well, to my point was that there would be -- if you take a look at the minimum rate of -- the employers at the minimum rate of 2.5, or .25, they'd be going from 19,000 to 10,000. So almost half of the employers, just by going up to 2.0, would have their rates increase. So that's, I think that's a -- to your question earlier. My thought would be maybe we could take a look at something. I mean I understand that we need to take a look, we need to create some solvency here. But perhaps what we could do is maybe take a look at some -- again, some increases that aren't going from the 1.33 to 2.0. Maybe we can find something in the middle. Might be a little bit more palatable, not that any increase is going to be palatable, but maybe we could take a look at some other options, would be my thought.

Chairman Havas: Thank you. Anyone else? We'd like to go to Carson City, if that's possible. Anybody else? At this time, I'd like to go to Las Vegas for public input and commentary.

Ms Veronica Meter: Mr. Chairman, Members of the Council, Veronica Meter, Las Vegas Chamber of Commerce. I am the Vice President of Government Affairs. The Las Vegas Chamber of Commerce has 6,500 members, employing 200,000 people. 85 percent of our members are small businesses. I appreciate the opportunity today to read a brief statement to you for the record. I am here to ask you not to increase the unemployment tax rate paid by our employers. Our state's economy and the businesses that operate in it are in exceptionally difficult circumstances. To call Nevada's situation a mere recession may well be an understatement.

The key to economic recovery and, ultimately, the key to balancing the Nevada Unemployment Insurance Trust Fund is job creation. While we cannot cite statistics that show the relationship between increasing this tax in this environment and potentially job losses or diminished job creation, I think we can all agree that an additional tax at this time would be harmful.

The Federal Loan Program allows us the opportunity to defer these costs, to be repaid during better economic times when these costs may not cause the same negative impacts that may be seen today. In order to balance the budget and to find essential state services, the legislature recently raised the modified business tax on companies with revenue over $250,000 per year, also increased the sales tax and increased vehicle registration fees. Your actions today do not take place in a vacuum. Unemployment tax increases have exactly the same impact on a business as legislative tax increases do.

Typically, the Las Vegas Chamber of Commerce would not support borrowing to solve today's problems in paying for them in the future. However, in this unique situation, we feel that the opportunity to borrow the money from the federal government at no interest through next year, and then at a favorable rate until repaid, would be a good option.

In this case, we consider this an investment in our economic recovery and in job preservation and in job creation. We think leaving the unemployment tax at its rate, at its current rate is a prudent decision. And I appreciate the opportunity today to state the Chamber's position on the record.

Chairman Havas: Thank you very much. Any other speakers from southern Nevada?

Mr. John Hinchliffe: Yes, Mr. Chairman. My name is John Hinchliffe. I'm the Chairman of the Board of Directors for the Nevada Restaurant Association and a General Manager for McCormick & Schmick's Seafood Restaurant in Las Vegas.

Obviously, over the last two years, we've seen a significant decline in visitorship and discretionary spending in our restaurants. Currently, many of our restaurants have seen declines of upwards to 30 to 40 percent, decline in sales and visitors, which has resulted in a number of restaurants operating negatively over the last three to four plus months, meaning that restaurants are investing, the restaurant owners and investors are operating at losses in order to get through the slow summer season in the hopes that we'll see an increase in business as we head into January. This may or may not be true. However, increasing the tax on businesses may result in more layoffs and more citizens taking use of unemployment insurance. And I would ask that we postpone increasing any taxes until such a time as our industry, which is one of the major employers in the state, can afford to. Thank you.

Chairman Havas: Thank you very much. Additional commentary from speakers in southern Nevada?

Mr. George Ross: For the record, my name is George Ross. I am representing the Association of the Gaming Equipment Manufacturers, consisting of 81 member companies who manufacture the gaming devices, slot machines systems, and components of the gaming industry. 44 of those companies have significant offices or operations in Nevada. At the beginning of this year, they employed 14,300 people. There have been significant layoffs since. That number is now much smaller. Our plea echoes that of the restaurant association and of the Las Vegas Chamber of Commerce. We would urge you to keep the impact of this tax on companies the same as it is today and not to increase it.

