

**STATE OF NEVADA
EMPLOYMENT SECURITY DIVISION (ESD)**

This meeting, conducted by the Administrator of the Employment Security Division (ESD), 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 2020.

EMPLOYMENT SECURITY COUNCIL (ESC) MEETING

Wednesday, October 23, 2019;
10:00 A.M.

Place of Meeting:	<u>Live Meeting:</u>	<u>Video Conference to:</u>
	Legislative Building	Grant Sawyer Building
	401 S. Carson Street, Room 3137	555 E. Washington Ave., Room 4412
	Carson City, Nevada 89701	Las Vegas, Nevada 89101

Department of Employment, Training and Rehabilitation (DETR) Staff:

Present in Carson City

DETR Jeffrey Frischmann, ESD Deputy Administrator/DETR
Edgar Roberts, Chief of Contributions, ESD/DETR
Jeremy Hays, Bureau of Research & Analysis, Economist II, DETR
Troy Jordan, Senior Attorney, ESD/DETR
Jo Anne Wiley, ESD Manager, ESD/DETR
Josh Marhevka, Management Analyst IV, ESD/DETR
Mikki Reed, Management Analyst III, ESD/DETR
Stewart Terry, Management Analyst II, ESD/DETR
Joyce Golden, Administrative Assistant III, ESD/DETR

Department of Employment, Training and Rehabilitation (DETR) Staff

Present in Las Vegas

Kimberly Gaa, Employment Security Division (ESD) Administrator/DETR
Art Martinez, Contributions, ESD/DETR

Members of the Public, Media and Other Agencies:

Present in Carson City

Geoff Dornan, Nevada Appeal

Present in Las Vegas

None

GAA: Good morning, my name is Kimberly Gaa and I serve as the Administrator of the Employment Security Division, and I will go ahead and start with Agenda Item One and call the meeting to order. I'd like to introduce Jeff Frischmann, our Deputy Administrator for the Employment Security Division in charge of our UI program, and our Division Senior Attorney Troy Jordan - and several other members of our staff are present to assist in the Workshop. This Small Business Workshop is being conducted in compliance with Nevada Revised Statute section 233B.0608 to solicit public comment on a proposed amendment to the regulation contained in Nevada Administrative Code 612.270. Thereby establishing the Unemployment Insurance Tax Schedule for calendar year 2020. Agenda Item 2, public comment. Under agenda item 2 is our first opportunity to have public comment. If you'd like to provide public comment please come forward. Start in Las Vegas. I'm asking anybody who's giving public comment to please limit the comments under today's agendized items. We don't have anybody appearing in Las Vegas, is there anybody in Carson City?

JORDAN: There are no members of the public present in Carson City at this time.

GAA: Thank you. We will move to agenda item number 3, confirmation of posting. I'll ask Mr. Terry for the record, was proper notice given for this meeting and did we receive proper confirmation of posting in accordance with the Nevada Revised Statute 241.020 section 3?

TERRY: Stewart Terry for the record, Management Analyst for the Employment Security Division Management and Administration Support Services unit. Yes, proper notice was provided for this meeting pursuant to Nevada's open meeting law, NRS 241.020 and confirmation of posting was received.

GAA: Thank you Mr. Terry. Now moving to agenda item number 4, a review of any written comments. Under agenda item 4, Miss Golden, have any written comments been received in regards to the small business workshop?

GOLDEN: Joyce Golden for the record, assistant to the division administrator. One written comment was hand-delivered to the office of the director this morning from Ann Silver, CEO of the Reno/Sparks Chamber of Commerce.

GAA: We've lost mic from you guys.

TERRY: Sorry about that - Stewart Terry for the record, Management Analyst for the Employment Security Division, I will go ahead and read the written comment we received. It was addressed from Ann Silver, CEO of the Reno/Sparks Chamber of Commerce at 449 South Virginia Street #300, Reno Nevada 89509. Dated October 23rd, 2019. To the Department of Employment, Training and Rehabilitation Employment Security Division. On behalf of more than 1,700 members of the Reno/Sparks chamber of commerce, we support the proposed reduction to the Unemployment Insurance tax schedule. Any reduction will greatly benefit the small business that make up 75% of the membership of the

Reno/Sparks Chamber of Commerce, the largest business organization in Northern Nevada. Our members will appreciate the ability to use the decrease to fund expansion, better wages, employee health insurance, or other benefits that will enable them to recruit and retain a skilled workforce. Thank you for your consideration. Sincerely, Ann Silver, CEO, Reno/Sparks Chamber of Commerce.

