

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

October 2, 2013

Live Meeting

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

Video Conference to:

Grant Sawyer Building
555 E. Washington Ave., Room 4412E
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
Paul Barton – Public
Ross Whitacre – Public

Margaret Wittenberg – Employers/BOR
Charles Billings – Employees/Labor/BOR
Danny Costella – Employees/Labor

Council Members Absent

Kathleen Johnson – Public/BOR
Michelle Carranza – Employers
David Garbarino – Employees/Labor

Department of Employment, Training and Rehabilitation (DETR) Staff

Present in Carson City

Renee L. Olson, Division Administrator, Employment Security Division (ESD)/DETR
Kelly D. Karch, Deputy Administrator, ESD/DETR
J. Thomas Susich, Sr. Legal Counsel, ESD/DETR
Bill Anderson, Chief Economist, Research & Analysis Bureau, DETR
David Schmidt, Economist, Research & Analysis Bureau, DETR
Edgar Roberts, Chief of Contributions, ESD/DETR
Paul Brugger, Management Analyst, UIC/ESD/DETR
Christina Guzman, Management Analyst, Administration/ESD/DETR
Jeremy Hays, DETR
Lynn King, Administrative Office, ESD/DETR
Joyce Golden, Administrative Office, ESD/DETR

Present in Las Vegas

Art Martinez, ESD/DETR

Members of the Public, Media and Other Agencies

Carol Vilaro, NTA, LV/NV
Amanda Schweisthal, Retail Assoc. of NV, LV/NV
Bob Ostrowski, NRA, LV/NV
Mark Tulman, NAE, Reno/NV
Cy Ryan, LV Sun, LV/NV
Ed Vogel, LV Review Journal, LV/NV
Sandra Cherub, AP, Carson City/NV

Geoff Dornan, NV Appeal, Carson City/NV
Tray Abney, Chamber of Commerce, Reno/NV
Joanna Jacob, Ferrari Public Affairs, Reno/NV
Brian Reeder AGC, Reno/NV

Exhibits

- Exhibit A - Attendance Record
- Exhibit B - Agenda for the Meeting/Workshop
- Exhibit C - Addressing Federal Unemployment Debt
- Exhibit D - Economic Projections sand Overview
- Exhibit E - Review of Trust Fund
- Exhibit F - Tax Schedule Explanation

I. CALL TO ORDER AD WELCOME

Paul Havas, Chair of the Employment Security Council called the meeting to order at 10:00 a.m. on October 2, 2012, and welcomed everyone to the meeting. He asked the Council to introduce themselves and indicate their representation.

II. INTRODUCTION OF COUNCIL MEMBERS

Danny Costella, representing Employees/Labor.
Charles Billings, representing Employees/Labor ad member of the Board of Review.
Ross Whitacre, representing the public.
Margaret Wittenberg, representing employers and member of the Board of Review.
Paul Havas, Chairman of the Employment Security Council.
Paul Barton, representing the public.
Tom Susich, Senior Legal Counsel for the Employment Security Division.
Kelly Karch, Deputy Administrator, Unemployment Insurance System.
Renee Olson, Division Administrator of the Employment Security Division.

III. PUBLIC COMMENT

Mr. Havas thanked everyone. Pursuant to the proviso for public comment, we may limit public comment to five minutes per speaker, just to echo that which we kind of express at each meeting. We would like to, with your indulgence and acceptance, move on the Agenda. Dave Schmidt will address item VI, under VII, after VIIA.

IV. APPROVAL OF MINUTES

A. Public Comments

Mr. Havas continued by saying he would like to have a discussion and action relating to the approval of minutes from October 2, 2012. Could we have any public comment, there being no comments at this point, we will continue with discussion of the minutes or an invitation for a motion to approve the minutes as mailed.

B. Approval of Minutes

Mr. Whitacre said he would move to approve the minutes of the October 2012 Council Meeting with the change that was noted earlier to the Chairman. Paul Barton seconded that.

Legal Counsel reminded the Council that there was an amendment to the minutes that was not conducted during the meeting, it must be stated what the amendment was.

Mr. Whitacre noted that on the last page of the minutes, at adjournment time, that that motion was made by Mr. Ray Bacon. And he, of course, is not a member of the Council and so, at this point, I don't know if anybody knows who made that motion, but it was not Mr. Bacon.

At this point it was determined that Danny Costella made the motion to adjourn the last meeting and that it did receive a unanimous response. So that should be included in our minutes, as mailed. Any other discussion on the motion on the floor to approve the minutes as mailed? Mr. Havas mentioned that the amendment is to allow for an inclusion of Danny Costella's motion to adjourn the meeting in 2012.

Mr. Chairman, I'm sorry to create so much trouble, but since the minutes have been amended, there should be a motion to amend the minutes, a second, and then a vote to amend the minutes. And then we can proceed.

Ross Whitacre made a motion to approve the minutes of the 2012 ESD Council Meeting, as amended. This was seconded by Paul Barton. The motion carried unanimously.

V. **AGENCY AND LEGISLATIVE UPDATES**

Renee L. Olson, Division Administrator, Employment Security Division

Mr. Havas next called on Renee Olson to speak on Legislative Updates.

Mrs. Olson began by first introducing some members of her staff before going into her presentation. Mr. Kelly Karch, he is our Deputy Administrator in charge of the unemployment insurance program. He's the head of our UI operation and closely manages the program, especially from a day-to-day perspective, boots-on-the-ground kind of perspective there. And we couldn't do without him. So I wanted to introduce him. And you'll also hear from Mr. Edgar Roberts. He's our Chief of Contributions. He will be talking to you about our tax structure and how we calculate the experience ratings to employers. And I have with us Mr. Tom Susich, our senior attorney for the UI program. And he's here to advise us, as he's already demonstrated, the legal matters that may come before us today. I don't think I'm stretching it too far to say that Mr. Susich knows more about UI law than anyone in Nevada. So we're happy to have him with us here today.

I also have various other members of my staff in the audience who do the really hard work of pulling this meeting together. And I'd like to recognize them and thank them today, before we go on. They provide vital support to this process, so if anyone needs anything in the meeting today, one of my staff members can help you out.

Last but not least, we'll hear from the Research and Analysis Bureau. The famous Bill Anderson is here with us today to provide an overview of the state's economic condition. He's our chief economist. And with him is the indispensable Dave Schmidt. He's an economist with R&A. He works for Bill. And he will help us understand the rate scenarios we will present in a few minutes.

So I'm sure with so many experts in the room, we'll be able to answer any of your questions and provide you lots of information today as we move on through the meeting. And now I'll move on with some legislative updates.

The last time we met, we were moving towards a legislative session, and during that session, we proposed several Bill Draft Requests (BDRs), the majority of which were approved through the

legislature. I'll start with a couple of federal mandates that we put into place. We're required to keep Nevada state law in compliance with federal law.

A couple of the things that we put forth were that a 15 percent penalty be deposited in the state's unemployment insurance trust fund for any amounts of benefits obtained through fraud, so that when we collect those benefits -- fraudulent benefits, when we collect those back, we charge 15 percent, and that goes into the trust fund. The second part of that legislation also stated that employers cannot be relieved of charges when the employer fails to provide adequate separation information resulting in an overpayment by the Division.

The Division also requested authority to extend the time that the administrator has to determine fraud occurred on a claim, and adds an additional 5 percent penalty. And this penalty would be used to enhance or to support any integrity measures in the program that we put in place.

The Division also requested authority to improve and streamline the process for garnishing wages as part of the Division's collection efforts. This process is put in place after all other attempts to work with the claimants on overpayments have been exhausted. So, usually what we'll do is that we'll work with people as much as we possibly can to set up a payment plan or some form of repayment that they can live with. But when those plans are not met, then we have the ability now, to move towards a garnishment process.

The Division also requested that statute be amended to provide that, when an employer's rate is transferred, that the debt is transferred as well to the successor entity. We finally amended statute to provide that, when an employer's assets are transferred in the case of a sale or any other form of asset-transfer, the debt is transferred to the successor entity as well.

Probably the most well-known or most talked about parts of the legislation that we requested, had to do with the outstanding trust fund loan debt. The Division continues its work in managing the outstanding trust fund loan. As of today, borrowing stands at approximately \$520 million. This is down significantly from the same time in the prior year, maybe, I'm looking at Dave, \$100 million? Dave Schmidt responded with "\$150 million".

Mrs. Olson went on to say, \$150 million lower than we were the same time in the previous year. Interest for the last year accrued at 2.54 percent, about that. And we just made our second interest payment of approximately \$16.5 million. In prior years of borrowing, this interest was paid from the state's general fund account. This year, with the passage of AB482, we met that federal interest obligation for a special assessment paid by employers.

At our last meeting, we were also discussing additional legislation that would allow us to refinance the outstanding loans and reserves by issuing bonds. We now have an additional tool, if you will, that we can use in an effort to resolve the borrowing situation that still faces Nevada's employers. With the passage of SB515, the Division has the authority to request that the State Board of Finance issue bonds, in order to refinance the outstanding debt and/or restore reserves to the trust fund, and to do so in order to benefit the system as a whole, by providing savings to employers on the overall cost of the debt and put the trust fund in a better position to withstand another economic downturn, should one occur in the near term.

So, based on the requirements of SB515, the Division has developed regulations. These regulations govern how and when the assessments would be charged to employers, and those

assessments are or would be used to repay the bond debt. We held a small-business workshop for these regulations at the end of July, and a hearing for the regulation was held on August 27th. I adopted those regulations after considering comments provided during the meeting and in writing. Those regulations were adopted on the 28th of August. We are now scheduled to have those regulations considered by the legislative commission tomorrow, on October 3rd.

With the approval of the regulations, we'll be able to continue to pursue the issuance of bonds. The bonds that we are currently considering are tax-exempt, short-term, and limited to refinancing the outstanding federal debt. We have been diligently working through this process with financial advisers, underwriters, attorneys, and the State Treasurer's office to create a financing structure that benefits Nevada's employers in the UI system. Barring any unanticipated anomaly in the bond market, we believe we have the ability to issue bonds at this time that provide employers with overall gross savings, as well as present value savings for the repayment, and a repayment term that approximates or is close to the estimated payoff of the loans if we did not bond. Also, we believe we can issue the bonds and repay the federal government before November 9th, in time to reset FUTA taxes to the minimum levels charged.

Therefore, what we're going to be asking the Council is to give us recommendations, for they are twofold. We have the average SUTA tax rate we'd like to consider under a no-bond scenario, and the average SUTA tax rate under a bonding scenario. We would also, along with that bonding scenario, ask for a recommendation from the Council or to express a preference, if they could, on whether, if we go ahead with the bonding, whether the SUTA rate plus the bond assessment rate should approximate the total current tax rates paid now, when you combine SUTA and FUTA and AB482 and consider that combined rate of what employers are paying. Is it the preference to approximate that rate? Or is it the preference that SUTA should be lower, to decrease the overall tax burden, which would therefore then extend the SUTA rate, that we may have to pay a higher SUTA rate that we may have to pay in the future, than otherwise needed under option one. So I'm going to let Dave kind of tackle all of that complicated analysis there. But I'm just kind of bringing it up at this point to let you know where we are, what guidance we're looking for at this point.

In terms of federal impact -- issues that are impacting the program, there are looming questions I can't answer right now, based on what the federal government is doing. Last year when I concluded my comments, I said it's difficult to anticipate what the federal government would do in the next six months. Today I can't say I know what the federal government will do tomorrow, or even in the next two weeks. So all I can say with certainty now, is that we're uncertain about what's going to happen. But we're managing that day-to-day and we're following the process day-to-day. We have plans in place to deal with whatever happens with the federal government, I should put it that way.

