STATE OF NEVADA
EMPLOYMENT SECURITY DIVISION (ESD) AND THE
EMPLOYMENT SECURITY COUNCIL (ESC)

This meeting, conducted by the Administrator of the Employment Security Division (ESD) and the Employment Security Council (ESC), is a workshop to review, discuss and solicit comment on a proposed amendment of a regulation pertaining to Chapter 612 of Nevada Administrative Code pursuant to Nevada Revised Statute NRS 233B.061. The proposed amendment will establish the Unemployment Insurance Tax Rate Schedule for Nevada employers for calendar year 2018.

EMPLOYMENT SECURITY COUNCIL (ESC) MEETING

Tuesday, October 03, 2017 - 10:00 A.M.

Place of Meeting:	**Live Meeting:**	**Video Conference to:**
	Legislative Building	Grant Sawyer Building
	401 S. Carson Street, Room 3137	555 E. Washington Ave., Room 4401
	Carson City, Nevada 89701	Las Vegas, Nevada 89101

Department of Employment, Training and Rehabilitation (DETR) Staff

Present in Carson City

Renee L. Olson, Employment Security Division (ESD) Administrator
Jeffrey Frischmann, ESD Deputy Administrator
Scott Kennedy, Chief of UI Operations, ESD/DETR
Brian Bracken, Chief of UISS, ESD/DETR
Edgar Roberts, Chief of Contributions, ESD/DETR
Bill Anderson, Bureau of Research & Analysis, Chief Economist, DETR
Alessandro Capello, Bureau of Research & Analysis, Economist II, DETR
Jeremy Hays, Bureau of Research & Analysis, DETR
Laurie Trotter, ESD Senior Attorney
Jo Anne Wiley, ESD Manager, ESD/DETR
Christina Guzman, Management Analyst IV, ESD/DETR
Mikki Reed, Management Analyst III, ESD/DETR
Joyce Golden, Administrative Assistant III, ESD/DETR
Terry A. Harmon, Administrative Assistant III, ESD/DETR

Department of Employment, Training and Rehabilitation (DETR) Staff

Present in Las Vegas

Art Martinez, Contributions, ESD/DETR

Members of the Public, Media and Other Agencies
Present in Carson City
Ray Bacon, Executive Director, Nevada Manufacturers Association
Robert Parker, Nevada Association of Employers
Geoff Dornan, Nevada Appeal, Carson City, Nevada

Members of the Public, Media and Other Agencies
Present in Las Vegas
None

Members of the Employment Security Council
Present in Carson City
Paul R. Havas, Chairman, Representing Employers
Paul R. Barton, Representing Public
Charles Billings, Representing Employees and Labor
Fred Suwe, Representing Public
Margaret Wittenberg, Representing Employers
Daniel J. Costella, Representing Employees and Labor
Shawn Kinsey, Representing Employees and Labor

Member of the Employment Security Council
Present in Las Vegas
Michelle S. Carranza, Representing Employers

Member of the Employment Security Council
Not Present
Kathleen Y. Johnson, Representing Public

EXHIBITS

Exhibit A	Meeting Notice and Agenda
Exhibit B	Economic Projection &Overview
Exhibit C	UI Bond Status Update
Exhibit D	Review of Trust Fund
Exhibit E	Tax Schedule & Explanation

STATE OF NEVADA
DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION
EMPLOYMENT SECURITY DIVISION (ESD)
EMPLOYMENT SECURITY COUNCIL (ESC) MEETING

Tuesday, October 3, 2017

I. CALL TO ORDER AND WELCOME

Chairman Havas called the Council meeting to order, introducing himself as the Chairman of the Employment Security Council and welcomed those in attendance.

As Chairman, I'll try to delineate what we're going to be looking at in this meeting and insofar as your responsibilities and your participation with the Employment Security Council. During today's meeting, under Agenda Item 7, we will hear the following presentations, Economic Projections and an Overview, the UI Bond Status update, Review of the UI Trust Fund and a Tax Schedule Explanation. As you know, the Council is required by statute to make recommendations to the Administrator regarding the average tax rate for the up-and-coming calendar year. The rate recommendation task before the Council today is an important one, and I appreciate your service on behalf of Nevada's workforce and employer community. As I can limit your participation in terms of five minutes per speaker, I can't really limit you to the substantive aspect of the duration. So in itself, the five-minute factor is strictly a parameter that we look at. I would like to start the opening of this meeting, leave it and defer to public comment.

II. PUBLIC COMMENT

Please state your name, title, and who you represent for the record. We will start in Las Vegas. Are there any comments in Las Vegas?

Michelle Carranza, representing the employers spoke to say that there were no comments in Las Vegas.

Chairman Havas thanked Michelle and added that Michelle is in Las Vegas today, and Kathleen Johnson, who was also acting in a similar role, has retired as of last Friday on the 29^{th}. And so we have Michelle in Las Vegas in that capacity, she'll be our representative from here on out as I understand it.

Moving to Carson City, are there any comments in Carson City? There were none.

III. CONFIRMATION OF POSTING

We have to have a confirmation of the posting by the ESC. Chairman Havas asked Terry Harmon if proper notice was provided for this meeting pursuant to Nevada’s Open Meeting Law, NRS 241.020.

Terry Harmon, Administrative Assistant III for the Employment Security Division, Management and Administration Support Services Unit, she stated that proper notice was provided for this meeting pursuant to Nevada's Open Meeting Law, NRS 241.020, and confirmation of posting was received. Chairman Havas thanked Ms. Harmon and moved to the next item on the agenda.

IV. ROLL CALL OF COUNCIL MEMBERS

Mr. Havas said he would have a roll call of the Council members now of the Employment Security Council. As stated, I'm Paul Havas. I represent Employers, and I'm Chairman of the Council. If each person would respond to my inquiry, we will start with Margaret Wittenberg, Employers Board of Review member.

Margaret Wittenberg, Employer Representative on the Council and the Board of Review.

Charles Billings, representing Employees and Labor on the Council and the Board of Review.

Michelle Carranza, representing Employers, attending the meeting from Las Vegas today.

Paul Barton, representing the Public.

Fred Suwe, representing the Public.

Daniel Costella, representing Employees and Labor.

Shawn Kinsey, representing Employees and Labor.

V. REVIEW WRITTEN COMMENTS

Paul Havas, Chairman, Employment Security Council.

Chairman asked if there were any written comments by members of the Council.

Joyce Golden, Administrative Assistant to the Administrator, responded by saying that there were no written comments received for this meeting.

VI. ACTION ITEMS

Paul Havas, Chairman, Employment Security Council

A. Public Comments

There were no public comments at this time, in the north or in the south.

B. Approval of October 3, 2016 Minutes

Chairman Havas noted that at this juncture we can review and have a positive approval of the minutes from the October 3, 2016 Employment Security Council meeting. Again, the same rules apply insofar as the five minutes per speaker. So on this basis, let's start in Las Vegas. Then we'll move to Carson City on this subject, wherein I will accept a motion at that time.

So if I can refer to Michelle in Las Vegas on this, any statements to make, Michelle?
Michelle Carranza responded that there are no statements to be made. Thank you.

Chairman Havas asked if Carson City had any statements to make. None were made.
He then would accept a motion for approval of the October 3rd, 2016 meeting minutes. For the record, I invite a motion that should be moved, it should be made by a member of the Council.

Paul Barton made a motion for the approval of the October 3, 2017 minutes meeting. This was seconded by Daniel Costella. Chairman Havas responded that it has been seconded by Daniel Costella. There was no discussion, so Chairman Havas called for a vote. There was no opposition so the vote carried unanimously.

Comments by the Administrator

At this point the Chairman turned the meeting over to Renee Olson, the Administrator of the Employment Security Division.

