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

This meeting, conducted by the Administrator of the Employment Security Division (ESD) and the Employment Security Council (ESC), is a workshop to review, discuss and solicit comment on a proposed amendment of a regulation pertaining to Chapter 612 of Nevada Administrative Code pursuant to Nevada Revised Statute NRS 233B.061. The proposed amendment will establish the Unemployment Insurance Tax Rate Schedule for Nevada employers for calendar year 2020.

EMPLOYMENT SECURITY COUNCIL (ESC) MEETING

Thursday, October 3, 2019; 11:00 A.M.

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

Department of Employment, Training and Rehabilitation (DETR) Staff:
Present in Carson City
Kimberly Gaa, Employment Security Division (ESD) Administrator/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
Alessandro Capello, Bureau of Research & Analysis, Economist III, 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
Art Martinez, Contributions, ESD/DETR

Members of the Public, Media and Other Agencies:
Present in Carson City
Ashley Staab, Nevada Employers (NAE)
Geoff Dornan, Nevada Appeal

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

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

Members of the Employment Security Council Present in Las Vegas
Michelle Carranza, Representing Employers
Flor Bernal-Gonzalez, Representing Public
Peter Guzman, Representing Employers
Tom Susich, Representing Public

SUWE: Good morning. Before we officially start, could we get the names of the Council members that are present in the south, please?

GUZMAN: Peter Guzman, President of the Latin Chamber of Commerce, Nevada.

SUSICH: Tom Susich, I'm on the Board of Review.

GONZALES: Flor Bernal-Gonzales. I am here on behalf of the public.

SUWE: Thank you. Given that and it's now 11:00, I call this meeting to order. Good morning, my name is Fred Suwe, and I am the Chairman of the Nevada Employment Security Council. Thank you, Members of the Council, the public and staff for your participation in today's Employment Security Council Meeting.

During today's meeting under Agenda Item 7, we will hear the following presentations. The Economic Projections and Overview, Review of the UI Trust Fund and Tax Schedule Explanation. As you know, the Council is required by statute to make a recommendation to the Administrator regarding average tax rate for the upcoming calendar year.

The rate recommendation task before the Council today is an important one, and I appreciate your service on behalf of Nevada's workforce and employer community. I would also like to take this opportunity to introduce Kimberly Gaa, the new Administrator of the Employment Security Division.

GAA: Good morning, everyone.

SUSICH: Fred, I just wanted to let you know that another Board member just arrived.

SUWE: Oh great, that was Michelle. Is she there? Thank you.

CARRANZA: Hi, yes, I apologize, Michelle Carranza.

SUWE: Thank you. At this time, I would like to start by opening the meeting up to public comment. Please state your name, title and who you represent, for the record. We will start in Las Vegas. Are there any comments in Las Vegas? Tom, why don't you do me a favor, and when I go through this you can say for the record that there's no one there asking to make comments.

SUSICH: Okay, we have two people in the audience. Either one of you want to make any comment at this time? No.

SUWE: Thank you. Moving to Carson City, are there any comments in Carson City? Okay, seeing none. Before we go any further, I would like – I understand that I asked who was present in the south, but I'd like the Board members – I'd like to give the Board members an opportunity to introduce themselves. So, I'm going to start in the north with Danny.

COSTELLA: Danny Costella, representing employees and labor.

SUWE: My name is Fred Suwe. I represent the public, and I am the Chairman of the Council.

WITTENBERG: Margaret Wittenberg. I represent the Employer and I'm a member of the Board of Review.

BILLINGS: Charles Billings, representing employees and labor on the Council and the Board of Review.

SUWE: In the south?

GUZMAN: Peter Guzman. I am President of the Latin Chamber of Commerce, Nevada, and 50-year resident.

SUSICH: Tom Susich. I am the Chairman of the Board of Review and represent the public on the Council.

GONZALES: Good morning. I'm Flor Bernal-Gonzales, and I'm pleased to meet everyone here. I am here with – representing the public.

CARRANZA: Hi, my name is Michelle Carranza, and I'm representing the employers.

SUWE: Thank you, Board members. Hopefully, you've all received in advance a copy of the Board packet, and if you've had an opportunity to read the minutes from last year, October 3rd, 2018. I will now accept a motion for approval of the October 3rd, 2018 meeting minutes. Anyone care to make that motion?

GUZMAN: I'm happy to make – Peter Guzman, to make that record – for the record, and I make that motion.

SUWE: Thank you, Peter. Is there a second?

WITTENBERG: I will second that motion.

SUWE: Margaret, you made that?

WITTENBERG: I did.

SUWE: Okay. Okay, thank you for that first and second. Is there any discussion? And let me just say I've just been informed I went out of order, but that's okay. We'll get rid of the motion on this first. Is there any discussion?

Now, let me just point out, I discovered as I was reading the minutes from last year, and I hope not to make this mistake again, we had a discussion at the motion about what the rate should be. Had I been thinking quickly and clearly, I could have done a better job of dismissing an amendment to a motion. Instead, I took kind of a lazy way out and got the maker of the amendment to back out and got the maker and the second to change their minds.

So, anybody in the future that's going to read that they're going to see that it could have been done a little better. And I will try to do better this year if there's an amendment to a motion. But what is in the minutes is accurate. So, if there's not any other discussion, all in favor of approving the minutes, please say aye.

[ayes around]

SUWE: Opposed? Hearing none, the minutes are approved as read. Okay, moving on the Agenda Item 3, Confirmation of Posting. Stewart Terry, was proper notice provided for this meeting pursuant to Nevada's Open Meeting Law?

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.

SUWE: Thank you. Now we'll have the roll call of Council members, moving to Agenda Item 4, Roll Call of Council Members. Fred Suwe here.

SPEAKER: Go ahead.

SUWE: Fred Suwe here. Margaret Wittenberg?

WITTNEBERG: Here.

SUWE: Tom Susich?

SUSICH: Here.

SUWE: Charles Billings?

BILLINGS: Here.

SUWE: Michelle Carranza?

CARRANZA: Hi, here.

SUWE: Daniel Costella?

COSTELLA: Here.

SUWE: Flor Bernal-Gonzales?

GONZALES: Here.

SUWE: And Peter Guzman?

GUZMAN: Present.

SUWE: Thank you. Moving to Agenda Item 5, Review of Written Comments. Joyce Golden, were there any written comments received?

GOLDEN: Joyce Golden, for the record, Assistant to the Administrator. No written comments were received for this meeting. Thank you.

SUWE: Thank you, Joyce. I will now move to Agenda Item 6, our second opportunity for public comment. Remember to state your name, title and who you represent for the record. We will start in Las Vegas. Are there any comments in Las Vegas?

SUSICH: Anyone want to make a comment? None in Las Vegas.

SUWE: Thank you. Moving to Carson City, are there any comments in Carson City? There are none. We will now move to Agenda Item 7. Items A through C will provide us with an economic outlook and unemployment insurance update presented by DETR staff. And the first will be the economic projections and overview by Research and Analysis.

SCHMIDT: Good morning, Mr. Chair and members of the Council. My name is David Schmidt, and I'm the Chief Economist for DETR's Research and Analysis Bureau. My presentation is on the laptop up north and I'll thank Alex in advance for clicking through it. I'm excited to be here today to get the chance to

lay the foundation for your consideration of the Average Unemployment Tax Rate for next year.

It's been an interesting year in the economy. There's a number of things that are going on in high degree of uncertainly at the moment, but I think I'll give you a pretty good overview of where Nevada is and then my thoughts for what might be happening in the course of the next year.

The first slide in my presentation is the state employment and where we've been so far. As of August, there's $1.4M, and my presentation isn't up for people down here in the south yet, but you have it in your packets.

Currently total employment as of August was $1.43M in the state. This is a growth over the year of 3 percent. Three percent is a little bit lower than what we've been experiencing recently. As recently as January our monthly estimates suggested year over year growth of a little over 4 percent, and so we've come down a little bit.

But if you look back to about 2014, really we've seen pretty stable growth overall between about 2.7 and 4 percent, and so 3 percent does fall within that range. We also recently got some revised data that talks about the – a little bit better picture of our employment figures coming from Unemployment Insurance records.

And for the first quarter of the year, it suggested growth was probably closer to 3.2 to 3.4 percent, a little bit down from

that 4 percent estimate we had earlier on. And so even this year we've probably been pretty steady right around 3 percent. Three percent is also good enough to be number one in the nation. We've had the fastest year over year employment growth in the nation for the last 11 months in a row.

