STATE OF NEVADA
DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION
EMPLOYMENT SECURITY DIVISION
WORKSHOP TO SOLICIT COMMENT ON PROPOSED REGULATION

Wednesday, July 31, 2013; 10:00 A.M.

Live Meeting:	**Video Conference to:**
DETR State Administrative Office	DETR Stanley P. Jones Building
First Floor ESD Auditorium	First Floor Conference Room C
500 East Third Street	2800 East St. Louis Ave.
Carson City, Nevada 89713	Las Vegas, Nevada 89104

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

Renee Olson, Employment Security Division (ESD) Administrator
J. Thomas Susich, Senior Legal Counsel, ESD/DETR
Kelly Karch, Deputy Administrator, Unemployment Insurance (UI), ESD/DETR
Edgar Roberts, Chief, Unemployment Insurance Contributions (UIC), ESD/DETR
Dave Schmidt, Bureau of Research & Analysis, DETR
Jeffrey Frischmann, Chief, Unemployment Insurance Operations (UI), ESD/DETR
Joyce Golden, Administrative Office, ESD/DETR
Eric Mager, ESD/DETR
Christina Guzman, ESD/DETR
Mikki Reed, ESD/DETR
John Macnab, ESD/DETR

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

Dennis Perea, Deputy Director, DETR
Art Martinez, ESD/DETR
Ron Fletcher, Chief Employment Services (ES), ESD/DETR
Jim Reynolds, ESD/DETR

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

Suzanne Kilgore, Nevada Taxpayers Association
Gabriel Newmann, The Ferraro Group
Cy Ryan, Las Vegas Sun
Brian Reeder, Association General Contractors
Tray Abney, The Chamber

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

Robert Whitney, Attorney General Office

Samantha Pivetz, Ferrari Public Affairs
Martin Johnson, (UI Bond Team)
Carole Vilardo, Nevada Taxpayers Association
Virginia Valentine, Nevada Resort Association
Misty Grimmer, Ferraro Group
Brian McAnallen, Las Vegas Metro Chamber

I. CALL TO ORDER AND WELCOME

Renee Olson: Good morning. I'd like to call the meeting to order. It's 10:00. My name is Renee Olson. I'm the administrator of the Employment Security Division. We're meeting today as a workshop, to review, discuss and solicit comment on proposed regulation pertaining to Nevada revised statute Chapter 612, pursuant to the matter of revised Statute 233B.061.

The proposed regulation will establish the methodology for setting annual special bond contribution rates to employers as authorized by Senate Bill 515. Ms. Golden, was this meeting properly noted according to the open meeting law?

Joyce Golden: This is Joyce Golden, assistant to the administrator. Yes it was.

Renee Olson: Okay, and did we receive any written comments?

Joyce Golden: We did not receive any comments.

II. PUBLIC COMMENT

Renee Olson: On the agenda you have before you, you'll see the items that we're going to go over today. There will not be any action items for today's meeting. And we will take additional written testimony or comments, accepted at this meeting and any time between now and the hearing.

I'd like to open the meeting with any public comments and I'll start in the north first. I'll also say, that these aren't actually hearing rooms, as you can tell. They're meeting rooms, so we'll do the best we can to have people come forward or probably just where you're sitting would be good or in the south, it looks like you can come to the table if you wanted to make a public comment.

III. REVIEW OF BOND LEGISLATION

Renee Olson: It doesn't look like there're any public comments at this point in the north. How about in the south? Okay. We'll go ahead then. I'm going to start with a quick review of the first, item Number 3 here on the agenda, SB515.

SB515, you can get the full language in SB515 on the legislature's Web site. SB515 was signed into law on June 10th by the governor. It authorizes the administrator to request that the State Board of Finance issue bonds in order to refinance outstanding federal trust fund loans in order to reduce the cost of financing.

It also establishes authorities to issue bonds to provide reserves and then (unintelligible) trust funds. It establishes a separate bond contribution that creates special revenue assessment to employers, and that's why we're here today, to learn about how we've put the regulation together that will guide us in establishing assessments.

It secures the bond obligation with special bond contributions and any employment trust funds, requires the state treasurer's office to notify the administrator annually of the amount of bond obligations and other expenses due. And this amount (is used) by given a (straiter) to calculate the assessment due each year.

It allows for bond payment deficiencies to be paid out of the employment trust fund, requires all employers subject to contribution to pay the special bond assessment.

It authorizes the administrator to establish a special assessment and set for the assessment rate and to charge a supplemental bond assessment whenever the administrator deems cash balances are insufficient to cover bond obligations due and provides all existing remedies available to the (position) of this section of regular employer contributions applied to the special bond assessment as well.

And finally, this is my final comment, there is the special bond assessment and when the administrators determine that no further bond obligations are due.

And I'd just like to reiterate that this provides us the ability to bond. It doesn't require us to bond. So it provides us an option should we find that bonding provides a lower cost option for employers in repayment of debt and providing (unintelligible).