The Administrator introduced herself and that she serves as the Division Administrator of the Employment Security Division within DETR.

Administrator Olson started by mentioning that on behalf of all of ESD and all of DETR staff that our hearts go out to everyone impacted directly and all the Nevadans suffering because of the horrible shootings that occurred yesterday -- or Sunday in Las Vegas. We share in your shock and sadness, and our thoughts go out to all of you.

I'm just going to make a few comments. The following topics seem a little hollow in comparison to what we went through this week, but, we need to follow our responsibility today to do our duty to make sure that we maintain the State's ability to pay Unemployment Insurance benefits and support the economic safety net for Nevadans.

So with that, I just wanted to take a moment to mention Katie Johnson. She did -- she's been with ESD for many, many years and with the Council for many years, and she was also the Chairman of our Board of Review. She announced her retirement as of the 27th, and I just wanted to acknowledge her today and thank her for her years of service. We do have folks -- we do have people -- the opportunity is available to apply for the Council.
We've had one interested party. Those applications go through the Governor's Office, and so we feel like we will have a replacement on the Council and for the Board of Review fairly quickly.

Okay. So I just had a couple of comments about the federal budget. Being a federal program, we are really kind of dependent on what happens with federal government and federal budget. Currently, our federal funding is on continuing resolution, and the federal funding I'm talking about is the administrative funding for staff to run the Unemployment Insurance Program in the State. The continuing resolution is in effect until December 8th. By December 8th, Congress will either have to pass a budget or approve another continuing resolution. If they don't pass either a budget or a continuing resolution, the government would be shut down. There are varying degrees of the impact of that with the program. We would wait for the federal government to give us some guidance as to what operations would still be in effect.

In past times when there was a possibility or the actual shutdown of the government, some of the things we experienced were, if they were keeping staff on board, in other words, to let us draw federal funds from our funding that's already in place. And so those questions are an open question if the government were to shut down.

Back to the issue of the budget, the Administration's budget includes national level cuts to almost every workforce program. I say "national level" because we don't know until the formula tells us what each state would receive based on those; but on a national level, each state shares in that, and they're requesting a cut of all workforce programs. And in comparing the Administration's budget to the FY17 levels, which was the funding we received last year, WIOA, which is Workforce Innovation and Opportunity Act -- I'll try not to speak in acronyms too much -- would take a 40 percent cut across the board, all three programs.

Employment Services, which is the Labor Exchange Services we provide in our offices, would take a 38.5 percent cut, and UI would take almost a two percent cut. And I just would note, for the record, that the UI funding for Administration is already at a 30-year low, so even the small cuts that we take in this program are significant.

The House version, which actually already passed, includes a five percent cut to the WIOA adult and youth portions of that funding and a half of a percent to Dislocated Worker Funds. It would include a one percent cut to UI. Again, this is all in comparison to what we received last year, and this budget fully -- totally eliminates the Employment Services Grant for every state. I'd just repeat that. It totally eliminates that grant. So the Employment Services that you would typically see, the employer engagement that Labor Exchange Services, people trying to find jobs in our offices statewide, would be greatly impacted, crippled by that elimination.

There would be ripple effects. I feel like I'm all doom and gloom; but this is a very big concern for us, and we're really waiting to see what happens with the Senate version. It would include effects to UI claimants trying to seek reemployment, and it would affect services to veterans as well among others. The Senate version which hasn't been voted upon at this time keeps workforce funding levels at approximately what they were in 2017. So it really restores most of that funding, but it still proposes a cut to the UI program administrative funding of 1.86 percent.
So with all that said, we're waiting to see what happens. We hope that during some sort of reconciliation process between the versions of the House and the Senate budget, that we recover

our funding for workforce programs nationwide, but suffice it to say, there's a good deal of uncertainty in the system right now that all states are dealing with.

As you're aware, and as the Chairman said, in accordance with NRS 612.310, the Employment Security Council provides a recommendation to the Administrator regarding the Tax Rate Schedule for the upcoming calendar year through this process today. The presentations you're about to hear are intended to provide you with the information you need in making this important recommendation. And finally as you deliberate today, I would ask the Council to consider where we head next year in terms of solvency of the Trust Fund. We have the opportunity and ability this year in December to call our bonds early, which we currently intend to do; therefore, the presentations you will see today will show you that as of 2018, we will no longer carry any debt from the borrowing done to pay benefits during the recession, and we would therefore no longer need an assessment to employers for the repayment of those bonds. This will mean a significant tax savings to employers during 2018.

We also will have over a billion dollars in our Trust Fund, and while that is a significant milestone, it doesn't yet reach the State's solvency level. And as I stated last year, we should continue to look at 2018 as an opportunity to continue efforts to see the Trust Fund -- that the Trust Fund fully meets the solvency target. You will see the rate scenarios provided that we are on track to exceed a one percent average high cost multiple by September 30th of 2018 with the current UI tax rate of 1.95 percent, and we'll continue to march toward full Trust Fund solvency. With that, I'm going to conclude my remarks. I can answer any questions you might have, and then I'm going to turn the meeting back over to the Chairman to introduce the next Agenda items. Thank you.

Chairman Havas asked if there were any communications to Renee. Hearing none, we can move on to the Agenda Items A through D, and we're looking at the first, the Economic Projections and Overview, review of approval by DETR.

VII. ECONOMIC OUTLOOK AND UNEMPLOYMENT INSURANCE UPDATE

A. Economic Projections and Overview (Exhibit B)

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

Thank you, Mr. Chair. For the record, Bill Anderson, Chief Economist with the Research and Analysis Bureau within DETR. With me is Alex Capello, one of our supervising economists. I'll handle Agenda Item No. A, and then with the Chairman's permission, I'll go ahead and transition on to Agenda Items B and C for which Alex will be responsible for.

My responsibility today is to kind of give you the general economic and labor market background information that we think that you'll need to make your recommendation on next year's tax rate. And then as we transition into Alex, he'll talk more specifically about the Trust Fund and various scenarios for that.

So with that, I'll go ahead and get started and begin talking in a very broad sense about how the economy is doing. Our gross domestic product in Nevada, which is the broadest measure of economic activity, has expanded in each of the past 15 quarters, and it's exceeded the national average in each of the past eight. So if you want to talk about economic growth in Nevada, we are doing quite well at the moment.

Another very broad barometer of the economy is personal income, total income within the State. That's been on the rise in 27 of the past 28 quarters, and growth has exceeded the average throughout the Nation in each of the past 13 quarters. That's going to be kind of a general theme of my overview of the labor markets and the economy as a whole. We're growing, but perhaps more importantly, we're growing at a rate that exceeds -- and improving at a rate that exceeds national norms. So that's certainly good news for what's going on here in the Silver State.

About six to nine months ago, the Governor's Office asked us to put together kind of a little report card to establish some benchmarks that we want to look at on a regular basis to assess where we're at in terms of our recovery, and this is the end result of that. It's kind of a living, revolving document, but here's where we're at right now.

So the bottom line, and I'll go through the details in subsequent slides, but we're at record high levels of employment in the State. Our private sector is the fastest growing, in terms of jobs, in the Nation. We've added about 100,000 small business jobs as the recovery has unfolded. Weekly wages have also risen to a record high. Our jobless rate is down by about nine points compared to where we were at the height of the recession, and as Alex will talk in more detail, Unemployment Insurance claims have tumbled by about two-thirds from where they were at the height of the recession. The Unemployment Insurance Trust Fund, as Renee alluded to, is sitting at a record high level of near a billion dollars. So let me just highlight a few of the points in there. Jobless rate is arguably our headline number. We're at about 4.9 percent right now. That compares to 13.7 percent at the height of the recession. More importantly, we've narrowed the gap. We've essentially eliminated the gap with respect to the U.S.