Hoping to get that that next month when the new data comes out later in October, but we've been pretty consistently seen pretty strong growth. Currently, only about 10 states are even seeing growth of 2 percent or more. So Nevada is definitely on the stronger side of the picture that we see around the nation.

Turning to the next slide, if you look at total job growth in Nevada compared to the nation you can see that that plays out from about 2014 to the present. You can see that fairly stable trend, some ups, some downs, but mostly bouncing around a pretty similar level. The nation as a whole has also been growing at a pretty steady rate of between 1.5 and 2 percent, you know, topping out a little bit over 2 percent back in the 2014/2015 time period.

There have been some slow trends up and some slow trends down. We're currently in the middle of kind of a slow downward trend there, but not really different from things we've seen through this whole recovery period. You can see in the 2013 to 2016 window, we have a similar ebbing of the pace of growth, but no significant slumps like you can see right at the tail end of

this chart as we headed into the last recession where growth was significantly falling.

And so, the current picture and the current outlook has been pretty steady. The history up to this point has not been one of huge swings in the numbers. It's been a long continued stable expansion thus far.

Turning to the next slide which talks about private sector growth, this comes from that quarterly data, and this is really good data because it's a pretty comprehensive count of about 96, 97 percent of all the jobs in the state. So this is one of the best data sources that we have.

And we can take a look and see as you look at private sector employment, Nevada is also not just the fastest growing total number of jobs in the state, but we've had the fastest growing private sector. As you look back again to about that 2014 period, we've been pretty consistently in about the top four for the fastest growing private sector. We are sometimes edged out by other states, but we're pretty much right there in that mix. And so, Nevada has seen very positive and pretty strong trends overall for the last several years.

Turning to the next slide, you can see that this has been well distributed across a lot of industries in this state. Really information and mining and logging are the two industries that depending on the months that you're looking at, will be a little bit positive or a little bit negative, but broadly have

been pretty flat. In large part this is because for mining and logging, gold prices have been pretty stable. They haven't seen wild swings. And in the information industry is one where there's not a lot of strong growth taking place.

If you look at the fastest growing industries, you see professional and business services has been strong, construction and manufacturing have been pretty consistently strong as well. Again, depending on when you look at it, one of those three has probably been the strongest source of job growth in the state for the last several years, depending on any particular month that you're looking at.

So there's been pretty widespread growth. And this is encouraging. If you look at a longer history, as people look at Nevada and think about what jobs are in Nevada and what's the picture of Nevada, the thing that clearly stands out in a lot of people's minds is the leisure and hospitality and hotel casino industry.

And back to 1991, if you look at the 1991 to 2001 period, if you look at gambling industries that don't have hotels associated with them, the sort of smaller industries, employment growth there has been pretty flat, while the hotel casino industry and Nevada employment basically grew at exactly the same rate from '91 through about 2001.

Starting in about 2001, Nevada's employment has continued to grow, but the hotel casino industry has been a lot flatter,

again some up, some down, but the broad trend has not been a lot of growth over almost the last 20 years. And I think that's a good example of the diversification that we're starting to see in the state. In the 90's, hotel casinos in Nevada were linked. They were growing so similarly it's almost the same line.

But starting about 2001, Nevada's employment has continued to grow, but that sort of keynote industries that a lot of people think about has been a lot flatter, and so we're seeing growth that's not relying on the hotel casino and leisure and hospitality industry the same way that we had seen in the past.

And that continues to be the story here. That industry adds lots of jobs because it employs lots of people. But the overall growth hasn't been to the same extent that we've seen in the state as a whole.

Turning to the next slide, another interesting trend is part-time employment. Typically when we talk about part-time employment, we're talking about it in the sense of our alternative measures of unemployment, where there's six different measures that we use to calculate how well labor is being used in the state and what the unemployment or underemployment level might be.

A couple of those measures are more restrictive in the official definition of unemployment. It's either people have been unemployed for 15 weeks or longer or people who lost their

previous job as opposed to people who are unemployed for any reason. There's also three sort of broader definitions.

One includes people who are discouraged workers. They're working, but they haven't looked for work in the last four weeks because they don't think there's any jobs available for them. There's people who are more marginally attached to the labor force, people who aren't looking for work for some other reason. They're in school, they're providing healthcare to a loved one, but they do kind of want a job.

And then the broadest measure takes all of that and adds on people who are working part-time but want to be working full-time. Sometimes people call this the real unemployment rate, which I don't think is a good definition because it does count people who are actually working but they're underutilized because they would prefer full-time work, but they only have part-time work.

And so, that gets talked about so much that people never really put that on its head and look at how much of part-time employment is in that category versus people who actually want to be working part-time. And I like to tell my staff when you find a number that's surprising to you, this is good to pay attention to because it probably tells you that you had an expectation or an assumption that the data is actually challenging.

And this is a number that surprised me, because if you look most recently, of those people who are working part-time, about

four out of five of them want to be working part-time. Part-time employment in that case is not a bad thing. It's not someone who's underutilized who wants more, but rather it's someone who is working part-time because this is the sort of job that they want.

They might want a more flexible schedule; they might want to just be working a little bit. They might not want to be working 40 hours a week, so they might be in school and just looking for a job to supplement what they're doing on – with most of their life. They might be working a second job, though that's a fairly small part of Nevada's overall labor market.

And so, we've seen coming out of the recession that at the depths of the recession, there's about three out of five people working part-time or voluntary. About two out of five of those were involuntary. But we've recovered to about the average level that we saw in the 10 to 20 years leading up to the recession, which is another sign of I think current strength that most of the people working part-time now are people who want to be in that position and it's similar to the trends that we've seen in previous years.

The next slide shifts the focus moving from employment to unemployment. The state's unemployment rate is currently 4.1 percent. This is flat from a month ago, up just a little bit from the recent low that we've seen of 4.0 percent and basically pacing the nation as a whole. The nation fell to 3.6 and ticked

up to 3.7. We fell to 4.0 and ticked up to 4.1. So we're pretty steady, about 0.4 percentage points higher than the U.S.

If you look back at a longer-term average, we typically run about .08 points higher than the U.S. and so we're a little bit closer to the U.S. rate than is typical, but I'd say we're basically on a very similar path. If the current expansion continues, I think you would probably see the flattening trend that you can see over the last couple years of this chart continue.

The rate might drift down a little bit lower over time, but there's not going to be huge, vast moves downward because we're absorbing a lot of the regular capacity that there is in the labor market.

And if you look at the next slide, I think you can see this pretty well demonstrated across all the state. This is a busy chart, so I'll kind of run through the different elements that are on here. The orange ticks which are the very highest points, are the highest rates that each state has ever had for their unemployment rate.

The light shaded area is the highest rate that we experienced during the recession. The dark blue shade is the current rate, and then the black ticks at the bottom are the lowest rate that every state has ever experienced, and Nevada is highlighted in yellow.

And what you can see is that most states are really close to their all-time low rate. So you have a state like Alaska who's at 6.2-ish percent and they're at the lowest rate they've ever experienced because Alaska's labor market is structurally set up in such a way that it's hard to get a really low unemployment rate there because there's different barriers of entry, there's a different workforce, there's different industries in that state.

And those kind of trends are really what's dominating across the nation right now. Currently, 39 states are within half a percentage point of the lowest unemployment rate they've ever experienced. Given that we're in the longest economic expansion we've ever experienced, this kind of makes sense. Over time, labor is getting absorbed as employers are looking more and more to try to find people to fill the jobs that they have.

Turning to the next slide though, there are still groups that experience higher rates of unemployment. We tend to talk about one number for the state as a whole, but ultimately, the labor market and the economy is a bunch of individual people with individual experiences.

Coming out of the 2017 Legislature, our Department got a mandate to take a look at groups that have higher unemployment than the county that they're in as a whole. There's three different measures here, groups that have an unemployment rate that's double the county as a whole, that's 4 percentage points

higher than the county as a whole or has been higher than the county for three consecutive years.

I've sometimes presented this as a table, and if anyone on the council is interested in that we can certainly provide you the full report, but this is to try to give you a broad picture of what these different groups are. Unless you have a magnifying glass, it's probably hard to read it, but this is pretty much all the data that we look at with the exception of people who are 30 to 60 years old because I couldn't fit it on the chart without making it completely unreadable.

But there's age groups that we look at. There's race and ethnicity. There's education level. There's poverty status. There's people with disabilities. And there's also not only sex, but for women, women who have children of different age ranges as well.

But if you look at the next slide, this highlights the groups that have 10 or more counties in the state where that unemployment rate is higher, and so these are groups that have a pretty broad or where across a wide number of counties they tend to have higher unemployment rates than the county that they're in.