Hopefully soon, we'll find out that the federal government is reopening and the debt-ceiling issue is solved. But we also have the question coming up of whether the Federal Emergency Unemployment Compensation program will be extended. Right now that program's set to end at the end of December. I haven't heard anything that would sway my prediction one way or another as to whether they're going to extend that again. As it stands now, for the remainder of the EUC program, benefits we know, through the final quarter of the calendar year, October 1 through December 31, will be 7.2 percent lower, due to the sequestration cuts that were required. We are working under the assumption that the program will end as of December 31st. The worst thing that could happen, in my perspective, and this has happened to us before, is that if they

extend it, then they change all the rules surrounding it. So then we'll have to deal with that when it comes. But we're going to operate as if it's going to end on December 31st at this point.

On that note, I conclude my comments. And I know that next you're going to hear a variety of presentations from DETR staff about the economy and the trust fund. I would be happy to answer any questions. And I think, like I said, we have lots of people here to answer questions as we go along.

Mr. Havas thanked Mrs. Olson and called upon Bill Anderson to provide the Council with economic projections and an overview. At this point Mrs. Olson asked to be heard before the next presenter. Mrs. Olson had a few brief comments to make, to take care of some of the legal issues here that we have for the open meeting.

This meeting is conducted with the Employment Security Council and by the Employment Security Division and its Administrator, to solicit public comment on the proposed amendment of the tax-schedule regulation in Nevada Administrative Code, Chapter 612.270 in accordance with NRS 233B.061. Ms. Golden, was proper notice of today's public workshop given as required by NRS 233B.060?

Ms. Golden, the Administrative Assistant to the Administrator responded by saying that it was. Mrs. Olson continued to say that in accordance with NRS 612.310, the Employment Security Council provides a recommendation to the Administrator regarding a tax-rate schedule for the upcoming calendar year through this process. The presentations you are about to hear are intended to provide you with the information you need in order to make this important recommendation. Before we turn this over to the Chairman, I believe we need to open the floor again for public comment, before we start our workshop. Is there anyone here or in Las Vegas that would like to come up at this time and make public comment?

Chairman Havas repeated the question and asked if anyone in the north or south would like to provide any commentary. There were no comments from the public. Mr. Anderson was asked to give his economic projections and an overview.

VII. WORKSHOP TO CONSIDER ADOPTION OF REGULATION TO ESTABLISH THE UI TAX RATE SCHEDULE FOR CALENDAR YEAR 2014. (Nevada Administrative Code 612.270)

A. Economic Projections and Overview (Exhibit D)

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

Mr. Chair and Mrs. Olson, thanks for allowing us, as we do every year, to appear before you. My role today is to -- as it is every year, is to provide you with the kind of overall economic environment in which we're operating, as hopefully that will be useful as you go forward with your deliberations. And then that will transition into Dave Schmidt's more detailed and focused presentation, the indispensable Dave Schmidt, as Renee referred to him, and I wholeheartedly agree. Hopefully you'll find my remarks useful as you absorb his information and then go about your own deliberations.

Basically, the picture I'm going to try to paint for you today, is one of an economy in Nevada that is growing at a sustainable, a stable and a modest pace. Obviously, you know, we still have some problems, some pockets of weakness, when you have an unemployment rate in excess of 9 percent, that's obviously the case. But for the most part, the positives more than outweigh the negatives, and we've seen, as 2013 has unfolded, a continuation of the improvement in the overall labor market and economy.

What we learned during the last recession was that we're not immune to what takes place beyond our borders. So I'll start out with trying to frame the overall macro environment in which Nevada's operating. One of the key national barometers that we keep an eye on, because it does impact our tourism, gaming and entertainment sector, is consumer confidence at the national level. And you can see that that is trending up, that's the blue line, trending up over time, since the recession peaked, so that's certainly good news. And as a side note, in the red line, you can see that folks nationally, are becoming a little more confident with respect to the labor market. They think jobs are becoming a little bit easier, at least a little less difficult, to obtain.

In terms of Nevada's economy, you know I'm going to spend most of my time talking about the labor markets, but in terms of the broader economy, taxable sales have been on the rise for a little more than three years, since I put this together. Last week we got information for the month of July, and we're now on a string of 37 straight months of taxable sales gains in the state. Gaming win is very volatile. Again, that was another item where, after I put this together, we got another month's worth of data. And in August gaming win was up 8 percent, but if you average all the ups-and-downs out, we're essentially pretty much holding steady in terms of gaming win.

Same is true for visitor volume. Last calendar year was a record year on the visitor's front, and we're holding pretty steady at those levels. Gold prices have come off of their historical highs. That certainly impacts Nevada's rural counties, as I'll show in a little bit. The value of exports, driven by these declining gold prices, has declined. But staff looked at the actual level of exports, the volume of exports, and they're holding pretty steady.

In terms of the construction sector, the news on the surface at least, has been fairly encouraging. Permits and starts are up by about a third, relative to a year ago. Prices are on the rise. The major barometer that we track that allows us to make some relatively confident comparisons is the FHFA Home Price Index. And in the second quarter, Nevada's year-over-year gain was about a little less than 23 percent, and that was the strongest gain in the nation. So, you know, some pretty good news, again I said at least on the surface. And I qualify those remarks because we're essentially rising off of historical lows. So the news is good, it's better, but I do think it's important to keep it in perspective.

In terms of the number of employers in the state, you can see that they took a tumble during the recession. They've been on the rise since 2011, we have roughly about 60,000 employers in the state, so we're starting to see their ranks increase. In terms of average weekly wages, wages bottomed out during the recession. We actually saw two years of decline. But since then, they've been on the rise. Again, it's a very volatile measure. But first quarter wages are essentially unchanged from a year ago, down ever so slightly, by about \$2, \$844 per week, versus \$846. That's up about 5 percent from the first quarter of 2005, when the economy was more-or-less peaking.

Through the Chair, Mrs. Olson asked if she could ask a question. Given the floor, Mrs. Olson noted that it was a week ago or so, that she saw UNLV release some data on this information that contradicts these numbers. Could Mr. Anderson please address that.

Mr. Anderson responded. Through you, Mr. Chair, to Ms. Olson. Last week, some researchers at UNLV talked about average weekly wages over time. There are basically two measures of average weekly wages. What I'm showing you is information based off of unemployment insurance wage records. It represents a complete count, we go through every quarter, and we count employees. We count, or we tabulate wages, average weekly wages, and things of that nature. It's a complete, comprehensive measure of wages and employment. The information, unfortunately, used by UNLV represented the results of a sample of less than 1,000 businesses out of -- 1,000 employers out of the roughly 60,000 that I alluded to a little bit ago. It's not the most -- well, it's not very reliable, let's put it that way.

Half of their results, I think, were valid, that we have not kept pace with wage gains nationally. But the problem with using their data is it showed that we were actually down by about 8 percent, if memory serves me right, relative to just before the recession. And that's simply not the case. As I said, we're using complete count data here and, entirely comprehensive, and we're seeing wages grow. We're not growing as fast as the U.S., which is one of the arguments that UNLV made, but our wages are not declining.

Although your focus is on state-level trends, I do think this is an interesting chart. We looked at wages by county. The big take away here are all the leaders in terms of absolute wages, and again this is complete count data, are rural mining-dependent counties. That's where you see the highest wages in Nevada. In one case, in Eureka, exceeding \$80,000 a year. And our major population centers are pretty much right, as you'd expect, right in the middle. In terms of the unemployment rate, we peaked during the recession at 14 percent. Now we're down to about 9.5 percent, so a good 4.5 percentage point decline. We've narrowed the gap with respect to the U.S. At our worst, our unemployment rate was a good 4 points or so higher than the national average. Now we're just 2.2 points higher than the national average. So we are seeing the unemployment rate continue to come down. Unfortunately, it's still a relatively high 9.5 percent.

One of the take aways I'd like to leave with you is, that given the information that we have access to, our environment now, we don't have a job-loss problem per se. What we have in Nevada, the reason we're not seeing more pronounced job growth, is a lack of an uptick in hiring activity. Okay? And I'm going to make that point in these next two slides.

If you look at this slide, the number of folks who are unemployed because they lost a job has been easing down. You can be unemployed for any number of reasons. You can quit. You can reenter or enter the labor force and not be successful right away in terms of your job search. But, what we're showing here is that those folks who are unemployed, are so because they involuntarily lost their job. And you can see that's trending down.

Now, to follow that up, we can look at it from the business perspective. When we report our job numbers -- and I'm going to transition into jobs here very shortly. But when we report our job numbers, that's kind of a net figure, okay? Last month jobs were up 11,200, the month before they were down by about 8,500, but that's the end result of a lot of churn, what we call churn in the labor market. Some businesses are adding employees. Some businesses are cutting payrolls.

We show the end result. But this looks beneath the surface and looks at those gross job gains and losses.

The red line shows the number of jobs lost at closing or declining establishments, those that are cutting back on their employment. We are always going to have job losses. If you look back prior to the recession, we had about, on a quarterly basis, about 60,000 gross job losses every quarter. And I would argue that was a good thing, because a lot of those folks were quitting jobs and moving on to something bigger and better. So you're always going to have that churn. We're actually back to those levels of job losses right now, right around 60,000 or so every quarter.

That blue line shows gross job gains at those establishments that are either opening or adding employment. And you can see that tumbled during the recession, but now it's leveled out. But we just aren't seeing that uptick in hiring to get us back to those pre-recessionary levels. So that's why I say we don't have a job-loss problem per se, but we just need to get some momentum on the hiring side of the picture. And then that green area of the graph is just the net difference. You can see we've moved into positive territory for the last eight or nine quarters.

A lot of people are interested in discouraged workers. We release our unemployment rate every month, and oftentimes I get asked, "Well, what's the real unemployment rate when you take into account the number of folks who've given up on their search for work, they've dropped out of the labor force, and hence we don't count them in our estimate of the unemployed?" That totals roughly 13,000, 14,000 individuals in Nevada who have dropped out of the labor force. If you add them back into our calculation of the unemployment rate, it would add about a point to the official measure of unemployment, on average.

So as promised let me switch to the jobs front. We've added, so far this year, about 22,300 jobs compared to the first 8 months of last year. We've had some months of positive growth, some months of negative decline. But when you average it all out, we're sitting, as I said, a little more than 22,000 higher through the first 8 months than we were a year ago. In August, that number, if you just want to look at August-to-August, was up by about 25,200. This I just throw in for informational purposes, different ways of looking at job growth. As I said, those month-to-month comparisons are very volatile. That's represented by the blue bar here. You can see we're kind of trending where we grow one month, we decline the next, we grow, and we decline. But overall it averages out to a positive. The red and the green bars are a lot more stable, and that's those year-over-year comparisons that I talk about. The green bar for August, shows where we stand during the first eight months of this year versus last year. And, as I said, we're up a little more than 22,000 compared to a year ago.

Now, the governor has -- or previously announced a goal of 50,000 new jobs in the economy over the course of his 4-year term in office. And so I think this is an appropriate setting to kind of see where we're at in terms of progress with respect to that goal. In 2010, we added close to 11,000 jobs in the private sector. I'll focus solely on the private sector. A little more than 19,000 jobs in 2012. So far this year we're trending, in the private sector, about 20,000 higher than we did last year. So if we can hold that roughly 20,000-job gain over the remainder of the year, by the time we get to -- and we close the books on 2013, over that 3-year period from 2010 to 2013, we would have added essentially 50,000 jobs, a couple of hundred less, 49,800. So we appear to be well on our way to achieving that goal.

One reason that I'm confident that we'll hold those job gains that I mentioned, those 20,000 jobs or so, so far this year, is I can go back to that complete count data, which we only have through the first quarter, and see what that's telling us. And we see similar gains, at least in the first quarter, in that complete count data. So we think these monthly estimates -- the more current monthly estimates are giving us a pretty good picture in the aggregate of what's going on.

In terms of where we're seeing that job growth, it's pretty widespread. Construction is picking up, adding in excess of 4,500 jobs year-over-year, as is professional and business services. I mentioned some positive visitor numbers earlier. That's translating into some continued growth in the leisure and hospitality sector. Basically every sector but one, and that's a very small sector that we call the information sector, has been showing year-over-year job growth. So it's pretty diverse, broad-based kind of growth.