At the height of the recession, we were about four-and-a-half points higher than the Nation as a whole in terms of our unemployment rate. Now we are less than a half-a-point higher. You see if you look closely, a little bit of an uptick in the past few months. We're not all that worried about that. At the end of the year, we go through with our federal partners, make some revisions based upon a more complete set of information. Wouldn't surprise me if that little blip goes away, but even if it doesn't, it's arguably happening for a good thing or for a good reason. As our economy and labor markets have improved, job prospects have improved, and that's drawing more people into the labor force and takes them a while to find a job, so that will cause a temporary uptick in the unemployment rate.

But the number of -- the growth and the number of people actively involved in our labor force, either working or looking for work, are growing. It's up by about 16,000 individuals over the course of the last year, that's a growth rate that is much higher than in the Nation as a whole.

So if we didn't have people moving here, if we didn't have people reentering the labor market, our unemployment rate would be a lot lower. So there's a little uptick. I'll conclude again in saying that it's actually happening for a good reason. We like to look at demographic information. And one group that we look at is veterans, and you can see that our veteran population is also seeing a downward trend in the jobless rate.

Looking at the jobs side of the equation, we lost about 185,000 jobs over the course of the recession. We were at a record high level prior to the recession, and then we lost 185,000 jobs. Since then, we're up by in excess of 235,000 jobs. So we've regained all of those jobs we lost, and we're now at a record high. In fact, we've been hovering around a record high for a little more than the past year, so certainly some good news there.

If somebody asked me what our underlying trend is, what's our underlying rate of growth, we're looking at about on an annualized basis, and job growth appears to be settling into the roughly 40,000 range. In other words, we're adding about 40,000 jobs measured on a year-over-year basis. That's the underlying trend, works out to about three percent, maybe a little bit higher, in terms of growth.

The nice thing about this recovery is that it's very broad-based and diversified. It's evident in essentially every sector of our economy. Professional business services, in numerical terms, are leading the way with about 10,000 new jobs. Right behind them is construction, a lot of projects underway right now. So what we're seeing is that we're getting a contribution from our historical drivers, that being construction and leisure and hospitality, but we're also seeing contributions from just about every other sector in the economy. Another way to look at it is that we're now at record high levels of employment with about 60,000 fewer construction jobs than we had prior to the recession. So we've managed, again, to foster this kind of broad-based, diversified kind of growth.

We have exceeded national job growth every month since August of 2012. So that's more than five straight years in which every month we've seen job growth that exceeds the U.S. And the bottom line, the end result of that, and personally, I think this is the most important slide in this presentation because it really tells Nevada's story over the business cycle, is we're now once again at the top of the job growth rankings. Prior to the recession, we were outgaining every other state in the Nation, plus the District of Columbia.

Over the course of about three years, we went from the top of the job growth rankings down to the bottom. 2009-2010, our job losses were the most pronounced in the Nation. We've regained ground since then, and over the course of the past three-plus years, we've been hovering right around the top of the job growth rankings. And as the Governor announced a few weeks ago in the early months of this year, the first quarter of this year, our job growth was stronger than in every other state in the Nation in terms of private sector jobs.

Mentioned earlier that small business employment has added about 100,000 jobs relative to where it was at the height of the recession. We lost about 75,000 jobs during the recession. We've regained all of those and then some back. Our focus is typically on jobs; but I think it's important to look at the employer side of the equation, and we like to track the number of employers in the State. We lost about 5,000 employers as the recession unfolded. We've regained all of those back. In fact, we've seen job growth in 24 consecutive quarters, and we're now all the way up close to 69,000 or 70,000 employers. That compares to about 61,000 at our high point prior to the recession.

As I mentioned, average weekly wages have increased to a record high. Early on in the recovery, this was one of the aspects of our labor market performance that I was arguably a bit concerned about. We were only seeing wage growth in roughly the 1 to 1.5 percent ranges, but over the past several months, we've seen a pickup in that. We are now seeing wage growth that is more in the mid-single digit range. The underlying rate of growth appears to be, three, maybe four percent in terms of average weekly wage growth. You might wonder what that spike is that you see on a regular basis in terms of the actual level of our wages. That's fourth-quarter information that takes into account year-end bonuses that get paid to folks in the fourth quarter. So there's nothing really out of whack about this.

I oftentimes get questioned about the quality of our new jobs that we're seeing. I point to the wage information. I also point to the full-time/part-time aspect of our jobs recovery, and for the most part there, the news is good. Essentially, all of our new job growth has been full time in nature. We're almost at a record high now in terms of full-time employment. Part-time employment is essentially holding steady, okay, that bottom red line; it's holding steady. We'd like to put a dent in that and get it back down to where it was pre-recession, but, you know, it's something that we're keeping an eye on and will be monitoring going forward.

Another barometer of the full-time/part-time aspect of this recovery, we have access to online job postings for jobs in Nevada. About 90 percent of those job postings are for full-time employment. So the anecdotal information that we have access to suggests that the types of jobs that we're creating are good jobs.

Now, looking forward we expect the kind of same underlying trends to continue that I've already summarized, looking at roughly about 40,000 new jobs a year through the end of 2019. That would put us over 125,000 jobs higher than where we were at our prior peak. In terms of where these jobs are expected to come from, we're looking at growth across just about every sector in the economy, manufacturing being driven by Tesla. Number of headline-grabbing construction projects, Tesla, the Convention Center down south, the Raiders Stadium down south, Data Centers, some new development on the strip in terms of the Resorts World development. So the bottom line is, we think that there's enough work in the pipeline, barring something unforeseen, to help us continue to see the kind of improvement we've been seeing on the job front.

Looking at some of our major industries, construction, by the time we get out to 2019, we'll have added back about 55,000 construction jobs. We lost about 100,000 during the recession, but now we are well on our way to recovery. We're seeing good, solid gains in this sector. In fact, in percentage terms, they're the largest in our economy. So we, as I said, should add back about 55,000 of those jobs. Manufacturing is being driven by Tesla here in the north. We're looking at adding about 14,000 jobs through the end of 2019 as that project and others ramp up. Retail trade should continue to grow. We don't think it will grow quite as fast as it has in the past. There is this issue nationally about the growth in non-brick-and-mortar retail establishments, online shopping opportunities, things of that nature.

So we'll be keeping an eye on that, but we should continue to grow at a modest pace. Everything should be as easy to forecast as healthcare jobs. They'll continue to grow as they have in the past, adding a few to several thousand new jobs a year. And then finally, accommodation and food services with continued development on the strip should also continue to grow. And, in fact, this sector, as well as a few others, is already at record high levels.

The bottom line is that this should continue to put some slight downward pressure on the unemployment rate. Your unemployment rate is never going to go to zero; you're always going to have some unemployment. At the height of our boom prior to the recession, we had an unemployment rate in the high three percent range. We kind of see ours settling in at right around 4.5 percent or so looking out towards 2019. So the bottom line is that things have improved markedly. Barring something unforeseen, we think that we should continue to see the kind of gains that we have been witnessing. We're quite encouraged by the prospects for our labor markets, and most importantly, we think we'll continue to improve and grow at a rate that exceeds the national average. With that, Mr. Chair, I'll go ahead and answer any questions that the Council might have.

Chairman Havas said that that was the most comprehensive version that we've ever heard, and we really appreciate it, Bill. I have this question: In terms of training, as per the needs and a technology growth perspective, do you envision a greater contribution by government and by education which will allow for and facilitate the very best in the way of statistics?