I'm not an expert in the unemployment tax, but as I sat there looking at the numbers, I began to realize that as more and more companies are going to be thrown into that higher tax rate, that's going to be a major burden on all of them and our people and the employees of the state. And, hopefully, when the overall rate, this average rate is calculated, it reflects the fact that many more companies, apparently, who already had to lay people off, there'll be a big waiting of companies in that higher tax rate, which will, of course, exacerbate the impact on them who have already been hurt. But it also, hopefully, would lead to a lower overall rate on all of them if they're looking at the -- getting the same amount of money you would have expected.

So, again, our plea would be to not change that rate. Unfortunately, it means we -- and we know that down the road it means paying a higher rate to replenish the Trust Fund. But that's -- given the situation we have today and the economy, we feel that's an acceptable trade-off. Thank you.

Chairman Havas: Thank you very much. Additional speakers from southern Nevada?

Mr. Danny Thompson: Mr. Chairman, for the record, Danny Thompson, representing the Nevada State AFL-CIO. We currently represent over 120 different unions in the state and over 200,000 workers in the state of Nevada.

You know, we -- I was interested in the presentation by the economist that -- going back to the session and thinking some of the testimony that I provided, beginning with the unemployment numbers amongst the 18 building trades unions in Reno starting out this year at 30 to 35 percent and, you know, in May, many of them being at 50 percent, and today some of them at 65 percent, and looking forward in Las Vegas, you know, when City Center is built out, they're going to hire people to take -- to start those jobs. But the people that are going to be laid off there, are going to have no jobs to go to. After City Center, the airport, the big major jobs that are employing thousands of workers, normally, what happens, those jobs get done, they go back to the hiring hall, another job starts, and they're sent out to do work.

There are no jobs. I was invited to speak at the American Architects Association earlier this year, to their Executive Board. They are all out of work. And so, you know, if they're out of work, there's not going to be any work. Because, typically, it takes a year to two years, depending on the size of the project, for them to do their work so others can come in and build these things. And so, clearly, we've not hit bottom yet, coupled with the fact that there are going to be only readjustment in some of these ARM loans that were given to people, again. So the end of this year, I think, is going to be bleak.

I came here mainly today because I had heard that there may be a move to lower the rate. I think that would be a mistake. Clearly, we have to borrow the money under law. There is some concern, which is something I didn't realize until today, that the interest can't be paid back with UI funds. It has to be paid back, I guess, under Nevada's law, from the General Fund. And, you know, my experience with the Legislature tells me that's as big a disaster as this is. And so --

Chairman Havas: Could we have Cynthia Jones just respond to that for a second, please?

Mr. Thompson: Okay.

Ms. Cindy Jones: Good morning, Mr. Thompson. You are correct, our options are a General Fund payment of the interest funds or making a change to our statutes to create a mechanism for the collection of a special assessment, as was presented by, I think, Mr. Schmidt earlier, earlier this morning. But you are right on target there, Mr. Thompson.

Mr. Danny Thompson: Thank you. So the point being, you know, this is going to put additional pressure on the state's budget, which is already at a point that, you know, I think everybody's just waiting for the date of the next special session. Because I think, clearly, you know, the people in my business all believe that it's going to happen. And so I think it would be a mistake to lower the rate. I do believe that, you know, if you have to raise it, it should be minimal. And if you can leave it the same until we see what happens. Because I don't think we're at the bottom yet.

I know no one wants to borrow money, and that's been a painful thing in the past, but we've never -- I don't think we're at the bottom yet. And we've never been at a place that we are today.

And, you know, hopefully, that some of this stimulus money can be spent in productive ways that are going to create some jobs. But as of today, there just has not been the kind of jobs created. Especially, everybody is touting the green energy front. It just hasn't created any jobs. And there's opportunity there, but it's going to take time. And so I think it would be prudent to wait and see what happens and going forward. But, certainly, you know, reducing the rate would be, I believe, a huge mistake. Thank you.