GAA: Thank you Mr. Terry. With that, is there any other comments?

TERRY: No further written comments were received, for the record.

GAA: Thank you. Moving on to item number 5, regarding the workshop. Agenda item 5 is the workshop to consider the proposed regulation to establish the UI Tax rate schedule for Nevada employers for calendar year 2020. As part of this regulatory process, a meeting of the employment security council was held on October 3rd of this year. At the meeting we heard information regarding the status of the unemployment insurance trust fund, we also heard about the effect of the solvency of the trust fund and the impact of various unemployment insurance rate scenarios. Taking this information into consideration, the Employment Security Council voted to recommend that the division's administrator reduce the average tax rate from 1.85% from calendar year 2019 to 1.65% in 2020. This is the lowest rate it has been in many years. With that I'm going to go

ahead and introduce our presenters for today. Under agenda item 5A, the first presentation will be a review of the unemployment insurance trust fund status and an economic analysis. Presenting this information for us today is Jeremy Hays, an economist with the Department's research and Analysis Bureau. Our next presentation will be providing an explanation of the unemployment insurance tax rate status and small business impact statement, and we will be introducing Mr. Edgar Roberts, the chief of contributions for the Employment Security Division. Is Mr. Hays ready to proceed?

HAYS: Yes.

GAA: Go ahead.

HAYS: Thank you very much and good morning. For the record, my name is Jeremy Hays and I'm an economist with the Research & Analysis Bureau of the Department of Employment, Training and Rehabilitation. Today I will be providing you with a brief review of national and Nevada unemployment insurance programs, then we'll take a look at Nevada's unemployment insurance trust fund and finally we will go through our 2019 tax rate forecast. So, beginning with the national perspective. While the daily financial news may make one think that we've had a period of negative growth or volatile growth, the US economy at least so far is still growing. Using the National Bureau of Economic Research's business cycle dating we are 122 months into the expansion cycle as of August 2019. This is well past the

average cycle in US history which is 59 weeks from 1937 to 2007 and is the longest expansion in US history. This long stretch of expansion has led to unemployment rates not experienced since the late 1960s. As of August, the national unemployment rate stands at 3.7%, this is been brought on by an impressive 107 months of employment growth. This job market is even pulling people off of the sidelines - the labor force participation rate for prime age individuals, those individuals 25 to 54, is trending up, hitting 80% for the first time since 2008. Not shockingly, this chart showing UI initial claims looks similar to the unemployment rate chart. National initial claims are trending at levels not seen since the 1960s. For the week ending September 14th, claims totaled 208,000. A small decline from the prior year's claims of 212,000. We are trending at or very near the lowest level of claims we can expect to see based on the size of our labor force. Focusing in on Nevada, we can see that claims activity in the state has been trending down and is starting to level off. The latest reading from August is 9,685 initial claims for unemployment insurance benefits. Year over year declines have been recorded in 9 of the last 12 months. The 12-month moving average of the series is trending at 10,056 claims and this 12 month average puts us at levels not seen since 1999 though further declines are not expected as we are leveling out. To provide some perspective on those numbers, here we are looking at claims adjusted for our current job levels. So currently, Nevada

has just 1.7 claims per thousand jobs. This is considerably lower than the levels experienced in the 90s. We've seen new lows almost every month as claim levels have continued to fall while covered employment levels have continued to rise, both driving this number down. So with fewer claimants, we're coming to see lower total benefit payments. Declines are getting smaller as we may expect, but it's still impressive to see continued declines. Despite our weekly benefit amount increases because it's tied to wages which continue to grow, we're still seeing year-over-year declines in monthly benefit payments as there are fewer claimants that are receiving benefits for a shorter time. Through August, the 12 month moving average in benefits stands at 23 million dollars, down 8.5% compared to last year. Conversely, the recession-era 12 month average benefit payments was about 90 million dollars. So the aggregate impact of all of these UI trends is that the Nevada UI Trust fund stands at 1.84 billion dollars right now. That is 430 million dollars higher than this time last year and not shockingly the highest balance in Nevada's history. For context, the pre-recession peak was 806 million dollars. The recessionary trough was a negative 823 million dollars, and then in 2014 you see a jump in the balance, those are bond proceeds of 592 million dollars done to bring us back to a positive balance. As I said our current balance is 1.84 billion dollars. From the trough of the recession, this is a difference of 2.6 billion dollars. So here

