

# STATE OF NEVADA

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Department of Employment, Training and Rehabilitation  
Employment Security Division

## **Special Bond Contribution Regulation Small Business Impact Statement**

Prepared July 12, 2013



# Statutory Authority

- ❑ SB 515 in the 2013 Legislative session provides that the state Board of Finance may, at the request of the Administrator of the Employment Security Division, issue special obligation bonds for the purpose of repaying federal unemployment loans and establishing a reserve in the state's Unemployment Compensation Fund.



# Statutory Authority

- ❑ Such bonds are secured and repaid through special bond contributions which are to be established by the Administrator.
- ❑ If the Administrator determines that there will be a deficiency in the funds available to pay the bond obligations, the Administrator shall impose supplemental special bond contributions as necessary to meet those obligations.



# Historical Context

- ❑ From 2007 to 2012, Nevada went from having a well-funded unemployment reserve of over \$800 million to having borrowed over \$800 million from the federal government.
- ❑ Nevada is currently paying down those loans and is on track to repay them fully by 2016.
- ❑ While Nevada has a loan balance outstanding, employers are subject to reduced federal unemployment tax credits.



# Historical Context

- ❑ By issuing bonds, Nevada may be able to repay federal loans, establish an additional reserve, and eliminate the federal unemployment tax credit reductions that employers face.
- ❑ Like the authorizing legislation, the proposed regulation provides a tool to be used if issuing bonds can meet the necessary savings and stability objectives, and will not impose any additional burden if bonds are not issued.



# FEDERAL UNEMPLOYMENT TAX = FUTA

- ❑ FUTA imposes a federal payroll tax on all employers of 6.0% of each employee's wages, up to \$7,000 (\$420 per year)
- ❑ Employers receive a credit of 5.4%, if the employer participates in a state unemployment program approved by the U.S. Secretary of Labor
- ❑ Net cost with no FUTA credit reduction is  $0.6\% \times \$7,000 = \$42$  per employee
- ❑ FUTA credit is reduced when states have to borrow funds from the federal government
- ❑ Credit reduced 0.3% in 2011 = \$63 per employee total
- ❑ Credit reduced 0.6% in 2012 = \$84 per employee total
- ❑ Credit reduced 0.9% in 2013 = \$105 per employee total if federal loans are not repaid prior to November 10.



# STATE UNEMPLOYMENT TAX = SUTA

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**The only purpose of the state tax is to pay unemployment benefits. Any other use is prohibited.**

- Paid entirely by employers.**
- Tax rates vary based on the employer's previous experience with unemployment.**
- Funds must be deposited with the U.S. Treasury.**



# Eligible Employer Rates

Rate Class	Rate	2012 Maximum Cost Per Employee Taxable Limit \$26,400	2013 Maximum Cost Per Employee Taxable Limit \$26,900
18	5.40%	\$1,425.60	\$1,452.60
17	5.05%	\$1,333.20	\$1,358.45
16	4.75%	\$1,254.00	\$1,277.75
15	4.45%	\$1,174.80	\$1,197.05
14	4.15%	\$1,095.60	\$1,116.35
13	3.85%	\$1,016.40	\$1,035.65
12	3.55%	\$ 937.20	\$ 954.95
11	3.25%	\$ 858.00	\$ 874.25
10	2.95%	\$ 778.80	\$ 793.55
9	2.65%	\$ 699.60	\$ 712.85
8	2.35%	\$ 620.40	\$ 632.15
7	2.05%	\$ 541.20	\$ 551.45
6	1.75%	\$ 462.00	\$ 470.75
5	1.45%	\$ 382.80	\$ 390.05
4	1.15%	\$ 303.60	\$ 309.35
3	0.85%	\$ 224.40	\$ 228.65
2	0.55%	\$ 145.20	\$ 147.95
1	0.25%	\$ 66.00	\$ 67.25





# Special Bond Contributions

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**Special Bond Contributions provide a dedicated revenue stream for the payment of bond obligations.**

- Paid entirely by employers.**
- Tax rates vary based on the employer's previous experience with unemployment.**
- Composed of separate contributions for principal and interest.**
- Employers may receive experience rate credit for the principal portion of these contributions, provided such funds are deposited in the UI Trust Fund.**



# Bond Contribution Structure

- ❑ Rates calculated annually based on a formula established in the regulation.
  - ❑ This establishes additional security for the bondholders as there is no annual review or potential interruption to bond payments being made.
- ❑ The bond assigns different rates to different employers based on their prior experience with unemployment, but using a simplified structure with 4 rate tiers.
  - ❑ This makes the bond contributions independent of the SUTA rate-setting process, so that any problems enacting the annual SUTA regulation can not carry over to affect the bond contributions, providing additional security.
- ❑ The overall bond rates are calculated based on known obligations, with those rates being modified for each rate tier each year.