Bill Anderson responded: If I may, I'll start out by adding a little bit of perspective to what's going on -- or what's needed in terms of workforce development. We do some long-term projections, and we go all the way out to 2024. Simply by growth, related to economic growth in the State, over the decade ending in 2024 we would have generated about 300,000 new jobs. That's strictly due to growth in the economy, improvement in the economy, things of that nature. That's a big number, about 300,000 new jobs, but on top of that, you also need to train folks to refill a lot of positions as well. That number is essentially identical to those 300,000 new jobs that I already alluded to. So we're looking long term to have to train about 600,000 workers, both to fill new jobs and to refill existing jobs as turnover happens. So that provides some context.

I think that - and I have to be careful in terms of talking policy, but I think that the training infrastructure is in place to help satisfy these needs led by the Governor's Office and our Department, GOED, and the education community. There's very much an integrated approach to tackling these needs. There's feedback. We hear about the needs from employers that come to us. Those needs get filtered out into, higher education, K through 12, higher education system, GOED, to try to satisfy those needs. So the bottom line is that I think that the infrastructure is in place to satisfy those needs.

Chairman Havas thanked Bill and called for Bill’s colleague, Alex Capello to speak at this point.

B. UI Bond Status Update (Exhibit C)
Alessandro Capello, Economist, Bureau of Research & Analysis, DETR

Bill Anderson introduced Alex Capello to the members. The Council has been used to seeing Dave Schmidt make this part of the presentation over the past several years. Dave has moved on. Luckily, he stayed with DETR, and that's a good thing; I'm very happy for him.
Alex Capello is now our supervising Economist in charge of overseeing our UI, Unemployment Insurance-related research and other types of activities, and he'll be presenting today. We're very happy to have Alex with us, and he learned for about the past two, three years under Dave. So we're very encouraged to have, and excited to have, him with us. Alex will bring up his presentation.

Alex Capello introduced himself and told all present that he is an Economist within the Research and Analysis Bureau. And so today he has two presentations for the Council. The first little bit is just an overview of the UI Trust Fund Bond, and then the second half is just a review of the Trust Fund. So the bond will be pretty quick. Renee did a pretty good job of filling you all in about - or in regards to where we're at in terms of progress.

As a quick refresher, we all know that the Trust Fund got hit really, really hard during the recession. It fell as low as -$800 million, and then during that whole process, we understood that issuing the bond was cheaper than continuing the borrowing from the federal government. We ultimately received $592 million in proceeds, and then the stretcher was set for a 4.5-year term with the last payment callable. So that's kind of what Renee referred to. We anticipate and are planning on calling that final payment, which is due in June of 2018, and we will be paying that off in December.

So where we are on the bond payments to date, so far we've collected over $420 million in principle. The next big payment, which is the big, big payment, as I mentioned, will be $72.1 million for the December 1st payment, and then like I said, we're calling the last portion, which is almost $56 million, so it totals to about $128 million for the December 1st total payment.

To give you an update of where we're at as of the 25th of September, we had almost $110 million in our Trust Fund account, or bond account rather, and we are well on track. We still have another period of collections, but we have very few concerns about that. So that's the quick and dirty overview just because it's one of those things where we're past that point.

So what that means is probably the more important part. So this is a look at the average employer rate over the last four years, including what it would be if we held things static this year. One of the goals, obviously, for the Council was to keep stable rates for employers throughout the life of the bond, and obviously we did a pretty good job of that with the rates ranging between 2.61 and 2.63 percent for the entire life. So that's a nice thing that we accomplished over that period.

Last year, we had a bond assessment rate of 0.63 percent. So right off the top, if you take that away from this year's current rate, we're getting a 0.63 percent cut just like that. So what that means in terms of dollars, it's $192.15 decline in the average rate or average amount each employer would pay at the average taxable wage base, or the maximum taxable wage base is just the amount that employers pay up to in UI taxes. So that rate is going to drop significantly. The dollar amount, as I said, was $192.15. That is a big important thing to consider as I move into the Trust Fund. So if you have any questions, go ahead.

A speaker asked, before we get to the Trust Fund, any estimate as to what we save by going to the bond rather than paying the federal government back for a loan? Mr. Capello responded by saying: Oh, I don't even have that off the top of my head. It was a significant amount. I forget the rates. It was before my time, admittedly. So the calculation at the time, I know it was a lot lower because the rates over time ramped up for the federal government. I could definitely get you the number at a later date.

Speaker: I was just curious. Mr. Havas said that we saved a lot of money in the capital markets. Mr. Capello agreed to that remark and said that as every year that you owed, your rate would ramp up. So it was significant, and that was obviously why we chose that option.

Ms. Olson asked to be heard. She identified herself and commented that by remembering back to when the bonds were issued, we were looking at a savings at that time between $15 and $20 million. And I just got a head nod from Bill, so he says that sounds about right. As Alex was explaining, if we recalculated again based on what the rates actually did versus our projections of what they would do, that number would be different, and we can do that calculation.

The speaker thought that it would be nice to know. Mr. Capello said that he would definitely look into it for him. I know what we saved this year. There's $192 million. That's kind of what the 0.63 percent would be in terms of taxes for employers. That's the large number when you kind of bring everything out, so that's significant.

C. <u>Review of UI Trust Fund (Exhibit D)</u>
Alessandro Capello, Economist, Bureau of Research & Analysis, DETR

Moving on to more of the Trust Fund perspective, we always start off looking at the national kind of outlook on the Trust Fund. This chart just basically is a net and an actual. The red line looks at the net balance of the entire Nation, so everyone's Trust Fund kind of calculated together, and so we're almost as a Nation out of UI Trust Fund debt. California and the Virgin Islands, as of the end of June, were the only two remaining states or territories that had any remaining debt. California, I believe will be out of UI debt by this next tax year. I don't know about Virgin Islands as much, but that blue line and red line are almost converged, but should be by next year. Chairman Havas asked Mr. Capello to state for the record what the debt is. Alex Capello responded that it is approximately $500 million as of the end of June. It's cyclical and changes every quarter, so I don't want to say firmly as of today it's this amount, because it's just like anything else. But as of the end of June, it was, like, $498 million I want to say. In the last few years we have shown maps of the various Trust Fund balances under a measure that I am going to refer to a lot today. It's called the average high cost multiple. So it's the federal measure for Trust Fund solvency, basically.

What it does is, it looks at each State's worst three years in the last 20 years or the last three recessions, and it kind of gives the State a gauge as to how much money it needs in the Trust Fund in order to withstand a recession with that Trust Fund balance. So this is a look at that measure by State as of the end of 2007, beginning of 2008.

As you can see, we were considered okay. We had a balance of just over one, that's the federally recommended minimum, mind you. So that's not some ace in the hole where you have one, you're guaranteed to get out of the recession without having to borrow. And also we have to remember this is a look back. So if the recessions that you have are not as bad as the ones that you ultimately do have, it's not going to necessarily mean a whole lot. But this gives you an idea of where all the states were, before the recession, and then this next slide is during the recession.

So only a few states managed to remain solvent, and by “solvent,” I mean didn't have to borrow. “Solvent” is maybe not the appropriate word. And one thing I want to point out here, so I think it's 41 -- out of 41 states that had a balance of less than 1.25, 33 borrowed. Of these nine states that had an average high cost multiple of 1.25, only one borrowed. So there is some correlation with a higher balance in this most recent recession and the less likely you are to need to borrow. So it's kind of a big deal looking forward since we're approaching that 1.0 number, kind of where we want to go in terms of Nevada solvency.

So this is a look and then just to complete it, this is a look at the beginning of 2017. Obviously, many states are opting to move further towards that higher average high cost multiple number. The green/green is above 1.5. So some states are really making a move to say, okay, we're not going to have that happen to us again in terms of the Trust Fund balance is falling below zero. So that's kind of a -- just a little perspective of what other states are doing. We're almost to the green. We're at 0.89, as I'll mention in a few slides.