So that's the end of my comments and with that, we'll move on to agenda Item 4. And I'm going to turn this over to Dave Schmidt. He's an economist with the Department. And he's going to walk you through an explanation of the regulation and a presentation of the small business impact statement.

IV. Workshop to consider proposed regulation that will establish the methodology for setting annual special bond contributions rates to employers as authorized by Senate Bill 515.

A. Explanation of Regulation – David Schmidt, Economist, Research and Analysis Bureau, DETR

Dave Schmidt: Thank you. As Renee said, my name is Dave Schmidt. I'm an economist with the Research and Analysis Bureau. I have a couple of Power Point presentations here to walk through and there should be physical copies available for the public.

The first presentation is an explanation of the regulation. This is an attempt to sort of walk through the proposed regulation and give everyone an idea of how it would function.

Our goals with respect to bonding are to repay federal debt that we currently owe and to establish some level of solvency in the unemployment trust fund. We'll want to provide employers with some increased stability in the rates that they're paying each year throughout the bonding term.

And we also want to try to reduce the average burden of unemployment compensation on employers as much as possible. When you take into account all of the costs that are being paid, including the regular state unemployment tax, the increased federal unemployment tax and the cost of interest on our federal loans.

Other important considerations that we need to remember, first, the details of any bond deal are still being negotiated. Interest rates can change very quickly. This happened not long ago when the chairman of the Federal Reserve made some comments and interest rates jumped by just about a full percentage point.

And obviously when things can change that quickly, the final details can strongly impact whether or not bonding is a good deal and this is why both this regulation as well as the law that authorizes it, these are both just tools and it's our intent not to issue bonds if there aren't savings available on average for employers.

We don't want to get to the last step and say, "Well, this is going to cost more but we're going to do it anyway." The goal of bonding is to get to a point where we're trying to get to anyway where we have repaid our debt and are solvent in the cheapest way possible.

And as I said, all of the potential details, how long will the bond go, how large will the bond be, what are the interest rates, what are the structure of the bonds? These are all questions that we're working on in negotiating a bond deal but nothing will be final until it's final.

And so all of the numbers that you might see here; these are mostly for illustration. It's giving the idea of what sort of impact these regulations would have.

The purpose of this regulation is to establish the special bond contribution rates which will serve as the means of repayment for any bond deal that's issued.

The rates will be calculated annually according to the regulation, so the regulation sets out a formula that we'll follow each year to determine what the special bond contribution rates will be based on estimated taxable wages and bond payments that are known to be due in the next year.

The rates are divided into four tiers so that employers receive different rates depending on their prior experience with respect to unemployment. And in the event that these rates are insufficient to meet bond obligations in any given year, regulation also provides for supplemental bond contributions which would be levied to make sure that we have enough money to meet any bond obligations that exist.

The details of the regulation, the rates will be calculated prior to the Employment Security Council meeting in October. The only potential exception to that would be this year where the timing of finalizing a bond deal, if that happens, will probably be after the Employment Security Council and so we'll be working to come up with appropriate rates.

But generally speaking, the regulation provides that the calculation should be done by September 15th so that the bonds - special bond contribution rates - can be taken into account at the Employment Security Council meeting which is usually the first Tuesday in October.

The special bond contributions will be collected quarterly in the same way that employer's current normal state unemployment contributions are collected. And they will be collected from all employers who pay unemployment contributions. The only exceptions are those who are able to elect reimbursement in lieu of contributions according to the statute.

Bond contribution rates will follow important tiers. Tier one is all new employers and those are employers who are not yet eligible to receive an experienced rating according to our statute.

Tier two would be employers who have a negative reserve ratio. This is employers who, over the life of their account, have had more benefits charged to their account than they paid in unemployment contributions.

Tiers three and four will be all employers who have a reserve ratio that's greater than or equal to zero. These are employers who have, over the life of their account, paid more in contributions than they've had benefits charged.

Tiers three and four will be divided to the 10% of taxable wages from those positively rated employers, receive the tier four rate and the remainder will receive the tier three rate. And this is so that over the years, as the makeup of employer's shifts, we don't want any solid line which might cause too many employers to be in one bucket versus another bucket which would cause the average rate to perhaps not bring in enough money.

Slide 5 here shows you the details of how this is actually calculated. Tier one has a - well, let me back up. The first (definite) process is they calculate the average rates as necessary to bring in enough money to pay for the bond obligations where we take our total obligations and divide them by taxable wages.

That average rate is then split up into the four tiers in such a fashion that after it is split up, when it is combined back together, is - gets to that average rate when it's across all employers.

So for tier one, which is the new employers, we take that average rate and multiply it by 0.45. This helps with the scale of bond that we're looking at, multiplying it by 0.45 would essentially keep the rate that such employers are currently paying steady once the federal taxes that they're paying are - come back down when we repay our loan and once the interest assessment, which is - we just sent out about a month ago goes away because that would then be wrapped up into the bond deal.

Tier two, which is the negative - employers of the negative reserve ratios, is the average rate multiplied by 1.4. The employers will receive a higher than average rate.