To me, this slide is perhaps the most important in the entire presentation. It kind of tracked how Nevada's doing with respect to the nation as a whole. And what we do, every quarter, and I'm able to give you a one-quarter update to this because, again, we put it together 10 days or so ago, and we've got some more information since. But every quarter we assess, when we get that complete count data for all states, we assess where Nevada stands. Prior to the recession, our job growth was stronger than every other state in the nation. During the recession, our declines were the most pronounced in the nation. But as you can see in 2011, 2012, we started picking up lost ground. And I can tell you that in the first quarter of this year, Nevada's job-growth rate in the private sector was stronger than 34 other states. So we're starting to see that steady kind of pickup in terms of making up for that lost ground.

Are we ever going to get to the point where year after year we outperform every other state in the nation? Well, I'd like to, but I doubt that will be the case. As I mentioned in my introductory comments, what we're seeing is a more moderate, but arguably sustainable kind of labor market. So we're not going to see the boom times like we saw prior to the recession, but hopefully we won't be as subject to the busts as we were during the downturn.

A lot of folks are debating what I call the good-jobs/bad-jobs debate. We're seeing job growth, but are they good jobs? Oftentimes, that good/bad definition revolves around wages and part-time/full-time, things of that nature. We don't have a definitive answer to that, but we've got several pieces of anecdotal information. If you look at the industries that our job growth is coming in, by one estimate, we're on pace to add about 52,000 jobs from 2010 to 2013. On average, private-sector wages of about \$42,200 per year. We've lost, over that 3-year period, about 26,000 jobs in industries that pay slightly above average; \$42,700 versus \$42,200. We've added 78,000 jobs in industries that pay just barely below average, \$41,900. So what this evidence suggests is that, there's not a huge difference between those industries that are adding employment and those that continue to cut back employment in terms of the wages that they offer. So this suggests we're not creating a bunch of minimum-wage type jobs.

If we look at full-time/part-time employment, full-time employment tumbled during the recession, part-time employment at the same time increased. But you can see that since the recovery began. We've started to see full-time employment pick up, whereas part-time employment has essentially stabilized, albeit at historically high levels.

If we were creating a bunch of low-wage, minimum-wage type jobs, you'd think you'd see deterioration in the relationship between what we call, new-hire wages and the overall wages.

When somebody gets hired into a new job, chances are, in a lot of cases that they're not going to be paid relatively high wages. They're going to be hired at the low end of the pay scale and then gradually move up that pay scale. Over time new-hire wages tend to be about two-thirds of the overall average wage, and we're not seeing deterioration in that relationship. So, again, anecdotal information that we're not seeing an abundance of low-wage, minimum-wage, dead-end kind of jobs in terms of our job growth numbers.

Now, with all of that said, I do think that one of the worrisome points I do see in the economy revolves around wages. Wages aren't declining. We're not seeing an abundance of minimum-wage, dead-end, part-time kind of jobs, but we don't see a whole lot of momentum behind the wage structure. Wages are essentially trending pretty much sideways, certainly not keeping pace with inflation. So that, arguably, is my major concern about overall economic fundamentals.

I think it's interesting to look at job growth by establishment size. It's somewhat timely in that some are arguing that with the Affordable Health Care Act, that a lot of firms will downsize to get below that, I always get it mixed up, either the 49 or 50 employee threshold. So we've started taking a closer look at job growth by establishment size, in part, to be able to assess the extent to which that's happening going forward. But you see that we're seeing job growth in just about every size establishment. The biggest gain was in those with 20 to 49 employees, but you also see considerable job growth in those with between 100 and 250 employees, pretty much across the board. So we're not seeing any real impacts of that, at least based on this data, just quite yet. But we will be monitoring this as we go forward. If you want to define small businesses, which some people do, as those with 100 employees or less, they've added about 27,000, 28,000 jobs since the labor market began to show some improvement back in the 2010, 2011 period.

Now we'll switch to the outlook. We expect our recent pace of job trends to continue with some slight improvement. This year we expect to add about another 23,000 jobs. That should increase a little bit in 2014 and 2015, where we'll be approaching 30,000 jobs -- job growth per year. You know, anybody can come before you and lay out a forecast, so what I like to do in these kinds of settings is to take a look at some alternative forecasts and see just where we land. I can tell you that our job growth that we're forecasting for this year translates to about 2 percent growth, 2014 about 2.2 percent growth. That's identical to the forecast that Moody's Analytics, which the state is a client of, that's identical to their forecast. I have some very capable staff members that do these forecasts. They have access to forecasts of five or six other entities. And the consensus forecast this year was about 1.9 percent, pretty much identical to our 2 percent growth rate.

And I do know, I just saw this last week, that Forbes Magazine estimated that or forecast that Nevada's job rates over time would grow by about 2.5 percent. And I forget the timeframe they were looking at, but that was the sixth fastest growth rate in the country. So, you know, the numbers I'm presenting to you today pretty much fall right in what I would call the consensus.

Now, in previous years I've kind of stopped here, but this year we wanted to give you a little bit of an industry focus, just highlighting a couple of major industries and those industries that are kind of driving the forecast. You can see mining has, although small in numbers, job growth rates have been the strongest in the state in that sector. But with the recent declines in gold prices, we've ratcheted down our forecast a bit in terms of mining. We still expect to see growth, but very modest growth as compared to the last couple two or three years.

I mentioned earlier, construction barometers are starting to pick up. We're seeing that in terms of construction jobs. Again, this kind of illustrates the point that I was talking about, we peaked at 150,000 construction jobs during our boom period. We lost about 100,000 of those jobs during the downturn. So we're picking up off of that historical low, but nonetheless, we're seeing some noticeable gains in the construction and building sector.

Retail trade employment is showing some pretty consistent gains going forward. Health care is relatively easy to forecast. You can see there was barely a blip during the recession. That's kind of just a straight-line forecast. We continue to add jobs there. Accommodation and food services, which is where you'll find our gaming establishments and restaurants and whatnot, we'll see continued job growth there. In case you're wondering, we have factored in the much-publicized new activity, especially down on the strip in Las Vegas, a couple of new mega-resort projects going on, some major expansion in the retail and entertainment capacity, so we've got all of that factored into this, and you see that we're looking for jobs to continue to grow.

What does all that mean for the unemployment rate? Unemployment rates are very difficult to forecast. You forecast it and then the feds go back and revise your historical data on which you based your forecast. It makes it very difficult to hit that number. But I'm very comfortable in saying that, given that jobs outlook that the unemployment rate will continue to trend down over time. We have it going down by roughly a half a point or so, on average, every year. So with that, I'll be happy to answer any questions that you might have.

Chairman Havas thanked Mr. Anderson for his presentation. Next he asked for Dave Schmidt to address the federal unemployment debt.

VI. ADDRESSING FEDERAL UNEMPLOYMENT DEBT combined with VII.

VII. REGULATION TO ESTABLISH THE UI TAX RATE FOR YEAR 2014

Dave Schmidt, Economist, Research & Analysis Bureau, DETR

B. Review of UI Trust Fund (Exhibit E)

Dave Schmidt introduced himself. I'm an economist with the Research and Analysis Bureau. And thanks also for taking the Agenda Item VI out of order. I'm going to wrap it into this presentation just to hopefully, improve the flow of the information. I didn't want to hammer you with a bunch of super-detailed unemployment trends information and then have a pretty much completely unrelated presentation in the middle, so that you had a good opportunity to forget everything. I know we throw a lot of information at you. I'm trying to make it as smooth as we can.

I'd like to start off with a chart that I've shown the last several years to say, where we were at the start of the recession. Give you an idea of where we've been, where we're at, and then where we think we're going for the next year. Heading into the recession, there were about 18 states that had solvent trust funds. They were reasonably well prepared for the recession. But there was a large number of states, you can see, that didn't have much in the way of reserves. In fact, in December of 2007, Michigan already was at the point where they were borrowing. They did not have any reserves anymore, and they had loans instead. But Nevada had a solvent trust fund. We were at a solvency multiple, as measured by the federal government, of about 1.02, with a

recommended level of about 1.00. So we were right around where we would expect to be. We had \$800 million in the bank and were reasonably well prepared for a recession, or so we thought.

By 2012, this is now a couple of years after the recession, there's still a large number of states that have some form of loans outstanding. Nevada is one of those states, in part, because in 2009 we paid out over \$1 billion in regular unemployment benefits. Our \$800 million reserve was strong for some of the recessions we had seen in the past, but it wasn't strong enough for the level of recession that we just went through. And so, there were a number of states that had to borrow. Nevada's hardly unique in this. But one thing that does make Nevada unique is that when we had to borrow, we had an unemployment rate of over 13 percent. By the time we finally did begin borrowing, in October of 2009, the recession was officially over. We had gone through the worst, but we had drawn down our reserves during that time. We had a very hard hit to the economy. We pulled down our reserves and we've had to borrow money, like many other states, to continue paying unemployment benefits. However, as we stand here today, the trend that we see nationally, the trend that Nevada's also on, is moving away from borrowing and beginning again to rebuild some solvency.

This chart shows where various states were in the second quarter of 2012 and 2013. You can see, in 2013 there were a few states that have average high cost multiples, which is that federal solvency multiple of over 1.5 times. Several more states have moved up into the 1.0 to 1.5 category. And there are fewer states that have their loans outstanding. And so we see this shift from borrowing, to looking to the future and beginning to build some solvency into the system. Nevada's on the same sort of path.

This chart compares the average tax rate that's been in effect in Nevada over the last several decades, and the average tax rate which would be necessary to pay for benefits in each of those years, which is called the benefit-cost rate. And that's the orange line. This ends in 2012. And in 2012 the average tax rate in Nevada was higher than the benefit-cost rate, which means we were bringing in more money than we were paying out in benefits, allowing the state to begin paying down its loan balance and begin moving toward getting out of the debt that we find ourselves in.

This is reflected in Slide 7. You can see the estimate for 2013, as we continue through the rest of this year, is that we will have improved upon where we were in 2012. We'll continue to move toward paying down the loans. As the Administrator had mentioned earlier, our loan balance is running currently at about \$150 million below where we were last year. About \$50 million of that came from the increased federal taxes that employers have had to pay since we have federal loans outstanding. The other \$100 million or so of that improvement has come from the unemployment tax contributions that we've received in excess of what it takes to pay for benefits.

Item VI on the agenda was addressing federal borrowing, and so I would like to take a look at the two different paths forward that Administrator Olson mentioned earlier. One is, if for some reason bonding is not a good option. Things can change very quickly, at the last minute ever. If we do not bond, that would be sort of one path that we need to look at. And then, if we continue, if the market remains good and we can get the favorable terms that we are expecting, if we issue bonds, what sort of path does that look like.

If we were not to bond and we stay on the path that we're on, or that we've been on rather, we would continue to use our unemployment contributions to pay down the loan. Employers would

continue to face increased federal taxes. Those increased federal taxes do go directly toward repaying our loan at the federal level. The Treasury receives the federal unemployment taxes, figures out how much of that is due to the increased federal tax compared to the tax that everyone pays, and then credits our loan balance directly. Also, if we were to continue on that path, the interest assessments that employers receive, like the one that they received this last July, would continue to be in effect to pay for the interest costs in each year.

On the other hand, if we were to issue bonds, we would be looking at issuing bonds to repay the entire federal debt before the end of this year, and really before November 10th of this year. Doing so would eliminate the increased federal unemployment taxes that employers are paying. It would go back down to the rate that everyone pays of 0.6 percent, which is to say employers would get their full credit back. The bond contributions would be collected through an assessment that would be on top of the regular state unemployment tax, but in a sense it is replacing the increased federal taxes and interest charges that employers are paying with a bond assessment that would be collected quarterly.

And then interest charges also -- that annual assessment would be replaced, because we would move away from a situation where we don't really know what we're going to have due until close to the end of the year, which is where we're at right now. We don't know that we're going to need \$16.5 million. A year ago we thought maybe it'll be \$18 million. And so the assessment comes late in the year to make sure we're only collecting the minimum that's necessary and to make sure we have enough to pay the federal interest. Whereas with bonds, you have a debt service schedule. You know in advance what your interest payments are going to be, and so you're able to roll those collections into the normal quarterly assessments instead of having to wait until the end of the year and then bill employers. So that would provide some more predictability in the rate-setting process each year.