And then as a reminder, we always show where we're at in terms of our business cycle. This is one of the longest expansion periods in U.S. history. I think it's the second -- or no, the third longest, rather. We're at 100 months of growth as a Nation -- or of, no, recession; I shouldn't say “growth”. So it's one of those things where we've always showed the slide just to give a perspective of, okay, this is a recovery period that's stretched a long time.

In terms of UI Trust Fund, we've always tried to apply the kind of cyclical funding process in order to build the Trust Fund when we're in these periods of growth. So I just point that out; we're in a long stretch. There's no, we’re almost done. Nothing comes with that, with this slide. It's just kind of pointing out where we're at in terms of the timeline.

Now moving into Nevada's Trust Fund, as Renee mentioned earlier and Bill mentioned earlier, we are at a record high balance in our State's history. As of the end of the third quarter, it's approximately $988 billion. We just peaked our previous old balance in the second quarter where we had $885 million, so that was a big deal, and then for a period of time this last quarter we had a billion. So it was nice to see a billion. And then, just with the cyclicality of the Trust Fund, it dipped below in recent weeks, but we anticipate it going well past that in the upcoming collection period.

So this chart looks at the inflows and outflows of the UI Trust Fund. The red line, or red bars rather, represent benefit payments, and the blue bars represent contributions. So any time the red is above the blue, you're seeing a net decline in the Trust Fund and for blue, when blue exceeds red, an increase.

Obviously, the first half of the chart it was the midst of the recession. We had 11 straight quarters where we saw the Trust Fund balance decline as our contributions were so much smaller than our outflows. In the recent years, we obviously have been in the process of growing the Trust Fund. So we've had a pretty steady tax policy in terms of the rate to help us get that balance back to where we want it to be, and we've now seen -- basically, every three out of four quarters are always over in terms of the contributions are above benefit payments, and so we're seeing strong growth there.

What that means is, obviously we're getting closer and closer to those solvency multiples that we talked about. I referred to the average high cost multiple first; but we do have our own State solvency multiple, and this one is actually a little bit higher at this point. It's closer to $1.4 billion, and this one, the reason why it's a little higher, it has a ten-year window, and it looks at basically the worst of your experiences. So the federal is an average of the worst. This one is just the worst, so it's going to be a little higher.

One of the things we always try to caution when we use this rate is that it only has a ten-year window. So when we get past that 2010 point, basically we're losing a lot of those numbers that were bad that are included in this solvency multiple. So, this multiple will drop by that point just based on that. That is why we try to lean on the federal multiple, as it just is a little more steady, a little more stable and gives us a better idea of this is what we can expect long run. As I've mentioned, we're at 0.89, so almost to that 1.0 minimum that we like to be at, and that currently is around $1.1 billion to be there as of today. If you have any questions about that, feel free to interrupt.

Chairman Havas asked when the economists think Nevada could possibly see another recession. Mr. Capello wanted to refer to Bill on that one. Mr. Anderson, the Chief Economist responded by saying, that as Alex noted, we are in a relatively long recovery right now. The good thing is, though, barring something unforeseen, we are not seeing the same kind of bottlenecks that we saw prior to the last recession. We're just not seeing the huge bubbles. We're seeing growth in construction. As I said, it's the fastest growing sector in terms of jobs in the economy, but if you look at it as a share of employment, our share of employment in the construction sector was about twice the national average prior to the recession. Now we're pretty much in line with the national average. So we're not getting out of whack. Perhaps a less formal way of saying it is prior to the recession, we had construction workers building homes for construction workers. That's not sustainable. So we've moved away from that. The short answer to your question is that we're not forecasting a recession. Can something happen? Yes, it could. We just don't see it bubbling up like we did last time.

Chairman Havas asked if Mr. Anderson could look at a construct like sustainability for the future as a construct in economics. Mr. Anderson responded by saying he thinks that the kind of growth that we are seeing is more sustainable. If you go back, for two reasons, numerically, if you go back to prior to the recession, our jobs were growing at about six percent a year. You can't do that year after year after year. As I alluded to in my presentation, we're now growing at about three percent. That's much more sustainable.

Second answer to that -- part of the answer to that question, and I've already hit upon it, the kind of job growth that we're seeing is much more diverse and broad-based. We're not clustered in those two historical drivers that we've always had, construction and leisure and hospitality, gaming, tourism, whatever you want to call it. We're seeing growth across the board. So I think once a recession does hit, we'll be better able to weather it.

Renee Olson, Administrator of the Employment Security Division, commented that she did not have a question just so much as a fun comment. I had unscientifically said there's no recessions allowed until we've paid off the bonds, and so I'm really happy to hear that there's nothing on the horizon as well. So I wanted to thank Bill, and we'll hope that we continue on in that direction. Thank you.

Mr. Capello spoke again; so back to the presentation, now we're just going to start looking at some general UI trends just to give you an idea of where things are at, relative to last year and historically.

So this first chart just looks at the Initial Claims levels. They've been in decline for many years now. We kind of peaked -- I like to use the total month average as the baseline so you don't let one month weigh too much into anything, and we averaged about 28,000 claims per month at the peak, and we're now somewhere around 11,100, excuse me, over the last 12 months. So we're at, more or less, the boom levels -- our boom level, claims levels.

So it's one of the kind of the things that Dave and I have been saying for the last two years, we don't see there being too much more room for decline as our employment base and the number of claims can't go much lower. And so this chart is the reason why we've been saying this. This is this falling chart, which looks at the number of initial claims per thousand jobs. We are at, in terms of this measure, an all-time low. We think there isn't a whole lot of room for initial claims to go much lower just based on the number of people working in the State. So we'll see going forward that this has impacted the forecast long term, but it's hard for me to think that I can say next year we're going to be at 10,000. I think it's going to steady off. And this is another UI trend, looking at this specifically is the average duration. So this is the average time in weeks that a claimant is on UI receiving benefits. And so that in and of itself has over time trended down, but in the last six months has also begun to steady, and you're not seeing the declines that we were pretty consistently seeing for the last few years. So we're somewhere around 13, just over 13-and-a-half weeks, and we're still a little bit above maybe where we were pre-recession, but it's not super far off.

And then again another trend that we like to look at is the exhaustion rate, and this looks at the share of claimants that are running out of benefits. And again this one has also over the long term been a long decline; I think it peaked around 63 percent and is now down just around 36 percent, and that one in the last six months has started bouncing around a little bit more and not declining as we had seen.

So what this is all supposed to feed into is that we're seeing lower benefit payment levels, and then another reason that we're seeing lower benefit payment levels is the actual share of the unemployed that are receiving benefits.

And this is a nationwide kind of trend that you've seen in some states, it's extremely low, but a national trend where the share of unemployed, so the number of unemployed from Bill's presentation is only about 25 percent to 30 percent of those people are receiving UI benefits. Obviously, you can look in the past. It was much higher, the blue area is what I'm specifically talking about, was much higher pre-recession. The red area is the Benefit Extension programs and EUC programs that were put in place during the recession. So that taught a lot of those claimants, or those unemployed at that time, that once those benefits expired and people were just getting regular UI, it steadied off.

So in the recent months it's been trending up a little bit. You can see it start moving a little higher, but it has definitely put less pressure on the program, and as I said, this is a nationwide thing. Certain states have a 10 percent percipiency rate, or share of unemployed, and a lot of states cut back their benefits and their eligibility requirements. They ramped those up, making it harder. We didn't do that, so this is actually a pretty static measure.

That, as I was mentioning, based on the other trends, has put a lot less pressure on our benefit payments. We've seen, this is a 12-month average percentage, year of year percentage decline, and it's been below zero for a long stretch of years. Obviously it spiked during the recession, and then it ramped back down once we got past those initial regular claim jumps. But since then, we've seen steady declines. And we keep thinking that it's going to steady off, and we're not going to see much less pressure on the Trust Fund in and of itself, but we've been wrong.