we're looking at trust fund inflows from employer contributions, which are the blue bars, vs. the trust fund outflows which are the red bars. I know this chart is a little busy, the important thing to focus on here is that when the blue bars are greater than the red, the trust fund balance increases. So, benefit payments have been low enough that we've seen trust fund balance increases every quarter for the last 14 consecutive quarters. That's when we include interest earnings to the fund. Contributions alone have exceeded benefit payments in 10 straight quarters, even overtaking the seasonal nature of contribution payments. So this chart shows that we've experienced 29 quarters where the benefit cost rate has been less than the average tax rate. So the blue area on this chart indicates a benefit cost rate which is below the average tax rate while the red area indicates a benefit cost rate which is higher than the average tax rate. So the blue area indicates trust fund growth while the red area indicates outflows from the trust fund. We're seeing this gap widen as the benefit cost rate drops and tax rate holds at levels near our highs. For context, quarter 3 2019 the average tax rate was 1.9% and quarter 3 2019 the benefit cost rate was 0.44%. So to belabor this just a touch, we're seeing higher and higher shares of contributions go toward the trust fund. Our most recent employment security council year saw 59% of contributions go straight to the trust fund. You can see this in this litany of pie graphs with the last one being 2019 wherein

the blue area is approximately 59%. So what does a 1.84 billion dollar balance really mean? The average high cost multiple on the right of this chart uses the average of a state's three highest benefit cost rate years in the last 20 years or in the last 3 recessions. Of course for Nevada all of our highest benefit cost years were during the recession. An average high cost multiple of 1.0 means the state has a balance that is estimated to last one year if the state were to experience a similar recession. Currently we are at 1.46 or approximately 17.5 months of benefit payments in the trust fund. Our state solvency multiple, which is in the middle of the chart, uses the worst of our state's experiences in terms of duration and risk ratio but only for the last ten years, so as we get further and further away from the recession the dollar amount required for state solvency will decline, making it seem like we're in a better position than we probably are. For the next year we will see the state solvency measure drop by 600 million dollars, so we've advised the council not to heavily weigh this measure although it is currently at 1.16 which indicates solvency. The high cost multiple on the left of this chart is the same concept as the average high cost multiple except it only uses the worst year in state history. So even in the worst case scenario we have enough in the trust fund to last just over a year with a reading of 1.1. So with all of those things in mind, here are the 2020 rate forecasts which were presented to the employment

security council. These scenarios are all using our baseline forecast which does not indicate a recession, but it does see a slight uptick in benefit payments. All scenarios see the trust fund eclipse the 2 billion dollar mark in the second quarter of next year. The recommended average tax rate of 1.65%, while a decline of two tenths of a percentage point in the raw rate, will still elicit contributions of 616 million dollars, interest earned of 47 million dollars, and we're projecting benefit payments of 287 million dollars. So the result of this is a net growth of 376 million dollars over the next year. To provide a longer run look at the impact of the different rates this is a forecast of the low middle and high rates presented to the ESC going to 2023. The dashed blue line is the balance needed to have an average high cost multiple of 2.0 or 2 years of recession level benefits. The 1.65% average tax rate approaches a 2.0 average high cost multiple by June 2022. Finally this table provides a more understandable view of the previous chart as it becomes easy to lose perspective of what 2.8 billion dollars means. If we stretch out the rates for each year under baseline scenario, we see that the tax rate of 1.65%, if held steady, will lead to an average high cost multiple of 2.3 in 2023 or a balance that could withstand almost 28 months of recessionary conditions similar to the last recession. And with that I'd be happy to answer any questions.

GAA: No questions hear. Let's continue on to agenda item number 5B with the presentation from Mr. Edgar Roberts, the chief of contributions for unemployment.