To sort of illustrate the replacement of the federal and interest taxes with the bond assessment rate, the chart on Slide 9 shows the no-bonding scenario and a bonding scenario for 2014. I'd like to emphasize that the bond assessment rate here, that's based on one of a number of possible scenarios. I am categorically not saying the bond assessment rate will be 0.5 percent and you should base all your plans on that. No. This is, rather, one example of how might bonds look. This is a reasonable rate based on some of the scenarios, but the bond assessment rate could be, depending on if you want to keep the rate close to where it is currently or if you want to lower it a bit and spread it out longer, this is sort of the lower it a bit and spread it out longer. If you want it to be close to where we're at, you'd probably be looking at a bond assessment rate that's closer to like a 0.8 percent or somewhere in that neighborhood.

But as we look at the two different rates, what employers can expect to pay in 2014 if we don't bond, is a total rate with an average state unemployment of 2.25 percent, if that were kept flat. The total rate that they would be paying is about 2.62 percent, because you have the 2.25 that's part of the regular average rate. You have the increased federal taxes, which, if you were to treat that like a state tax, even though it's collected on a different wage base, that would be about 0.32 percent. And we'd expect the interest assessment would be about 0.05 percent. So the total rate to employers is about 2.62.

On the other hand, with bonds, if the bond assessment rate is larger than the federal credit, or the federal tax -- increased federal taxes and the interest, what we would be expecting is to lower the state unemployment tax, the regular portion of the tax, to compensate for that. Because currently

the rate is at 2.25 in order to repay the loans, pay back the debt, make some progress there. Because the bonds would accomplish a portion of that, you can reasonably lower that state rate, because the bond assessment rate is accomplishing part of the objective of paying off the loan and moving toward solvency. And some of that cost, then, is incorporated into the bond assessment rate.

There are two different taxes that are important to keep separate. There are federal unemployment taxes and state unemployment taxes. The previous slide sort of treated the federal taxes as though it was collected on the state tax base, but really that's not the case. What happens is, the federal taxes are on a \$7,000 fixed-wage base that doesn't change every year. That is paid directly to the federal government. The normal portion of this tax fund is federal and state unemployment administration, it funds extended benefit programs, and it also provides the reserves from which the Title 12 loans or the federal loans that we've taken are ideally funded. However, that reserve was completely depleted due to the large number of states borrowing in this last recession.

This functions as a fixed tax of 6 percent on that first \$7,000. However, employers can typically receive a credit of 5.4 percent, making the overall rate 0.6 percent. That 5.4 percent credit is reduced in states that are borrowing money. That is where Nevada is currently at. The credit for 2012 was reduced by 0.6 percent, so employers only received a 4.8 percent credit for a total federal rate of 1.2 percent. If our federal loans are still outstanding on November 10, then a 0.9 percent credit reduction would be in effect for 2013, which would be payable by employers in early 2014.

The state unemployment tax is on an indexed wage base. For 2014 that'll be \$27,400. That wage base is tied to average wages in the state. It's set at two-thirds of the rate that was in effect, in this case in 2012 -- or rather the average wages that were in effect in 2012. It's set at two-thirds of that, which gets us the \$27,400. This is collected by the Employment Security Division in Nevada. It's collected on a quarterly basis. And it's used only to pay benefits or the principal of loans, which are made to pay benefits. The state unemployment tax can't be used for other purposes. It can't be used for administration. It can't be used to pay interest. It can only be used to pay benefits or loans that are explicitly made to go into the fund that can pay benefits. And this is an average rate that's set each year by regulation, which is the purpose that we're here for today.

The federal offset credit reductions that the state faces can be capped. There are four different benchmarks that you can use. If you want to achieve those caps, you have to meet all four of these. The overall thrust is you have to be paying down your loans. You can't be reducing your unemployment tax effort. Your tax rate has to be high enough that it would pay for your average rate of benefit costs over the last five years. What that looks like for 2014 is, if we wanted to cap the rate for 2014 at the rate that will be in effect for 2013, if we don't repay our loans, which would be 0.9 percent, is that you would have to be looking at an average tax rate in 2014 of about 2.7 percent, because that's our five-year average benefit cost rate.

For 2015, and again all of this is sort of assuming we don't bond, but just to provide the baseline for where we would be, it could be capped at 1.2 percent, which is where we would be in 2014 if we don't get the cap there. That would require a rate of only about 2.1 percent, because we're dropping off the high-cost years during the recession and adding on the more recent years as our benefit costs are coming down. If we were to stay on the course that we're on, keep the state

unemployment tax rate flat at 2.25 percent, we would expect to be able to achieve that cap in 2015.

However, one other thing to consider today, if you look at the no bonding rate, is that beginning in 2014 there is also an additional credit reduction that's possible. Currently all that the state has experienced is a 0.3 percent per year increase. We have gone from 0.3 in 2011 to 0.6 in 2012 to 0.9 in 2013. Beginning in 2014, there's an additional credit reduction that's possible if the state lowers its tax rate. The state can waive this reduction, which would be about a \$40 million expense. All the state has to do is show that we have taken no action that would be expected to reduce the solvency of the unemployment system. And what that means for Nevada is, effectively, we can't do anything that would lower the tax rate, increase benefit payments, or otherwise draw out more money or put less money into the system than if we were to have done nothing. So something to consider as you look at the tax rates for 2014, assuming we don't bond, is that there's a \$40 million reason to at least stay the course. And that would continue to be in effect for future years beyond 2014 as well, as long as our loans are still outstanding.

Finally, we do pay interest on our federal loans. The federal government carries a big stick that keeps us from getting out of paying this interest, where if we don't pay the interest, they have the option of decertifying the UI program, which causes all federal -- or all employers' federal taxes. They lose that entire 5.4 percent credit, and that would be about a \$400 million federal tax increase. The state would lose all access to the federal loans that we've been taking in order to pay benefits. And the state would not receive any of the administrative funding from that 0.6 percent tax that everyone pays. None of that would come to the state to administer the unemployment insurance program.

To make sure our interest gets paid, AB482 in the 2013 legislature did establish a special assessment that's collected once per year, to pay that interest. Our 2013 interest was a little under \$16.7 million. It was about \$16,665,000 or somewhere in that neighborhood, a little under \$16.7 million. The assessment rate to employers was approximately 0.088 percent. Across all states the estimated 2013 interest, not 2012, but the estimated interest charges this past year were about \$650 million. The interest rate that we pay is based on the interest rate that we could be earning if we had money in the trust fund. It looks at the fourth quarter of the prior year and then sets that as the rate that we pay for the entire calendar year. The interest rate in 2012 was 2.94 percent. The rate in 2013 has fallen to 2.58 percent. And that drop saved us about \$1.7 million in interest compared to what we would have expected had the rate just stayed flat.

That also goes to show why the assessment that we charge employers waits until so late in the year, because you don't know what's going to happen to that interest rate until January. If we had just assumed that the interest rates were to stay constant and we had managed to perfectly predict all of our borrowing through the end of the year, we would have assessed \$1.7 million more than was necessary. And so, by waiting, we make sure that we're using as accurate a number as possible for that assessment to make sure that the burden on employers doesn't have to be above and beyond, to make sure that we have enough money to pay the interest.

Setting pretty much all of that aside, the other potential path forward is bonding. What bonding does is it gives us the opportunity to take advantage of several different timing features. One is, if we repay the federal debt before November 10th of this year, then the 2013 federal credit reduction will go away. The way that the credit reductions work is that on each January 1st a certain credit reduction is sort of tentatively put into place. So then if your federal loans aren't

repaid by November 10th, then that gets locked in. And so we had loans outstanding on January 1st, so tentatively we had a 0.9 percent credit reduction that would be sort of scheduled for 2013. But if the federal debt is repaid through issuing bonds and paying off the federal government, then the credit reduction is fully restored and employers just pay the normal tax of 0.6 percent.

In addition, if the loan balance is zero on January 1 of 2014, then that would reset the clock for any future federal credit reductions, because those go up each year based on how long you've been borrowing. If there is a year where you're at zero, for example on January 1 of 2014, then any future credit reductions are based on you being at zero there, so you would look at, even if we had loans in 2015, that would only be our first year of borrowing, and there wouldn't be a credit reduction for that year. The first possible year you could get a credit reduction would be 2016, and that would be down at the 0.3 percent reduction, instead of the 0.9 percent we currently face just for 2013. And then that 0.3 reduction in 2016 would be payable in 2017.

So by issuing bonds, you're able to lower the credit reduction that employers would have to pay, even if in the early 2014, we were to enter a recession and have to begin borrowing again from the federal government, the costs of that would be delayed relative to if we just continue forward and we hit another recession and had to increase our current level of borrowing.

In addition, bonding would allow the state to start building up money in the unemployment trust fund. And as money goes into the unemployment trust fund, it's earning interest. Currently, if -- even if we were to hold money in the unemployment trust fund instead of paying down our debt, that would not only increase our interest costs, but if we have federal debt outstanding, the feds don't give us any credit for any interest that we earn on money in the trust fund. So bonding would allow us to begin earning interest on those reserves.

In addition, this would allow the state to begin building solvency at the same time as we're paying down our debt, instead of the current path, which is pay down all of your debt to zero to get your interest costs to go away and get those federal credit reductions to go away, and then start building solvency several years out into the future.

Finally, bonds are available, over the terms that we're looking at, at an interest rate that's noticeably lower than the rates we're currently paying, depending on the term of the bond, from about 0.5 percent lower to perhaps 1.0 percent lower or more. Given that our rate's around 2.5 percent, that's a sizeable reduction in our interest costs compared to if we don't do anything.

And these are some of the reasons that, as we look at bonding, the state has been moving forward with this and trying to find a way to lower the interest costs, help provide some additional stability to employers as far as what they can predict with our interest expenses and future rates, as well as taking advantage of the low rates that are currently available out in the market.

Even if we were to bond, and we continue moving forward with this, because we would only be bonding essentially to repay the debt, it's important to take into account what will the cost of benefits be in future years. And so this chart, I was trying to provide some historic perspective on what has the tax rate been that would pay for benefits over the last roughly 30 years, prior to the recession. You can see here, this period does include the 1981 recession, the 1982 recession, the 1991 recession and the 2001 recession. I excluded the last recession we went through just because it was so much bigger and so much worse than what we've typically seen, even in prior

recessions. The average benefit cost rates through both the good years and bad years are demonstrated here.

There are a large number of years where the rate that would pay for benefits has been in the 1.25 to 1.5 percent range. The higher rates, as you move to the 1.5 to 1.75, 1.75 to 2.0, and then the long tail from there, are some of the years where we had some mild recessions, like 2001 and 1991, where the benefit-cost rates were a little under 2 percent. Most of the numbers above that 2 percent threshold are years that are associated with the 1981 recessions. And so as you look at what should our tax rate be even if we do bond, something to keep into consideration is, what are the likelihoods that if we have a tax rate that's set at a given level, the costs of benefits would be above or below that? Because if our tax rate is, say, 2 percent, then most of the years that we've seen in this 1980 to 2007 period, the costs of benefits in those years has been below that, which means that we would expect to be able to pay for any benefits that should arise during those years from the money that we're receiving in contributions, while still allowing us to continue building solvency.

The only years beyond that are years of more significant recessions. Currently we don't see one necessarily right on the horizon, but these things can creep up on you sometimes. I think a rate of about 2 percent is the level where you are likely to see benefits being paid for and solvency continuing to build in the trust fund, even if the state were to go through a more minor recession like the ones that we saw in 1991 and 2001.

I would now like to move into the forecasts and where we expect to be for 2014. I would like to start with some of the trends that we're seeing in unemployment insurance and how they affect our forecasts going forward.