So before I get into the forecast, does anyone have any questions? (There were no questions at this time). All right. So this will kind of start the forecast portion of the presentation. Just to run through what we thought last year, the unemployment rate came in at 4.9 percent, which is a little bit lower. We can attribute that to employment growth.

This next slide looks at covered employment, which is correlated with employment growth. So that was up a little bit. Kind of the big area of where we missed is the weeks claimed and compensated, and that goes to the benefit payments. So this is the number of weeks that we pay out basically to claimants, and that was 51,000 off.

So what that all ultimately attributes to is a much lower benefit payment levels, which I mentioned earlier. So the Trust Fund, looking back from last year's forecast to this year, or to the actuals, we're pretty darn close on our contributions and revenues. The bigger miss was the benefit payments. And as I said, we kind of have thought the trend was going to flatten, and it continued to decline over the last year. The ultimate net effect is nice, the Trust Fund is higher than what we estimated, so that's always the preferred result in this kind of situation, I suppose.

So that's kind of an area -- or that's just a little quick look back, and then also we normally show this slide of the last five years of kind of Trust Fund solvency requirements, Trust Fund revenues, the various tax rates over the years and the average cost per employee. So I'll mostly focus on 2017. I'll be happy to answer any questions about earlier years.

Last year, we started with almost $673 million in the fund. We took in about $610 million. We had $296 million in benefits basically on net, and then on that, that ends up being a $315 increase in the Trust Fund, and we end up with just under that billion at $988.4 million, so that means, a 0.89 average high cost multiple, as I mentioned earlier, and a 0.7 State solvency multiple.

Focusing on the very bottom portion of the slide that breaks out the tax rate. So as we saw, or as we mentioned earlier, we kept the rates very stable during the life of the bond assessment, between 1.95 percent and two percent, and the all-in rate was between 2.61 percent and 2.63 percent for the life of the bond. That was one of the goals; we definitely accomplished that. And then just looking at cost last year, the average employee at that maximum taxable wage base, as I mentioned earlier, was $775.85 last year. And so you're going to see on my forecast this year that number is going to be down based on the end of the bond, because the average employer is getting a 0.60 percent decline in their tax rate. So that little 0.63 that you see on that line will be removed from the forecast scenarios.

And so just looking at the various tax rates and contribution rates, basically the average tax rates and benefit cost rates over the last few years, we can see that we have a pretty good gap between the two. So the blue line is our tax rate, and the red line is the benefit cost rate, which is basically what we're paying out divided by wages. They're just measured on the same scale. We can see over the last few years we've had a widening gap. We're almost at an all-time high in between the two. So that has allowed us for all that growth in the Trust Fund. So that's just kind of giving you an idea historically of where taxes were at, at various times. The spikes are obviously recessions, but just in these recent years we've had a nice gap that has allowed us to continue to grow the fund.

Mr. Fred Suwe spoke and said that this brings him to a concern in that, if the quality of jobs is causing the average wage to go up, then the weekly benefit amount is going to go up, which has a greater benefit payment. Mr. Capello said that was correct. Mr. Suwe continued by saying that he is not hoping this happens, but if the employment service should suddenly take a big hit, that should create a longer duration, which means yet another reason why the Trust Fund will take a hit from greater benefit payments. So I think we need to keep that in mind as we go forward about what is going to be the health of the Trust Fund given those two dynamics on it.

Mr. Capello responded by saying that’s why we do have the solvency measures, because those do basically take those increases into consideration. So even if you look at the State Solvency multiple that's up at the top that breaks down. That's the worst of the our highest risk ratio, which is basically the first payments, divided by the number of employees, so whenever that spikes, that's the worst that we saw during the recession. The average, or the highest duration, as we mentioned, the duration goes up, that's the worst that we saw during the recession, 19 weeks, and then the average weekly payment, I have that tied to wage growth.

So that actually moves – you'll see in the forecast that jumps pretty significantly because the wages are growing. So those numbers are always evolving. The solvency balances increase over time based on the number of employees, their wages, all that is tied in. So those are definitely considered, those little points. Does that answer your question?

Mr. Suwe thanked Mr. Capello. At this point Chairman Havas asked if Renee, the Administrator wanted to comment, at which time Ms. Olson said Yes.

Ms. Olson, the Administrator then went on to comment that she shares the concern with the Employment Services Grant. We don't know yet what's going to happen with those funds, but we do know that if those services were significantly impacted, you're going to see impact to the duration of claims as we bring folks in who are claimants. We won't be able to do as much of that work, and so you would see probably an extension of that duration and some impact to claims. And what I heard Alex (Mr. Capello) say was that they factored in some of that impact into the scenarios that you're going to see. He's going to explain that next.

Mr. Capello continued with his presentation. This slide is just looking at the potential rates for 2018. I want to highlight the middle rate, which will represent the stable UI tax rate, average UI tax rate of 1.95 percent. That's the grayer version on the slide, and so that represents the same rate as last year, the stable, steady rate that we've seen in the last few years. And then you could see the various scenarios based on that. I'll only focus on that one, and then if you have any specific questions, I'll definitely be happy to answer them.

The benefit payments out of all the scenarios are the same, so steadied out, as I was saying, the stable benefit, or the stable, or the declines rather, I should say, in claims and all of those things I expect to taper off. I'm anticipating more or less steady benefit levels. I have that forecasted at $293 million this next year. And then the various tax rates for the baseline at least is about $606 million in revenues, and then we have interest. We also expect a little extra, funds from the remaining bond. We expect to collect a little more than we need for that last payment. I have a pretty conservative estimate of $15 million. It could be higher. It's kind of a dynamic number. So I didn't want to pump it too high up for that.

What this basically all means is that we expect to be somewhere around $1.3 billion at this time next year. If you look at the average high cost multiple, that would put us at 1.16. So that would be the highest this State has ever been. It would be the first time we are above one since the recession, a huge milestone for the State. It'll happen in the second quarter almost assuredly, and so we'll get passed that one and somewhere around 1.15 to 1.16.

And as you look at the red font almost at the bottom, that breaks out the total rate. So the last few years we've had that 0.63 popped in there. This year I just let it lie with a couple dashes, and so with the CEP rate, the average rate, if we kept it steady, would be two percent.
Earlier I mentioned the $775 average per employee, that amount under this current scenario would be $610, that's a big decline. You know, even though we're not changing the rate on that scenario, employers are feeling a dramatic decline in taxes.

And then I'll look into more of a long-term forecast of benefit payments. This is the baseline scenario in the red dash line. As I was mentioning, I think we're more or less at the bottom. If I stretch this out further, it starts to steady up, increase to tie itself with wage growth and, the higher average weekly benefit amounts, things like that and then with my stand deviation around that.

And then this slide pulls that last slide into the Trust Fund balance. It actually is looking at the Trust Fund, and it has those two lines that represent the average high cost multiples of one and one-and-a-half, and the one-and-a-half would be just another kind of level up. Basically, what it represents is 18 months of benefits in the midst of the recession, whereas the 1.0 represents 12 months. So we kind of put that out there since that's the next bigger milestone a couple years out. Again, the little dashed red line represents the estimated balance over that period. And so, if we stretch this out to the third quarter of 2019, we're somewhere around $1.5 billion.

And so, where do these contributions go in terms of the tax rate, and they're just kind of a random kind of concept just to keep, half right now is basically going to the Trust Fund and half is going to benefits. So when we're still in this countercyclical period where we can grow the Trust Fund, that's what the benefits, or the funds are actually going to in terms of rebuilding. This makes more sense than the graphs in a lot of ways because it's just a more tangible number.

