VERBATIM TRANSCRIPTION

OF

the

2015 TAX RATE - SMALL BUSINESS WORKSHOP OF THE DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION

held on

October 28, 2014

Prepared by

Transcription by Kelly Mason
Aegis Rapidtext

STATE OF NEVADA
Nevada Employment Security Division

WORKSHOP TO ADDRESS THE IMPACT OF A PROPOSED REGULATION ON SMALL BUSINESSES

Tuesday, October 28, 2014; 10:00 A.M.

Place of Meeting:	**Live Meeting:**	**Video Conference To:**
	Legislative Building 401 S. Carson Street, Room 2134 Carson City, Nevada 89701	Grant Sawyer Building 555 E. Washington Ave, Room 4412E Las Vegas, Nevada 89101

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

Renee Olson, Employment Security Division (ESD) Administrator
Tom Susich, Employment Security Division (ESD) Senior Attorney
Kelly Karch, Deputy Administrator, Unemployment Insurance (UI), ESD/DETR
Dave Schmidt, Bureau of Research & Analysis, DETR
Edgar Roberts, Chief of Contributions, ESD/DETR
Paul Brugger, ESD/DETR
Christina Guzman, ESD/DETR
Joyce Golden, Administrative Office, ESD/DETR
Mikki Reed, ESD/DETR
Lynn King, ESD/DETR
Andy Chao, ESD/DETR

Department of Employment, Training and Rehabilitation (DETR) Staff Present in Las Vegas

James Reynolds, ESD/DETR

Members of the Public, Media and Other Agencies Present in Carson City

Geoff Dornan, NV Appeal, Carson City/NV
Cy Ryan, Las Vegas Sun
Sean Whaley, Las Vegas Review Journal
Elyse Monroy, Ferrari PA

Members of the Public, Media and Other Agencies Present in Las Vegas

Carol Vilardo, NTA, LV/NV

DETR - Nevada Employment Security Division
October 28, 2014 Meeting
Verbatim Transcript

Note: *If a portion of the recording could not be transcribed due to the quality of the recording or because the words could not be distinguished, this has been indicated as follows: "(Incomprehensible)".*

OLSON: Good morning. I'd like to call this meeting to order. My name is Renee Olson. I serve as the administrator of the Employment Security Division. Sitting to my right, I'd like to introduce Tom Susich, Senior Legal Counsel for the Employment Security Division, and to my left is Kelly Karch, Deputy Administrator for the Employment Security Division in charge of the Unemployment Insurance Program.

So let's begin with Agenda Item 2, Public Comment. I'd like to invite anybody interested in providing public comment at this time to the table. If there is anyone in Las Vegas or Carson City who would like to come forward, please make your way to the microphone, identify yourself, and who you represent for the record. And you will have another opportunity for public comment at the end of the meeting prior to adjournment, and if you have any written testimony to present, please provide that to staff. So I see we're going to get started in the south. Thank you.

VILARDO: For the record, Carol Vilardo, Nevada Taxpayer's Association. And rather than wait to the end, because I was here at the original meeting where the wait was voted on, I would like to take this opportunity to tell you I did send the Business Impact Statement out to our members, had no adverse comments whatsoever. We, as an association, on behalf of my members, support what the Council is doing. And I was also asked by the Las Vegas Chamber to identify for you that they also had no questions and were supportive of the rate that was being proposed and the assessment.

Unfortunately, there were major conflicts this morning and they were unable to attend. So I appreciate you recording both of us as being in support of what you're doing.

OLSON: Thank you very much. I appreciate that. Agenda Item 3, Confirmation of Posting. This Small Business Workshop is being conducted in compliance with Nevada Revised Statutes Section 233B.0608, to solicit public comment on a proposed amendment to the regulation setting the unemployment insurance tax schedule for calendar year 2014, and contained in the Nevada Administrative Code 612.270. Ms. Golden, for the record, was proper noticed for this meeting given in accordance with Nevada State Revised Statute 233.061?

GOLDEN: Joyce Golden, Administrative Assistant to the Administrator. Proper notice was given.

OLSON: Thank you. Agenda Item 4, Review of Written Comments. Ms. Golden, were there any written comments submitted in response to this posting?

GOLDEN: Joyce Golden again. No comments were received up until now.

OLSON: Thank you. As part of the regulatory process, a meeting of the Employment Security Council was held along with a regulation workshop on October 8, 2014. After hearing testimony regarding the status of the Unemployment Insurance Trust Fund and considering public comment from two individuals, the Employment Security Council voted to recommend to the Division administrator an increase in the average state unemployment insurance tax rate from 1.95 percent to 2.0 percent for calendar year 2015. The bond rate is calculated annually according to statutory guidelines, and for 2015 will be .56 percent overall. If the 2.0 percent SUTA rate is adopted, the overall tax rate, which combines SUTA and bonding, would be 2.56 percent.

