Minutes of Employment Security Council Meeting and Workshop
October 3, 2005, 10:00 a.m.

Chairman: . . . all of you. I'd like to have an introduction of council members from my right to the left, if each would stand up and introduce himself or herself, we'd sure appreciate it.

Garboreno: Dave Garboreno, Las Vegas.

Forseth: John Forseth from Las Vegas.

Sartain: Connie Sartain, Las Vegas.

Havas: Paul Havas, Reno.

Stewart: Carol Stewart, Reno.

Foster: George Foster, Reno.

Johnson: Katy Johnson, Washoe Valley.

Chairman: I'd like to invite an approval or discussion of the minutes from October 6, 2004. We could have a motion to approve the minutes as mailed.

Foster: Mr. Chairman, I move that we approve the minutes as presented to us.

10:02:19 I second.

10:02:20 Excuse me, Mr. Foster, would you mind pressing the microphone so we can pick up these proceedings on the recording. Thank you.

Foster: Oh yes, excuse me. Mr. Chairman, I move that we approve the minutes as presented to us.

Chairman: It's been moved and seconded that we approve the minutes as presented. Any discussion? Hearing none, all those in favor signify by saying Aye.

Council: Aye.

Chairman: Carried unanimously. I'd like to invite Cynthia Jones, now our Administrator to present to us her commentary on Federal and State legislation.

Jones: Thank you, Mr. Chairman. Good morning council members, guests. My name is Cindy Jones, I'm the Administrator of the Employment Security Division of the Department of Employment, Training and Rehabilitation. At this time, I'd like to provide you with a Federal and State legislative update. During the 2005 session of the Nevada Legislature, amendments were made to Nevada Revised Statutes Chapter 612, which governed the administration of Unemployment Insurance Program in Nevada. The first change was made through Assembly Bill 502. Various changes were made to the Nevada Unemployment Compensation Law, as required by the SUTA Dumping Prevention Act of 2004. SUTA stands for State Employment Tax Act and SUTA dumping refers to the activity that involves the execution of various rate schemes that are designed to manipulate unemployment insurance experience rating system in order to avoid taxes. The Employment Security Division requested this legislation revising Nevada Revised Statutes to protect the integrity and the assets of the Unemployment Insurance Trust Fund. Four major provisions are required by the Federal SUTA Dumping Prevention Act required for states to promegate into their state law. The first is the mandatory transfer of experience rating in the instances where there is substantially similar management control or ownership of a business entity. The second is a transfer of experience may be prohibited if that transfer is requested solely for the purpose of avoiding unemployment insurance taxes. The legislation also requires a meaningful civil and criminal penalties for employers who knowingly use a scheme to avoid taxes or for those who advise employers or businesses to conduct schemes that avoid unemployment insurance taxes. In addition to monetary penalties, these actions could result in a Class C felony. The fourth provision requires the administrator to adopt regulations to detect SUTA dumping activity. We'll be holding regulation workshops in the near future and everyone will be receiving notices of those workshops. In addition to the SUTA dumping prevention provisions in Assembly Bill 502, a few other housekeeping measures were included in that same legislation. The first changed a variety of time frames regarding the filing of various documents or appealing certain determinations from ten days to eleven days. This was required due to a change in the Nevada Rules of Civil Procedure adopted by the Supreme Court. Additionally, the authority to waive dishonored check fees was returned to the Administrator from the Controller's Office. Okay, on the Federal front, a lot not going on right now. In anticipation of the reauthorization of the Work Force Investments Act, the Division, along with a Commission on Economic Development, the Governor's Workforce Investment Board, the two local Workforce Investment Boards and the Department of Education and other workforce investment stake holders recently crafted a two year strategic plan to guide workforce investment activities in the State of Nevada, which was approved by the OL, not too long ago. That plan can be viewed on www.nvdetr.org, under the WIA tab and then under documents. The reauthorization at the Federal level seems to be at a standstill right now. The Senate Health Education and Patenting Committee, the Help Committee approved this Bill Number 1021 in May, while the House approved its version, House Resolution 27 in March. There are significant differences between the bill. We're awaiting a conference committee, so we're just in a standstill on that legislation right now and continuing operations under continuing resolutions for funding until such time reauthorization actually occurs on that piece of Federal legislation. That's all I have for today on this presentation. I'd be happy to answer any questions. Thank you.

Chairman: Thank you, Cynthia, very much. Are there any questions of our Administrator? Okay. Hearing none, the next item on the Agenda is from Terry Johnson, Deputy Director, on the subject of DETR Job Connect response to the Hurricane Katrina Disaster.

Johnson: Morning, Mr. Chairman, members of the council. For your record, Terry Johnson, here on behalf of the Director's Office of the Department of Employment, Training and Rehabilitation, to provide the Council with an update as to activities that were taken to assist in the efforts with regards to Hurricane Katrina evacuees. The Department was active in working with other local entities and federal as well in trying to provide assistance at some of the designated centers, including the Cambridge Center in Southern Nevada and at the Frateta Center as well, in Southern Nevada. We had staff members that were on site that provided assistance with enrolling in the Job Connect system, as well as assisting them with their unemployment benefits and unemployment claims, particularly across the state lines. Additionally, we dedicated a portion of our website so that we could communicate the most recent information to persons online and that information is accessible through the DETR web page at www.nvdetr.org. There was a resource page there that was established to again, assist those persons, connect with employment opportunities, as well as to aid them in accessing the most recent information available from the U.S. Department of Labor and other federal counterparts. We also developed some customized literature and brochures and other information for persons to walk them through the Job Connect system and that was made available on site at some of the evacuation centers here. We also collaborated with the Department of Labor in developing a consolidated information package that included their information as well. This was all done through assessment teams that were created for the purpose of assisting these evacuees. To date, most of the persons have been processed up to this point. There have been persons who have visited our Job Connect offices and persons that we visited with on site and we continue to provide that type of assistance whenever it becomes necessary. So with that having been said, I'd be more than happy to answer any questions about any ongoing efforts or entertaining the suggestions of comments the council might have as well, as to how we might continue to better serve those Gulf Coast evacuees.