Chairman Havas: Thank you very much, Mr. Thompson.

Mr. Andre Rochat: My name is Andre Rochat. I'm the owner of Andre's, and that is a restaurant; also, Director of the restaurant and Nevada Restaurant Association.

Customers normally purchase what's on fare with discretionary income or as a business expense. Not only recession has reduced both types of spending, but conventions are way down, and attendees don't stay as long, which means less meals for us. (Indistinct) decline significantly. My restaurant is down 30 to 40 percent from the previous years. I closed a restaurant, one of the restaurants already that was open for 29 years, and I laid off more people in the other restaurant.

Right now, for the first time in about 30 years in business, I'm offering a discount in the restaurant, $45 for three-course meal. Do I make any money? No. Just to keep some people in the restaurant, keep my employees working. And if you look at it, when you come into the place, you have a maitre d', you have the hostess, you have the bartender, you have a summary, you have waiters, busboy, cooks, chef, pastry chef, cleaner, for $45 bucks for the nice meal, with tablecloth, silverware and nice glassware. That's really not much. It's a better deal than McDonald's.

Similar to another state, the minimum wage went up, (indistinct) went up, a lot of other permits went up. In most restaurants, we'd start minimum wage on staffs. So the manager, the manager tell the staff, well, as receive a raise, and in many cases, so have the staff like dishwasher, we have to raise their wage just to make it comparable to the other one. On top of this, in 2009 Nevada Legislature, in order to balance the budget and maintain essential service, nearly doubled the modified business tax. Both of this tax result in higher cost for employees.

With revenue down and costs up, first one margin (indistinct). Matter of fact, for all of us, there is no more margin. And we wait, we hope for a good weekend that we can make next week's payroll. And that's not easy, I can -- trust me on that. In this recession, restaurants are severely hurt. And another tax raise on employers is just going to be, as far as some of us, the coup de grace. Worse yet, those restaurants who have already been hurt, and the most have been focused on the larger layoff, will pay higher tax rate, increasing the chance that they will have to close, resulting in the loss of their job. Every problem has a solution. There is a quick solution, and there is a right solution. The right solution, I feel, is to create some more jobs. There is a few things in town, I think, that would create more jobs.

One of them is the Fontainebleu. If we could find a way to finish this place, that would be for about 4,000 jobs. There is the Echelon. You know, it's that place where they -- if they finish, we're talking about another eight, 10 thousand jobs. And that would utilize the workers from the City Center at the same time. On the other hand, you probably could do something to help us. It's easy to always ask us to give more money. But you could help us (indistinct) to give credit. We're one of the seven states that doesn't have to give credit. That would help the small business.

The other things that our Legislature could do is raise hell in Washington, DC, and bring back the entertainment expense account (indistinct) 100 percent like it used to be. It's down to 50 percent now. A hundred percent would mean more conventions, people stay longer, more rooms, more food, more jobs for everybody. And that's the way I see it. I believe, I'm the last speaker. Thank you very much.

Chairman Havas: Thank you very much. I appreciate it.

IX. DISCUSSION AND POSSIBLE ACTION ON THE TAX RECOMMENDATION FOR YEAR 2010

Chairman Havas thanked everyone and felt it is incumbent upon Council Members to continue and persevere in this discussion, so we can arrive at a motion to adopt a specific tax rate schedule.

Mr. George Foster: Mr. Chairman, George Foster. I think we've heard what all the problems are, and I think staff has done a good job telling us where we're at today and where we possibly may be in the future. And it's really hard for anyone to predict where we're going to be a year or two from now. I think, and I'll put this in the form of a motion -- I don't know if the rest of the Council agree with me or not, but I'll move that we keep the same rate that we have today and for 2010, with no increase, no decrease.

Mr. Daniel Costella: I'll second that motion, Danny Costello.