# Bond Contribution Structure

- ❑ **Special bond contributions are separate from and in addition to the SUTA tax paid by employers. It is the intent of the Division to lower the average SUTA tax to compensate for the cost of bonds.**
  - ❑ **Some employers, particularly those with a very negative reserve ratio, will remain in the 5.40% tax bracket even after average SUTA rates are lowered. For those employers, the bond contributions will reflect an increase in the overall rate paid.**
  - ❑ **Such employers will still benefit from receiving the full federal tax credit, which is restored once loans are repaid. Such employers will also benefit from the incorporation of interest charges into quarterly tax payments, instead of the annual assessment created in AB 482.**
- ❑ **The following slides demonstrate the impact of a significant reduction in the average SUTA rate:**



# Calendar Year 2012: 2.25% Average

Class	RESERVE RATIO		TAX RATE	# OF EMPLOYERS	%	TAXABLE WAGES (\$MILL)	%	REVENUE (\$MILL)
	From	To						
18	<	-14.0	5.40%	3,921	10.8%	\$1,283.81	6.3%	\$69.33
17	-14.0	-12.4	5.05%	308	0.8%	\$126.34	0.6%	\$6.38
16	-12.4	-10.8	4.75%	371	1.0%	\$118.19	0.6%	\$5.61
15	-10.8	-9.2	4.45%	430	1.2%	\$183.40	0.9%	\$8.16
14	-9.2	-7.6	4.15%	523	1.4%	\$213.96	1.0%	\$8.88
13	-7.6	-6.0	3.85%	588	1.6%	\$236.38	1.2%	\$9.10
12	-6.0	-4.4	3.55%	725	2.0%	\$356.61	1.7%	\$12.66
11	-4.4	-2.8	3.25%	873	2.4%	\$466.65	2.3%	\$15.17
10	-2.8	-1.2	2.95%	1,120	3.1%	\$855.87	4.2%	\$25.25
9	-1.2	0.4	2.65%	1,372	3.8%	\$1,041.31	5.1%	\$27.59
8	0.4	2.0	2.35%	1,639	4.5%	\$2,047.98	10.0%	\$48.13
7	2.0	3.6	2.05%	2,080	5.7%	\$3,392.93	16.7%	\$69.56
6	3.6	5.2	1.75%	2,472	6.8%	\$3,806.61	18.7%	\$66.62
5	5.2	6.8	1.45%	2,984	8.2%	\$3,266.59	16.0%	\$47.37
4	6.8	8.4	1.15%	3,213	8.9%	\$1,642.46	8.1%	\$18.89
3	8.4	10.0	0.85%	3,074	8.5%	\$670.43	3.3%	\$5.70
2	10.0	11.6	0.55%	3,220	8.9%	\$309.74	1.5%	\$1.70
1	11.6	>	0.25%	7,349	20.3%	\$358.74	1.8%	\$0.86
Total Eligible Employers				36,262	100.0%	\$20,378.00	100.0%	\$446.96
New Employers				21,073		\$1,786.00		\$52.69
TOTAL				57,335		\$22,164.00		\$499.65

AVERAGE UI RATE

2.25%



# Calendar Year 2010: 1.33% Average

RESERVE RATIO		TAX RATE	# OF EMPLOYE	%	TAXABLE WAGES (\$MILL)	%	REVENUE (\$MILL)
From	To						
<	-17.2	5.40%	1433	4.1%	\$420.82	2.0%	\$22.72
	-17.2	5.05%	148	0.4%	\$109.14	0.5%	\$5.51
	-15.8	4.75%	181	0.5%	\$77.04	0.4%	\$3.66
	-14.4	4.45%	203	0.6%	\$96.30	0.5%	\$4.29
	-13.0	4.15%	260	0.7%	\$121.98	0.6%	\$5.06
	-11.6	3.85%	263	0.7%	\$192.60	0.9%	\$7.42
	-10.2	3.55%	363	1.0%	\$241.82	1.1%	\$8.58
	-8.8	3.25%	445	1.3%	\$372.36	1.7%	\$12.10
	-7.4	2.95%	546	1.6%	\$404.46	1.9%	\$11.93
	-6.0	2.65%	623	1.8%	\$363.80	1.7%	\$9.64
	-4.6	2.35%	790	2.2%	\$633.44	3.0%	\$14.89
	-3.2	2.05%	942	2.7%	\$644.14	3.0%	\$13.20
	-1.8	1.75%	1,083	3.1%	\$924.48	4.3%	\$16.18
	-0.4	1.45%	1,522	4.3%	\$1,305.40	6.1%	\$18.93
	1.0	1.15%	1,789	5.1%	\$2,197.78	10.3%	\$25.27
	2.4	0.85%	2,326	6.6%	\$4,040.32	18.9%	\$34.34
	3.8	0.55%	2,837	8.1%	\$4,059.58	19.0%	\$22.33
	5.2	>	19,362	55.2%	\$5,194.54	24.1%	\$12.99
Total Eligible Employers			35,116	100.0%	\$21,400.00	100.0%	\$249.04
New Employers			24,053		\$2,190.00		\$64.61
TOTAL			59,169		\$23,590.00		<b>\$313.65</b>
AVERAGE UI RATE						<b>1.33%</b>	