Chairman: Any input from council members? Thank you very much, Terry, we appreciate it.

Johnson: Thank you.

Chairman: New directions at Workforce Information, Joe Real, an economist.

Real: Good morning members of the Council. My name is Joe Real. I am an economist with the Department of Employment, Training and Rehabilitation Research and Analysis Bureau. Today I'll be providing you just with a brief update on the status of Workforce Information, or labor market information, the type of resources that are available from Research and Analysis. This update will include just a brief update on the types of customers that our information serves. We'll take a look at some of the information resources that we're providing to those customers. And I finally will take a look at a couple of new areas of research that we've been engaged in over the past year or so. As the Research and Analysis Bureau, being the primary provider of Workforce Information to the Nevada Job Connect System, we were responsible for a comprehensive set of labor market resources. The information and resources developed by R&A are used by a variety of customers. The first page of your handout just shows some of those customer groups and how they use our information. We cover information for employers, job seekers, policy makers, community planners, the education community, economic development and other research areas. In addition to those external customers, really our primary customer is the Department of Labor, in terms of Bureau Labor Statistics in the Employment and Training Administration. They fund all of our programs and the data that we provide goes into the national system for the development of the national statistics. Then the other primary customer I mentioned is the Nevada Job Connect system. We remain committed to providing the Job Connect system with the most useful workforce information resources to serve our ultimate customers, the job seekers and the employers in the community. I'll take a moment just to highlight some of the ongoing activities that Research and Analysis is engaged in. The main area in terms of dissemination is our websites. The Nevada Workforce Informer, at nevadaworkforce.com and then our Nevada Career Information system. These two resources, our primary dissemination, all of the economic reports and resources that we put together are available on these sites. First the Workforce Informer. It's been used by the State of Nevada for about the last two years. It's a labor market system that was developed through a national consortium and there's roughly about twenty states that use the same type of system. It allows us to maintain it as well as have customers access it, without the resources of a technical support. The site's out there and in terms of reports as well as the historical data, and being able to run their own queries and get the type of information that they need. This resource is primarily used by businesses, economic developers, Chambers of Commerce, those types of customers, whereas the Nevada Career Information System is more targeted to job seekers, the education community in terms of look at career exploration. Each of these sites are updated extensively on an annual basis and then undergo continuous updates as the information becomes available. Just looking at some of the types of reports and information that are produced, the second page of your handout basically just has some of the online reports and publications. Our Nevada Employer Directory provides access to basically all fifty thousand plus businesses in the State. Users can go online to find out the top employers in their county, top employers by industry, those types of details. On a monthly basis, we come out with the employment by industry and the labor force and unemployment rates. Those are accompanied by press releases that we work through the Department's Public Information Officer on. Other resources, economic indicators. We have wages by industry and occupation. We're continuously doing a wage survey. We do industry and occupational projections both on a short term and a long term basis. The short term covers a two year period, so we're always having a two year employment forecast. And Bob will talk a little bit about that later. We also do short term, or sorry, long term on a ten year. And that's updated every two years. We have affirmative action reports and then other resources to explain the unemployment insurance system as a whole. Another area of emphasis for us over the last couple of years has been the development of print material to complement our website. These resources are being developed as highlights or teasers to pull people to our website, where they can obtain more extensive information. Just looking at a few of these items, we have a standard research and analysis brochure that just tells about the Agency, what types of information we have, some of our customer groups, and then a little bit of data in there. It highlights our Workforce Informer and the Nevada Career Information System. One of the other highly used reports is our monthly economy and brief publication. With the monthly release of employment numbers, we come out with a narrative. Just put in the employment situation in Nevada economy into perspective. And then detailed data and information available for all the major metropolitan areas. Some of the other reports highlight our Nevada Career Information System. As I mentioned, this product is supported throughout the school system all the way from junior high all the way through the university and community college system. Some of the other things, just highlighting occupational opportunities and just ways of allowing students to look at different career paths and identify where they might want to go into. And then provide some of the resources on skills and abilities to obtain those different types of jobs. In terms of some of the new areas that we've been involved in, over the past year we've started a job vacancy survey. We started with a sample of about three thousand Nevada firms to just identify the types and number of vacancies that they have. We're just now getting the results of that information and reports will be coming out within the next month or so. We have asked for the types of wages being offered for the vacancies. Whether it's full or part-time, how long it's been open, what the education requirements are and benefits. This will give us a way of looking at real time data and identifying the customer needs from employers to fill those vacancies. Another program area called Local Employment Dynamics, LED program. It's a cooperative agreement between the Bureau of Labor Statistics and the U.S. Census. It basically just allows a way of tying workers together by Social Security so we can identify where they live, as well as where they work. Most of our data has them by their place of employment. With the LED data, it adds some of their census information to identify where people's residences are. It just gives a whole new set of demographic data by age, by the industry sectors people are working in. Then there's series of different tools that are being developed to use these resources. Nevada is part of this and there's probably well over twenty-five or thirty states that are already in the LED program. So this will allow us to have comparable data with other states across the country to look at our work force. And that's all I have for the Workforce Information update. If you have any questions, I'd be happy to answer those.

Chairman: Any questions or input from members of council?
Real: Thank you.

Chairman: Thank you very much. Appreciate it Joe. Internet services for employers, Donna Clark, Chief of Contributions.

Clark: (–indistinct–)

Chairman: Excuse me, you probably didn't hear me because I didn't have my mike on, but we'll call for Donna Clark, Chief of Contributions, to talk to us about internet services for employers.