Tier four, which is the top 10% of taxable wages from positively rated employers, will receive the average rate times 0.25. Again, this is the rate that helps to keep such employers at a rate close to what they're currently paying. These are employers who are most likely to currently be receiving a rate of 0.25% on their regular unemployment taxes by keeping the average rate they would pay under special bond contributions lower. This avoids a situation where someone who's paying 02.5 suddenly pays a bond obligation, say, 1% and their rates increased significantly.

And then tier three is calculated, again, to make the average rate match that (necessary). So the table below, the necessary rate would be this needed collection rate of 1.0 - or 1.10%. That's towards the top middle of the table.

The tier one, tier two, tier three and tier four rates, you can see where it says bonds tax rate. The rate for tier four would be the 0.28% in this example. The tier three rate would be 1.11%. The tier two rate would be 1.54%. And the tier one rate would be 0.49%.

The impact on this for any given employer is something I'll get to a little bit later where I go through the small business impact statement. This is just to illustrate how the calculation in the regulation works.

The special bond contribution rates will be divided into two pieces on the regulation. One of these is for the principle bonds which is used to either repay our federal debt or to - or which is deposited into the unemployment trust fund.

And this is in keeping with federal regulations and procedures so that award gets the now possible - it's our goal to give employers experienced credit toward their future rates, so this would fall into the positive side of their ledger when they pay these rates to the extent possible so that in the future, their account shows that money that they've paid towards this amount of principle will be reflected in their future rates.

The other piece of the contribution rates is for any other cost of bonding, including any interest, any expenses or any principle that isn't used to repay the loan or which is deposited into the trust fund.

This is because employers can only receive experienced credit according to federal regulations with respect to unemployment. That has been interpreted to mean only what they pay which just goes towards benefit payments can be used to lower their rates from the federal 5.4%.

That's why we have to split apart any interest or any other expenses because that particular piece of it can be used to lower their rates in the future. They can't receive credit for that but rates that are used for principle, as long as that money is deposited into the trust fund, it is possible to then provide employers with credit toward that in the future.

Slide 7 talks about the supplemental bond contributions. These are those that if we don't have enough money through the special bond contribution, this is to make sure that we can collect enough to make our obligations.

The administrator has to make a determination prior to each bond payment date as to whether there're sufficient funds available to make that payment. If necessary, these supplemental bond contributions would be billed separately from any other bond contributions. This would be very similar to the AB482 interest assessment which just came out a month ago.

Regulation requires sending 30 days' notice to employers prior to sending out any such bill and it has to be due at least 31 days but not more than 75 days after that bill is mailed.

This is something that we would hope never to have to use. We would plan on special bond contributions covering everything but bond holders like to have the security of, if that stream fails, knowing that there's something else that can be there to make sure that their payments gets made, so this is the supplemental bond contributions.

That's it for the explanation of the regulation.

B. Presentation of Small Business Impact Statement – David Schmidt, Economist, Research and Analysis Bureau, DETR

Dave Schmidt: That was the short one. The next presentation is the small business impact statement and this one is a little bit longer.

As the administrator mentioned, the statutory authority for this regulation is SB515 from the legislative session and as she said, this allows the state board and finance to, as a request of the administrator, to issue special obligation bonds.

These bonds are secured and repaid through these special bond contributions and it provides (unintelligible) supplemental bond contributions as necessary. The circle of context for why we might want to bond is that from 2007 to 2012, Nevada went from having a trust fund or an employment reserve of over $800 million and we ended up having loans peak at about $846 million in debt.

We had a significant swing, a significant increase in unemployment benefits. Currently, Nevada is working on paying down these loans. Currently our loan balance is running about $150 million lower than it was a year ago and we're on track to repay those loans we think by about 2016.

However, (when) we have these federal loans outstanding, employers are subject to reduced federal loan employment tax credits which essentially increases the federal unemployment tax that employers have to pay.

By issuing bonds, Nevada might be able to repay these federal loans, again, establish a level of solvency in the trust fund. This would eliminate that federal unemployment tax that employers are paying.

Again, like the (authorizing) legislation, this regulation is a tool and, again, we don't want to issue bonds if there aren't necessary savings - or if we're not meeting savings and stability objectives that we're laying out in pursuing a bond deal.

To explain what the total impact of the regulation is, I have to talk about the federal unemployment tax or FUTA, the state unemployment tax, which is SUTA, and then the bond contributions. These are the three big pieces of what employers have to pay.

The federal unemployment tax is imposed by the federal government. It provides a 6% tax on each employee's wages up to $7,000 which would be $420 a year.

However, employers who receive a credit of up to 5.4%, assuming that the state participates in the state unemployment program as authorized by the Department of Labor, which every state does.

So then the net cost to employers is typically 0.6% on $7,000 or $42 per employee per year. This federal credit of 5.4% gets reduced as states are borrowing money from the federal government.

The reduction in the credit is then applied by the federal government directly to the outstanding loan balance, so this reduction goes towards paying down the loan.

However, because (unintelligible) federal government, employers don't get any experience credit for these payments that they have to make toward their future unemployment rates in Nevada.