Chairman Havas: It's been moved and seconded, moved by George Foster to adopt a zero increase in our employers tax rate, and seconded by Danny Costello. I'd like to hear for further discussion.

Mr. Ross Whitacre: Yeah. For the record, Ross Whittaker. To keep the tax rate the same, is there any additional negative impact that the Department will feel from the Department of Labor as far as penalties? I mean it sounds like we have a hold harmless year with no interest on this money we're going to have tomorrow.

Ms. Cindy Jones: For the record, Cindy Jones. No, there's no adverse impact in maintaining the rate the same. Just for informational purposes, the Department of Labor is considering some regulations that would prospectively impact interest-free periods, not the one that's currently being authorized through the American Recovery & Reinvestment Act, that would put some constraints on states borrowing in future years, that they have showed that they've made -- that they haven't taken steps to reduce the solvency in their states. But at this point, there would be no adverse impact from the Department of Labor from keeping our rates the same, only the aforementioned potential FUTA offsets that would occur too late, years from now, if we don't repay all of our loans by then.

Mr. Daniel Costella: Mr. Chair, Danny Costella. I just wanted to point out that we should all be aware as Nevadans that most economists conservatively estimate that the nation probably will not return to full unemployment, which means about five percent or less, until 2015. So we do have some issues we're going to have to address in the future. I would also like to say, I think Mr. Anderson answered our question. He said -- I think, you said there would be no growth. I was wondering, is there anywhere that there can be growth, and are there any industries that are growing in the state of Nevada? And we should do what we can to support those industries. I also would like to ask. I wouldn't know who to address this to, but has there been any research done to identify the workforce that's being used in any of the green energies, like geothermal and stuff? Because under my impression is a lot of this work's being done by people from out of state. And I feel that we have enough people that can man these jobs, and maybe we should look at some kind of resolution through the Legislature that Nevadans are being put to work on these jobs. Thank you.

Mr. William Anderson: For the record, Bill Anderson, Chief Economist with the Research and Analysis Bureau. Through you, Mr. Chair, with respect to the first part of your question, where we're going to be seeing growth, it's hard to see outright growth when two major drivers in your economy are expected to continue to feel the impacts of this downturn. Specifically, I'm talking about accommodation and food services, as well as the construction sector.

Looking out through 2010 in the construction sector, we're looking for an additional loss of about 13 percent in terms of construction jobs. Looking at another major employer, accommodation and food services, we're looking at job declines in 2010 there of about five and a half percent. Which given the well publicized opening, our future opening of City Center suggests that while that property will be creating a payroll and hiring new workers, difficulties on the part of the other properties will more or less swamp any stimulative impact from City Center.

So in terms of numerically large areas of growth in the short term, we're not seeing anything out there. Now, there are some pockets of smaller industries that are likely to grow or hold steady. For instance, educational services, it's a relatively small sector, but we're seeing some stabilization and perhaps a little bit of growth there. Same for various healthcare related type businesses. Given our historical population growth, we still need to service that population with respect to their healthcare needs.

So the way I'd answer that is we're not going to see numerically large growth, especially when two of our largest driving forces in our economy are going to continue to struggle. That's not to say that there might be some smaller pockets of relative strength elsewhere in the economy. But, again, I think the key point is that when we do recover, we're simply not going to return to those boom like conditions. We can't expect any time soon, arguably in our lifetimes, that we're going to see six percent year-over-year job growth, we're going to see five percent growth in our population. We are simply not going to be returning to those types of times.

Ms. Cindy Jones: If I might add a comment as well, Mr. Chairman. As noted in my presentation regarding ARRA fund, the grant that's being sought by Research and Analysis for over $800,000 and the other grant we are in the process of seeking support of, that will be between $2 to $6 million; the idea of these grants is to map out our labor resources, determine what their skills are, determine where the opportunities are, and then strategically invest our workforce development dollars, so that the idea is to train Nevadans for jobs in Nevada. So we have some resources that we are seeking to gather from the federal government to move us towards that end. Thank you.