# Net Impact

- ❑ The impact of this regulation on any individual employer depends two important factors:
  - ❑ The size, structure, and cost of the bond. Because the bond contribution rates are based on the bond obligations each year, the contribution rates won't be known until these details are finalized.
  - ❑ The amount of SUTA rate reduction an employer receives. For example, employers already at a 0.25% rate will see no change in their SUTA rate as a result of lowering the average SUTA rate, as they already receive the best possible rate.
- ❑ As with the current SUTA rate, any employer's overall rate is most dependent on that employer's experience with respect to unemployment. By eliminating the FUTA credit reduction and by experience-distributing the interest assessment, this regulation will cause overall unemployment insurance charges to more closely reflect employers' prior experience.



# Estimated Economic Impact of the Proposed Regulation

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## Nevada Businesses

- ❑ Affects all Nevada employers subject to unemployment contributions.
- ❑ This constitutes approximately 57,222 employers or 99.4% of all employers registered



# Beneficial Impacts

- ❑ If issued, bonds paid for through this regulation will refinance all federal unemployment debt, eliminating the FUTA credit reduction, lowering the federal unemployment tax paid by employers.
- ❑ If issued, bonds paid for through this regulation would build a reserve in the state's unemployment Trust Fund, rebuilding solvency in the unemployment compensation system.
- ❑ If bonds are issued, this regulation will further enhance the weight of prior experience for charges in the state unemployment system by lowering the non-experience-distributed federal unemployment tax and replacing the non-experience-distributed temporary interest assessment.





# Adverse Impacts

- ❑ If bonds are issued, employers with the most negative reserve ratios who remain at a 5.4% tax rate after SUTA is lowered will face a higher overall burden, as the increased cost of the bond contributions will be larger than the reduction due to lower FUTA charges and the end of AB 482 assessments.
- ❑ If bonds are issued, employers with the most positive reserve ratios who are already at a 0.25% tax rate will not receive any benefit from lower average SUTA taxes. However, the regulation is structured so that the additional bond contributions will be largely offset by lower FUTA charges and the end of AB 482 assessments.



# Current 2013 Distribution @ 2.25% SUTA

## 1.6 Increments

RESERVE RATIO Class	RESERVE RATIO		SUTA RATE	# OF TOTAL ELIGIBLE EMPLOYERS	%	# OF ELIGIBLE SMALL EMPLOYERS AT 2.25%	%	TAXABLE WAGES (\$MILL)	%	TOTAL EMPL COST
	From	To								
18	<	-14.0	5.40%	3,921	10.8%	3,842	10.9%	\$1,283.81	6.3%	5.84%
17	-14.0	-12.4	5.05%	308	0.8%	300	0.9%	\$126.34	0.6%	5.49%
16	-12.4	-10.8	4.75%	371	1.0%	366	1.0%	\$118.19	0.6%	5.19%
15	-10.8	-9.2	4.45%	430	1.2%	423	1.2%	\$183.40	0.9%	4.89%
14	-9.2	-7.6	4.15%	523	1.4%	511	1.4%	\$213.96	1.0%	4.59%
13	-7.6	-6.0	3.85%	588	1.6%	573	1.6%	\$236.38	1.2%	4.29%
12	-6.0	-4.4	3.55%	725	2.0%	709	2.0%	\$356.61	1.7%	3.99%
11	-4.4	-2.8	3.25%	873	2.4%	845	2.4%	\$466.65	2.3%	3.69%
10	-2.8	-1.2	2.95%	1,120	3.1%	1,071	3.0%	\$855.87	4.2%	3.39%
9	-1.2	0.4	2.65%	1,372	3.8%	1,312	3.7%	\$1,041.31	5.1%	3.09%
8	0.4	2.0	2.35%	1,639	4.5%	1,522	4.3%	\$2,047.98	10.0%	2.79%
7	2.0	3.6	2.05%	2,080	5.7%	1,930	5.5%	\$3,392.93	16.6%	2.49%
6	3.6	5.2	1.75%	2,472	6.8%	2,281	6.5%	\$3,806.61	18.7%	2.19%
5	5.2	6.8	1.45%	2,984	8.2%	2,830	8.0%	\$3,266.59	16.0%	1.89%
4	6.8	8.4	1.15%	3,213	8.9%	3,144	8.9%	\$1,642.46	8.1%	1.59%
3	8.4	10.0	0.85%	3,074	8.5%	3,052	8.7%	\$670.43	3.3%	1.29%
2	10.0	11.6	0.55%	3,220	8.9%	3,215	9.1%	\$309.74	1.5%	0.99%
1	11.6	>	0.25%	7,349	20.3%	7,347	20.8%	\$358.74	1.8%	0.69%
Total Eligible Employers				36,262	100%	35,273	100%	\$20,378.00	100.0%	
New Employers				2,95%	21,073			\$1,786.00		3.39%
TOTAL				57,335				\$22,164.00		