The credit was reduced by 0.3% in 2011 which increased the total cost to employers to $63 per employee. It was reduced by 0.6% in 2012 which was paid here this last April or so out of their 2013 taxes.

And that made a total cost of $84 per employee. The credit will be reduced for 2013 by 0.9% which would be a total cost per employee of $105 if the federal loans aren't repaid prior to November 10th of this year.

And so as we're looking at bonds, they were trying to have any bond deal close prior to November 10th so that this federal tax would be reduced back down to the baseline $42 per employee. That would be a $63 per employee difference with their 2014 tax.

The state unemployment taxes are collected quarterly from employers. The only (permitted) use for this tax is to either pay unemployment benefits or to repay the principle of loans that were made to pay unemployment benefits.

This is based entirely by employers. The state tax rates vary with respect to the employer's previous experience with unemployment and these funds have to be deposited with the unemployment trust fund which is held by the US Treasury.

These rates, shown on Slide 8, are distributed according to statute into 18 differ- or eight classes ranging from 0.25% to 5.4%. The base for these taxes is set to be two-thirds of the average annual wage in the state. So in 2012, that was the first $26,400 in employee's wages. In 2013, that increased to $26,900 of an employee's wages.

The third piece of the puzzle is the special bond contribution. Again, these would be - provide a dedicated revenue stream for the payment of principle and interest on the bonds. These are also paid entirely by employer. The tax rates here also, with those four tiers, would vary based on the employer's previous experience with unemployment.

These are composed of separate contributions for principle and interest so that to the extent possible, we can provide employers with credit toward their experience rate which would affect their SUTA and special bond contribution rates potentially in the future.

The structure of this regulation is to provide a formula in the regulation which is followed each year. This provides some additional security to bond holders because there's no additional annual review or potential interruption to bond payments being made.

In our discussions in how bonding would work, the fact that our current regulation in our state unemployment contribution process, we changed the regulations which set the reserve ratio that qualify employers for those 18 different rates.

And then that changes the regulation that has to be approved by the legislative commission each year. The bond holder - it would seem to provide additional security to the bonds deal if we don't have that process where we have to make some change in the law each year. So by establishing a formula, we follow the formula. We do the calculation and the rates come out of it without having to adjust things each and every year. We have a formula and it's set for the life of those bonds.

The bonds assign employers to different rates for different employers based on their prior experience with unemployment but the structure is simplified from the 18 different rate classes that we have for the state tax to just four tiers for the bond rate.

Again, this makes the bond process independent of the state tax set- or rate setting process we go through each October, again, with the goal of making additional security into the bond. Additional security is good because the more security we have, hopefully the better rating and the better interest rates we can secure for the bond deal.

These overall bond rates, then, are calculated based on our known obligations and our estimated tax wages with those rates being modified for each rate tier each year.

The special bond contributions are separate from and in addition to the regular state taxes paid by employers. However, the intent of the division to - if we impose these special bond contributions, on one hand, so then lower the state tax rates so that employers are paying for their regular unemployment contribution so that the overall burden on employers is lower.

So we add the special bond contributions on the one hand but we would be trying to lower the average rates through the state process on the other. And, again, if we issue bonds and we repay the federal debt and the federal credit reduction would go away and the AB482 assessment that just came out last month would go away as well.

However, because of the limitations for our process, some employers, particularly those that have a very negative reserve ratio, will have to remain in the 5.4% tax bracket. And I'll have a couple of slides that illustrates this.

We lowered the average rate by making it easier for employers to qualify for better rates and harder for them to qualify for the worst rates. But there will still be some employers at the 5.4% rate even as we lower the average rate per (refund).

Those employers would have an increase in their overall burden because they're not benefiting from the lowering of the average tax rate. They would still benefit from the federal credit reduction going away but that wouldn't be enough to offset the cost of the special bond contributions for those employers.

Also, employers who are at the 0.25% rate now who are already receiving the best rate won't benefit from lowering the average rate because they'll still be at 0.25%. However, because we have that tier four now which applies to the top ten percent of taxable wages, those employers should be largely held harmless because the bond rates that they would be receiving would be comparable to the elimination of the federal unemployment tax credit.

So the goal was to not impose a large burden on those employers who have the very best experience rates. The next two slides show the distribution of rates and what happens when you have a higher average tax rate versus the lower average tax rate in the state.

Again, the typo here. This says calendar year 2012. This was really the 2012 Employment Security Council meeting that set the distribution for calendar year 2013. I didn't change it in the Power Point here because this is how it appears on the printed worksheet.

So you can see here, with an average regular state contribution rate of 2.25%, about 10.8% of our employers were in the 5.4% rate at the top. About 20.3% of our employers were at the 0.25% tax rate at the bottom.

And there's a pretty large spread of employers throughout the rate process, particularly from 2.9%, 2.6%, 2.3%. There's 3%, 4%, 5%, 6%, 8% of our employers that are at these rates higher than the 0.25% because to collect an average of 2.25%, it's harder for employers to qualify for the very best rate and it's easier for employers to qualify for the highest rate.