Chairman Havas: Any further discussion?

Mr. Ross Whitacre: Yes, Mr. Chairman. For the record, Ross Whitacre again. I think we have heard from everybody that has talked to us today that -- and I think we know the bad state that our economy is in, and I think we know that it's going to stay bad for a long time. It appears to me that the consensus probably is to keep the rate the same as it was. But I think we do have to be aware as a Council that we are taking a chance here. Because when we come back, next year, depending on what federal sanctions are, and we're not going to know the state of the economy, I think we need to be prepared and be thinking about the fact that we may have to take some drastic action at that time.

So I don't know if there is any interest in a slight tax rate this year to begin the process. Because, historically, we -- the State of Nevada, has taxed counter cyclically and that has worked well. But I think it's important to get it on the table that we really could be facing a large problem when we come back a year from now.

Chairman Havas: Thank you, Ross. I'm going to defer to Cindy Jones on this one.

Ms. Cindy Jones: Again, Cindy Jones for the record. There are no sanctions in place thus far, but there could be adverse potential consequences in prospective years, as I had mentioned before. But the one thing that we are definitely facing, absent some sort of federal intervention on the borrowing provisions of the law, is that FUTA offset reduction. So it's not really a sanction, it's just another way that the taxes are going to have to be paid. One way or another, Nevada employers are going to have to pay for all these benefits via tax increases to the State Unemployment Tax Act, the tax we are discussing today, the FUTA offset reductions that will be implemented by the federal government, and likely some combination thereof.

We can hope for some federal intervention. As stated before, up to 40 states are expected to borrow somewhere between $80 to $90 billion. So the nation's unemployment insurance system as a total has been under funded for some time. Nevada has been performing quite well. But I just came back from a conference that demonstrated that the whole system has been under funded for some time. Payroll taxes for the last 20 years across the nation have been historically low. And so we're a little spoiled now.
But you know, the time will come when we have to pay. So, yes, what we're looking at is a pay me now or pay me later, kind of a catch 22 situation.

We have to keep in mind that over time, you know, the cost of borrowing. So I certainly understand everyone's comments and everybody's, you know, discussion so far and everybody's input.
I'm pleased that we've had more participation than I've seen in the five years I've had this position, I appreciate everybody's attention. It is a tough decision to make. So I will defer to the Council for continued deliberations as they consider a recommendation to me. Thank you.

Chairman Havas: You know, furthermore, it's interesting to note that we are listening more today from the public. And we really appreciate it. Of course, we should continue on with discussion from the Council.

We do have a motion on the floor, and it's been moved and seconded, that we do adopt the average employers tax rate of 1.33, which equates to a zero increase, we retain the current tax rate as it exists. Hearing no further discussion, I will call for a vote. All those in favor, signify by saying "aye." The Council members responded. There being no opposition, the motion carried unanimously.

Chairman Havas thanked staff and the members of the Council and the public. He then deferred to Cindy Jones for some closing remarks. Ms. Jones thanked the Chairman and made her closing statement.

Ms. Cindy Jones: Thank you for your recommendation and consideration for the average tax rate for adoption for the 2010 Tax Rate Schedule. As stated previously, the date for the formal regulation adoption is tentatively scheduled for December 7, 2009. So keep your eye on the Internet and the various places and libraries that we post the meeting agenda and notice. But so far, that's the date we have. And we're still working with the Legislative Counsel Bureau to firm up that date. Again, I really appreciate everybody's participation. It is a difficult situation. And I just really appreciate your support of the Department and the programs it's charged with administering and the support of our workforce and Nevada's economy as a whole. Thank you.

X. ADJOURNMENT

Chairman Havas invited a motion for adjournment. It was so moved and seconded, the Nevada Employment Security Council meeting was adjourned at 12:16 p.m.

NOTE: These minutes have been approved at the Employment Security Council meeting on October 5, 2010.