Average UI Rate, Inc FUTA and Interest 2.69%

C.E.P 0.05%

Total Tax Rate 2.74%



# Potential Distribution With Bonds @ 1.33% SUTA

## 1.6 Increments

RESERVE RATIO Class	From	To	SUTA RATE	# OF TOTAL ELIGIBLE EMPLOYERS	%	# OF ELIGIBLE SMALL EMPLOYERS	%	TAXABLE WAGES (\$MILL)	%	EMPL BOND COST	TOTAL EMPL COST
18	<	-17.2	5.40%	1,487	4.1%	917	4.1%	\$407.56	2.0%	1.5%	6.90%
17	-17.2	-15.8	5.05%	145	0.4%	71	0.4%	\$101.89	0.5%	1.5%	6.55%
16	-15.8	-14.4	4.75%	181	0.5%	106	0.5%	\$81.51	0.4%	1.5%	6.25%
15	-14.4	-13.0	4.45%	218	0.6%	141	0.6%	\$101.89	0.5%	1.5%	5.95%
14	-13.0	-11.6	4.15%	254	0.7%	176	0.7%	\$122.27	0.6%	1.5%	5.65%
13	-11.6	-10.2	3.85%	254	0.7%	176	0.7%	\$183.40	0.9%	1.5%	5.35%
12	-10.2	-8.8	3.55%	363	1.0%	212	1.0%	\$224.16	1.1%	1.5%	5.05%
11	-8.8	-7.4	3.25%	471	1.3%	282	1.3%	\$346.43	1.7%	1.5%	4.75%
10	-7.4	-6.0	2.95%	580	1.6%	353	1.6%	\$387.18	1.9%	1.5%	4.45%
9	-6.0	-4.6	2.65%	653	1.8%	423	1.8%	\$346.43	1.7%	1.5%	4.15%
8	-4.6	-3.2	2.35%	798	2.2%	670	2.2%	\$611.34	3.0%	1.5%	3.85%
7	-3.2	-1.8	2.05%	979	2.7%	917	2.7%	\$611.34	3.0%	1.5%	3.55%
6	-1.8	-0.4	1.75%	1,124	3.1%	1,305	3.1%	\$876.25	4.3%	1.1%	2.83%
5	-0.4	1.0	1.45%	1,559	4.3%	2,011	4.3%	\$1,243.06	6.1%	1.1%	2.53%
4	1.0	2.4	1.15%	1,849	5.1%	3,175	5.1%	\$2,098.93	10.3%	1.1%	2.23%
3	2.4	3.8	0.85%	2,393	6.6%	4,550	6.6%	\$3,851.44	18.9%	1.1%	1.93%
2	3.8	5.2	0.55%	2,937	8.1%	4,339	8.1%	\$3,871.82	19.0%	1.1%	1.63%
1	5.2	>	0.25%	20,017	55.2%	15,450	55.2%	\$4,911.10	24.1%	0.8%	1.01%
Total Eligible Employers				36,262	100%	35,273		\$20,378.00	100.0%		
New Employers				2,95%	21,073	21073*		\$1,786.00		0.49%	3.44%
TOTAL				57,335				\$22,164.00			