Looking back to calendar year 2010, which is the last time that we had an average rate of 1.33%, you can see that in this distribution, only 4.1% of our employers were at the very highest tax rate while 55% of our employers as opposed to 20% of our employers were at the 02.5% rate.

And so we lowered the average tax rate by shifting more employers into the favorable rates toward the bottom of this distribution. However, there are still 1,433 employers at the top. However, there're now roughly 20,000 employers receiving the (0.25)% rate.

So this is what happens as you lower the average rate, as you shift more employers down this scale. The net impact of any special bond contribution - of any bond issue, then, would depend on the employer that you're looking at.

Some employers, because they stay at the top, have one impact. Some employers will receive a drop in their state average tax rate. Some employers will be receiving a tier one rate, a tier two rate, a tier three rate, a tier four rate.

There're a lot of moving pieces to determine the impact on individual employers.

In addition to this, it also matters because the size of the bond, the interest rates of the bond, the structure of it, the term of the bond, all of these things would affect the bond obligations in any given year.

And obviously the impact on any given employer in any given year depends on what's their experience. Are the positive rated or (are they being up rated)? Do they have a very good reserve ratio? Do they have a very negative reserve ratio?

And on the bond, what do we have to pay in that year? And so we can't make a final determination about what's the impact to a particular employer really until the bond deals are finalized. This would be the structure into which any bond deal would have to be filtered in order to be paid.

As of the current (tutor) rate, an employer is still most dependent on that employer's prior experience with respect to unemployment. That's the objective of splitting these (unintelligible) into four tiers.

By eliminating the federal (credit) reduction, employers benefit from that going away because right now we have hundreds of millions of dollars, if we go through 2016, being paid to the Federal Government to re-pay our loan.

Employers get no experience credit for that. If we bond, employers would be getting credit, generally speaking, for any principal payments that are being made. But there's a provision in the bond deal that would prevent that from happening.

In addition, the current interest assessment is just a flat rate on all employers. In the bond deal, because of the interest component of the special (loan) contributions would be distributed among the four tiers as well.

Employers (unintelligible) reserve ratios would be paying (less) toward that interest. And employers with the negative reserve ratios would be paying more toward that interest payment than is currently the case.

And so the overall effect of the bond would also be to increase the degree to which the overall cost of employers for all of the cost of the unemployment system reflect their prior experience.

This would affect again all employers (in Nevada) subject to unemployment contributions. And that's approximately 57,222 employers, which is about 99.4% of all employers who are registered.

The beneficial impact of this regulation would be to refinance the federal debt, eliminate the federal credit reduction. If we (do) bonds again, we wouldn't be able to establish a reserve and then (save some) to buy a trust fund from additional solvency to prepare for any future recessions.

If bonds are issued, the regulation will enhance, again, the way the prior employer's prior experience with respect to unemployment in the costs that they pay.

The adverse impacts, there are employers who will see an increase in the total rates they pay with these special bond contributions. There's no way to get around that.

Employers who are - have such a negative return ratio and even as pull a large number of employers out of 5.4% rates, shifting the average rate down. There are employers who will still be at the top. They will definitely still be paying more.

In addition, depending on the cost of the bonds and the amount by which we can lower the state average tax rate, there may be other employers who end up paying more.

Again, if bonds are issued employers who are at 0.25% because they don't have any lower rates that they could go down to, they won't benefit from the reduction in the state average tax rate.

However, we're trying to structure the cost they pay so that the cost of the bond contributions would be offset by the reduction in the federal tax credit those employers are paying.

The next two slides show the distribution of small employers across the 12 rates. You know, this is the 2013 distribution for the 2.25% rate and the distribution of employers as we had in 2010.

On the far right here you can see the total cost that employers in each of these classes are paying. Once you take into account the cost of the federal taxes that they're paying, as well as the interest charge that we just sent out.

So here where the average - or the SUTA rate of 5.4%, when you take into account the extra charges they're paying, those employers are currently paying at about 5.84%.

At the 0.25% rate, employers are paying about 0.69% overall. So for these employers, the cost of the federal credit reduction as well as interest yearly triple the total overall cost that these employers have to pay compared to where they would be if we had a solvent trust fund.

And new employers receive a SUTA rate of 2.95%. When the federal and interest charges are taking into account, they are paying about 3.4%.

The total average tax rate in the state then when these other costs are taken into account is about 2.74%.

With bonding, potential distribution here again has a more employers at the bottom, fewer employers at the top. It's important to note that the 0.25% bracket here, because 24% of all the taxable wages in the state can be in this bracket or were in this bracket in 2010.

The total employer bond cost is actually blended because some of those employers are receiving a 0.25% state rate. But they're in the Tier 3 bucket because only 10% of the taxable wages from positive employers can be in that Tier 4 rate bucket.

And so that's sort of a blended rate. The cost for employers who are at the very top end of the distribution and get a Tier 4 rate would be about 0.25%, 0.28% for the bonds and then about 0.25% for SUTA rate, for a total cost of about 0.5, which would be lower than the 0.69 that we saw on the previous slide.