Clark: (–indistinct–). Now that we have our technical difficulties out of the way, Good Morning. My name is Donna Clark and I currently serve as the Chief of Contributions for the Unemployment Insurance Program in the State of Nevada. My first presentation to the Council this morning is an overview of internet services for employers that are provided by the Department of Employment, Training and Rehabilitation, including the latest edition for Unemployment Insurance Tax Services. I've been talking to the Council for the last year or two about this service and it is finally up and available to the public. In pursuit of the Department's mission to connect Nevada businesses with a qualified work force, DETR has made a commitment to maximize the use of the internet and to provide easy access to the agency's services and to make government more accessible and economical. From the Department's home page located at www.nvdetr.org which you've heard several times this morning already, the category of Employer Services appears in the left hand menu, about the third item down on that menu. A wide variety of choices are available from the Employer Services site. Here are a few examples: Nevada Job Connect serves as the first stop for employment in Nevada. DETR offers businesses a wide array of services to simplify staffing needs. Services range from business license information, recruitment assistance, employer tax incentives, online access to America's Job Bank, to the very latest information on resources for disaster recovery, which you heard Mr. Johnson describing earlier, such as the recent harridan events. Listings for local Nevada Job Connect offices are also provided where employers may create their own hiring event to interview applicants, use a meeting room to train staff or receive recruiting assistance from a business consultant. I apologize for this screen, the next couple of screens shifted to the left here so you're getting a little abbreviated version, but this is America's Job Bank. This is a nationwide online system that allows businesses to list job openings and peruse resumes of available job seekers. One job listing can reach both a local and a national audience. The best thing about using America's Job Bank, or Nevada Job Connect, is that all the services are prepaid with tax dollars so there's no additional cost to the employers. As Joe Real was talking about earlier, another popular site on the agency menu is the Nevada Workforce Informer. This site provides valuable labor and economic data to allow employers and job seekers to make informed decisions, based on the very latest information within Nevada Job Connect Workforce system, as Joe was explaining to you. And the latest addition to DETR's internet services for employers is a comprehensive new site for unemployment insurance tax services. Available to both employers and their authorized agents, the site features numerous interactive methods to conduct business with the agency. For instance, new employer registration guides businesses through a step-by-step process to register for unemployment insurance. In most cases, the employer will receive their unemployment insurance account number and their new employer rate immediately. The site is already becoming a popular method for employer registration. Since its unadvertised launch, we decided to do a soft launch in April to get the site up and running, make sure that we had all the kinks worked out and everything was working wonderfully, we are averaging just in the last five months, twenty-eight percent of registration. Some months it's actually fifty-fifty what's coming in on paper versus what's coming in on the website. So, before we've done any hard marketing, which we'll start at the end of the year here, employers have found their way to it and are very excited to use those online services to register. The most recent edition on August 22nd, a variety of electronic methods for quarterly tax and wage reporting were also opened to the public. We did this right after our last peak period of processing so the next peak period is coming up for this September 30th quarter at the end of October. But so far, we've had about thirty to forty employers register for online services and file some delinquent tax reports that way already. It does offer a variety of methods. They can now choose to submit reports using a download or for online data entry which downloads the employees' social security numbers and names from a previous report, or they can choose to upload a small file attachment such as an Excel spreadsheet. For larger transmission, the site also offers a secure file transport method using a familiar state federal format. We've basically taken the Social Security Administration's W2 electronic filing format and used that as a basis for UI filing, so employers who are using that with the federal government can also use that to file their unemployment insurance with us. A variety of payment options are also included on the site. After completing their electronic tax report, employers may still use to print a payment voucher which summarizes their current account balances and mail a check to the Agency. Or for those who prefer and are willing to use electronic banking, two electronic check options are provided in the form of automated clearing house debit, or automated clearing house credit transactions. The new website also offers a number of general account services, in addition to general information, the employer handbook, frequently asked questions about unemployment insurance. Employers and their agents may also create a secure password protected online account from which they can view and update and confidential account information: ownership, address changes, things of that nature. Or they may also reopen or close their accounts. As always, the goal of the new site is to make government services more accessible and convenient in an effort to meet the needs of our very diverse business community. We're very excited about the site. Thank you, it's finally here.

Chairman: Thank you, Donna. Any questions or input to Donna Clark, Chief of Contributions from the members of council? None? Before we have our workshop to consider adoption of regulation to establish the unemployment insurance tax rate schedule for the coming calendar year, why don't we take a ten minute break.

Chairman: . . . meeting back to order. And at this time, we're going to have Robert Murdock provide us with economic projections and an overview. Robert is our Chief Economist.

Murdock: Good morning, Mr. Chairman, council members, Administrator Jones. What a nice fall day it was today. Isn't it coming in here today just beautiful? It's cool and crisp. And what a great weekend. The Wolf Pack won and the Raiders won! I mean, of all miracles.

Susich: Mr. Chairman, just briefly, this is Tom Susich, legal counsel, I just wanted to make sure that this was noticed that we have verification of notice that this is the public workshop for the adoption of a regulation in this matter.

Chairman: Yeah, thank you very much. Okay.