This chart looks at the long-term effects of the various tax rates that I showed. So as of right now, we have a 0.89 average high cost multiple, and so if we stretch that out a few years just using again that 1.95 stable rate, we're somewhere close to one-and-a-half in between the 2019 and 2020 tax years. And then long term, these all reflect the exact same tax rate for each year, so they don't change just for consistency sake.

The last slide of my presentation, it's kind of a macro overview of what is important, or what I think is important for this year. Obviously, the retirement of the bond will reduce the average rate from last year by 0.62 percent, so that's an immediate cut to basically every employer. On top of that, we're in a different situation than we've been in for many of the last few years. We've always been worried about getting the Trust Fund back to solvency, back to that minimum level. Well, now we're going to be there. So the questions aren't necessarily just about okay, we need to get there. It's more about our long-term kind of planning for that next event, and that's the last bullet; what's the appropriate goal long term. And with that, I think I'd be happy to answer any of your questions.

Chairman Havas thanked Mr. Anderson and Mr. Capello for their presentations.

At this point Ms. Olson, the Administrator said that she would like to introduce Edgar Roberts, our Chief of Contributions, and he's going to present to you the Tax Schedule for 2018.

D. <u>Tax Schedule Explanation (Exhibit E)</u>
Edgar Roberts, Chief of Contributions, ESD/DETR

Mr. Roberts introduced himself and stated that he serves as Chief of Contributions for the Employment Security Division. This meeting and regulation workshop is for the Council

Members to receive information in order to recommend a Tax Rate Schedule to the Administrator for calendar year 2018.

Moving to slide number two, the Administrator sets the tax rates each year by adopting a regulation per NRS 612.550. In addition, pursuant to NRS 612.310, it is the role of the Employment Security Council to recommend a change in the contribution rates whenever it becomes necessary to protect the solvency of the Unemployment Compensation Fund. This slide outlines the meeting schedule for setting the 2018 Tax Rate. The Small Business Workshop is scheduled for October 26, and the public hearing to adopt a regulation is scheduled for December 7th.

Turning to slide number four, employers are required to pay a Federal Unemployment Tax, or FUTA, of 6.0 percent on the first $7,000 of an employee's wages unless they pay payroll taxes under a State program which reduces the federal tax rate to .6 percent. The 5.4 percent reduction in tax rates lowers the amount due for federal payroll tax per employee from $420 to $42. The UI Contribution section validates the federal tax payments through IRS certifications upon request from individual employers and through reports once a year to the IRS for all employers.

Turning to slide number five, the State Unemployment Tax, or SUTA, collected from Nevada employers is deposited into a UI Trust Fund of the U.S. Treasury. Monies from the Trust Fund are used to pay unemployment benefits to qualified workers. SUTA is paid by employers and cannot be deducted from the employers' wages. SUTAs' range varies according to employers' experience with unemployment. Turning to slide number six, 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 Nevada rating system works as follows: the rate for all new employers is 2.95 percent of taxable wages; the annual taxable wage base or taxable limit is an annual figure calculated at 66-and-two-thirds percent of the annual average wages paid to Nevada workers; unemployment insurance taxes are paid on an individual's wages up to the taxable limit during the calendar year. Turning to slide number seven, the UI taxable wage limit in 2017 is $29,500 per employee. Effective January 1, 2018, the taxable wage limit will increase to $30,500 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 Experience Rating. Once eligible for Experience Rating, an employer's rate can range from .25 percent to 5.4 percent depending on the individual employer's previous experience with unemployment. The 18 different tax rate classifications are outlined in NRS 612.550.

The annual tax schedule adopted through the regulatory process applies only to Experience Rated employers. 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 an employer's potential risk to the Trust Fund. Employers with a higher employee turnover are at a greater risk to the fund and pay higher rates than those with lower employee turnovers.

Turning to slide -- as displayed in slide -- so stay on slide seven, Experience Rated employers not including the bond assessment, annual cost per employee for unemployment insurance range from the high 15.93 per employee to 73.75 per employee. In 2018, this will be from the low 76.25 to the high of 16.47. Now turning to slide eight, to measure an employer's experience with unemployment, Nevada, along with a majority of other states, use the Reserve Ratio Experience Rating System. Under this system, the Division keeps records for each employer to calculate their reserve ratio each year. In the formula to calculate each employer's reserve ratio, we add all contributions or UI taxes paid by the employer and then subtract the benefits charged to the employer. The result is divided by the employer's average taxable payroll for the last three completed calendar years. The calculation establishes the employer's reserve ratio.

The purpose of using this method is to put large and small employers on an equal footing without regard to industry type. For example, if an employer paid $60,000 in contributions, had $20,000 in benefit charges with an average taxable payroll of $400,000, the employer would have a reserve ratio of 10 percent. The higher the ratio, the lower the tax will be for an employer. If an employer has received more benefit charges than they have paid in taxes, the employer's reserve ratio will be negative, and the employer will generally have a higher tax rate.

Turning to slide number nine, each employer's reserve ratio is applied to the annual tax rate schedule to determine which rate classification will apply to the calendar year. Before setting the annual tax schedule for the calendar year, Nevada's Unemployment Law NRS 612.550 requires the Administrator to determine the solvency of the Trust Fund as of September 30th. Projections are then developed for the subsequent calendar year. These projections include estimates of the number of active employers, the number of taxable payroll, the amount of UI benefits that will be paid, the estimated revenues that the Trust Fund will need to meet those benefit payments and maintain solvency. Using the employer's reserve ratio data several possible schedules are produced with a variety of average tax rates and revenue projections.

So if you now look at the estimated Tax Rate Schedule in your handout, which will have the five Tax Rate Schedules, in the estimated tax schedule handout, we have provided the Council with five rates to consider. This information, along with any public comment, will assist you in giving the Administrator a recommendation for the 2018 average tax rate. The detailed tax schedules display the reserve ratio increments between ratios, ratios designed to each rate, the estimated number and percentage of employers in each category, the estimated taxable wages with percentages and the projected total revenue.

Turning to slide ten, as an example, we will look at the average rate of 1.95 percent, which is the current rate. In this schedule, as well as others in your handout, the 18 tax rates displayed in the fourth column of the charts do not change. These rates, classes range from .25 percent to 5.4 percent, are fixed by statue NRS 612.550. Furthermore, the statute requires the Administrator to designate the ranges of reserve ratios to be assigned to each tax classification for the year, and the increments between the reserve ratios must be uniform per NRS 612.550. In this estimated Tax Rate Schedule of 1.95 percent, the ranges are from a positive 14.1 to a negative 11.5 with increments of 1.6 between each of the reserve ratios. In this example, if an employer's reserve ratio is a positive 14.1 or better, the employer receives the lowest rate of .25 percent.

An employer with a reserve ratio of less than a negative 11.5 would receive the highest 5.4 percent and as you can see, the rest of the employers fall somewhere in between.

In this particular chart, approximately 12.14 percent of eligible employers are in the lowest rate of .25 percent, and 6.3 percent of eligible employers are in the highest rate of 5.40 percent. As you review the various schedules, you will see the number of employers changed in each of the estimated tax schedules. Out of our 71,900 total employers as of September 2017, there are 46,700 employers eligible for Experience Rating, which we estimate under the first schedule would generate $535.28 million in revenue for the Unemployment Insurance Trust Fund. In addition, $88.50 million from the new employers at 2.95 percent, not eligible for Experience Rating, is added for a total revenue of $623.78 million attributed to the average rate of 1.95 percent, which is the current rate.

Moving to slide 11, this chart displays the detail for an average rate of 2.05 percent. To achieve this average rate the ranges of reserve ratios is from a positive 14.7 to a negative 10.9. The estimated total revenue increases to $655.87 million, and the number of employers in each rate classification once again shifts with 10.47 percent of the eligible employers being in the lowest rate of .25 percent and 6.47 percent of eligible employers being in the highest rate of 5.4 percent. Turning to slide number 12, this chart displays a summary of the average rates of 1.85 percent through 2.05 percent.