Here you can see that the employers that are in the top, the total cost for (them) is 6.9%. They definitely see an increase in the total cost they are paying.

Employers who have a positive rate are shifting down. But if you just compare these two tables side by side, it can be a little misleading because you'll see that these rates will go off higher.

But that's because it doesn't pick up in this particular way out the effect of lowering the state average cost because we've shifted the number of employers down.

So to try to illustrate the impact to employers, it just picked reserve ratios and things of 10% and the 5% positive, 5% positive, 10%. And to give you an idea of how for someone who is at this reserve ratio, what are their costs in the no-bonding distribution? What are their costs in the with bond distribution?

So an employer who has a reserve ration of negative 10%, currently they're at about 4.89 or about 4.9%. With bonds their total cost would be about 5.5%. (These at) 5%, it would go from 3.99% currently to 4.15%.

A reserve ratio of positive 5% takes someone from 2.19% down to 1.33%. Someone who has a positive of 10% goes from 0. (Unintelligible) to 0.52%.

It's also worth noting here that currently approximately 75% of our employers have a positive reserve ratio. About 25% of our employers have a negative reserve ratio.

For new employers, they go from paying 3.39 to 3.44%. And again, the little details in the numbers here, this is based on an essential bond cost per given year. Our numbers have already changed in the two weeks since I put these numbers together. So these are continuously in flux.

And depend very much on what is the final structure of the bond. So just for illustration purposes, it's not employers who have a negative 10% (unintelligible) receive this rate.

I can almost say employers who have a negative 10% will almost definitely not receive these rates because things will change between now and then. But for illustration it gives you an idea of how this will roughly fall on employers.

The direct impact of the regulation is that we would impose the (special) bond contributions to raise the funds necessary to pay the obligations for any bonds that are issued.

This number gives us an annual obligation of $243 million, again, very subject to change. Because taxable wages from small business account for about 42.6% of all taxable wages in the state, about $104 million of this burden would be born by small businesses.

The impact of the proposed regulation on any given employer again is based on their previous experience with respect to unemployment as the regulation would increase the wake of employer's previous experience in their total costs.

The indirect impact that if bonds are issued and used to rebuild solvency, this would help provide us with some additional stability and security against future recession.

If bonds are issued, the state would be able to potentially earn interest on any funds that are deposited into the trust fund if we're able to deposit money into the trust fund per bonds that we issue at one rate.

But if (have earned) a higher rate in the trust fund, if that happens, then that positive spread could help lower the internal costs that employers are paying on a marginal basis.

If bonds are issued, two annual charges, the federal credit reductions that are being paid and the interest assessments that are being charged now would be eliminated. And the cost for employers would be spread more evenly throughout the year.

Considerations of how the impact on small business by using this experience rated structure, employer's tax rates again depend on their own experience. Under the proposed regulation the overall tax rate on new employers is intended to remain fairly steady with respect to where it is right now, with the intent that employers are - new employers are more likely to be probably starting small business (would have wait) placing a bigger additional burden on new employers in the state.

Counts for enforcement, the regulation would be enforced through the same channels that are used to enforce our regular state unemployment collection. Therefore, there's no additional cost expected for enforcement. The cost for the administration of the overall program do come from the US Department of Labor.

If bonds are issued, the use of these bonds would be to provide a special revenue stream to secure those special obligation bonds. The total collections that the Employment Security Division brings in would be larger than they are currently because we would be replacing the federal credit reduction, repaying our loans with collecting that money to pay for the bonds that would pay down our loans.

And so some funding streams shifts from going to the feds to going through us. But it still goes towards the same end purpose.

The total cost to employers is expected to be lower over the life of the bonds than it would be if bonds are not issued. And again, neither the legislation nor the regulation forces us to issue bonds.

And it's the goal of the division to only issue bonds if we can definitely make sure we're planning to lower the average cost per employers at the time of the bond yield.

Obviously in the future anything could happen. But it's the - most of the criteria that we have as we look at bonds is will this lower the cost for employers overall and on average?

Obviously as I've shown you, there are some employers that will pay more if we bond than if we don't. But on average throughout the state, bonds lower the cost to employers.

The regulation does not duplicate any standard from federal, state or local governments because this is a new mitigated revenue stream. And if you really want to read the Page 27, small business impact statement is the matter of analysis.

This is a new, I believe, requirement that was imposed by the legislator to say how did we do the analysis? It was conducted by the employee with most understanding of how this all works.

The - he used 2013 and 2010, so two different years for the distribution. And a lot of other small print there, but if you have any questions about that, it can address them for you.

That concludes my two presentations. And I'd like to turn it back over to Renee Olson.

C. Miscellaneous Items- Renee Olson, Administrator, Employment Security Division (ESD)

Renee Olson: Thanks Dave. I would definitely endorse that you were qualified to conduct this small business impact statement.