ROBERTS: Good morning for the record my name is Edgar Roberts and I serve as the chief of contributions. The purpose of this workshop is to discuss the recommended UI tax rate for calendar year 2020 on small businesses as proposed by the Employment Security Council on October 3rd. A small business is defined as having 149 employees or less. Employer data for this workshop comes from the records of the division through reports filed by employers. All Nevada employers subject to UI contributions and eligible for experience rating will be affected by this regulation. This regulation represents lowering the average UI contributions rate to 1.65 in 2020 and small businesses represent 50,309 employers or 96% of the 52,363 eligible experience-rated employers. Beneficial impacts: With a 1.65 average contribution rate, the cost per employee will decrease from 1.90% to 1.70% of wages subject to contributions. This decrease is attributed to a healthy trust fund. This regulation increases the reserves in the trust fund which is projected to grow by 376 million from September 2019 to September 2020 and builds reserves in the event of an economic turndown. This regulation will continue to allow experience-rated employers to pay contributions lower than the new employer rate of 2.95%. Adverse impacts: With the rate decline, there are no significant

adverse impacts to this regulation and an increase in the maximum wages subject to contribution from 31,200 in 2019 to 32,500 in 2020 affects the average cost per employee earning 32,500 in 2020. Direct impacts: The cause of any change in an employers SUTA tax rate is due to changes in their own reserve ratio and experience with unemployment. Rates that employers pay are fixed in statute. The average rate is adjusted each year in the regulatory process by adopting the range of reserve ratios that apply to the rates. Employers' reserve ratio changes each year and can rise or fall depending on the net balance of UI contributions and benefit charges to and from their account. This slide shows the average UI tax rate of 1.65% with the addition of the CEP career enhancement program tax of 0.05 for a total tax rate of 1.70%. Of the contributory total eligible employers, 50,309 employers are affected as small business employers, or 96%. These small businesses will account for 179.84 million, and if we look at the tax rate the highest tax rate of 5.40%, the number of small employers in the highest tax rate is 2,261 or 4.49%. The number in the lowest tax rate of 0.25% is 7,507 or 14.92%. The estimated revenue generated with the average UI rate of 1.65 with the CEP of 0.05 is 600 million. Indirect impact: This regulation complies with the federal regulations governing UI contribution rates. Employers maintain eligibility for a full 5.4% credit towards their federal unemployment insurance taxes and this regulation adds to Nevada's

solvency in the UI system, which helps to pay for unemployment benefits in the future. On average for every dollar in UI benefits, two dollars or more in economic activity results. Thus, employers benefit as funds return to the economy through UI benefit payments helping to mitigate drops in consumption. A 1.65% average rate will continue stability of the overall tax for employers. The UI system helps to maintain the attachment of workers to the local workforce and facilitates a faster return to work both for job search and training services and through mandatory work search requirements. The tax methodology used for Nevada's unemployment compensation program is based on an experience rating system approved by the US Department of Labor. This rating system is designed to ensure that employers are fairly rated based on their unique experience with unemployment regardless of size or industry type. There is no additional cost for the enforcement of this regulation. Funding for the administration of the UI program is provided to the department by the US Department of Labor. NAC 612.270 is adopted each year to set the employer contribution rates and is required by NRS 612.550 and this regulation adheres to the federal compliance regulations governing Unemployment Insurance contribution rates. An average UI tax rate of 1.65 is expected to produce 600 million for the trust fund in 2020. Small businesses will account for 179.84 million of the total revenues. This regulation does not duplicate or provide a more stringent standard than any other

regulation of federal state or local governments. The conclusion of the impact of the regulation, due to the distribution of small business employers closely matching the overall distribution of all experience rated employers in the state and that the US unemployment insurance law does not allow states to assign rates of less than 5.4% except on the basis of an employer's prior experience with respect to unemployment. The agency believes that there is no contrasting impact to small businesses due to this regulation. This concludes my presentation, I'd be happy to answer any questions. Thank you.

GAA: No questions at this time, thank you Mr. Roberts and thank you Mr. Hays for those presentations. We'll go ahead and move to item number 6, closing public comment. This is the final opportunity for anyone that has a comment to make. Anybody in Carson City?

JORDAN: For the record Troy Jordan, senior attorney to the Employment Security Division. We have no public comment in Carson City.

GAA: Thank you Mr. Jordan. And seeing nobody in Las Vegas, we will go ahead and close the opportunity for public comment and move directly to item number 7, which is we will go ahead and adjourn the meeting. Thank you, everyone.