And our youngest workers and our oldest workers both tend to have high rates of unemployment, the American Indian population, people who are below poverty level, people who have any disability or people who have a high school degree or less,

all of these groups tend to have high rates of unemployment and I think – now on the one hand we're trying to see how can we as a Department target services to help these people find work.

But I think it's also beneficial for employers to think about this because if there is a group that has a higher rate of unemployment, this also means there's a potential opportunity for an employer to say how can I target this group and find a pool that may have good skills but tends to have slightly higher unemployment rates.

I also like to talk about the unemployment rates for people with a disability because there is a whole division within DETR that exists to help people with disabilities overcome the barriers they have to employment. So you have people who may be educated and have lots of skills but have a few barriers or challenges, and we have a whole division that's set up to help employers work with them to get these people jobs.

And so, even though the overall unemployment is low, there are still pockets where the rate is high. For some of these groups the unemployment rate can run as high as 20 percent, and so there's definitely still opportunities out there. So that's sort of the broad overview of our economy.

Now we kind of move into the big question in big font because PowerPoint puns are evidently a thing that economists like to do, but when is the next recession coming? If you have economist in your title like I do, this is a question that people

have been asking a lot. And if you look at the next slide, one of the reasons that this question comes up a lot is the yield curve.

Over the last few months, the yield curve has inverted which really just means that the interest rates on longer-term debt are lower than the interest rates on shorter-term debt, and this is often seen as a signal of recession because this particular gap is one that flips upside down in advance of every recession heading back to the 1960's.

And this is a potential warning sign because typically, the risk of lending someone money for a long period of time is higher than the risk of lending money for a short period of time, and so you would expect the interest rate for a long-term debt to be higher than short-term debt.

When it flips upside-down, this suggests that something is a little bit weird in the economy, that there is a sense of risk or uncertainly that is pushing your short-term rates higher or there is some light to longer-term securities to try to lock them up which pushes interest rates lower. But because this is not the way that things should be it's often seen as a sign of a potential recession.

Moody's presented at the Economic Forum last December and said friends don't let friends ignore the yield curve. If your yield curve inverts you should really be expecting a recession, and if anyone says differently you really shouldn't listen to

them. So I'll preface any comments that I have about that with that caveat.

At the same time, because this is the leading indicator, I think you could also think about it like the check engine light on a car. If the light comes on and you do nothing about it, you expect things to get worse down the road, but if the light comes on and you take it to a mechanic and you try to address the underlying issue, if the car then fails to have issues you wouldn't say that the light was wrong. You would say that the light came on and warned you, you did something about it, and you managed to avoid the problem that it was warning you about.

And so, I think there's – you don't necessarily have to say this thing has happened; therefore, a recession is inevitable, and we all have to take action believing that a recession will definitely happen within the next year. I think it's still probably an uncertain outlook.

And if you look at the next slide, there is – the Cleveland Federal Reserve and the New York Federal Reserve, people who are much smarter than I and do this sort of thing for a living, take that yield curve and try to say what are the odds of being in a recession a year from now given the current level of yield curve? And so, the Cleveland Fed has the most recent updates to this, and their odds of being in a recession as of September 2020 are currently about 38, 37, 38 percent.

This is higher than I would like to see. It's also comparable to the highest recession odds that they calculated for the last couple of recessions. So, it's not – while the odds of not being in a recession would be 62 percent if your odds of being in a recession is 38 percent. That would give me more comfort if the odds in 2001 or 2007 had been a lot higher.

But rather just based on the yield curve, it doesn't necessarily tell you much about how big a recession might be or in the case of the last couple of recessions, even that it was a clear and obvious indication because the odds only ever got up to 40, 50 percent. So, the Cleveland Fed has this number.

The next slide has the New York Fed, and they have a pretty similar number. They're running at about 37 percent. I look at this chart and think this is definitely an economist's chart because it's not 37 percent, it's 37.9271 percent, and is that really all that different from 37.9273 percent? Yeah, probably not really.

But because it's all mathematically calculated, you can easily add lots of percentage points. But I think if you were to roughly say 40 percent, the odds of recession roughly 2 out of 5 based on the current level of the yield curve. But there's other things we can look at in the economy beyond this.

The next slide has the Philadelphia Federal Reserve's Coincident and Leading Indexes or Indices. A coincident index which is the top left chart, is trying to look at what's the

current state of growth that you're experiencing, the leading index is an attempt to look at where might you be in this case six months down the road, to look at some indicators and say where might you be.

This is something that they look at for all the states. Nevada is actually highlighted in orange here. One reason I don't personally put an awful lot of weight on this is in the blurb up above the chart it lists what goes into that index. A lot of it is national indicators with a couple of state specific numbers, and the state specific number here is looking at housing permits and unemployment insurance claims.

The trends for unemployment insurance claims I'll let Alex get into later. But basically, they've been pretty low and pretty flat in Nevada, so I wouldn't expect that to be an indicator of anything. So, this is probably dealing with housing permits. And even though the housing market is not quite as hot as it has been in recent months, I think it's still a pretty strong market and probably not something that I would look at as a warning sign.

If anything, I wouldn't be surprised if a negative housing permit number more reflects challenges finding enough workers than a pullback in investment which is why it would really be included in an index like this. And so, I don't necessarily think that this means Nevada is definitely in trouble. I think it's specific to the data that's going into this, you know. In

any sort of calculation like this is as good as what you put into it.

So another coincident and leading index pair that's produced is one that the Center for Business and Economic Research at UNLV put together in working with our office a few years ago. They do their own set of data and will actually have slightly different definitions of when the recession was actually in play in Nevada based on the coincident index here.

Nevada started to turn down actually a little bit before the nation as a whole in the last recession because so much of the growth that we were seeing was dependent on the housing industry. As that started to soften, it really started to show up in Nevada a little bit earlier.

But as you look at these indicators now through July, the numbers were still pretty positive. The current picture for Nevada was good and the leading picture for Nevada was good. Not included in this chart is just an email I got within the last couple of days that has the August updates here, and in that case. the leading index was a little bit mixed.

There were some things up and some things down, which could be saying, you know, similar to what we see in the employment picture as a whole, that we're not growing quite as fast as we were, but it's not a clear downward signal. It's just kind of moving sideways.

And this is what you see a lot right now. There's a lot of things moving sideways. You see it in the stock market where good news comes out and the stock market shoots up and bad news come out and the stock market jumps down. But if you take a slightly broader picture. you see lots of ups and down, but basically just moving sideways.

I saw something yesterday that said that the S&P has been basically flat since January of 2018. It's had some big ups; it's had some big downs, but it's just kind of moving sideways. And I think this is people kind of looking for a narrative or a story to see where might the economy be going next.

So my next slide takes a look at one of the things that I'm watching. I like to look at our unemployment insurance activity because I think it's a really good representation of lots of people in the state, and unlike a lot of survey-based things, it's counting what people are actually doing.

The QCW employment numbers look at actual accounts of employers within the unemployment insurance system. And looking at unemployment insurance benefits, it lets us see actually unemployed people for a window of time from when the start claiming benefits to six months after that.

And starting with our new computer system, back in 2014, 2015 we've had this report that tracks for everyone who received a payment in a particular week, how many weeks of benefits had

they received previously and how many weeks of benefits do they still have available.

And I'd really like to look at this because you can see from 2015 to 2019 as we moved out of the recession into a period of growth, the blue bars, which are the current year, and the red lines which are the previous year, start to sort of hunch up toward the left side of these charts, and that means that of those people who are getting paid benefits, more and more of them are on benefits for a shorter period of time. Fewer of them are seeing benefits paid out over a long period of time.

And so, one of the things that I'm looking for to indicate will we be moving into a slow down and broader hiring is if you start to see those people who have been on benefits for awhile start to rise up pretty noticeably above where we were last year. That could indicate that it's getting harder and harder for those people who have been unemployed for a longer period of time to find work.

And so, as they might be a little bit more vulnerable, a rise there would indicate that it's becoming hard for people to find work. A broader increase would also increase this is people across the border having trouble finding work. But really where I expect to see it first is in the longer-term unemployment.

And the moving over into a sort of across the board for unemployment insurance claimants. If those levels start to move up, I think that's going to be one of the earliest signs of

things actually changing on the ground. If I could tell you when the next recession would be, I would be able to play the stock market really well, and I would be independently wealthy and not have to work for a living.

So, all of that is to say when's the next recession? I'm not going to tell you cause I don't know, but I think you could make an argument that will suit your own narrative. You could say things are really uncertain; people are going to pull back. Or you could say there's still room for it to run; recessions don't die of old age; it can continue to grow.