The next item on the agenda is just some miscellaneous items. I just thought I'd take the opportunity here to mention that the bonding legislation gives the administrator the authority to request that bonds be issued to the State Board of Finance.

The State Board of Finance is also going to review any deals or any structure that we come up with the bond. And they will review that. And if they don't deem that there's enough savings provided or that the financial constructs of the deal are not preferential to what we're already doing, they will not issue the bonds.

So I just wanted to make that clear that there's a check and balance there. That they are going to be looking at the bond deal as well and make sure that we've got the best deal we can get.

V. CLOSING PUBLIC COMMENT

Renee Olson: We welcome your comments. We're going to open it up in a minute for additional public comments. I just wanted to mention the hearing to adopt the regulation is on August 27 at 10 am. And that has already been posted. So you can look in our Website and find the details for that.

And then from there, after the hearing for the regulation, the legislative commission will meet to approve the regulation. That meeting has not been set at this point. We expect that to occur sometime in the first couple weeks of September.

With that being said, I wanted to also reiterate we can't state enough that these are estimates. These are based on numbers that we had available at the time according to what the bond structure and what the numbers looked like at the time. I just wanted to reiterate that. It's very important that people understand that those numbers will change a bit.

I'm going to open it up to public comment. Because the way the room is, if you want be seen on camera, you can move up here. And if you don't care about being seen on camera, you could just stay where you are to offer a public comment.

And I think in Las Vegas, you guys are set up to if you just want to approach the table there to provide public comment. This one I'm going to start in the south. So anybody in the south that would like to provide public comment, you're welcome to come to the table.

Brian McAnallen: Good morning, Brian McAnallen representing the Las Vegas Metro Chamber of Commerce. I just wanted to go on record at this time and thank you for your thorough analysis of this particular issue.

I know that these numbers are, you know, in flux. But I think your department, your agency has given as best of an overview and forecasting the scenarios as possible. And we certainly appreciate it.

And I just wanted to thank you for your approach to the impacts on small business and on our larger businesses as well.

I know this is public comment, but there was one question I had. And I wondered if I might be able to get somebody to respond at one point and time?

On Page 20 during the comparison of employers slide I think in the second slide deck, as David was going through this he talked about the percent of our employers that are in the positive side and the percent that are on the negative side.

And I wasn't writing fast enough. I didn't catch that. I didn't know if he could share that with us again?

Renee Olson: Yes, we'll be glad to answer some questions as we go along. But we will need you to be careful that we give everybody a chance at submitting public comment. So we'll go ahead and I'm going to have (Dave) answer that question. And we'll go from there.

Brian McAnallen: Thanks.

Dave Schmidt: This is Dave Schmidt again for the record. The percent of employers who are negatively rated, who have a negative reserve ratio is about 25%. The number that's positive is about 75%.

Brian McAnallen: Thank you.

Virginia Valentine: Virginia Valentine, President of the Nevada Resort Association. And I want to also thank you for the presentation today. I think that did answer some of our questions.

And we are looking at the regulations and conducting some of our own analysis. And I anticipate that we'll be submitting some public written comments before the end of the 30-day period. Thank you.

Carole Vilardo: For the record Carole Vilardo, President, Nevada Taxpayers Association. I'll echo the same comments. The presentations were very thorough. I have one question and suggestion for changing the regulation.

Given all the concern that occurred with the timing of the notice and the fact that employers were not prepared, I'm wondering if on Page 10, and that would be Sub-Section 5 that it would be a burden if that notice requirement would change to at least 60 days before the administrator mails the bill?

Renee Olson: I guess what I can say about that is we'll take a look at that and take it into consideration. Look at how that works out with the time that we receive the information we need in order to make the assessment. But we will take a look at that.

Carole Vilardo: Then I would ask if because of the way you will receive the information relative to the timing that's in the regulation, with the April and the May for establishing the assessments and setting the dates out.

If you're not able to do 30 days, the notice that you provided with the quarter percent assessment, or I should say the roughly $25 per employee assessment, that just went out was quite thorough. Could you explain in there why you would not do or why you will have to maintain that 30-day notification requirement if you're not able to change it in a regulation?

And the question I then have is, and if I missed it I apologize. But in looking at selling the bonds and trying to keep the rate at 1.33%, which would be marvelous if it can be achieved. For what length of time has the whoever has been looking at the structure of this issue and the regulation been anticipating that we would need to keep the bonds in place?

Is it eight years, ten years? And again, if I missed that answer or that explanation, I apologize.

Renee Olson: I think what I would say to that is that it’s still being figured out right now within the structures regarding how long that term will be on the bond.

And so we’re looking at that right now. We will anticipate that - and we used the 2010, and Dave can correct me if I’m wrong here. But we used the 2010 as an example of what the rates were like when they were lower like that and then anticipating that if we can get back to something similar to that with the bonds in place that we would do that.

And so then that would hopefully, you know, each year we go to the meeting and set the new rate. And what we’re trying to also accomplish with the bonding is putting some predictability into the equation there of what employers can expect, how their rate will behave during those years.