The first is that we've seen a significant decline in the level of initial claims that we've had. And to try to explain why that might be, even though the overall level of initial claims is not that much lower than it was in the peak of the 2001 recession. One reason that I think we're seeing that is that the state has grown since where we were in 2001, even with the recession that we just went through. And so I looked at the trends that we had in initial claims during the '90s when the state was growing at a fairly stable pace, and how many weekly claims that we had, how many weekly claims we had per 1,000 employers, how many weekly claims we had per 100,000 workers, and then compared that to where we were in 2012. And what you can see is particularly -- even though the level of weekly claims is 90 percent higher, the comparison to the number of employers or the number of workers we've had is much lower. It's only 14 to 25 percent higher. And the level of initial claims has continued to come down since we ended fiscal year 2012.

I think what we're seeing is the level of initial claims is beginning to approach the level that you would associate with a more stable economy. I don't think we'll see the continuing sharp decline in initial claims that we saw just coming out of the recession. What that means in the future is, that the overall level of benefit payments, instead of continuing to fall sharply, will probably be leveling off over the next few years, and then beginning to grow in pace with the economy.

We've also seen a rebounding in the dollar amount that claimants are eligible for. As wages were declining and as employees had less total wages available to them when they claimed benefits, over the last several years, we had seen a pretty sharp decline in the average benefit

payment that people receive from close to \$330 per week to under \$300 per week. Over the last year however, from July of 2012 to July of 2013, you can see that there's been a small uptick in that, reflecting that employees' average wages are starting to go up. They're starting to have more benefits available to them. Again, this takes away one of the sources of a strong decline in benefits that we've seen over the last several years and also suggests that the overall level of benefit payments that we have to take into account will be slowing and increasing over the next several years.

We have still seen a lower number of people eligible for the maximum weekly benefit. These shows, of the people that are filing for unemployment benefits, a relatively larger number of them, compared to where we were before, are eligible for less than the maximum benefit. And so this is sort of contrary to the prior slides where we're at a point where there's some mix that could go one way, it could go the other way. We're still seeing some sort of wait on how much people can be expecting to earn based on their prior earnings. However, it's been reasonably flat. There isn't much of an ongoing decline. And I would expect as we move through the next several years, as the economy continues to recover and add jobs that that trend would pick back up and return to the levels that it was at before the recession.

Looking at the number of weeks that people are claiming in benefits, this is also declining. It's not declining at a very rapid pace so far this year, but it's continuing to move steadily down. At the peak of the recession, claimants were using over 19 of the maximum possible 26 weeks' worth of benefits on average. Roughly two-thirds of the people who began receiving benefits would go on to exhaust their regular unemployment benefits and move into the federally paid extensions. That's come down over the last several years. Currently, half of the people who begin receiving benefits go on to exhaust their regular benefits. And so, presumably, these people are having more success at finding work during that first 26-week period of unemployment. This has brought our average duration down to just under 15 weeks so far this year.

We're also seeing usage of federal extended benefits declining. This makes sense as fewer people are exhausting their regular benefits, fewer people are moving into those federal benefits. And even those who move into those federal benefits are continuing to use less and less of them. And so these are some encouraging trends. A fewer number of weeks claimed means there is still some room to continue seeing a decline in our overall benefit payments, because even if people's weekly checks are increasing, if they're receiving fewer checks, then the overall benefits that we're paying out can continue to decline some.

The overall level of benefits however, compared to the overall employment rate, you can see there's a large gap there. We have less than 60,000 people, it's actually closer to 50,000 people, per week on average who had been receiving either regular unemployment benefits or extended benefits, but our overall level of unemployment is estimated to be over 120,000. Part of this is because, as Bill mentioned earlier, you have -- in the total number of people who are unemployed, you have some who left their jobs and would be generally ineligible for unemployment benefits. You have some people who are reentering the labor market and beginning to look for work that haven't found it yet. And these people would also be ineligible for unemployment benefits. And so typically when you look at those eligible for unemployment benefits, you're looking at the job losers that he referred to. And if you'll remember from Slide, I believe, 10 of his presentation, the number of job losers has been steadily declining, and this is reflected in the decline that we've seen in our unemployment benefits.

All of these wrapped in together give us the monthly compensation that we've been paying out. And while this is a noisy month-to-month series, it tends to peak at some points in the year and drop off in other weeks, you can see that it has been declining, though the rate of decline over the last 12 months or so has been very low, and will continue this sort of trend in the forecasts that I have for 2014, where the level of unemployment benefits is only down a very small amount from where it's been in 2013.

Taking a look at our forecast for last year, this can help give you some idea of where we expect it to be versus where we are. The average unemployment rate that we expected for 2013 was 10.6 percent last year. It's come in closer to being about 9.5 percent on average. So far this year the unemployment rate has been pretty much 9.6 percent, plus or minus only about a tenth of a percent. Due in large part to the year-end revisions that Bill talked about, the unemployment rate has been lower than we expected. Also, the employment growth rate has been higher than we expected. We expected about 1.1 percent at this time last year. Employment growth has come in at about 2 percent. And so we're looking stronger than where we thought we would be, which is also good news.

As a result, our covered employment is higher than we expected it would be by about 11,000 jobs. And the total number of weeks claimed is actually higher as well. You might think this is weird because the overall unemployment rate is down, but remembering that only about 40 percent of everyone who's unemployed is actually claiming benefits, we have a couple of things moving in opposite directions. The unemployment rate has been lower, but the number of people claiming benefits, because the trends have flattened out more than we expected last year, the actual number of people claiming benefits of those who are unemployed, is a little bit higher than we thought it would be.

The overall result of this is that our total revenue into the system has been about \$40 million higher than we expected. Our overall benefit payments have been about \$8 million higher than we expected. And the end result is that the loan balance we have on October 1 is about \$30 million lower than where we thought it would be, which is good news. And even this, the \$524 million, this was a preliminary number from last week, due to some intraweek timing differences. As Administrator Olson mentioned earlier, our loan balance on October 1st is actually about \$520 million, that difference would come from the benefit payments probably being closer to \$434 million than \$438 million. And so we end the year in a slightly better position than we thought we would be, but overall fairly close to what we expected.

Slide 28 gives you the solvency review for where we've been. The final column on the right is 2013. That's the solvency multiple or the solvency calculation that we provide each year according to NRS 612.550. There are four factors that are multiplied together according to that statute. One is the covered employment as of March 31st. The risk ratio represents the risk of someone who is employed moving into unemployment in a given year. The highest weeks' duration looks at what was the maximum number of weeks that people were claiming over the last 10 years. And the average weekly benefit payment says what might we expect to pay each week for those people who move out.

And so by multiplying these four together, you get an estimate of, if you look at the worst point in the last 10 years, what might you have to pay out in benefits for a given year. And because the last 10 years include the worst recession really in the history the unemployment benefits

program in Nevada, that's a very high number. Prior to the recession, it was in the neighborhood of about \$550 million. Now, just after that recession, the number is approaching \$1.1 billion.

Down toward the bottom, we also provide the average high-cost multiple. This is a federal solvency standard that we've been presenting now for several years. It takes a look at the average of the worst 3 years in the last 20 years. And so it provides a slightly smoother, slightly longer looking solvency multiple that, prior to the recession, it said we needed more money, because the last 20 years before the recession had more recessions and bigger recessions than the 10-year window did. Now it's flipped. Now the state measure says we need more money than the federal measure, because the federal measure is taking a look at the average of the worst three years, which in this case are 2009, 2010 and 2011; whereas the state measure just is essentially looking at the worst year, which would be 2009, which was much worse than even 2010 and 2011.

The cash flows as far as taxes that we've received, the loan repayment that's come through the federal credit reduction, and other deposits into the trust fund, the total intake that we've received, the total benefit payments that we've made, and the impact of those on our cash flow. You can also see at the bottom the history of the average tax rate, which was at 1.33 percent in 2009 and 2010, was increased to 2 percent for 2011, maintained at 2 percent in 2012, and then increased to 2.25 percent for 2013.

Slides 29 and 30 take a look at the solvency multiples, which is, where is your trust fund compared to what it would take to be solvent? And you can see that because we have an overall loan balance, we are still below zero there. However, in both measures, because we are repaying our loans, we are moving back up toward zero, and moving toward repaying those loans.

Slides 31 and 32 have a lot of different options. I've broken them up into two different slides for you. Slide 31 looks at a range of potential tax rates and what the total costs to employers would be if we don't bond. And as was mentioned earlier, we're looking for really sort of two different recommendations from the Council. One is, if we don't bond, if something happens there and bonding isn't a good deal, where do we think the average tax rate should be? And that's what Slide 31 is presented to support. There are five different tax rates that are shown here. The lowest tax rate is 2.25 percent. This is bearing in mind that a \$40 million hit that happens to the federal taxes, if we should lower our tax rates compared to where they currently are for 2014.

The amount of money that we would expect to bring in by October 1st of 2014 is reflected in the row labeled taxes, which is sort of in the middle of the first gray section. And that ranges, within these tax rates, from about \$557 million, which is comparable to what we brought in this year, up to \$722 million, if the tax rate were to be increased to 3.25 percent.

Something I don't present here, but sort of for your information, is that we're now moving to the point where it would be possible within a given year to raise the tax rate enough to fully repay the loans in one year. However, the tax rate that would be necessary for that is about 3.7 percent, which would be a very significant increase from where we're at right now. However, just for your information, if you wanted to consider such a course, that's the number that it would take to get there. However, the rates that we've provided here are somewhat lower than that, and so all of them would result in us, both on September 30 of 2014 and at the end of the calendar year 2014, having a loan balance that would range from about \$315 million to about \$150 million, depending on the different tax rates.

Something that is new this year that I haven't had in this particular presentation before is in the white section at the bottom. I've included a row for the average costs of FUTA and interest so that the total costs to employers of a no-bonding approach can be compared to the total costs to employers of a bonding approach. And we would expect in 2014 that total cost to employers, if we do not bond to be again, about 0.37 percent. So that with a tax rate of 2.25 percent, the total cost to employers would be about 2.62 percent. And then based on that total cost to employers, you can see the total cost per employee who's at the taxable wage base. So for any employees making more than \$27,400 a year, the costs for each of those employees is listed at the bottom of the chart.

Slide 32 presents three more tax rates; 1.75 percent, 2 percent and 2.25 percent. And gives you an idea of what the cash flows would look like if we do bond. In this scenario, under the intake to the fund, we have another row for bond proceeds where we're looking to bond for an amount sufficient to repay the loan and to provide enough cash flow at least to make it through January 1 and potentially through April, in order to get to the point where we don't have to borrow any more money over the course of the year, until we get to the point where our unemployment tax revenue starts to come in significantly in May. So this has bond proceeds of about \$600 million. The payout for the fund -- from the fund is the same in the bonding and the no-bonding scenarios of about \$427 million.

The net change in the trust fund in this is very large, because of those bond proceeds. And we would expect that on September 30, depending on the tax rate that is involved, we would be able to have between \$135 million and \$206 million in the trust fund as a positive balance beginning to earn interest. At that level, we would still have a solvency multiple that's very low, from a 0.12 percent to 0.18 percent on the state side, a 0.15 to 0.23 on the federal solvency multiple side. But both scenarios would represent a positive balance and moving away from zero and toward reestablishing solvency in the trust fund.

The average bond assessment here is listed as about 0.5 percent, so that you could compare with that rate how it lines up with the no-bonding rates. However, as I said before, depending on the term and whether there's a preference for having a higher rate that pays off the bond sooner, which would have higher gross savings but lower present-value savings to employers, or it could range up to about 0.8 percent, which would be more -- or, excuse me, 0.8 percent would be consistent in the short term, sorry, where 0.5 percent would be consistent with a slightly longer term, which would result in less gross savings to employers because the rates would have to be higher for a longer number of years. However, because the overall rate would be lower, the present-value savings to employers would be higher because those savings are sort of front loaded compared to the shorter term pay-it-off scenario. So, for example, with the 2 percent average tax rate and a 0.5 percent bond rate, the total cost to employers would then be about 2.5 percent and the cost per employee would be about \$685.