I got asked the question on television, if you had to place a bet two years plus or minus, where would you go? And I'd say, you know, there's smart people on both sides of that question, but personally I tend to be a bit of an optimist, so I would take the over, but that's entirely just because that's sort of my own personal bent, not because the data clearly says one way or the other.

And so, I think one last thing to look at is recessions don't hit everyone the same way. In the last recession, unemployment in the construction industry in Nevada was up over 40 percent. Nationally, it didn't even get up to 20 percent, but because of our unique circumstances and the things that were causing people to pull back in the national economy, that hit Nevada very hard. Nevada was the worst hit state in the nation in the last recession.

That doesn't necessary mean Nevada will always be the worst hit. The 2001 recession for Nevada was almost the blip that was very nearly unnoticeable in a lot of ways if you look at the broad picture of employment growth. So, to the extent that the next recession could be – if you think that it's going to be caused due to trade uncertainty, then one of the questions would be are industries in Nevada particularly exposed to that?

Well Nevada's number one export is gold, unlike pretty much any other state. And in a recession, there is often more demand for gold and gold prices go up, and it actually ends up benefitting some of the rural counties as mines are looking to hire people and extract more of this precious resource. And so, if you're less exposed to the cause but gold prices go up it could hit Nevada very differently than other areas.

On the flip side, if a recession causes people to feel like they don't have as much money to spend, the entertainment and tourism industry could shrink back, but at this point, you're just kind of crafting a narrative of what might happen and there's almost endless possibilities for it.

So what do you do with that information? The next slide takes a look at a concept that I like to use in trying to figure out what might we do with this information. So, the idea of an expected value says what are the odds of a bunch of different outcomes? What's the impact of all of those different outcomes? And you might multiply and add all these things together to try

and generate sort of a central expected value that takes into account all those probabilities and the different things that come out of each of them.

And so, for example, on the next slide, if you have three different outcomes and you weight them at 10 percent probability, 30 percent probability, 60 percent probability, and in the 10 percent one you get $200,000, and in the 30 percent one you get $10,000, and the third one you lose $1,000. Now 60 percent of the time you're going to lose $1,000. What should you do with this information?

It would ultimately depend on your willingness to accept risk, but with the 10 percent chance or earning $200,000, as you look at multiplying the odds by the outcome and add everything up, you end up with an expected value of a little over $22,000.

And so in this case, the numbers would say if you're having to have an outlay of $20,000 to experience one of these three outcomes, it's probably worth it even though only 10 percent of the time are you actually getting something that has a result that's over $20,000, but so it doesn't give you here is the answer, but it tries to help you with the thinking of what do the different odds and what do the different outcomes mean.

And so, the next slide takes a look at if you were to use the odds of a recession we talked about earlier, 40 and 60 percent, and say what should the average tax rate next year be if

we think there's 40 percent odds of being in a recession and 60 percent odds of not being in a recession?

And I picked these numbers pretty much out of the air, so please don't say that this is the official thing that, you know, should be done, but if in a recession you thought let's go back to the average tax rate that we had prior to the last recession. It was at 1.33, 1.38, so I just went with 1.35, kind of right in the middle to try to embrace the idea that if we're in a recession, we want the average UI tax rate to be low.

On the other hand, if you said if we're not in a recession, we should just keep the tax rate where it is so that we can continue to build the trust fund to prepare for a recession when it should eventually appear, and so that's the current rate of 1.85 percent. If you take those odds and multiply them by those rates, you come out with a consensus that's somewhere in the middle which would be 1.65 percent.

Now if you think in a recession the rate should be even lower or if we're not in a recession the rate should be higher, that would change the outcome here, but this is just a way to sort of help think through if I think this, what should I do with it? And so, I just don't want to just say well maybe there's a recession, I don't know and have no advice for what you should do about it. I still don't know if there's going to be a recession, but if the odds of that are starting to rise, how might you consider that?

So, that is all that I have for my presentation. I'm happy to answer any questions that the Council might have.

SPEAKER: I want to say this being my first meeting that's a very impressive presentation that you did, and I appreciate it very much.

SUWE: Does anyone have any questions for David? Hearing none, we'll move on to the next presentation, the Review of the UI Trust Fund.

CAPELLO: All right. Good morning, Mr. Chairman and members of the Council. For the record, my name is Alessandro Capello and I am an Economist with the Research and Analysis Bureau. Today, Jeremey Hays and I will be providing you a review of Nevada's Unemployment Insurance Trust Fund and go through our 2020 rate forecasts. So, I'm going to hand it off to Jeremey, and he'll take the first task.

HAYS: Thank you, Alex. For the record, my name is Jeremey Hays. I'm an Economist with the Research and Analysis Bureau. So, we'll start with just a brief agenda. I'll be taking a look at the national perspective and outlook, focusing in specifically on Unemployment Insurance and then drilling down to Nevada's Unemployment Insurance trends.

After that, Alex will pick up the presentation with the Unemployment Insurance Trust Fund and then the 2020 rate discussion and tax rate forecasts. Next slide.

So, starting with the National Perspective. While the daily financial news may make one think that we've had a period of negative growth, the U.S. 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 U.S. history which was 59 weeks and is the longest expansion in U.S. history.

This long stretch of expansion has led to, next slide, an unemployment rate not experienced since the late 1960's. As of August, the National Unemployment Rate stands at 3.7 percent. This has been brought on by an impressive 107 months of employment growth. This job market is pulling people off of the sidelines as well with the labor force participation rate for prime age individuals, ages 25 to 54, trending – hitting 80 percent for the first time since 2008. Next slide.

Not shockingly, this chart showing UI initial claims looks similar to the unemployment rate chart. So, national initial claims are trending at levels not seen since the 60's. For the week ending September 14th claims totaled 208,000, a small decline from the prior year's claims of 212,000. We are likely trending at or very near the lowest level of claims we can expect to see based on the size of our labor force.

So, with the long stretch of low claim's numbers, state trust funds, state unemployment insurance trust funds have been

able to rebound and as of June 2019, more than half of states have an average high cost multiple above one. Now you'll be hearing a lot more about the average high cost multiple when Alex discusses Nevada's trust fund, but I'll give a brief explanation here.

So this measure takes the trust fund balance divided by the state's total wages and then divides that by the average of the three highest cost years in the last 20 years or the last three recessions, whichever is longer. And of course, for Nevada the highest cost years are 2009, 2010 and 2011 in that frame. So, the result is the state's average high cost multiple. 1.0 is the Federally recommended minimum indicating that for one year or 12 months a state could pay UI benefits without any further funds at the average high cost rate.

So a multiple of 1.5 is 18 months, 2.0 is two years. So, looking at the map here, Nevada is well into the green with an average high cost multiple of 1.46. Before the recession, Nevada was considered solvent by this measure having a multiple of 1.02, but due to the relatively mild recessions we had experienced in that previous 20 years, a worst-case scenario was not included in the measure.

Just for reference, our peak balance prior to the recession under our current average high cost rates would equate to an average high cost multiple of .64. Of note on this map, a number of states have trust funds with average high cost multiples of

greater than 2, specifically Wyoming, Oregon and Vermont as they opt to be very prepared for a recession.

A growing number of states are approaching that 2.0 mark, while other states still have balances of around average high cost multiples of .5. Some, like California, are just out of debt and starting to rebuild. Some, like Texas, choose to limit taxes on their employers and maintain a low balance. Next slide.

So, now focusing in on Nevada, we can see the claims activity in the state has been trending down and has been leveling off over the last few months. The latest reading from August is 9,685 initial claims. Year over year declines have been recorded in nine of the last 12 months.

Looking at the 12-month moving average of this series to net out some of the noise, we're trending at about 10,056, and then the twelve month average puts us at levels that have not been seen since 1999, though further declines are not expected.

So, to provide a little bit more perspective of what those claims numbers really mean for the state of Nevada, here we're looking at claims that are adjusted for our current job levels. So, we've seen new lows almost every month as claim levels have continued to fall slightly while our covered employment levels have risen. So right now, Nevada has just 1.7 initial claims for unemployment insurance benefits per thousand jobs. This is considerably lower than levels we experienced during the 90's.

So, here we're looking at the average length of time a claimant receives benefits, which stands at 13.23 weeks averaging 13.31 over the last 12 months. This measure has ranged between 13.17 to 13.81 for the last 30 months. So this flattening is at a level that may be considered a normal benefit duration length, so we don't – we expect it to flatten at about this level.

Turning to the exhaustion rate, we're currently at 33.11 percent in August with a small decline from last year's reading of 33.45. Similar to the duration, we expect this trend to flatten moving forward. The lows in the 90's were in the low 30 percent.