When the Division testified about the benefits of bonding during the 2013 session, one of the goals was to stabilize the overall tax rate for employers. The average 2014 SUTA rate was 1.95 percent and the bond rate was .63 percent. Therefore, the overall tax rate to employers was 2.58 percent. I'd like to reiterate that the overall tax rate for 2014 was 2.58 percent. For 2015, if the recommended rate is adopted of 2.0 percent for SUTA, the overall tax rate would be 2.56 percent.

So we're going to move on to the workshop and the presentations in the Agenda now. Agenda Item 5, Review of the Trust Fund Status, Economic Analysis, and Small Business Impact Statement. The first presentation will be given by Mr. David Schmidt. Mr. Schmidt is an economist with our Research and Analysis Bureau, and I'd like to invite him to go ahead and begin. Thank you.

SCHMIDT: Thank you. Again, for the record, my name is David Schmidt. I'm an economist with the Research and Analysis Bureau. I'd like to start with a quick review of the bond contribution rates for 2015. As was mentioned, these are calculated each year while we have bonds outstanding, according to a statute and a regulation that was adopted last year to lay out this calculation. It's not something that we can really adjust or change, and that was done so that there is security for the bonds to make sure that the required money to pay for those bonds is collected each year.

As was mentioned, for 2015, the average bond contribution rate will be 0.56 percent. Each of the four tiers within the employers who are subject to these contributions will see a decline in this rate from 2014 to 2015, because of that drop in the average. And so for the bond contributions, the cost per employee will fall from $172.62 to an average of $155.68. And this is important not because of the regulation that we're talking about today, but because this provides the context for the recommendation that was made by the Employment Security Council with that average bond rate falling.

As you can see, the rate for 2015, as was stated, is going to fall an average of 2.56 percent, with 2 percent of that coming from the regular UI bond contributions or SUTA, and the 0.56 coming from the bond assessment, which does represent a small decline in the overall rate that, on average, employers will be paying. And also is a slight decline from the cost that employers would have been paying over the life of the bonds in the absence of a bonding scenario, because of the increased federal taxes and interest assessment that employers are paying.

Looking at just the SUTA or the UI rate, this will be higher than the rate that would be necessary to pay for benefits. So this means that in 2015 we'll expect to see some additional money flowing into the trust fund. Historically speaking, while it's higher than the rate that we were paying when the economy was really booming during the 1990s up through the great recession here, it is in line with rates that historically have been the case in the unemployment insurance trust fund. The highest rate in the history of the fund was an average of 3.22 percent back in the 1970s. And so a 2 percent rate is definitely in-line with historic norms, especially given the depths of the recession we just came out of.

Looking ahead in 2015, by the end of calendar year 2015, we look to have just about $400 million in the UI trust fund. Before the recession, we had just over $800 million, and so we will have recovered roughly half of the prior amount that we had in the trust fund. It'll also be the first time since the recession that we will have more than a year's worth of benefit payments at the current outlays that we're makings sitting in the trust fund, which is a nice little milestone. When we look at the solvency of the trust fund, the measure that we typically look at is what would it take to have -- or what is the amount that we could have in the trust fund that would be sufficient to pay for a year of benefits during a recession scenario.

In the last recession, because it was a very large recession, we paid out over $1 billion in 2009, in benefits. And so while we're continuing to make progress, the solvency target of a year's worth of recessionary benefits is still something that we're working towards.

This slide shows the estimated cash flows through October 1st of 2015. This is the chart that we will be presenting to the Employment Security Council next October, when we see, okay, how have we done; did we bring in what we expected. In this chart, the solvency target that's laid out in NRS 612.550 is

$1.1 billion. That target looks at what is the worst year in the last 10 years, basically, with respect to your unemployment benefit payments, and that would be essentially comparing to 2009. There's also a federal solvency standard, the average high-cost multiple. That target would be about $930 million. That's a little bit more generous to us right now, because it takes the average of the worst three years instead of the very worst year to use as its basis for a comparison.

At the 2.0 percent average contribution rate we expect to bring in a little over $8 million in interest, and to pay out about $376 million in benefit payments, which will leave us with a trust fund balance of $395 million. Also, the average bond assessment brings the average total rate for employers to 2.56 percent, and the average cost per employee will be $711. And that's for employees at the taxable wage limit, which is the maximum wage that's subject to unemployment contributions, which will be $27,800 in 2015. The $395 million that we'll have in the trust fund will be about 34 percent of the state solvency level of $1.1 billion, and about 42 percent of the federal average high-cost multiple -- excuse me -- of $963 million, not $930 million.

Looking in the long term, the bond contributions employers are currently paying will be in effect as long as there are bonds outstanding in the state. The schedule for repayment of those bonds is shown on this slide. That'll run through 2017. There is a half-year's payment that is scheduled for 2018. However, those bonds are callable in December of 2017. And it's expected that the amount that would be due in 2018 will be able to be called with existing reserves in December of 2017, paying off all the bonds by the end of that year. We also expect taxable wages in the state to rise in pace with the bond obligations, and so the bond contribution rates are expected to be fairly stable at just under 0.6 percent through 2017.