The summary shows the range of reserve ratio increments, average employment insurance tax rate, estimated revenue and the distribution of employers within each class rate. As a note, you will see on each schedule there is an additional .05 percent for the Career Enhancement Program, which is a separate training tax set by statute NRS 612.606. In addition, the prior bond of .63 is not displayed in these tax rates as previously mentioned, as we are projected to pay the bonds off in December 2017. And also, for the record, no comments have been received by the Division or the contribution section in regards to the impact of a potential rate change. This concludes my presentation, Mr. Chairman.

Chairman Havas thanked Edgar for a very stimulating presentation.

VIII. <u>PUBLIC COMMENT</u>

A. <u>Public Comment on Tax Rate Schedule</u>

The Chairman opened up the meeting for public comment.
We'll again open up the meeting for public comment. Remember to state your name, title and who you represent, for the record. We will start in Las Vegas.

Are there any comments in Las Vegas? Ms. Michelle Carranza, a member located in Las Vegas responded that there are no comments.
Chairman then moved to Carson City, are there any comments in Carson City? There were none.

B. Employment Security Council Approval of Recommended UI Tax Rate for Year 2018

Chairman Havas at this point said that he would now have a Council discussion on the rate recommendation. Members, please remember to state your name, for the record. Chairman called first on Fred Suwe.

Mr. Suwe spoke up wanting to make sure that he has it clear in his own mind. If we stayed with the 1.95 percent, the employer is still going to realize a reduction in the tax because we're eliminating the .63. And let me take this opportunity to say I don't think we could overstate the importance of paying off the bond. I mean, I can remember when it was first being presented, the thought, gosh, what if we have another recession. Now we're going to borrow from that and the federal government or ask for another bond increase, which is never a fun thing to do, to ask for a bond. And so I'm hoping that the Department will consider, I mean, a big media splash when it happens. This is huge for the employer community.

The Chairman stated: I, for one, would like to have it explained particularly for the press, if we can, as to how the abolishment, elimination of the bonds will facilitate a savings for employers. Administrator Olson spoke: We definitely intend to make that announcement either through the Governor's Office or through a press release, some sort of item like that. We're working with the Governor's Office now to look at making that announcement. And I appreciate your comments, and I share your opinion. It is a big deal. We accomplished all the goals that we set out with the bonding, and I'm really, really, really glad we didn't have a recession during that time, for sure. And so it's a big deal; we're going to be debt-free; we're going to have $1 billion in the bank account, and we'll continue to march towards being ready for the next recession. And we have no idea, you know, how big that recession is going to be or little; hopefully, it's little. And I concur we'll put out the proper announcements for sure.

Chairman Havas stated that he would like to add to the discussion that he really feels that Council has, albeit that it sounds to be self-serving, I think that as we have advocated, a countercyclical approach to the tax rate which has supported the bond structure function and its concomitant analysis, I think we've really, you know, had to deal with this subject, and I think that we were effective and efficient in our grasp of the subject matter.

Renee Olson, the Administrator added: I concur and I just want to thank the Council for support during that time when we were trying to figure this all out and move forward. It's been really important, and the support of everyone to reach the milestones that we have, has been really important and just express my appreciation for all of that. Thank you. The Chairman agreed.

Paul Barton, Council member added; just for the sake of discussion, I see the tax rate and the paying off of the bonds as two separate issues. Yes, they are saving, employers are saving because we're paying off the bonds, but I think that's two separate issues. I don't think that should influence the setting of the tax rate. I think the tax rate needs to stand on its own. Chairman Havas said, that’s how we arrived there as well, so you're absolutely correct, Paul.

Paul Barton continued by saying: For the sake of getting things started, I'd like to make a motion that we adopt a tax rate of 1.9 percent, giving the employers a small decrease in tax and a savings from the bonds, and I think we can afford to do that with the forecast and with the Trust Fund balance increasing the way it is. I would like to make that motion.

Chairman Havas asked for a second, or perhaps further discussion on the motion.

Michelle Carranza, located in Las Vegas at this time said that she would second the motion. Chairman Havas said that further discussion on this and confusion on the motion should be alleviated by Council member Fred Suwe. I think you need to clarify if any of your statement was directed towards the creation of a motion. Please tell us now.

Council member Fred Suwe noted that he has never seen this happen here before, but I think I would like to push for a 1.95. Here's my reason: we just saw over the past weekend how quickly things can get/could deteriorate in the economy. I don't know what impact, what happened in Las Vegas will have on the Trust Fund or benefit payments, but that could happen. And I, for one, would be really excited if we could get above that one percent multiple. I mean, that really means a lot to me because I was around when it was less, and we're always sweating what happens when we run out of money. And if the employer is already going to get a reduction -- most employers don't understand the subtle differences between where the money is going, that there are two pockets. I mean, I do. But he's still going to get a break, and we need to build that Trust Fund up, because of all the things that happened in this county and in the world that could create another recession pretty quickly; and I mean heaven forbid we should ever have another 9/11, but those kinds of things happen. And so I guess I would be opposed to this motion for a 1.90. And if that one does not pass, I'll be making one for 1.95.

Chairman Havas asked if there was any further discussion. There is a motion on the floor with a second, and, for the record, would you like to restate the motion?

Member Paul Barton spoke and mentioned that the motion was to adopt a 1.90 tax rate. I think the Trust Fund is growing like it should. Yes, we can always think of events that can happen, but none of us can project those things and the projection for the economy is good. Fred is right. Things can happen, but we have no way of knowing that, and I don't think it's our place to project it. I think we need to project the tax rate based on the information presented to us.

The Chairman asked if Ms. Carranza is still holding to her second. Ms. Carranza responded with a yes and I'd just like to add what strengthens the economy is employers and a strong employment market. So any benefit or anything we can do to encourage that I support, and therefore, I second the motion. Thank you.

Chairman Havas decided he will now call for the vote. Those in favor of the motion? Paul Barton and Chairman Havas signified by saying “Aye”. Those in opposition? The rest of the Council members said “Nay”. Clearly, the motion the motion has been defeated. The discussion on the subject was reopened. Fred Suwe was asked to speak. Mr. Suwe asked if he could make a motion? I would like to move that the tax rate be 1.95 percent for the reasons I've previously stated.

Council member Shawn Kinsey introduced himself and said he would second that motion.

Chairman Havas said it's been moved and seconded that we go to 1.95 percent; any discussion? Council member Daniel Costella asked that this should be denoted that this is remaining what it is now, right? It's not an increase. Mr. Costella was assured that it would be the same.

Chairman Havas asked if there is any other discussion. None heard – the Chairman then called for the vote. All those in favor, signify by saying aye. All said Aye. None opposed. Hearing no opposition, it should be noted that it was carried unanimously at a 1.95.

IX. CLOSING PUBLIC COMMENT

Chairman Havas asked if there was any public comment. There were none, not in Las Vegas nor in Carson City. Mr. Havas asked if any of the members had any comments. There were none.

X. ADJOURNMENT

At this point the Chairman asked for a motion for adjournment. Council member Shawn Kinsey made a motion for adjournment and this was seconded by the Chair himself. It has been moved and seconded, that this Council adjourns; there were no other discussions. A call for a vote was asked by the Chairman and all signified by saying "Aye" to adjourn, no opposition was voiced. The motion carried unanimously.
The Administrator thanked everyone for attending and participating.

NOTE: These minutes have not yet been approved by the Employment Security Council and are subject to revision/approval at the next Employment Security Council Meeting scheduled for October 3, 2018.

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