So with fewer claimants, we are continuing to see lower total benefit payments. Declines are getting smaller as we'd expect, but it's still impressive to see continued declines. Despite our weekly benefit amount increases because it's tied to our average wages, we are still seeing year over year declines in monthly benefit payments as there are fewer claimants who are receiving benefits for shorter periods.

Through August, the 12-month moving average in benefits is down 8.5 percent compared to last year. The current 12-month average of benefit payments is $23M. Conversely, the recession era 12-month average of benefit payments was $90M.

So where are these claimants coming from? In an effort to better understand our claimants, we are constantly trying to get more and more detailed data and apply it in new ways. This chart

shows the number of claimants by census tract in the state. A census track is a small, relatively permanent area that is designed to be relatively homogenous with respect to population characteristics, economic status, living conditions, and they generally average about a population of 4,000.

It's not surprising to see that most of our populated areas have the highest claim counts. Of course, from this vantage it's difficult to make out any detail.

So, zooming in on the Las Vegas Metro and using a density chart, we can gain insight into the location demographics of claimants. So, this slide and the next one are looking at claimants by race and give us the hot zones for claimants that fit that criteria. So, here we have Native American and Native Alaskan, Asian and Black and African American claimant densities.

And then on the next chart, we show claimants who have chosen not to identify race, native Hawaiian and Pacific Islanders and Caucasian. These types of breakouts can be done for earnings, occupation and industry, employment length and so on. So, with that, I will hand off the presentation to Alex to take you through the discussion of Nevada's UI Trust Fund.

CAPELLO: Thank you, Jeremey. For the record. Alessandro Capello. So, I will start off with the most basic chart, which is just the trust fund balance. So when I started here a few years ago, it was around $200M and, you know, you go okay, that's a lot, and then $500M and $700M and then $1B. Well

now we're at $1.8B. That is not shockingly the highest in history, and $430M higher than it was when we were here last year. So, that's the biggest net change from ESC Council meeting to ESC Council meeting in history.

But just to kind of walk through our history as Jeremey mentioned, we did have an average high cost multiple of 1 prior to the recession at around $806M for our balance. But as you can see from the chart, it quickly went away and we bottomed out at around negative $823M. And then towards, and some of the council members were a part of this, we went through the whole bond issuance, so that's that big shoot up where we go from red to blue on the chart. And that was $592M in bond proceeds.

And then we've worked our way all the way to $1.8B, but it's a pretty remarkable kind of turnaround when you start looking at the numbers. So, the full bottom to the top is $2.6B which is pretty wild when you start thinking about it.

So, kind of breaking down this into quarters, inflows and outflows, I know it's a little bit busy, but the blue bars represent UI contributions or inflows to the trust fund. The red bars represent benefit payments or outflows. So, we kind of – the chart has the tail end of the recession where you can see that the red bars are always higher than the blue bars and for much of the last five years we have seen significant trust fund growth where the blue bars have exceeded the red bars.

If we look at the highest one, the highest blue bar on the far right of the chart, that was our highest, the most recent high quarter. The way that taxes are structured, we get them kind of in levels and the second quarter of the year is always our big quarter, and so that was over $250M and the most we've ever taken in in any quarter. So it's pretty impressive when you look at it and we have not seen any trust fund decline over the last 14 quarters, so that's why we have seen such significant trust fund growth.

And then as Jeremey mentioned, we have ways of measuring trust funds because what does $1.8B really mean? So, there's three measures here. One we'll probably kind of ignore, but the first one I'm going to start on is the bar chart on the far right which is the Federal average high cost multiple.

Jeremey broke that down on how it is calculated, but effectively because he talked about how I will reiterate, but the average high cost multiple uses the average of a state's three highest benefit cost rate years, three worst years in the last 20 years or last three recessions.

As he said, all three of ours were at the last recession so it's pretty easy to figure out cause it's those three years. And you take those cost rates and say okay, what would we need to withstand a year of that?

And so, you take that and put it in current year dollars and voila, you get an average high cost multiple value. So, an

average high cost multiple of 1 as Jeremey mentioned was equal to one year of benefits at that average high cost rate. So, at the average of those three worst years.

And currently, our average high cost multiple is 1.46, so that's effectively 18 months that we would be able to withstand a recession with no other funding at that rate. Now that rate is just an estimate, so it's not like you're locked in. There's no assurances, but it gives you a better idea.

The measurement in the middle, the NRS state solvency measure, is the one that I kind of would suggest us to ignore, is – because it has a short window is really the only reason, but it takes the worst of the state's experiences in terms of duration risk ratio, but only for 10 years, so 2009 was the worst year. We are now outside of that window, so you'll see how quickly it loses or it forgets a recession.

So as we get further away, the dollar amount required will drastically drop so it will move from $1.5B which is the 2019 suggested balance to $900M. So, that's kind of why I say don't put too much weight in it. But currently that multiple is 1.16. And then the last is the Federal high cost multiple, so it's effectively the same process as the Federal high cost multiple, except it only counts the worst year.

So it takes, okay, what's your worst year that you had, that was 2009, and what would you need? So even in this case, we have a balance of more than 1. So, 1.1 for the high cost

multiple. So those are for the first time that I've ever been a part of any of these we've never had all of these measures greater than 1, so that's pretty big accomplishment just on that.

So, kind of the biggest thing is when you have all these – when you have this balance and you have – you're in this position, what do you want to do from here? For the longest time we've only been worried about building the fund, building the fund, building the fund. Eventually you've built the fund and so you have to decide what is the desired solvency level long-term, how aggressive do we need to be.

And then of course, now that there's all this recession talk, we also have to weigh that as a possible occurrence in the next year or so. So, that will be kind of things to think about during the next several slides as they're not really supposed to influence you like one way or the other. It's just supposed to provide you a lot of information that may allow you to make a better recommendation.

So first, we get to go over my forecast from last year. Fortunately for me, I was pretty good, not to brag, but it was one of those years where things ended up being pretty simple, I would say, and they trended pretty similar to how they had in the previous year. So it was pretty easy to kind of estimate. So if we look at covered employment, I was a little more optimistic than actual, but off just less than a percent.

Where I missed mostly, and this has been the miss that we've had for years and years is weeks compensated, so effectively our benefit payments. We had thought they were going to flatten, and they have continued to fall to our surprise because we keep thinking we're at the all time low, we're at the all time low, we're at the all time low, and you have a hard time predicting a new all-time low year after year after year. So, that's been a tough number to catch.

So, if we look at this on like how – where – at a money level where people kind of worry my revenue estimate was just under or just over rather, a million dollars off, which is pretty cool, but wouldn't have been able to tell you that I would be able to do that, but and then, of course, the benefits was a little lower than I estimated prior to last year.

So, the result is that the balance is pretty close to what I thought it might be. This 1.844 is slightly off because I don't have the quarter ending number quite yet. But all in all, it was a pretty decent forecast on my part which is, like I said, pretty nice.

So, then we'll – the old chart that has been shown in every ESC Council meeting that I can go back and look at all of our historical folders, but this is the historical solvency review and balance table. So the top blue area is how the – that state solvency multiple gets calculated. So it takes all these numbers

and then multiplies them and whatever gets spit out on that solvency target is the state solvency target.

And as I said, I wouldn't pay too much attention because when I show you the 2020 rate that $1.5B, $1.525B, will drop down to $900M and we kind of know that that isn't really a great way of measuring things if you only count 10 years' worth of data, so I wouldn't pay too too much attention, but you can see the breakout of how the trust fund did over the year.

So you can see we took in $658M in taxes, we earned $38M in interest. That's definitely the most we've ever earned in interest in any year. And then you see the benefit payout of $270M, and then the net change of almost $430M and the balance breakout. And then you see the two different multiples, the state solvency multiple and the average high cost multiple.

And then the different rates over the different years, you'll see that – I don't know if there are some new Council members, you can see the bond assessment that lasted until 2017 and the rate drop, effective rate drop, that occurred after we finished paying off the bond.

So, we can refer back to that if you need. So now I'll go into the rate discussion charts. So, first one is a look at our benefit cost rate, so the benefit cost rate just looks at how much the state has paid out in benefits relative to its wages. So, it's always a tracker that maintains its relevancy. It

doesn’t like lose its meaning over time because the wages adjust it.

So one of the things you’ll notice is that little red dashed line is at the lowest point it’s been since World War II. So, when I say benefits are low, we’re saying benefits are as low as they’ve been since World War II. Our current 2019 BCR or Benefit Cost Rate, sorry, is 0.78 percent. The previous low before that was in 1946 at 0.68 percent. So, it's quite low. And then it’s been dropping, so it’s something to consider.