\*Assume 100% of new employers are small employers

Average UI Rate, SUTA and Bonds 2.40%

C.E.P 0.05%

Total Tax Rate 2.45%



# Comparison of Employers

- ❑ To understand the changes to individual employers, it is important to compare the overall tax rate in effect for an employer with a given reserve ratio.
  - ❑ In the existing distribution, an employer with a reserve ratio of -10% has a total tax rate of 4.89%. With bonds, under the proposed regulation, the total tax rate is 5.05%.
  - ❑ In the existing distribution, an employer with a reserve ratio of -5% has a total tax rate of 3.99%. With bonds, under the proposed regulation, the total tax rate is 4.15%.
  - ❑ In the existing distribution, an employer with a reserve ratio of +5% has a total tax rate of 2.19%. With bonds, under the proposed regulation, the total tax rate is 1.33%.
  - ❑ In the existing distribution, an employer with a reserve ratio of +10% has a total tax rate of 0.99%. With bonds, under the proposed regulation, the total tax rate is 0.52%.
  - ❑ In the existing distribution, a new employer has a total tax rate of 3.39%. With bonds, under the proposed regulation, the total tax rate is 3.44%.



# Direct Impact

- ❑ The proposed special bond contributions are expected to generate the funds necessary to pay all obligations for the bonds until the bonds are fully repaid. The rates used here are based on one year's annual obligation of \$243,226,217. The final bond obligations due in any single year is not yet known.
- ❑ Since taxable wages of small businesses account for 42.68% of all taxable wages in the State, approximately \$104 million of the total revenue will be attributable to small businesses
- ❑ The impact of the proposed regulation is unique to each employer based on their previous experience with unemployment and increases the weight of employers' prior experience in the current unemployment system.



# Indirect Impact

- ❑ If bonds are issued and used to rebuild solvency in the state unemployment Trust Fund, this would provide additional stability and security against future recessions.
- ❑ If bonds are issued and used to rebuild solvency in the state unemployment Trust Fund, the state may be able to earn interest on that Trust Fund, which could help keep SUTA rates lower than would otherwise be possible.
- ❑ If bonds are issued and used to repay the federal loan, two annual charges (FUTA Credit Reductions and interest assessments under AB482) are eliminated, and employer costs are spread more evenly through the full year.



# Considerations Involved in New Proposed Rate - Impact on Small Businesses

- ❑ By using an experience-rated structure, employers' tax rates depend primarily on their own experience with unemployment, without regard for employer size or industry type.
- ❑ Under the proposed regulation, the overall unemployment tax burden on new employers remains steady to avoid imposing a large burden on these employers, who are likely to start small.



# Estimated Cost for Enforcement

- ❑ This regulation will be enforced through the same channels used to enforce regular SUTA contributions, therefore no additional cost for enforcement is expected.
- ❑ Funds for the administration of the overall Unemployment Compensation Program are provided by the U.S. Department of Labor





# Anticipated Revenue Increase and Use

- ❑ If bonds are issued, this regulation will provide for the revenue stream necessary to secure those special obligation bonds.
- ❑ Total collections by the Employment Security Division will increase, because currently FUTA Credit Reductions are collected by the IRS and applied directly to the state's federal loan balance. Under this regulation, the state will collect all the funds needed to pay the bond obligations directly.
- ❑ The total cost to employers is expected to be lower over the life of the bonds than would be the case if bonds are not issued.



# Duplication or More Stringent Standards of Federal, State or Local Governments

This regulation establishes a special, dedicated revenue stream. Therefore, this regulation does not duplicate or provide a more stringent standard than any other regulation of federal, state, or local governments.



# Manner of Analysis

This analysis was conducted by the state employee with the most understanding of the subject of these special bond contributions. The analysis was performed by comparing the distribution of employers in the two most recent years for which data was available: 2013 for the baseline comparison, and 2010 for the 1.33% SUTA rate comparison. Information on the distribution of small employers in 2013 comes from the records of the Employment Security Division. Information on the distribution of small employers in 2010 was not available, however in other years for which data are available, the distribution of small employers is within 0.2% for almost every rate category. Information about total employer FUTA costs uses estimated FUTA receipts for calendar year 2013 as a percentage of taxable wages in 2013. Information on potential bond rates comes from analysis received by the Employment Security Division as it is analyzing potential bond structures, however no such data is final and should be considered informational only. Analysis considers only a single year, however the stabilization of overall bond rates is possible through maintaining a lower rate in the near term, but a higher-than-baseline rate in the later years of bond repayment. Final bond contribution rates will depend on the structure of any bond deal, interest rates at the time of closing, changes in US Treasury rates, changes in total wages in the state, and other economic factors.