And so I guess my answer to that is we would, for the life of the bond we’d be taking into consideration the impact of the bond assessment rate and the impact of the SUTA and making sure that we’re providing something that’s reasonable and steady during those years.

We haven’t completely decided on the term of the bond at this point. But we’re probably looking out around that timeframe, six to eight years, something like that.

Carole Vilardo: All right thank you. And I apologize, I just thought of one other question. As memory serves on SB515, it spoke to both bonds and achieving solvency. I would assume that the rate and the special assessment would apply only to the bonds.

And that you would be hoping to achieve solvency because you would have an uptick in the employment numbers. Or is there something in the bonding that would be used to achieve solvency?

Renee Olson: The (bill draft request) that was originally submitted for this purpose included a solvency concept to it. And that was subsequently changed through the legislative process so that the assessment that was being charged is strictly for the bond obligation, meeting the bond obligation.

What we're looking at doing is if we can make the dollars work is that we would reestablish our solvency through the bonding deal. And so then that solvency would be handled through the assessment to pay the bond obligation.

The bill as it was passed, once the bonds are fully paid off, the assessment ends. And so if we were to want to look at a separate solvency assessment that's specific to maintaining solvency which would be some sort of trigger related to what our solvency is at. We would have to look at that in future legislation.

Carole Vilardo: Thank you very much.

Renee Olson: Anyone else in the south? It looks like we're good. Okay. So anybody in the north would like to provide further comment?

Tray Abney: Yes this is, for the record, Tray Abney with the Chamber of Reno Sparks, Northern Nevada. And I echo all the comments from my friends down south. And I can't say enough good things about Mr. Schmidt. He always helps me on these issues.

I just have a couple of quick questions. One, what definition of small business did you use when you were talking about the small business statistics here?

Dave Schmidt: Dave Schmidt for the record. This is the (dispachatory) definition for the small business (unintelligible). I believe employers with 150 or less (employed).

Tray Abney: Okay. And then secondly, and I know everything has been plugged. Can you explain just real briefly kind of what this process would look like? Let's say the bond goes through. Everything is figured out and done.

On an annual basis, you know, we have a meeting in October to set the SUTA rate. Will there be a meeting at a similar time of year to set the bonding rate for the next year? And how do you see that going on a yearly basis, like a separate meeting from that one?

Dave Schmidt: Dave Schmidt again for the record. We wouldn't necessarily have to have a meeting for the bond rates because the bond rates are just calculated. There's no (coalition) involved.

But what would happen is according to the regulation, the state treasurer notifies either on or about August 1 of our bond obligations for the upcoming year.

And then by September 15, (unintelligible) has to calculate the bond rates so they're necessary to charge to employers. And it would be split out into the different tiers.

September 15 was chosen so that this information is known prior to the Employment Security Council. And then we can bring and present the information about what the bond costs are at that council meeting so it can be...

((Crosstalk))

Tray Abney: Set the rate.

Dave Schmidt: In setting up the state rate.

Tray Abney: And then would these be just a couple of extra line items on their quarterly assessments that they pay now or on their quarterly?

Dave Schmidt: Dave Schmidt again, that's what we're aiming for.

Tray Abney: Okay thank you.

Renee Olson: I would suggest that there will be separate line items for the interest piece and a separate line item on the billing for the principal piece of the bond obligation.

Tray Abney: Right. So you pretty much have two extra lines from what they do now on their quarterly. Okay thanks.

Renee Olson: You're welcome, anybody else?

Brian Reeder: For the record I'm Brian Reeder with the Nevada Associate General Contractors. And we just wanted that we - that was a great presentation and we totally support this.

The only thing is we remember from testimony or the bill or anything having the experience rating being used as part of the assessment. And we know that the construction industry was hit pretty hard in the recession, laying off a lot of employees. So we're afraid that that's going to disproportionally impact a lot of our companies that are just starting to get some of those jobs back.

Renee Olson: Thank you. We understand that. We did take that into consideration. And I think what we tried to do, and Dave can help me answer the question too is that what we tried to do is limit the impact to that in how we're calculating this.

So that the people at the highest end are not going to suddenly see their tax rates doubled because that would be a very significant impact to those employers.

So we tried to mitigate that in a way that made the most sense and that - as fair as we could make it in the regulations. So, you know, we did consider that. It's just very difficult to - we couldn't mitigate it completely.

Brian Reeder: Sure. Yes and I'll take this back to our members and talk to them about it and see what they think.

Also just a quick question, this is probably a stupid question. But the - on comparison of employers, that rate, that's total. That's like - that's what that SUTA and FUTA, that's total? That's not just the special right?

Dave Schmidt: Dave Schmidt again for the record. I think here wasn't it Slide 20? And again, you know, that's the total cost once everything is included on both sides.

Brian Reeder: Got it. Thanks. Okay.

VI. ADJOURNMENT

Renee Olson: And like I said, anybody that would like to provide additional comments as (we'll be) starting the hearing, we welcome those comments. And we thank you today for your participation. Anybody else for a public comment? Okay.

All right, with that I'll adjourn the meeting. Thank you.