Just for kind of knowing, our all-time average benefit cost rate is 1.78 percent. Our median benefit cost rate was 1.68 percent. The last 20 years our average rate was 1.7 percent. In a recession the average benefit cost rate has been 2.26 percent.

And then non-recession years our benefit cost rate has been 1.6 percent. So these are just numbers to throw out. I can always repeat them. But there’s ways of framing your thoughts over time, because it’s not so easy to know what the appropriate rate is.

And so, this next chart breaks things down relative to the benefit cost rate and the tax rate and nets them out. So you see when the zero line – when things are below it, you’re seeing net trust fund outflows and above it, trust fund inflows, and so the area under each – under the line represents how much of that is going into the trust fund.

So one of the things you'll notice is that blue area has been growing and growing for the last several years with our aggressive funding to the point where in the last 29 quarters, the average tax rate has exceeded the benefit cost rate. And that distance, as I said, is growing. So that's just another thing to consider.

This next chart – I know it's pretty busy, but I was trying to think of new ways to show old things this year, so I came up with this chart. So it's kind of – it's not really important to see exactly the numbers. It's just showing trends over years. So this is taking into account how much of UI contributions were paid out as benefits and how much went straight into the UI Trust Fund.

Years where there is no pie chart means that there were more benefits paid out than there were contributions taken in, so there's a recession. And so those line up pretty good with our years that we had a recession.

So one of the things you can kind of see is the first two rows, it's more often than not red in most of the pie chart and some blue, so most of the funds that we were taking in were going straight to paying out benefits.

I'll skip the third line cause that didn't really have too much of a matter, but in the last several years, which is the fourth row, you'll see that the blue is starting to get bigger and bigger and bigger. The one – and I'll note 2014 looks like a

lot of trust fund growth. That is because the bond was counted as UI contribution revenue in the report that it's built off of so that shifts everything.

But for the most part you can see how blue – so 2015, 2016, 2017, 2018 and 2019, that blue area is getting larger. And the last five are five different rates that we're presenting. They're obviously like a change, however, but they're all showing the different share of contributions that is going to the fund and benefits. So all of them are about 50 percent, but the thing to note is that we're getting to the point where I think the last year, 2019, 59 percent of trust fund contributions went straight to trust fund growth. So, that is the largest of all time.

And then following that, we have us relative – Nevada, that is, as us, relative to the rest of the nation in terms of UI tax rates. So when we use total wages and our contributions to keep everything again even, we have the fourth highest tax, UI tax rate in the nation at 1.12 percent.

The national average is .05 percent, but every state's UI system is slightly different, so the way that our taxable wage base adjusts will almost always keep us towards the front or the further right part of this chart. It would be hard for us to get below 1 just the way that our tax system is structured.

So, and you'll notice that even those states that Jeremey mentioned in that map, Oregon, Vermont and Wyoming, they're

number one, number two and I think number seven, so they also have high tax rates and very strong trust funds.

So it's not necessarily, and I think for Oregon I'm actually pretty sure that their system is just automatically set to do that, and they don't really change any sort of policy to make their tax rate lower. So this is one of those things to consider again, but we have noticed that we are up there.

Another way to measure us relative to other states was putting us on a how fast did our trust fund grow relative to other states. And we actually had – this is through the second quarter cause I had to wait for other states' data to come in. We had the most growth in terms of the average high cost multiple over the year.

So, that's good, but also, we were very aggressive comparatively and so that – it's slightly more than .3, that represents about a quarter of a year in a recession in funds, so that growth. So, that's what we did over the last year. So, another thing to consider.

The next slide is actually Dave's slide that he went over with expected values. This is the part where we start talking about recessions a little bit. And again, as he said, this is just a way to frame your thinking around rates. As he said, he chose the 1.35 recession rate as kind of what we did prior to the recession and then the 1.85 is more in line with what we've done recently.

So, working on that and then using that too with the recession probabilities that he went over, he ended up with the 1.65 middle rate. But it's all just kind of a way to frame thinking. I think his little note was pretty good, a pretty good way of explaining how to think through this.

And so, when we were talking about how to show the recession or recessionary impacts, it's really easy to shoot out benefit payments and things like that, but I think ultimately, it's important to see where we would be based on history and historical recessions.

So, this chart I took four different recessions in U.S. history and how they impacted the UI Trust Fund and effectively I just pasted them in. I picked an arbitrary starting point I think of September next year or thereabouts, maybe June, and said okay, what happens in this scenario.

So, I started with the 2001 recession which is the label at the top. As you can see, it looks kind of like a blip as Dave mentioned. It didn't affect Nevada too terribly. Then the '91 recession also similar, a little bit worse, and then the 1981 recession, slightly worse, but still not so bad that we would run out of trust funds or trust fund dollars. And then, of course, the 2007 recession over several years we do see that it falls below zero.

And so, when I was trying to think of a way to talk about this, I kind of was like this makes sense. We talk about the

average high cost multiple. We say in a recession at an average high cost multiple of 1.46, we are expected to last for about a year and a half with no other funding. This model assumes that we do get some funding and so we'd last just over two years.

Those little dashed north/south lines, I put those in there for reference for you as those would be the next Council meeting. So those are basically moments in time where you would be able to have another rate discussion. So it kind of gives you an idea of where you're at in history, so maybe by 2022 we are not out of funding yet and a decision can be made then to adjust the path.

But one of the things that's always stuck with me that Dave has talked about in the past was, you know, once you lock in the rate you're stuck there, so you don't want to be making a decision that six months down the line you wish you had done something different, so there's a lot to weigh because you're locked in for that next year. So, it's hard to know where the path is going to be, even this far out, but so that's why I threw those lines in there just so you guys could kind of see.

So this chart stretches way out. It's obviously full of assumptions, but just kind of gives you guys an idea of what kind of a recession would look like and what it would do to the trust fund.

So with that, here are five different rates that we are showing today. Obviously, we can do anything in-between, above, below. These are just five selected. The 1.85 rate on the right

is the current rate that we've had for 2019 and they're all one-tenth off from each of that. Again, if we look at the top blue area, that is the state solvency measure. As I mentioned, it drops to around $900M and is probably not worth talking about any further.

The various breakouts show the different expected intake to the fund. My benefit payment estimate, which I'll go into a little bit more in a second, and the in-fund balances under each rate scenario. I'll point out that the last part is the – or the last blue row is the average high cost multiple and each rate represents or each rate gives a 1.65 to 1.72 range on that. And then the lowest row shows what the costs would be at a per employee level at the average rate.

So the next slide is just my benefit payment forecast. As the last line showed it was – the red line is $286M over that year. This stretches out as far as 2024 with my standard deviation of one or confidence interval of one standard deviation rather. So it just kind of gives you an idea of I'm expecting benefits to rise as we see higher weekly benefit amounts, but not incredibly. It's like a 6.4 percent rise relative to last year.

And then the next slide is a long run estimate of the trust fund balance under the baseline forecast, so using that benefit payment forecast and the tax rates, and it just kind of gives you a rate range, so the lowest red line is the 1.45 and the highest is 1.85 percent rate, and then the middle line is the 1.65

percent rate. So, they mirror each other because they're all the same benefit forecast. They're just different revenue totals for each one in terms of contributions.

As you can kind of tell, there are also those north/south black dashed lines for the future ESC Council meetings, and then the dashed blue line represents an average high cost multiple of 2 which would be two years of recessionary level payments, and that's in there because that's like the next milestone I guess you could call it that would be in view.

Using last year's rate, so the 1.85 percent rate, you can see that we'll approach a 2.0 average high cost multiple by the end of calendar year 2021. And then in the middle rates, we approach a 2.0 average high cost multiple by June of 2022 and the lowest rate by June of 2023.

So just these are very – again based on a lot of assumptions stretched out very far. Forecasts like these tend to be real wrong when you get further out than a year or two, so it's just something to see.

And then the next slide just takes that same information and puts it in a table to kind of give you a better view and understanding. So this takes all those different rates that I showed that were on the proposed rate table and stretches them out and puts their balances in an average high cost multiple framework.

So, you can kind of see the different breakouts. So, this holds for each future year at that rate constant. It's just an easier way to digest what it means rather than me having $2.8B in a cell. I don't think that translates that well. And so, circling back, we'll land on the potential tax rates and Jeremey or I would be happy to answer any questions.