The long-term effect -- this table lists the long-term effect of various tax rates. This is for the no-bonding scenario, just to try to illustrate, if we stay on the path we're on, what's the effect of various rates on our federal credit reduction? What's the total amount of interest that we would expect to pay? What's the total loan repayment that we have from those federal offsets? And what are the taxes that employers would be paying? This is just to provide an idea of where we would be in the future. One thing to note is that, particularly with the year that the average high cost multiple reaches one, those years are a little bit later than the numbers that I provided last

year, in part because my expectations for future benefit costs, because of the trends we're seeing, are higher than they have been in prior years.

I also want to remind you that historically over the last 50 years, the average length of time from the end of one recession to the beginning of the next has been about five-and-a-half years. From June of 2009, five-and-a-half years would put us in December of 2014. So, again, this isn't a promise of a recession, but rather, another recession is coming in the future, probably sooner than any of us want it to. And as we're looking at these scenarios, that's something that bears keeping in mind.

The different rates that are listed here, the five different boxes represent the potential rates for 2014 from 2.25 to 3.25 percent, and how they compare to my expectations for the benefit-cost rate, which again is the tax rate that would be necessary to pay for benefits in each year. The red X marks the bonding rate of 2 percent, if we were to have that middle-of-the-road path. The box right above it is 2.25 percent. And there could be another one below it for 1.75 percent. Each of those scenarios would be above the expected benefit cost rate for 2014, which is in the neighborhood of about 1.6 percent.

Finally, other things to take into consideration; currently, national expectations are that the recovery will take a long time. It will be long and slow. Even nationally we're not really expecting a fast rebound, as we're still continuing to recover from the 2007 recession. There's also a lot of federal spending uncertainty right now. We have our federal benefits expiring. Health care reform is obviously on the table and starting to take effect. We're dealing with the effects of the sequester and other spending cuts. There's the current federal government shutdown and the debt ceiling debate, which are coming up here even in just the next couple of weeks.

There's also a great deal of uncertainty internationally with the European markets hovering on the brink of negative growth, positive growth, negative growth, positive growth. They're not showing any strong growth and, really, Europe has been pretty flat. And with what's going on in Syria, there's a great deal of tension and uncertainty coming out of the Middle East as well. And so there's -- as was said earlier, you know, last year there was uncertainty about what's happening over the next year. This year, really, there's a lot of uncertainty about what's happening over the next month. And so, as we're looking ahead, thinking when might the economy turn down again, these are all the sort of things that could have no effect, or they could have a significant effect on where Nevada's economy is going over the next year.

So looking for a recommendation for 2014, we are looking for two different recommendations. One would be the average tax rate for 2014 in the event that no bonds are issued. And second would be an average tax rate for 2014 in the event that bonds are issued. And what I was thinking might be beneficial here, is to look at the average tax rate that you would be expecting, sort of including bonds, so that once the bond structure is finalized, which is still being worked on and really will be worked on right up until the last minutes to make sure the deal is as good as it can possibly be, once the bond structure is finalized, then the bond assessment will be finalized at that point in time. However, because of the time that it takes to get the recommendation, to approve the regulation that effectuates that recommendation, and then get that regulation approved prior to the start of 2014, it would be very difficult to try to get a recommendation after the bonds were finalized sometime in mid-November.

If we were to have some idea of what the Council thinks as far as, should the rates be higher and closer to that 2.62 percent rate, where it would otherwise be in 2014 if we just stayed the course and didn't bond? Or should the rates come down and be spread out over a few more years to provide employers some relief now, knowing that the cost of that would be a little bit higher overall in terms of total dollars? We're getting savings now, knowing that we're going to have to keep rates higher longer into the future to pay for it. So that's the question for what should the total cost to employers be, what should the state rate be for 2014 if we do bond, knowing that that rate could be from about 0.5 to 0.8 percent? And then, having those two different recommendations, would allow the administrator then to act on the appropriate recommendation for, if we do bond, if we don't bond.

So the final slide that I have on a presentation that I'm sure you think lasted for several years, it's only really been, 30 minutes or so, is again looking at what have the benefit cost rates been over the last 30 years, with the idea that, even if we do bond, it'll be important to have a state rate that is sufficient to at least pay for benefits and also potentially work toward building solvency in the trust fund. And so to help inform you on that, I'd like to just leave it on this slide for a minute and give you an idea to think about, what have the benefit cost rates been and where might we expect them to be in the future? I'm expecting about 1.6 percent, so any of the different, 1.75, 2 or 2.25 percent levels would be above that. But obviously things can change compared to what I expect. This is, where have we been in the past, where do I expect to be in the future, is another question. And that concludes my presentation. I'd be happy to answer any questions.

Chairman Havas thanked Dave Schmidt for his presentation. The Chair thinks that there will be questions for Dave. Perhaps not all of them at this point in time, since we're going to have a few more presentations and interactions here. I would ask at this time though for questions of David's presentation.

Member Danny Costella asked what the cost per employee is this year. Dave responded that the current taxable wage base is \$26,900. And if you'll give me just a minute, I'll whip out my calculator and do the math for you on that. That would be about \$618, \$619.

Mr. Havas asked if there were any other questions at this point or would the Council want to take a break now and continue afterwards.

Everyone opted for a short break right now. At this point a break of about 15 minutes was announced (11:55 am to 12:00 Noon).

VII. REGULATION TO ESTABLISH THE UI TAX RATE FOR YEAR 2014

C. Tax Schedule Explanation (Exhibit F)

Edgar Roberts, Chief of Contributions, ESD/DETR

Good afternoon. Mr. Chairman, Members of the Council, my name is Edgar Roberts. I serve as the Chief of Contributions for the Employment Security Division. As previously mentioned, the purpose of this meeting and regulation workshop is for the Council members to receive information in order to recommend to the Administrator the next unemployment insurance tax rate schedule for calendar year 2014. State law requires the Administrator to set the tax rates each year by regulation.

Turning to Slide 2 in your presentation, the Administrator of the Employment Security Division sets the tax rates each year by adopting the regulation pursuant to NRS 612.550 subsection number 5. Also pursuant to NRS 612.310 subsection 2, 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. To complete this process, a small-business workshop has also been scheduled for October 29, 2013, followed by a public hearing to adopt a regulation tentatively scheduled for December 4 of this year. And this regulatory process is outlined in Slide No. 3 of your presentation.

Now I'd like to provide you with an overview of how the unemployment insurance tax system works and how the average annual tax rate and associated revenue projections are developed. As previously explained today by DETR's economist, the employment insurance program is a joint federal-state partnership.

Turning to your Slide No. 4, the amount the employer pays for their federal unemployment, or FUTA, taxes depends on the employer's participation in a federally approved state unemployment insurance program. Also the employer's FUTA credit is reduced when the state has to borrow funds from the federal government and the loan remains outstanding. As outlined in Slide No. 4, the FUTA credit was reduced by 0.3 percent in 2011, by 0.6 percent in 2012 and by 0.9 percent in 2013. To insure that a proper tax and a proper credit are given for state unemployment, or SUTA, taxes, the IRS requires an annual cross-match or certification process with states to validate SUTA payments for FUTA credits.

Turning to Slide No. 5, the state unemployment tax, or SUTA taxes, collected from Nevada's employers are deposited into a trust fund. This trust fund can only be used to pay benefits to unemployed Nevada workers or to repay the principal of loans that were used to pay for benefits. The revenue in this trust fund cannot be used for any other purpose. Also under federal law, these funds must be deposited with the U.S. Treasury. The funds cannot be invested in any other manner. And the fund does earn interest. The unemployment insurance tax is paid entirely by employers and there is no deduction from an employee's check for this tax. An employer's tax rate will vary depending on the employer's previous experience with unemployment.

Turning to Slide No. 6, at the core of the unemployment insurance program is a rating system known as experience rating. To be in conformity with federal law, all states are required to have a method of experience rating that has been approved by the U.S. Secretary of Labor. The rating system works as follows. In Nevada, the rate for all new employers is 2.95 percent of taxable wages pursuant to NRS 612.540. The annual taxable wage base, or taxable limit, is an annual figure calculated at $66 \frac{2}{3}$ percent of the annual average wage paid to Nevada's workers pursuant to NRS 612.545. Unemployment insurance taxes are paid on an individual's wages up to the taxable limit during the calendar year.

Turning to Slide No. 7, the taxable wage limit in 2013 is \$26,900 per employee. In 2014, the taxable wage limit will be increasing to \$27,400 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, the employer's rate can range from 0.25 percent to 5.4 percent, depending on the individual employer's previous experience with unemployment. There are 18 different tax rate classifications pursuant to NRS 612.550 subsection number 6.

The annual tax rate schedule adopted through the regulatory process applies only to experience rated employers. It has no impact on new employers and the new employer rate of 2.95 percent. The standard rate established by federal law is 5.4 percent. Rates lower than 5.4 percent can only be assigned under a state's experience rating system approved by the Secretary of Labor. The intent of any experience rating system is to assign individual tax rates based on the employer's potential risks to the trust fund. Basically, those employers with higher employee turnover are at a greater risk cost to the fund and pay higher rates than those with lower employee turnover.

As displayed in Slide No. 7, in 2013, employers' annual costs per employee for unemployment insurance ranged from the highest rate of \$1,452.60 per employee to the lowest of \$67.25 per employee. In calendar year 2014, the maximum annual cost per employee will increase slightly by approximately 1.86 percent, due to an increase in the average annual wage and annual taxable wage limit.

Turning to Slide No. 8, to measure an employer's experience with unemployment, Nevada, along with a majority of other states, use a reserve-ratio rating system. Under the reserve-ratio system, the Employment Security Division keeps separate records for each employer to calculate their reserve ratio each year. In the formula used to calculate each employers reserve ratio, we add all contributions where UI tax is paid by the employer, and then subtract the benefit charged to the employer. The result is then divided by the employer's average taxable payroll for the last three completed calendar years. This calculation establishes the employer's reserve ratio.

The purpose of using this method is to put small employers on an equal footing without regard for industry type. For example, if an employer paid \$6,000 in contributions, had \$2,000 in benefit charges, with an average taxable payroll of \$40,000, the employer would have a reserve ratio of 10 percent. Now, the higher the reserve ration, the lower the tax rate will be for the employer. If an employer has received more benefit charges than they have paid in taxes, the employer's reserve ratio will be a negative, and the employer will generally have a higher tax rate.

Turning to Slide No. 9, the reserve ratio calculated for each experience-rated employer are then applied to the annual tax-rate schedule to determine which rate classification will apply to the calendar year. Before setting the annual tax rate schedule for the next calendar year, Nevada's unemployment law, NRS 612.550 subsection number 7, requires that the Employment Security Administrator determine the solvency of the trust fund as of September 30. Projections are then developed for subsequent calendar years. Those projections include estimates of the number of active employers, the amount of taxable payroll, the amount of UI benefits that will be paid, and the estimated revenues that the trust fund will need to meet those benefit payouts and maintain solvency. Using the employers' reserve-ratio data, optional schedules are provided with a variety of average tax rates and revenue projections.

Now, if you'll look at your estimated tax rate schedule packet handout, it's titled, "Employment Security Division 2014 Estimated Tax Rate Schedules." If you'll look at this handout, also you can just follow on with the presentation. In the estimated tax rate schedules handout, we have five tax schedules to consider. This information along with any public comment will assist you in giving the administrator a recommendation for next year's tax rate. The detailed tax schedules display the reserve ratio, increments between the rates, the ratios assigned for each rate, the estimated number and percentage of employers in each category, the estimated taxable wages

with percentages, and the projection of the total revenue. As we have provided the Council in the previous years, we will present several of these schedules to you in this presentation. This year we have included five for the Council to consider, and we are also going to add three for the bonding scenario.