Murdock: Yes, this is the workshop, the part of the day that just everybody just wakes right up and would love to hear statistics and numbers. And so with that, we're going to move right into that and I guess just to prelude this, it's really an interesting time in Nevada. We're experiencing an extremely great period of growth. The economy is very strong. We could be looked at as the envy of many states. Most states would just like to come close to our job growth rate. So with that, I'd just like to go through some numbers and show you what we anticipate, what we've seen happening. When you look here, we have our labor market areas for 2005. And we can see that there's something different about what we're showing you this year. We've got a third MSA, Metropolitan Statistical Area. Instead of just Reno and Las Vegas, we now have Carson City which made it in as a MSA under the Census Bureau definition and so we break that out as a separate entity and we also are looking at Elko as a labor market area. But we can see that roughly eight out of ten jobs can be found in the Las Vegas area. That's been a trend that's been holding true. Then we look at the rest of the areas there. We've got a labor force of almost 868,000, 213,000, 27 and 24 1. So we can see that the state is growing tremendously and every year we're looking at a lot of new jobs. When we look at how does our economy compare. And in this chart, we're trying to look at Nevada, the U.S. and then California. And we can see that we've basically led job growth for the last twenty-five years in this country. On a relative basis, a percentage increase. And we look at the, we haven't lost jobs annually since 1982. But you look at this chart here and consistently in red, compared to the nation and California, we have a much stronger job growth in percent terms. And this year, we're just over 6%. We'll be over it. Right now we're at 6.25%. We were as high as 6.5% this year. So it's a relatively very strong market in Nevada. It's sixty-five thousand plus jobs, roughly a year, that we're averaging. I'll show you a slide exactly what those are in a few minutes. But how do we compare with our unemployment rates? And our unemployment rates are also very low and this directly affects what we're talking about today, the unemployment system, and as far as the trust fund. But we look at Nevada and consistently we're well below California and most of the time, we stay below the nation as well. One of those exceptions, if you'll look right at the end of January of '01, or in the start of January, '02, the 911 event, you can see how dramatically that affected us. That spike there in the chart and it went above the nation and above California and it came down relatively quickly though. After about five months, things started really turning around and you can see how quickly it turned back around and by the late '02, we came down quite a bit. Went up a little bit again in '03, and now we've been consistently going down since and maintaining a relatively low unemployment rate. How about job growth? As we look at the job growth that we had in '01, prior to the last recession, job growth was actually slowing down right after the start of that year, in 2001. And as we approach the 911 event, of course, it did drop precipitously. And then we saw a period there for several months where it was relatively flat and then a steady growth upwards, which has continued to this date. And we just see a great, pretty level consistent job growth the last six months. Staying up there in the above 6% range. Reno slightly lower, Las Vegas slightly higher. What kind of industrial distribution do we have in this state, as far as where are our jobs found and by what types of industries? And we can look, the one of course that's the largest is the leisure and hospitality. That's where tourism is found. And that's a roughly 27% statewide. In Las Vegas, it's somewhat higher. In Reno it's a little bit lower. And in Carson City, it's quite a bit lower than that. But you look at the other areas. Construction is very high compared to the nation. Manufacturing is very low, compared to the nation. Transportation is relatively 18%, very comparable. Financial activities and then business and professional services. And health and education services. If you have any questions while we're talking here, I would encourage you to just interrupt and I'd be glad to address them as we get to them. If you have anything. Where are the new jobs right now? Well, what are we looking at? This is a depiction of new jobs by the number of annual openings. How many jobs are available by type of job. This isn't necessarily what you'd call high paying, high skilled jobs. This is just where they are. What are the hot jobs. If you look at this list, you'll find that as you can see, very few of these jobs require post-secondary education. They're usually just basic on the job training and entry skills types of things. Wages are relatively low, except for a couple of those areas. Registered nurses being one of them. Carpenters being the other one. But the majority of these jobs basically reflect the tourism and hospitality industry. Turning that around though and looking at what are the fastest growing jobs in relation to themselves and to the economy. We see a very different picture here about where the hot jobs are and what's growing the fastest. If you look at that annual average growth rate line there, you can see the total of all jobs is increasing at about 4.1% on an ongoing basis. Long-term basis that we predict through the business cycle. But we can see that personal financial advisors, network systems, pharmacists, and on down the list. These are a very different type of occupational mix than we saw in the other chart where all the numbers of jobs are. But this, relatively, there's quite a few jobs here also. We're looking at jobs for pharmacists of 2,100 jobs. So, it's an interesting mix and we do see different jobs now coming out in health care and computer systems types of areas, and financial that we hope will bring a more diverse job market out there to people, and better opportunities for jobs. We're now getting to where we look at what's happening, where are we going. As we can see in 2002, right after the 911 event, we were at 6.8% unemployment. Relatively high unemployment level. We were dramatically affected by that. We looked in '03, how quickly in rebounded. '04 it went down to 4.3. This year we anticipate a very similar rate of about 4.3. We're looking at somewhat slowing down next year to 4.5 and 4.5 in '07. Those numbers, increases like that are relatively insignificant. The two tenths is within the error of the estimate. So essentially, it's just a very strong market. And those rates are very favorable. I know when I was a student at the University, they used to say the full employment economy was measured at about 5%. And we've been under that quite a while. And they rethought that back and forth about what really is full employment economy and that's a good debate that you can have in academia. I don't think you want to go into that now. Looking at job growth, again, it's pretty dramatic what we see happening. In '02, we just barely stayed above that positive. There was only 600 jobs basically that we saw a gain that year statewide. And then we rebounded in '03 to 36,000 new jobs and 3.5%. '04 things really took off. We saw that in a lot of our markets and it was a consumer driven recovery and it still is. And a lot of that was in the housing markets and people buying new consumables. We see that at 5.9. We look at '05, we're looking at 6%. Roughly the same as last year. A slight fall off in '06 to 5.4% and a little bit softening again in '07. But if you'll notice the number of jobs that we're anticipating each year is relatively within a range of the same. It's just as we get bigger and bigger and bigger, it's harder to maintain those percentage gains. Those high percentage gains. And just by having a bigger base to work from, those numbers are dropping slightly. Any questions? That gives you an overview of where we're at. It's pretty healthy. Anything I can help somebody with?

Chairman: Any questions of Robert Murdock? Next item is a review of the Unemployment Insurance Trust Fund, also by Robert Murdock, the Chief Economist and David Schmidt, Economist.

Murdock: Robert Murdock, for the record. I'm not going to be presenting this. We have an economist, David Schmidt, now that's on staff. And this is going to be his. But I wanted to take the time to introduce David. You haven't met him before. He's from our local university and he's been with us a few months. He has really taken an interest in the UI Trust Fund and he has really gone through this thing and brings a bright new wit to what we're doing. And I think that you'll really enjoy working with him over the years. He has some good things to say for us today.