The long-term effect of the recommended 2 percent average UI contribution rate is that by the end of 2017, we'd expect to be at about three-quarters of the federal solvency multiple. We'd expect to hit that mark where you have one year's worth of benefit payments in reserve in 2019. And over the course of 2015 through 2018, we'd expect to bring in about $85 million in interest. It's also useful to note, as far as preparing the trust fund for future recessions, that over the last 50 years the average length of time from the end of one recession to the beginning of the next has been a little under five and a half years. If that had held true, dating from June of 2009, we'd be looking at a recession in December of 2014.

Fortunately, it looks like we're going to go a little bit longer than that, because we don't see a recession right around the corner here. The longest period of time over the last 50 years, from the end of one recession to the beginning of the next, has been 10 years, and so that would be June of 2019. So this is also some context with regard to building up the trust fund in advance of future recessions, and helps to show us that we're roughly on path if we had that 10-year mark to have a solvent trust fund, again looking toward the likelihood of a recession at some point in the future. And that's my presentation.

OLSON: Thank you. Okay. So then the next Agenda item, we have Tax Schedule Explanation. And I'd like to introduce Mr. Edgar Roberts, Chief of Contributions for the Employment Security Division.

ROBERTS: For the record, Edgar Roberts, Chief of Contributions. The purpose of the Small Business Workshop is to discuss the proposed unemployment insurance tax rate for calendar year 2015. Small business is defined by NRS 233B, as having 149 employees or less. And on October 8th, the Council recommended that the average tax rate would be set at 2 percent. This regulation affects all Nevada employers subject to Nevada's Unemployment Compensation Law and pays a tax rate subject to the experience rating system. This constitutes approximately 37,328 employers or 62 percent of the total employers registered with us.

Looking to the next slide. This slide gives an example of a 2 percent tax rate. The total eligible employers is 37,328, which are experience-rated employers. To that we add new employers, which pay at 2.95 percent, which equal 22,799, for a total of 60,127 employers as of September of this year, of 2014. If we're looking at the table, we'll see that those employers who have the lowest tax rate of .25 percent have a reserve ratio of 11.9 or greater. And if you look in the yellow section of the handout here, the number of eligible small employers is 7,839 or 21.6 percent. And if you go to the opposite end and look at the employers paying the highest tax rate of 5.4 percent, they have a reserve ratio of negative 13.7 or higher. And this constitutes 3,202 employers or 8.8 percent. Again, this average UI rate at 2 percent is projected to bring in $546 million.

Moving on to the next slide. This regulation supports the UI system, which is paying nearly $400 million in regular unemployment benefits to Nevada workers in the past year. This regulation will continue to allow experience-rated employers to pay contributions at a lower rate than the new employer rate of 2.95 percent.

Moving on to the next slide. The direct impact and the principal cause of any major change in an employer's SUTA tax rate is due to changes in their own reserve ratio and experience with unemployment. The direct impact; the tax rate of 2 percent is expected to generate approximately $546 million to the trust fund. Taxable wages of small businesses account for 41 percent of all taxable wages or approximately $221 million of the total revenue that will be attributed to small businesses with the rate at 2 percent. The proposed 2 percent average tax rate is unique to each employer based on their previous experience with unemployment.

And indirect impact; a 2 percent average tax rate continues the stability of the overall tax for employers. And our prior bonding solution eliminated the mandatory federal tax increases under FUTA and has also restored the full 5.4 percent credit to employers. Continuing the impact for small businesses; the tax methodology is based on an experience rating system, which is approved by the U.S. Department of Labor. The rating system is designed to ensure that employers are fairly rated based on their unique experience with unemployment, regardless of size or industry type. Having a federally approved rating system allows employers to offset credit against their FUTA. This is a savings of nearly $400 million per year to Nevada employers.

Estimated cost for enforcement; there is no additional cost for the enforcement of this regulation. And NAC 612.270 is adopted each year to set the employer contribution rates and is required by NRS 612.550. Funds for the administration of the Unemployment Compensation Program are approved by the U.S. Department of Labor. And, again, the anticipated revenue with the 2 percent new tax rate is expected to produce $546 million in calendar year 2015, and small businesses will account for $221 million of the total revenues. This regulation does not duplicate or provide a more stringent standard than any other regulation of federal, state, or local governments. This concludes my presentation.

OLSON: Okay. Thank you. With that, we'll move on to Agenda Item 7. We'd like to open up the workshop again for a final opportunity of public comment before we adjourn. If you would like to provide public comment, please come forward to the microphone, identify yourself and who you are representing, and any written testimony should be provided to staff. Okay. I don't see anybody coming forward, so that concludes public comment. Thank you everyone for participating in the regulatory process for the unemployment insurance tax schedule for calendar year 2015.

The next step in the process is the adoption of the average tax rate schedule for calendar year 2015, and the public hearing for that will be held on December 3rd at 2:00 p.m. And with that, thanks again and meeting adjourned.

END OF RECORDING