The first schedule, turning to Slide No. 10, of this presentation displays an average rate of 2.25 percent, which is the average UI rate currently in effect for the calendar year 2013. In setting the annual tax rate schedule, the 18 tax rates displayed in the fourth column of the charts do not change. These rate classes range from 0.25 percent to 5.40 percent, are fixed by statute NRS 612.550. The law also requires the Employment Security administrator to designate the ranges of reserve ratios to be assigned to each rate classification of that year. By doing so, the number of employers in each of the tax rates is changed when applied to the average tax rate scenario being discussed today, will either increase or decrease the total estimated revenue. In other words, if you need to increase taxes, you adopt a reserve ratio schedule that puts more employers in the higher tax rates. And to lower taxes, you select those that put more employers in the lower tax rates. The law also requires that the increments between the reserve ratios must be uniform pursuant to NRS 612.550 subsection number 5.

In our first schedule, the ranges are from a positive 12.6 to a negative 13, with increments of 1.6 between each of the reserve ratios. In this first example, if an employer's reserve ratio is a positive 12.6 or better, the employer receives the lowest tax rate of 0.25 percent. An employer with a reserve ratio of less than a negative 13 would receive the highest tax rate of 5.40 percent. As you can see, the rest of the employers fall somewhere in between.

In this particular chart, approximately 14.8 percent of eligible employers are in the lowest tax rate of 0.25 percent, and 10.2 percent of the eligible employers are in the highest rate of 5.40 percent. Today, you'll see these numbers change as we walk through the individual schedules with the adjustments in the average tax rate. Out of our 57,712 total employers today, there are 36,310 employers eligible for experience rating, which we estimate under the first schedule would generate \$529.15 million in revenue to the unemployment insurance trust fund. To that estimate, we add the new employer rate of \$50.62 million, for a total revenue of \$579.77 million, associated with keeping the average tax rate at the current rate of 2.25 percent.

Turning to the second chart in your handout and Slide No. 11, this chart displays the detail for an average rate of 2.50 percent. To achieve this average rate, please see the ranges of the preserve ratio change to a range of a positive 14.1 to a negative 11.5. Estimated total revenue increases to \$644.37 million. And the number of employers in each rate classification, once again, shifts, with 10.4 percent of eligible employers being in the lowest tax rate of 2.5 percent, and 11 percent of eligible employers being in the highest rate of 5.40 percent.

Turning to the third chart in your handout and the Slide No. 12 of this presentation, this chart displays a detail for the average rate of 2.75 percent. For the average rate, the ranges of reserve ratio changes to a range of a positive 15.7 to a negative 9.9. The estimated total revenue increases to approximately \$710.57 million. And the number of employers in each rate classification shifts again, with 7.4 percent of the eligible employers being in the lowest tax rate of 0.25 percent, and 11.9 of the eligible employers being in the highest rate of 5.4 percent.

Turning to the fourth chart in the handout and the Slide No. 13, this chart displays the detail for an average rate of 3.00 percent. For this average rate, the ranges of reserve ratios change to a

range of a positive 17.2 to a negative 8.4. The estimated total revenue increases to approximately \$773.05 million. And the number of employers in each rate classification again shifts, with 6 percent of the eligible employers being in the lowest tax rate of 0.25 percent, and 12.9 percent of the eligible employers being in the highest rate of 5.40 percent.

Turning to the fifth chart in your handout and Slide No. 14 of the presentation, this chart displays the detail for an average rate of 3.25 percent for the average rate. For this average rate, the range of reserve ratios changes to a range of a positive 18.8 to a negative 6.8. The estimated total revenue increases to \$839.52 million. And the number of employers in each rate classification again shifts, with 4.8 percent of the eligible employers being in the lowest rate of 0.25 percent, and 14.3 percent of the eligible employers being in the highest rate of 5.40 percent

Turning to the sixth chart in your handout and the Slide 15 in presentation, you'll find a summary of the rates presented. This summary shows the range of reserve ratios increments, average employment insurance rate, tax rate, estimated revenue and the distribution of employers within each of the rate classes. As you will note, you will also see on each of these schedules, there's an additional 0.05 tax for the career enhancement program, which is a separate state training tax set by statute NRS 612.606.

Moving to Slide No. 16 of this presentation, the following slide illustrates the possible rates that bonding option is implemented. You will find these rates also in your estimated tax rate schedule handout for review.

Turning to Slide No. 17, this chart displays the detail for an average rate of 1.75 percent if the bonding option is implemented. For this average rate, the range reserve ratios changes from a range of a positive 9.6 to a negative 16.0. The estimated total revenue decreases to approximately \$452.02 million. And the number of employers in each rate classification shifts again, with 33.4 percent of the eligible employers being in the lowest tax rate of 0.25 percent, and 8.8 percent of the eligible employers being in the highest rate of 5.40 percent.

Turning to Slide No. 18, this chart displays the detail for an average rate of 2 percent, if the bonding option is implemented. For this average rate, the range of reserve ratios changes to a range of a positive 11.1 percent, or 11.1 to a negative 14.5. The estimated total revenue decreases to approximately \$516.96 million, and the number of employers in each rate classification shifts again, with 24.5 percent of eligible employers being in the lowest tax rate of 0.25 percent, and 9.5 percent of eligible employers being in the highest rate of 5.4 percent.

Turning to Slide No. 19, this chart displays the detail of an average rate of 2.25 percent, which is the current rate for 2013. Again, this average rate of reserve ratios in this chart displays a range of a positive 12.6 to a negative 13.0. The estimated total revenue again is \$579.77 million. And the number of employers in each rate classification is 14.8 percent of the employers being in the lowest tax rate of 0.25 percent, and 10.2 percent of the eligible employers being in the highest rate of 5.4 percent

Moving to Slide No. 20, and the last slide of this presentation, this slide illustrates a summary of the possible rates associated with bonding, if the bonding option is implemented by the Council. You'll find these rates also in your estimated tax rate schedule handout.

As a final note, the contribution section of the Employment Security Division did not receive any written comments on the rate changes or potential rate changes. This concludes my presentation. Do you have any questions?

Mr. Havas thanked Mr. Roberts and asked if anyone had any questions. Mr. Whitacre said he had just one. What is the expected revenue for next year, 2014, compared to these estimated revenues that were just presented to us?

Dave Schmidt responded that he was uncertain of the question. The expected revenue for next year that we would bring in would depend upon what's the assessment rate that is recommended. You mean the expected benefit payments for next year? Mr. Whitacre said yes, that is what he is asking.

Mr. Schmidt answered that it would be \$427 million. I also like to correct, if I may, a statement I made earlier. Mr. Costella asked what the current cost per employee is. I said \$618. That is not correct. It should be about \$685 per employee, or somewhere in that ballpark.

VII. REGULATION TO ESTABLISH THE UI TAX RATE FOR YEAR 2014
D. Public Comment on Tax Rate Schedule

There was no public comment at this point in time.

VII. REGULATION TO ESTABLISH THE UI TAX RATE FOR YEAR 2014
E. Council Discussion
F. Council Adoption of Recommended Tax Rate Schedule

Danny Costella asked if the payouts are \$400 plus and the income is \$579, does that all go into reserve?

Mr. Schmidt said that anything that we collect in the UI tax above and beyond what's necessary to pay for benefits would go toward paying down our loan, if we do not bond. If we do bond, it would go in the trust fund where it would be available for future benefit payments and it would start earning interest.

Mr. Costella noted that the ideal situation would be to leave the tax alone where it is and then go to bonding.

Mr. Schmidt answered that if we were to leave the tax rate where it is currently and also bond, that would result in a small overall increase in the total costs to employers from what they're currently paying this year, because the bond assessment would be larger than the benefits that the employers gain from eliminating the federal credit reduction. However, if the Council would otherwise be inclined to, say, increase the tax rate, if we don't bond, to, say, 2.5 percent, if you compare that to a bonding rate of 0.5 and a tax rate of 2.25, then it would be roughly equivalent. So it really, the question on what would the total impact to employers be, depends upon what the Council would be doing otherwise. If we don't bond, would they be leaving the rate the same or would they be increasing the rate?

If the bond assessment rate were at 0.5 percent and the tax rate were left at 2.5 percent, the cost per employee would then be \$753 compared to, if the tax rate were left at 2.25 percent and we did nothing, the cost per employee would be about \$717 for those who are at or above \$27,400 per year.

Looking at the 2.25 percent scenario, you do have the majority of your employers receiving lower rates than that. You have the 10.2 percent of the employers up at the maximum rate, and then you have 21,000 of all total employers at the new employer rate regardless of what happens with the state rate. They're at 2.95 percent in either circumstance.

Ms. Olson asked Dave Schmidt to verify that. Her thinking on this is that in the 2.25 percent scenario Dave is talking about in a bonding situation, that would serve to augment our ability to build reserves in that perspective. That was just how I was thinking about that.

Mr. Havas asked Dave, that if we, obviously, go to a bonding scenario and we eliminate the loan balance, again, to set up a contrast, we eliminate the FUTA problem. And I wonder if you might kind of address the scenario that we're looking at now at either maintenance or increase or reduction of employer tax rates and outflows for employers. And what kind of costs are involved in doing any or either or any of the above, if you would not mind?

Dave Schmidt said he would try to address that. If I miss something that you're looking for, by all means feel free to interject. If we don't bond, I'll start with where we're at right now. What any individual employer pays will depend primarily on where they are on this schedule. So a single employer could be at 0.25 percent, they could be at 5.4 percent. In my presentation, I tend to talk mostly about the average rates, because that's sort of the overall picture. But for any individual employer, they can range from 0.25 where they're paying less than \$100 a year per employee, to the 5.4 percent where they're paying, correct me if I'm wrong Edgar, but I think it was in the neighborhood of \$1,500 or \$1,600 per employee. So that has the largest impact. And so depending on whether we do bond or don't bond, the largest impact for any individual employer is where are they in this schedule. What's their prior experience?

If we don't bond, each employer, in addition to the state taxes that they pay, will be paying the increased federal taxes, which is 0.9 percent for 2013 in 2014, of the first \$7,000 or \$63 additional per employee, on top of whatever they're paying for the state taxes.

In addition to that, each employer will be paying for the AB482 interest assessment to pay our interest bill next September. I expect that to be about 0.05 percent of their taxable wages, which is -- I don't have the dollar amount for that, but it's a fairly small charge relative to the other charges that are being assessed. So each employer pays state rate, plus the federal rate, plus the interest rate. The interest and the federal rates can be somewhat difficult for employers because these both are annual charges. Their federal taxes are due at the beginning of 2014 for 2013. And while most employers will be setting aside money on a quarterly basis to pay for their expected federal charges, if they haven't set enough money aside, they have to come up with the difference and pay the feds. That can catch some employers by surprise. And also the interest assessment, because of the way where it comes out in the middle of the year and bills employers for wages in the prior year, this can be a bit of a surprise and a bit of a hassle that might exceed the dollar costs of these charges.

Under bonding, employers again would range from 0.25 to 5.4 percent, depending on the schedule. And that, again, is still the major cost to those employers. However, the bond assessment would be put into place. The bond assessment, itself, is divided up into four tiers, which range from a lower rate on employers that have a very good or a very positive reserve ratio, to a somewhat higher rate for employers that have a negative reserve ratio. It doesn't exactly mirror the structure, but it tries to capture the general idea where negatively rated employers pay a slightly higher rate, positively rated employers pay a somewhat lower rate, new employers receive a rate that's intended to keep them relatively constant to what they're at right now. And then, by doing so, the bond assessment, unlike the federal charges and unlike the interest charges, more reflects employers' prior experience. So that the 75 percent of employers that we have who have a reserve ratio better than zero can receive some credit for that.

The average bond assessment would be, again, in the neighborhood from 0.5 percent to 0.8 percent. The total costs for each individual employer would be their state rate. Let's say we have an employer who's at 5.4 percent. They're paying somewhat higher than the 0.5 percent average, so like 0.7 percent. So their total costs would be about 6.1 percent under a bonding scenario. Their total costs under a no-bonding scenario would be about 5.7 percent. Because an employer who's at 5.4, even if we were to lower the rate, if they're still at 5.4 after we lower it, on average they would still be at that 5.4 percent rate. But under either scenario, the biggest impact to an employer's cost is, what their prior experience with the program is/was.