Schmidt: Good morning, Mr. Chairman and members of the Council. Like he said, I am David Schmidt, Economist, Department of Employment Training and Rehabilitation, Research and Analysis. And I'm going to be going over the Unemployment Trust Fund with you, the history of it and the projections that we have for the coming years. The objectives of the unemployment system can be looked at from macroeconomic, microeconomic perspective. The macroeconomic perspective is to help maintain consumption during a recession to provide more wages that people can spend on rent, groceries, gas, basic necessities of living. And that all of the unemployed workers together then help to prop up spending in the economy. This is an automatic stabilizer. It doesn't require any intervention by the Governor, the Legislature or any councils, it just requires a person who's covered becoming unemployed and going down to the office and registering for benefits, so it kicks in very quickly when job loss starts. The microeconomic perspective is to maintain the economic safety net for individual workers. Losing a job is very difficult thing, both emotionally and in your personal life, but also financially because you lose your income. And so unemployment insurance benefits provide temporary and limited income replacement to provide both an incentive to go back to work, but again to help these workers, support them in their job search. So that they can go out and hit the streets and be finding a new job. These are achieved through the principal of counter-cyclical funding, or forward funding. This is where the fund builds up reserves during good times and then pays out a large amount of benefits when the economy turns down. These benefits, a 1999 Department of Labor study showed that for every dollar in unemployment insurance benefits that the State pays out, you actually see about two dollars and fifteen cents of increased economic activity, because of those benefits. This slide shows you the continued weeks of unemployment insurance benefits claimed over about the last twenty-four years. There's three trends I'd like to show you here. The first one is that you'll notice in the two recessions that are highlighted here, in 1990, '92 and '99, 2000, you can see that the demand on the system roughly doubled fairly quickly. And again, the trust fund, this is why we build up a fund reserve in advance, so that when these recessions hit, we're able to pay out the benefits and have that reserve there. The second trend is that you'll see from 1990 to 2002, we're looking at a low point to a high point here. You can see that the demand on the system overall tripled in that time, and even comparing '92 to 2002, you can see that there was an increase of 600,000 weeks of unemployment insurance benefits that we needed to be able to pay out, so the fund is growing over time. As Nevada goes through this very rapid job growth, the potential liabilities on the system increase as well. The final trend is that you'll notice from '81, '82, to '91, '92, to 2001, 2002, we've seen very long periods of economic growth. The average nationally here was 106 months. The historical average since World War II, is only fifty-seven months. These have been statistically very significantly longer than the average and so you don't really know if it's going to be another ten years, which is why it's good to build up the fund as quickly as possible during good economic times without placing any undue burden on employers, because we don't want to have them taxed any more than we need to. This next slide shows you the basic money coming in and money going out of the fund. You have your contributions, your benefit payments and then contributions and interest, shown just on top of that. And you'll notice again, in the '91, '92, 2002, 2003, recessionary time periods that there was a very sharp increase in the benefits that we needed to pay out. And if we didn't have a trust fund that was built up and able to make those payments, then the state would have to borrow money from the federal government or through bonds to make these payments. Or raise taxes on employers right in the middle of a recession, which we don't really want to do. The next slide shows you the income, the intake and the payout from the fund, and it shows you how the fund has moved over time in response to that. And you'll notice from 1993 to 2003, a low point to a low point, the fund increased by roughly four and a half times. There's three main reasons for this. The first is that the population has increased. In July of 1983, the population according to the U.S. Census was 901,977 people. In July of 2004, the U.S. Census estimate was 2,334,771 people. So you can see that the population has increased by roughly two and a half times. And that represents additional employees that the unemployment system needs to be able to cover. Again in that time, wages have increased. This is the second reason. In July of 1983, the average hourly wage was $8.04 per hour. And in 2004, the average hourly wage was $16.36 an hour. So wages in this time have roughly doubled and since the goal of the system is to provide temporary and limited income replacement, the fund needs to grow to be able to match this increase in wages. Finally, the fund in 1983 bottomed out at 40% below the state solvency requirement. Whereas in 2004, it actually bottomed out at 9% over the requirement. So the fund is in better health than it has been. But compared to the growth in population and the growth in wages, the effect of the change in solvency is relatively small.