SUWE: Does the Council have any questions for either of these two presenters? If not, then at this time I want to move on to Agenda Item 8. I will again open the meeting up to public comment. Oops, sorry, I'm not done. Moving ahead, sorry, tax schedule explanation.

ROBERTS: Good afternoon, Mr. Chairman and members of the Council. My name is Edgar Roberts and I serve as the Chief of Contributions for the Employment Security Council. This meeting and regulation workshop are held for the Council members to receive information and recommend a tax rate schedule to the Administrator for calendar year 2020.

Turning to slide 2, the Administrator sets the tax rates each year by adopting a regulation per NRS 612.550. In addition, pursuant to NRS 612.310, it is the role of the Employment Security Council to recommend a change in the contribution rate whenever it becomes necessary to protect the solvency of the Unemployment Compensation Fund.

Turning to slide 3, this slide outlines the meeting schedule for setting the 2020 tax rate. After today's meeting,

the Small Business Workshop is scheduled for October 23rd and the public hearing to adopt a regulation is scheduled for December 5th.

Turning to slide 4, employers are required to pay Federal Unemployment Tax or FUTA of 6 percent on the first $7,000 of an employee's wages unless the employer pays payroll taxes under a state program which reduces the Federal Tax to .6 percent. The 5.4 percent reduction in the tax rate lowers the amount due for the Federal payroll tax per employee from $420 to $42. The UI contribution section validates Federal tax payments with the IRS through yearly certification reports to the IRS for all employers.

Turning to slide 5, the State Unemployment Tax or SUDA, collected from Nevada employers is deposited into a UI trust fund. Monies from the trust fund are used to pay unemployment benefits to qualified workers. SUDA is paid by employers and cannot be deducted from employee's wages. SUDA rates vary according to an employer's experience with unemployment.

Turning to slide 6, at the core of the unemployment insurance program is a rating system known as Experience Rating. To be in conformity with Federal law all states are required to have a method of experience rating that has been approved by the U.S. Secretary of Labor.

The Nevada rating system works as follows. The rate for all new employers is 2.95 percent of taxable wages. The annual

taxable wage base or taxable limit is the annual figure calculated at 66-2/3 percent of the annual average wage paid to Nevada workers. Unemployment insurance taxes are paid on an individual's wages up to the taxable limit during the calendar year.

Turning to slide 7, the UI taxable wage limit in 2019 is $31,200 per employee. Effective January 1, 2020, the taxable wage limit will be increasing to $32,500 per employee. Employers pay at the new employer rate of 2.95 percent for approximately three and a half to four years until they are eligible for an experience rating. Once eligible for an experience rating, an employer's rate can range from .25 percent to 5.4 percent depending on the individual employer's previous experience with unemployment.

The 18 different tax rate classifications are outlined in NRS 612.550. The annual tax rate schedules adopted through the regulatory process applies only to experience rated employers. The standard rate established by Federal law is 5.4 percent. Rates lower than 5.4 percent can only be assigned under a state's experience rating system approved by the Secretary of Labor.

The intent of an experience rating system is to assign individual tax rates based on an employer's potential risk to the trust fund. Employers with higher employee turnovers are at a greater risk to the fund and pay higher rates than those with lower employee turnovers.

As displayed on slide 7, in 2019 experience rated employers' annual cost per employee for unemployment insurance ranged from $1,684 per employee to $78 per employee. In calendar year 2020 the maximum annual cost per employee will increase slightly by 4 percent due to an increase in the average annual wages and the annual taxable wage limit.

Turning to slide 8, to measure an employer's experience with unemployment, Nevada, along with a majority of the states, use the reserve ratio experience rating system. Under this system, the Division keeps separate records for each employer to calculate their reserve ratio each year.

In the formula used to calculate each employer's reserve ratio, we add all contributions or UI taxes paid by the employer and then subtract the benefits charged to the employer. The result is divided by the employer's average taxable payroll for the last three completed calendar years. This calculation establishes the employer's reserve ratio.

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

they have paid in taxes, the employer's reserve ratio will be negative, and the employer will generally have a higher tax rate.

Turning to slide 9, each employer's reserve ratio is applied to an annual tax rate schedule to determine which rate classification will apply to the calendar year. Before setting the annual tax rate schedule for the next calendar year, NRS 612.550 requires the Administrator to determine the solvency of the trust fund as of September 30th. Projections are then developed for the next calendar year.

Those projections include estimates of the number of active employers, the amount of taxable payroll, the amount of UI benefits that will be paid and the estimated revenues that the trust fund will need to meet those benefit payments and maintain solvency. Under the employer reserve ratio data, several possible schedules are produced with a variety of average tax rates and revenue projections.

Now let's look at the 2020 estimated tax rate schedules handout. It looks like this. It's a booklet in your packet that has all the tax rates. In the estimated tax rate schedule handout, we have provided the Council with five tax rates to consider. This information, along with any public comment, will assist you in giving the Administrator a recommendation for the 2020 average tax rate.

The detailed tax schedules display the reserve ratio, increments between rates, ratios assigned to each rate, the

estimated number and percentage of employers in each rate category, the estimated taxable wages with percentages and the projected total revenue.

Turning to slide 10 of this presentation and in your rate book you'll see as an example we will look at the rate of 1.85 percent which is the existing tax rate. In this schedule as well as others in your handout, the 18 tax rates displayed in the fourth column of the charts do not change. These rate classes range from .25 percent to 5.40 percent fixed by statute NRS 612.550.

Furthermore, the statute requires the Administrator to designate the ranges of reserve ratios to be assigned to each tax rate classification for the year and increments between the reserve ratios must be uniform per NRS 612.550. In the estimated tax rate schedule of 1.85 percent, the reserve ratio ranges are from a positive 15.4 to a negative 10.2 with increments of 1.6 between each of the reserve ratios.

In this example, if an employer's reserve ratio is a positive 15.4 or better, the employer receives the lowest rate of .25 percent. An employer with a reserve ratio of less than a negative 10.2 percent would receive the highest rate of 5.40 percent. And the rest of the employers fall somewhere in-between.

In this rate schedule, approximately 10.3 percent of the eligible employers are in the lowest rate of .25 percent, and 4.7

percent of eligible employers are in the highest rate of 5.40 percent. As you review various schedules, you will see the number of employers change in each of the estimated tax rate schedules.

Out of the 79,354 total employers as of September 30, 2019, there are 52,363 employers eligible for experience rating which we estimate under the first schedule would generate $605.4M in revenue to unemployment trust fund. In addition, $67.85M from new employers at the 2.95 percent not eligible for experience rated is added for a total revenue of $673.29M attributed to the average rate of 1.85 percent.

Turning to slide 11, this rate schedule displays the detail for an average rate of 1.75 percent. To achieve this average rate, the range of reserve ratio is from a positive 14.8 percent to a negative 10.8. The estimated total revenue decreases to $636.88M and the number of employers in each rate classification shifts with 11.8 percent of eligible employers being in the lowest rate of .25 percent and 4.6 percent of eligible employers being in the highest rate of 5.4 percent.

The last slide, slide 12, this chart displays the summary of the average rates of 1.45 percent through 1.85 percent. The summary shows the ranges of reserve ratios, increments, average UI tax rate, estimated revenue, the distribution of eligible employers within each class, and as a note you will also see on each rate schedule that there is an additional .05 percent tax

for the career enhancement program which is a separate state training tax set by statute, NRS 612.606.

And for the record, no written comments have been received by the contribution section on the impact of any potential rate change. Mr. Chairman and members of the Council, this concludes my presentation. Thank you.

SUWE: Thank you, Edgar. Do any of the Council members have any questions for Edgar? Okay, hearing none, we will now move on to Agenda Item 8. I will again open the meeting up to public comment. Remember to state your name, title and who you represent for the record. We'll start in Las Vegas. Mr. Susich, can you tell me is anyone there wishing to speak?

SUSICH: No, no comment here.

SUWE: Anyone in Carson City that would care to comment on the presentation so far? Seeing none, we will move on. We will now have Council discussion on the rate recommendation. Members, please remember to state your name for the record. Would any Council members care to start the discussion on a possible rate recommendation?

Well I'll start, Fred Suwe. I'm glad we didn't go with 1.95 last year. We sure came close to doing that, and it turns out projections, while they were wrong, we certainly didn't take any hits. And I guess one of the questions that was raised which I certainly would entertain discussion on it, is what is our goal? What do we want the high cost multiple to be?

So, we're at 1.46 and it seems to me that given our history, unless we had a repeat of 9/11, we're not likely to come anywhere close to that in a 12-month period of time between now and this time next year. So, just to start the discussion, it would seem prudent to me that even if we just wanted to maintain, we'd have to lower the current rate – we'd have to consider lowering it considerably just to maintain the 1.46.