Mr. Havas continued with his comments. There is an added benefit under the tax-exempt interest component on the interest payments with the tax-exempt bonds. It's going to be reduced considerably. So it might even be 100 percent. But if you're looking at a 2 percent referent gain with the ultimate number being 1, I mean, you're saving some money there. You know where I'm going with this, obviously the level of abstraction that I'm addressing is, what's good for Nevada, what's good for employers, what's good for employees at this point in time? It's not just a numbers game, and I'm inviting Council members to consider where we are at, at this point in time and what we're going to face in the future. What kinds of feelings and obligations do we have towards our employers and our employees in the state? I know that others have comments to make at this point in time. I would like to defer to each person's feelings on this.

Member Paul Barton asked if there are certain categories or types of employers who tend to be in the higher rates or tend to be in the lower rates.

Dave Schmidt responded: Overall, it's reasonably flat between many employers. The difference between different industries overall is fairly small. There are a few industries that are at the higher end. Industries like construction, that tends to be more seasonal. If they layoff their employees, say, during the winter and then hire them back on during the spring and summer, because they have more turnover, that's reflected in their reserve ratios. But there can be construction industries that have very good rates. Say, they just operate year round and, you know, they're not necessarily out building homes. They might be inside of buildings working.

While the construction industry tends to have some higher rates because of its seasonal work, even then the overall industry doesn't affect the employer. It's what's happened in that own employer's history. Temporary service, temp workers, people that employ those also tend to have higher rates, because again, they have more turnover than average, and so their rates are higher. Some companies on the lower side would include like utilities. They tend to have very low turnover, a very stable workforce, and so their rates tend to include that. But by-and-large,

most industries, the curve are a couple of industries that have much lower rates than average, a couple of industries that have somewhat higher rates than average, but most industries tend to be pretty close to the average.

Member Ross Whitacre had a question. Under the bonding scenario, and I realize that this probably depends on some factors, what's the schedule for paying off those bonds as far as the number of years goes?

Dave Schmidt, for the record. The Division's been looking at a couple of different scenarios, but generally it's been in the 2016 to 2018 sort of range, relatively close to the schedule that we would be looking at paying off the loans as it currently stands, with the option of perhaps extending that a couple of years if the additional savings that that generates are worth the extra years of interest.

Danny Costella noted that in other words, if another recession does hit, you're in a better position with the bonding, correct?

Dave Schmidt said yes. I think if another recession were to hit, even if we were to bond, using the example of repaying bonds in 2016, which is the shorter end of the curve, even if a recession were to hit early in 2014, because bonding repays the loans this year and eliminates having debt outstanding on January 1 of next year, because you reset the clock on the federal increases, the earliest, again, you could be at 0.6 -- or, excuse me, 0.3 percent would be in 2016, payable in 2017. If we were to continue increasing at 3 percent per year, we'd go from 0.9 in 2013, to 1.2 in 2014, and to 1.8 in 2016. So even if we had to borrow from the federal government again, the federal credit reductions that employers face would be significantly less if we bond than if we don't bond.

Margaret Wittenberg mentioned, having come now for several years and we've had such difficult years, I want to compliment the Department on pursuing the bond and as an avenue that may help to resolve the situation. And that's the only comment that I have at this point.

Chairman Havas asked if there were any public comments on the tax-rate schedule. First, why don't we go to Las Vegas and see if anyone cares to speak. Anyone in Las Vegas? Anyone from the public in Northern Nevada? Hearing none, we'll return to Council discussion, and I'd like to call upon Renee Olson to give us her thoughts on where we are at on this.

Mrs. Olson said that since they have talked a lot about the bonding option and that because of where we stand now with looking at the economics of the current bond structure that we have been evaluation,, I am going to be requesting tomorrow at the Board of Finance meeting, that we do go forward with pursuing a bond. With that in mind, I guess I would just comment that the reason we're asking for two scenarios, we do believe it's unlikely that the bond market would change significantly enough at this point to move us away from the bonding option. We have to cover the possibility, and so that's why we're asking for a no-bond rate and a bonding rate. Based on that, I believe that bonding does put us in a better position to not only start to put reserves back into our account, but to withstand a possible downturn in the economy that could occur.

On the chance that we're going to have that happen again, nobody has a crystal ball there, but just because of the fact that it's just part of the pattern in the economy, we want to put ourselves

in a position where we don't borrow again. Our motivation is that once we bond, that we don't end up in another situation where we're borrowing again. So to that end, when you asked the question about the 2.25 percent, the way I look at that is, at the scenario at the 1.75 percent, you're looking at covering a little bit more than what we expect to payout in bond -- or in benefits. And if you go up from there, it just builds the reserves faster.

So I'm going to leave my comments there and just say that we are going to pursue the bonding option. And we'd also like to get some feeling for what you think about, when we get down to the final bond structure, they're optimizing that for us now, do you want us to lean towards building those reserves faster, or do you want us to lean towards keeping the SUTA at the lowest rate possible to basically cover expected benefit payments?

Paul Havas commented that he would just like to echo the sentiments and the echoes of previous Council members through the years, that we're kind of counter-cyclical in our response, and that if we are in an economy that requires maybe some consideration of employers, where there's a need for greater consideration or relief, that we can justify a lower employer tax rate. And if the economy is going better than expected, then of course, we can look to a higher employer tax rate. That's just some input I would like to provide.

Paul Barton said that he would second that. The employers are struggling, and without the employers, we have no employees, in other words, no money coming in at all. And I think the employers need some help at this point, as the employees do, in creating jobs. And I don't think an increase in tax would benefit that. That, along with a lot of uncertainties in other areas of the economy right now and other legislation pending, i.e., Obamacare, we don't know what that cost is going to be, this type of thing that's coming. Everybody seems to have their hand out right now, and the employers are struggling. So on that note, I would like to suggest that we leave the tax rate the same at 2.25 with no bonding, and reduce to 2.0 with bonding.

Chairman Havas said that there is a motion on the floor for bonding and non-bonding from 2.0 to 2.25. Do I hear a second? Do you want to re-state your motion, please, Paul? Paul repeated that the motion was 2.25 percent, no bonding, 2 percent with bonding. Mr. Havas seconded that motion and then opened it up for discussion.

Mrs. Olson asked the question about the opinion of the Council about whether, once we tighten up the final bonding deal and we see what the overall bond assessment rate is likely going to be, if we have to fine-tune that rate in any way, is it the Council's opinion that we should shoot for lower rates overall, an approximate to what we are paying now, and I'd like maybe that expressed as part of the motion, if we could.

Paul Barton asked, if I read you right, you would like our opinion on whether you should adjust those rates in accordance with what the bonding terms are? Mrs. Olson said that is fair. And just to make sure that we can use that as guidance as we move through and finalize the bond, that we have noted your desire for, do we overall keep overall rates at about, maybe, no more than what they are now, or that we actually lower the overall rates.

Paul Barton said that he agreed with that. I think we need to keep them as low as possible. If they have to be raised because the bonding terms are different, then I think the Department has to make that judgment call and adjust. But I would keep the rates as low as possible to give the employers the best chance of creating jobs.

Chairman Havas asked if there was any further discussion. Member Ross Whitacre answered that he is in general agreement with what Paul is saying. However, I lean a little heavier on building -- I think it's important to build a reserve up, in view of what potentially could happen to us in the future. And so, I would suggest that we keep the rate the same at 2.25 in both the bonding and non-bonding scenarios. And I think that I have no problem at all with including in the motion to give the Department the flexibility to adjust rates as necessary to meet the terms of the bonding program. Mrs. Wittenberg said she would second that motion.

Counsel, Mr. Tom Susich noted that there is a motion on the floor. Chairman Havas acknowledged that and asked if there were any comments or further discussion?

Paul Barton said that his only problem with that is that if you keep it at 2.25, the bonding costs the employer more money, if I understand it right. And so that would actually increase what the employer has to pay out, because they're going to have to pay for those bonds. Mr. Danny Costella agreed and asked how much of a difference that would be, the bond assessments as opposed to the FUTA and whatever else they're hit with?

Dave Schmidt, for the record. If you look at Slide 9 of the presentation I gave, on that I compare the SUTA, the FUTA and the interest on the no-bonding side, and then the SUTA and a bond assessment on the other side. The bond assessments, again, I think will probably range somewhere between 0.5, 0.8. The total cost of FUTA and interest in 2014, in total, is about 0.37. That would increase in 2015 and then drop off in 2016, 2017 and any future years. So the difference ranges from about 0.13 percent on the low side, if you have a longer-term bond, to as much as about 0.43 percent if you have a shorter-term bond and it's repaid more quickly.

Danny Costella asked that by lowering it to 2 percent, would that be kind of a wash, but you also lose \$60-something million in revenue building, right?

Dave Schmidt said that lowering it to 2 percent would bring down the overall rate on employers next year by about 0.12 percent. So you would then lose that bit of solvency going into the trust fund. And it's important, the recommendations don't necessarily have to be in increments of a quarter percent. That's just how we present it to you. For example, a recommendation of 1.9 percent would also be possible. And then the tables could be prepared that would effectuate that. So if dropping it to 2 percent, say, is too far, you could drop it to 2.1 percent.

Danny Costella repeated that it would be a wash if it were 2.1 percent? Dave Schmidt said yes, in that neighborhood.

Mr. Havas went back to Paul Barton and asked how he felt at this juncture? Mr. Paul Barton noted that he didn't have a problem if we want to go to a 2.1 percent and make it a wash.

Counsel Susich said that Mr. Barton would have to withdraw his initial motion and then make a new motion. Mr. Barton withdrew his initial motion and made a new motion that we leave the rate the same at 2.25 if there is no bonding, and change the bonding rate to 2.1 Percent. Chairman Havas seconded that. Counsel Susich asked if Mr. Barton would want to add Mrs. Olson suggestion of flexibility to the motion. Mr. Barton wanted to add that because he feels the flexibility in these times and not knowing what the bonding rates are is essential that the Department retain that flexibility and being able to adjust. Chairman Havas seconded that.

Paul Havas asked if all understand the motion of the tax rate without a bond, without bonding at 2.25 and with bonding at 2.1, with flexibility afforded to the Department, to Renee Olson. All for the motion, all those in favor signify by saying aye. The Council signified by saying aye. None opposed and thus the motion carried unanimously. Let the record reflect that.

VIII. CLOSING PUBLIC COMMENT

Chairman Paul Havas at this point wanted to invite public comment, either from Las Vegas and/or from Northern Nevada.

Las Vegas had someone for a comment. Paul Ostrowski, representing Nevada Resort Association. Just so I'm clear, in the bonding scenario, the employers would no longer be charged the interest charge. Does the 2.1 percent reflect a potential savings of employers of that by not having to pay that? Or is that built into that number? I wasn't quite sure. Chairman Havas said that it would be that savings.

Chairman Havas asked if Mrs. Olson has something to add as to what he stated. Mrs. Olson said that she thinks the savings would be more appropriately aligned with the fact that the bond assessment, that we'd have the bond assessment, and so that interest assessment would no longer be necessary. The SUTA rate, which has been recommended at 2.1 percent, would really, then, go toward covering what we expect to payout in benefits and to build reserves. But I would think of the savings from not having to pay that interest assessment, I would associate that more with the fact that the bonds would save the employers money overall and we wouldn't have that added assessment anymore. Mr. Ostrowski thanked the Chairman.

IX. ADJOURNMENT

Chairman Havas said he was so happy that she articulated what was appropriate here. Thank you. Any other comment by public members? Members of Council? There were none to be heard. Then I will invite a motion for adjournment.

Mr. Chair, Danny Costella, for the record. Seeing that I made the last motion last year, I'll do it again this year. Motion to adjourn. Mr. Ross Whitacre responded that he will second the motion.

Chairman Havas repeated that Ross Whitacre has seconded Mr. Danny Costella's motion for adjournment. All those in favor signify by saying Aye. Council responded with Aye and Chairman Havas announced that it was carried unanimously.

NOTE: These minutes have been approved as of October 8, 2014 during the Employment Security Council Meeting and Workshop.