The next two slides provide a comparison of the estimates that we provided last year for where we thought the economy would go and where the unemployment fund would go compared to how it actually went. You can see here that covered employment was higher than expected, by 60,000 people, or roughly 6.2%. The weeks of unemployment benefits claimed was significantly lower, 231,000 below what we expected, which is a 19.2% decrease. That represents, at an average weekly benefit payment of $251.33, a savings to the fund of a little over 58 million from what we expected. And finally, unemployment was lower than we expected, by 10.9%, or about 6,000 people. The effects on the fund are that since we have a larger tax base, our taxes and interest were higher than expected. That was a 9.1% increase, which is roughly in keeping with the 6.2 increase we saw in covered employment. The benefit payments were again much lower. There was a 22.1% decrease, which is roughly in keeping with that 19% decrease we saw in weeks claimed and the 10.9 decrease we saw in unemployment. So we had more money coming in. We had less money going out, so we have a fund balance that ended up $102 million ahead of where we expected. I'll go back for just a second. The reasons why this happened. A couple of key things. As Bob showed you, we had a historically very low unemployment. We actually hit an unemployment rate in the first quarter of this year of 3.9%, which is very low by historical standards. And at the same time as we had this very low unemployment, we have had an economy that keeps growing at a very fast rate year after year, as the slides that Bob showed you demonstrated. So we had an economy that just continues to keep growing even faster than we had expected. So, more people and less unemployment than we thought. This slide presents you with the actual numbers for 2002 through 2004. And our estimates for the total here as of September 30th for 2005. The top half of the slide shows you the state's solvency requirement. This is determined according to NRS 612.550, section 7. There are four components to this multiple. The first is covered employment. That's a current number. The second is your risk ratio. That is your first payments of unemployment divided by covered employment. And you take the highest percentage for the last ten years. The third is your week's duration of unemployment benefits, that's an average. And again, we take the highest number for the last ten years. And the final is your average weekly benefit payment. You multiply these four together and that gives you the solvency requirement, which you can see has increased by about $80 million, from 2002 to 2005. This increase in the requirement is completely due to the growth in wages represented by the weekly benefit payment and the population change. In fact, if you were to just take the risk ratio and week's duration measurements, you would have expected to see the requirement decrease by about 1.2%. So, as the economy grows, as the population grows, as wages increase, we need the fund to be able to cover this increase. The bottom section here shows you the actual fund balance, money coming in, money going out. A couple of things to highlight for you here. You'll see that in 2002, there was a Reed Act Distribution of $68.1 million from the federal government. This helped us maintain our solvency through the events of September 11th and immediately after that. And in 2004, 2005, some of that money has been spent for the Las Vegas office building. You'll notice that the ending fund balance decreased from 2002 to 2003, increased slightly from 2003 to 2004, and increased significantly from 2004 to 2005. The last three things there, you'll have the solvency level. That represents the balance of the unemployment trust fund over the requirement. The multiple represents that as a percentage. For example, in 2004, the fund was 9% over the state requirement. And the average high cost multiple, this is a federal standard. It is slightly more conservative estimate than the state's solvency requirement. It looks at least the last twenty years to determine what we might need. Or it looks at a period including the last three recessions, which is actually the measure we're using now. Because we have to go back to the '81, '82 recession to pull those figures in. It's interesting to notice from 2003 to 2004, the overall fund balance increased. We ended in '03 at 434 million and ended in '04 at 453 million. However, the solvency measurements all decreased. And this is because the population and wages grew faster from '03 to '04 than the balance of the fund. So while the fund was growing, it wasn't growing as fast as population and wages. And at the bottom there, you have the average tax rates for the last four years. The next two slides look at the actual solvency measurements. Here we're looking at the state solvency requirement. This is the last about twenty-five years. The periods of national recession, defined by the National Bureau of Economic Research are shaded in red here. There's a couple of things to highlight. The first is that after each recession there's actual a lag of a year or two before we see the peak demand on the unemployment system. This is because it takes some time for the shock of job loss to move its way completely through the economy and to allow the employment to recover to a point comparable to where it was before the recession. The second thing to highlight is that in each of the last three recession, we have seen the fund decrease by at least forty percentage points. In fact, in 1981, it decreased by 48.2%. In 1990, 1991, it decreased by 51%. In 2001, it decreased by 41%. So it was the most mild drop that we saw in 2001. But also because we allowed the fund to recover to the point that we did, it was able to go through the shock of the recession without dipping below that solvency requirement. This slide shows you the average high cost multiple. This is that federal standard again. You'll notice that because it is more conservative, it doesn't have quite the rapid swings that you saw in the solvency level. This is looking at 1990 through forecasts for 2008. You'll notice that in the 1990, 1991 recession, we saw a decrease of about .68 in this multiple from a high of 1.5 to a low of .82. Whereas in the most recent recession, we went from a high of 1.1 to a low of .78. Part of this was that Reed Act Distribution, the $68.1 million we got in 2002. Without that distribution in 2002, we would have seen a multiple of .79, instead of .92. And in 2004, it would've gone down to .65, instead of .78, which is about a 17% decrease from what it actually was. Because this multiple, if you're at a level of 1, that represents the ability of the fund to make unemployment benefits at a rate equal to the average of the three highest benefit payment rates in the last twenty years, or the last three recessions. It gives you the ability to make payments at that average for one year. So without the Reed Act Distribution in 2004, we would've bottomed out with just the seven month and twenty-three day reserve, which is not a very large number. We have forecasts here. You can see noticeable growth from 2004 to 2005. And the fund is projected to continue to recover, passing the target of 1, which is the bottom, the actual range of targets differs among economists from 1 to 1.5. But we are forecasted to pass that target of 1 in 2007, at the current average tax rate. This slid represents our forecasts for 2006. The top section is again the solvency requirement. None of that changes in each of the forecasts. The four scenarios are based on four different average tax rates. So the solvency requirement is constant, at just under $500 million in each scenario. Benefit payments are constant again, and we see an $11.4 million expenditure again for the Las Vegas office building represented here. The only thing that changes across these four scenarios is the tax revenue and the interest collected on the trust fund balance. You'll notice that each one of these scenarios puts us at a solvency level above where we are now, from about 30% above solvency to about 37%. Also, the average high cost multiple has us in the high nineties for most of these and just passing the target of 1, at a rate of 1.49%. Obviously, we're looking at the future. We don't know exactly what will happen and there's several things that could affect the Nevada economy and I've just highlighted a few here for you. Obviously oil and gasoline prices, depending on which way they move in the future could affect consumer spending. The war on terrorism, September 11th you saw from Bob's presentation, the significant effect that had on our unemployment rate. And if something like that were to happen again, obviously, the fund would need to be able to make payments to cover that. What happens in California affects what happens in Nevada. We have benefitted from businesses relocating to Nevada in the last few years, as well as a lot of tourism coming in both Northern Nevada and Southern Nevada. And if something were to happen to change that, it would have an effect on the Nevada economy. And finally, Nevada is growing very fast. You have seen above 6% year over year changes every month this year in employment. And Nevada needs to grow to keep up with this. Both the physical infrastructure, such as roads, buildings, water rights, and that sort of thing. Two, financially, the fund needs to again keep growing to keep pace with the growth that we've seen. Because obviously, even if the fund is continuing to increase, if we don't keep pace with population and wages, the solvency of the fund will actually decrease. It is the Department's recommendation to keep the average tax rate at 1.38% for the next year. This will allow us to continue a steady pace of growth, again forecasting us to hit the average high cost multiple target of 1 in 2007. And to continue allowing us in the next few years to achieve a level where we could weather a 40% plus decrease in the state's solvency requirement. Just some things that the fund needs to do. It does need to be able to handle a two or three year recovery following just a two-quarter recession. The period of recession in 2001 was from March of 2001 to November of 2001. But we saw that the fund didn't actually start to recover significantly until 2004 to 2005. We do want to make sure that the fund gets to a point where it could absorb the sort of shocks that we have seen in the past. And just a reminder that the reason that we are doing this is to help kick start the economy in a recession.

We want to make sure that Nevada continues to be in a good position and be able to take advantage of that $2.15 increase in economic activity that you saw for every dollar in benefits. Thank you very much. If you have any questions, I'll be happy to help.

Chairman: Is there a possibility, David, that we could have some kind of trigger mechanism for the, you know, we've discussed tax rate reductions previously, during previous meetings that would give to employers particularly, instantaneous reductions based upon triggers. Obviously, we're talking about more than just an annual review or an annual assessment of rate structures.

Schmidt: I'm not sure. I'm not very well informed about such things. I think Bob might like to discuss that a little bit.

Chairman: You know, our concern, obviously, we are in a counter-cyclical basis, but at the same time, we want to present ourselves to the rest of the country, particularly to California, that we have a very favorable economic climate and we can ascertain from a public relations' aspect that okay, we're not going to raise taxes this time if we adopt the proposed rate. At the same time, the alternative is that we would possibly come in slightly below that rate and say we have actually reduced taxes because of our economy. Please do not misunderstand me. I am not being an advocate here, I'm just asking a question. Bob?