CAPELLO: Alessandro Capello for the record. I don't – it would be such a low rate that like it would be difficult to maintain a 1.46 over the year without a recession or something – without benefit payments rising, it would be difficult just on the current tax rate path.

SUWE: Anyone – any other Council members have any discussion, any thoughts?

SUSICH: This is Tom Susich down in Las Vegas. I was just wondering; we've got a balance of about $2B in the trust fund now. I don't know, is there any – it also looks like we're not in the highest states with regard to solvency, but we're in pretty good shape. Is there a goal that we want to reach for a balance, a sustained balance in the trust fund?

CAPELLO: Alessandro Capello for the record. That was one of my slides for you all to try to come up with maybe a number or, you know, some sort of guidance. There isn't a right answer necessarily. It's based on our experience and what we know from history, and you can decide however you like.

SUSICH: This is Tom Susich again. I noticed that no matter, even if we go with the lowest rate that we have on our charts, we still will be receiving additional revenue, is that correct? In other words, based on our projections.

CAPELLO: Alessandro Capello, yes, so even under the 1.45 rate, which is the lowest rate that I had on the table, it should be on the screen, the net change in the fund, which is towards the middle of the table, is $327.9M. And again, this is the baseline forecast, so this is my – if things continue to go about how they've gone for the last couple years, this is what I expect to happen.

That benefit payment chart with the spread or the confidence interval, if there is a recession or something happens in the next year, that starts to change. But yes, under that scenario, the $327M net change would still see positive growth, so the ending fund balance this time next year would be around $2.17B.

SUSICH: But as I understand it from presentations, we have about a 40 percent chance of a recession in the next year? Is that right?

CAPELLO: Alessandro Capello. Yes, so and that was what kind of Dave used the expected value chart which is also in mine. I stole his slide. But we just – we're trying to show that these are not assurances, you know, from here on out.

So, that was kind of a way to say okay, we could continue to carry the rate that we've had which is a relatively high rate as I kind of showed where we're at relative to the other states and continue to aggressively grow the fund if we deem that it's more important to have a very high average high cost multiple, which is totally a fair argument to make considering our experiences.

But at the same time, if we're not so sure that there is not going to be a recession, do we want to kind of hedge a little bit, and so that was kind of the logic behind the expected value was what's a balance? So those were kind of ways to think about that.

SUWE: Anyone else?

SUSICH: Does the Administrator have any recommendation as to what she thinks would be a reasonable rate?

GAA: Kimberly Gaa, for the record. It's my understanding that the Council's convening is intended to make the recommendation to me based on the information provided here, so I wouldn't be weighing in on making a recommendation to the Council. But I can appreciate the data that has been presented by our research and analysis division. So, yeah, I wouldn't be weighing in on making a recommendation.

SUSICH: I understand.

BERNAL: This is Flor Bernal, for the record. One of the things that comes to mind is, you know, if the Council

does decide to decrease the rate, say for example 1.75, will that cause an additional hardship if and when the Council has to increase the rate?

Say for example, we go into a recession in 2021 and we decide to have the need to increase for this rate. Is that increase going to cause a further hardship to the employers because now they have higher costs while during the recession?

SUWE: Fred Suwe. That's a very valid concern. The good news is we get to revisit this in 12 months. So, anything that would happen would be incremental and we could incrementally change again in 12 months.

Quite honestly, the 1.46 high cost multiple is really high, and so just throwing out my thought is I think the 1.65 is really good middle ground cause even if you look at the circles chart, you're still taking in more revenue than you're spending in benefit payouts.

CAPELLO: Correct. Alessandro Capello, for the record. Yeah, so if you look at the last row on slide 24 of my presentation, the 1.65 rate is the, and I wish I could make them balance out and even, but the chart didn't let me, but the 1.65 is right in the middle of those five different rates. And yes, more than half of UI contributions would go to trust fund growth.

So we would still be growing the fund at a pretty decent clip, especially by historical standards. You look back at all these other years where it's a sea of red and then these last

several years where we've been very good about building the trust fund. Now we had to but with all those – yes, we'd still see trust fund growth.

[crosstalk]

SUWE: Fred Suwe. I'm – I can't put my finger on the chart you made that showed the high cost multiple with the different tax rates. Do you happen to know what chart number that was? Oh, here it is, 28. Or no, there was another one I thought. Anyway, it just seems to me that for the next year – oh, here it is, 31.

CAPELLO: 32, yes.

SUWE: Right, 32. That even at 1.65 we're looking to increase the high cost multiple to from 1.46 to 1.69. I mean I don't want to drop the 1.45, but that's pretty high.

CAPELLO: Alessandro Capello. Yeah, so I mean and especially in the historical level, like we're in new charted territory for Nevada and its trust fund, so that was kind of – I was laughing about this because historically – well in the last several years we've just been worried about building the fund, building the fund, building the fund, building the fund, and this is kind of the first time where we go okay, we're gotten to some part of that at least, and so making a rate decision is a little more difficult because it's not so clear what the easy rate to pick is.

So, yeah, under these base line assumptions if we – if the economy grows forever and we have the trust fund tax rate above that benefit cost rate, so one of those slides where that blue area is growing, if that continues to be above zero, the average high cost multiple will continue to rise with that. So, all these rates would have that blue area grow.

SUWE: Okay, and I know for the new Council members, a lot of numbers are being thrown out here, but let me just reiterate what the high cost multiple means. It's that you're anticipating how much time do you have before you would deplete the fund. And so, what we're saying is if it's 1.0, you've got a year before you deplete it. So if you're at 1.5, you've got 18 months. Well we're going to meet in 12 months.

CAPELLO: Alessandro Capello again. Correct. So, the average high cost multiple says with no other funding, so that doesn't even count the contributions that you would be taking in the meantime. You still generate revenue even during a recession. Employers, they still are supposed to pay the UI taxes, things like that.

So you do see some funding, so if you look at that, the recession scenario chart, that's why that 2007 recession scenario lasts longer than 1.46, you know, 18 months, because we do have revenue coming and in that meantime so it continues to push that back. So, yeah, even with we'd have 12 months and probably a

little bit more to kind of assess things as you go, I would suspect.

SUWE: Thank you. Peter, did you have something you wanted to –

GUZMAN: Yeah, I'm a little bit sensitive to the hardship question, and I'm not quite sure it was answered, and it wasn't really answered, right?

BERNAL: This is Flor Bernal, for the record. I do believe it has been answered. It was determined that we would meet on an annual basis, so we would revisit.

SPEAKER: [inaudible]

BERNAL: Correct.

SUWE: Yes, and if I understood your question, it was the hardship on employers having a sudden rise in their tax rate, and I think when we would meet again next year, we would have a better picture. I guess my concern is I was kind of blown away about how off the mark I was a year ago thinking we needed the 1.95, and quite frankly, we didn't need the 1.85.

What I'm understanding is our trust fund if very healthy to withstand almost any kind of recession, and nothing was worse than the one following, at least in my experience, 9/11. And I mean that would almost – if we made a decision today, that would almost have to happen tomorrow for us to have a worse case scenario for a year from now.

So, I'm trying to do everything I can not to make the motion, but I really think 1.65 looks like a good middle ground. Anyone else have any questions?

WITTENBERG: Margaret Wittenberg, representing Employer, I would make that motion to reduce it to 1.65.

SUWE: So, what was it, to what?

WITTENBERG: To 1.65.

SUWE: 1.65.

WITTENBERG: From the 1.85.

SUWE: There's been a motion to recommend a UI tax rate of 1.65, which is a reduction of the current 1.85. Is there a second?

SUSICH: I'll second it. This is Tom Susich.

SUWE: Is there any further discussion? Hearing none, all in favor of the motion, signify by saying aye.

[ayes around]

SUWE: The motion carries, and the recommended UI tax rate is 1.65. I will now move on to Item 9. I will offer one final opportunity for public comment. Remember to state your name, title and who you represent for the record. Mr. Susich, is there anyone down in Las Vegas who would like to speak to this issue?

SUSICH: No, we don't have any public comment in Las Vegas.

SUWE: Moving to Carson City, are there any comments in Carson City? I see none. So now I'll accept a motion for adjournment. Would anyone like to make the motion to adjourn?

COSTELLA: Danny Costella, motion to adjourn.

SUWE: Is there a second?

BILLINGS: Charles Billings, I second the motion.

[crosstalk]

SUWE: Charles, second. Any discussion? All in favor, say aye.

[ayes around]

SUWE: Opposed? Thank you all very much. See you next year.