Murdock: The 612 law is basically that the Administrator would set the rate. And Nevada is very unique. There's only a couple of states in the nation that have the flexibility that we do to adjust the rate if necessary. And I believe, that there is a provision that if we wanted to set the rate, inside a twelve month period, we could again convene this council, make a recommendation and the Administrator could adjust the rate. I would have to look at 612 to make sure of that. Do you . . .

Susich: This is Tom Susich, legal counsel. I would have to look at it again too, to be sure. But my belief is that the rate has to remain the same for the entire year after it's set.

Chairman: That is correct. My understanding is that it has to remain the same. At one time, we discussed the possibilities going to the AG's office and allowing for a legislative commodation in this realm. There was some real support for this so that we could be more spontaneous with change, with statistical variability. But, that's my understanding. That we have to look at it on an annual basis. I think that members of council would be, in order to, if they . . . Keep in mind that if they have concerns with their local areas in Nevada, their representative areas, they want to talk about the economies or concerns that we can integrate and interface with the agenda that we have here. Our next item on the agenda under the workshop is the tax schedule explanation by Donna Clark, Chief of Contributions.

Clark: Thank you again, Mr. Chairman, members of the Council. Once again, for the record, my name is Donna Clark. I serve as the Chief of Contributions for unemployment insurance in Nevada. The purpose of this meeting and the workshop is to recommend the unemployment tax rate schedule for the year 2006. State law requires the Administrator to set the tax rates each year by adopting regulation. Robert Murdock talked to you about the economic conditions and David Schmidt discussed the condition of the Trust Fund and the forecast for next year. I am now going to provide an overview of how the unemployment insurance tax system works and how the average tax rate is developed. In the rate booklets that were passed out to you, we have provided eight tax schedules for the council to consider and to give us a recommendation. And of course, to receive any comments from the public. A public hearing will also be held prior to the adoption of the regulation. That hearing has been scheduled for Tuesday, November 9th, 10:00 a.m., at the Legislative Building in Carson City, this very same room, 2135. The hearing will also be videoconferenced again to the Grant Sawyer Building in Las Vegas, Room 4412. Before we review the schedules contained in your booklets, I would first like to go over a brief review of how the unemployment compensation tax system works. The unemployment insurance program is a joint federal state partnership. The way this partnership works is the federal unemployment tax or FUTA, imposes a payroll tax on employers at a rate of 6.2% of each employees wages up to $7,000. This equates to a payroll tax cost of approximately $434 per employee per year.

However, if a state maintains an unemployment insurance system approved by the Secretary of Labor, employers are allowed to offset 5.4% of the Federal Unemployment Tax. So that they actually pay at a rate of .08 of 1%, thereby reducing the cost of the federal tax to $56 per employee per year. The .08 of 1% employer's pay to the federal government is passed back to the states to cover their administrative costs to operate the state unemployment insurance programs. The State Unemployment Tax, or SUTA that we are considering here today, is deposited into a trust fund which can only be used to pay benefits to unemployed workers. It cannot be used for any other purpose. The tax is paid entirely by employers. There is no deduction from an employee's paycheck. The tax rates will vary based on the individual employer's previous experience with unemployment. And under federal law, these funds must be deposited with the U.S. Treasury and cannot be invested in any other manner. This fund does earn interest. In Nevada, the rate for all new employers is 2.95% of taxable wages. In 2006, the taxable wage base, or taxable limit, will be $24,000. Employers pay at the standard new employer rate of 2.95% for approximately three and a half to four years, until they're eligible for an experience rating. Once the employer is eligible for experience rating, an employer's rate can range from .25% to the highest rate of 5.4%, depending on their previous experience with unemployment. There are, as you see, eighteen different tax rates. The annual rate schedule adopted here applies only to experience rated employers. It has no impact on new employers. Out of approximately 54,000 employers, more than half or 54% of all employers are eligible for experience rating, while the balance pay at the standard rate of 2.95% of taxable wages. The standard rate established by federal law is 5.4%. Rates lower than 5.4% can be assigned only under an experience rating system approved by the Secretary of Labor. The intent of any experience rating system, which is actually the heart and core of the unemployment insurance system, is to assign individual tax rates on an employer's potential risk to the trust fund. Basically, those employers with high employee turnover, and a greater cost to the fund, are going to pay higher rates than those with low employee turnover. Nevada, along with the majority of the states, uses a reserve ratio experience rating system. Under the reserve ratio system, the Employment Security Division keeps separate records for each employer to calculate their reserve ratio each year. In the formula displayed here, we add all contributions paid by the employer and subtract the benefits charged. The result is then divided by the average taxable payroll to establish the employer's reserve ratio. Contributions are, of course, the quarterly taxes paid by the employer and benefits charged are the employer's portion of unemployment benefits paid to former employees. The purpose of this method is to put large and small employers on equal footing without regard to industry type. It is based solely on their individual business experience. In the example on the slide here, the employer paid $6,000 in contributions, had $2,000 in benefit charges, with an average taxable payroll of $40,000, which gives him a reserve ratio of positive 10%. The higher the ratio, the lower his tax rate will be. If an employer has received more benefit charges than he has paid in in taxes, his reserve ratio will, of course, be negative and he will generally have a higher tax rate. Now I'd like to go to the detailed schedules. If you look in the booklets that you were handed, which should be noted as Page 3, we inadvertently left out page numbers on the white sheets, the eight tax schedules that are appearing, so we placed a yellow flag on the one that we are drawing your attention to. This shows the result of an estimated unemployment insurance tax rate of 1.38%. This is the same UI tax rate currently in effect for calendar year 2005. As David Schmidt explained, staff is recommending that we continue that rate through calendar year 2006 to allow the trust fund to fully recover and to ensure trust fund solvency. In setting the tax rate schedule, I'm going to use my pointer here if you haven't looked at these charts a hundred times like some of us had, it was a little confusing at first. The eighteen tax rates that you see displayed in this column, the eighteen classes of rates. These are fixed by statute and do not change. Rather, the law requires the Administrator to designate the ranges of reserve ratios. That appears in these two columns here. Showing the ranges of from and to. These are the ranges that are going to be assigned to each one of these individual tax rates. By doing so, the number of employers that you see here in this column, in each of the tax rates is changed. Which increases or decreases the average rate and of course, the total estimated revenues. In other words, if you want to increase taxes, you adopt a reserve ratio schedule that puts more employers, into this higher range. And to lower taxes, you select one that puts more employers into the lower ranges. I might point out here that using this standard average tax rate, keeping it the same at 1.38%, if you'll note, the majority, or 65% of experience rated employers will be under 1%. The law also requires that the ranges between reserve ratios must be uniform. In this particular schedule, the ranges are from positive 7.1 to negative 15.3, with increments of 1.4 between each of the tax rates. If an employer's reserve ratio is a positive 7.1 or better, he gets the lowest rate of .25%. So in our previous example where the employer had a reserve ratio of a positive 10%, he would get the lowest rate. An employer with a reserve ratio of less than negative 15.3 would get the highest rate of 5.4%. The rest fall, as you can see, somewhere in between. In this particular chart for the average tax rate of 1.38%, approximately 42% of eligible employers are in the lowest rate of .25%. There are 28,874 eligible employers, which we estimate will generate 259.9 million in revenue to the unemployment insurance trust fund. To that, we add the estimate for employers not eligible for experience rating, 7.9 million, for a total revenue of 33.6 million, and an average rate of 1.38 for the unemployment tax. As a note, you will notice on the bottom of the chart, there is an additional .05% tax for the career enhancement program, which is a separate state training tax set by statute. This is being provided for informational purposes only and is not included in the projected revenue amounts. The eight schedules in your booklets range from an average rate of 1.28% to 1.63%. Each schedule shows the reserve ratio increments between tax rates, the ratios assigned to each rate, the estimated number and percentages of employers that fall within each rate classification, the estimated taxable wages with percentages, and projected total revenue. Within this system, we can produce an infinite number of charts. Therefore, we generally present several different schedules to give you an adequate number of choices. In the front of your booklets, on a light blue page, we've also provided a summary page to make it easier for you to do comparisons. The summary shows the range of reserve ratios, increments, average unemployment insurance tax rate, estimated revenue, and the distribution of employers within each rate class. On the final page of your booklet, we have provided a few definitions and explanations of the items shown on the tax rate schedules, and the summary page. Also included, once again, is the reserve ratio formula used. Are there any questions on what's been presented?

Chairman: Any questions of Donna Clark, Chief of Contributions? No questions for Donna. Thank you very much for your presentation, Donna. Well we're now prepared for council discussion on the foregoing items cited by A, B, C, and calls for some structure by Cynthia Jones, Administrator. So, I'd like to call on Cynthia at this juncture.

Jones: Thank you, Mr. Chairman. I'd like to provide a little clarification on the question that you had earlier regarding changing the tax rate. NRS 612.550, number 5, in part states that the Administrator shall, by regulation, prescribe the contribution schedule to apply for each calendar year by designating ranges of reserve ratios which must be assigned to various contribution rates provided for in Section 6, which is that range that Donna had just showed you that ranges from .25 to 5.4, so I believe that does preclude us from changing our rate any time during the year without a change to Nevada law. So I just wanted to provide that clarification. At this point, we'd like to open up the floor for discussion regarding the proposed rate for calendar year 2006 and I'd be happy to entertain any questions or recognize anyone who would like to have the floor to make comments on the Council. Do we have any members of the general public who would like to make comments or provide information regarding our proposed schedule? In Northern Nevada? In Southern Nevada, is there anyone who would like to provide public comment on this regulation workshop regarding the adoption of the Unemployment Insurance Average Tax Rate for calendar year 2006? Joyce Golden, has there been any written submissions regarding comments regarding this proposed regulation submitted to you? Have we received any?

Golden: No, I have not.

Jones: Okay. Joyce has indicated that no written comments have been received by the Division regarding the proposed regulation.

Chairman: Thank you, Cynthia. We're open now then for a recommendation by Council and a motion for adoption of a UI tax rate for the calendar year 2006.

Foster: Mr. Chairman, I think we should support continuing the average tax rate of 1.38%. It makes sense to me. We're building a fund back up and it just looks like something the Council should support.

Chairman: George Foster has made the motion.

Foster: I didn't make a motion.

Chairman: Oh yeah, I'm sorry. You're stating how you feel.

Foster: Yeah.

Chairman: Okay, I'm sorry. Excuse me. I invite some further discussion on the matter.

Jones: If I might make one more comment for those who weren't here last year. When we set this rate last year, we did this with the intent of keeping a rate that is going to be stable, hopefully through the next business cycle. And when the rate was recommended and subsequently adopted last session, or the last time we met, at 1.38, that was out intent. And by keeping this rate at 1.38, if that's the Council's recommendation to me, that does provide a stable business climate for Nevada employers so that they can plan for their financial futures as well.

Foster: Mr. Chairman, I made the motion last year and I feel like somebody else maybe would like to make the motion this year to recommend to the Administrator what the rate should be.

Chairman: Thank you, George.

11:26:32` I would like to make the motion to accept the 1.38.

Chairman: The motion has been made to adopt the average UI rate of 1.38. Do I hear a second?

11:26:51Second.

Chairman: It's been seconded. Any discussion, further discussion? Hearing none, all those in favor of adopting this UI rate signify by saying Aye.

Council: Aye.

Chairman: Opposed? Hearing none, the measure passes unanimously. Thank you very much.

Jones: Thank you to everyone and we'll see you at our regulation adoption hearing, November 11th.

Chairman: Couple things. Is there any new business envisioned by any member of Council?

Jones: Oh, I'm sorry, November 9th. I'm sorry.

Chairman: I invite a motion for adjournment.

11:27:40So moved.

Chairman: Second. All those in favor, signify by saying Aye.

Council: Aye.

Chairman: We are adjourned then. Thank you.