

**REPORT OF THE  
VIRGINIA EMPLOYMENT COMMISSION ON**

**Establishing A  
Temporary Employment  
Service Within The  
Virginia Employment Commission**

**TO THE GOVERNOR AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**SENATE DOCUMENT NO. 6**

**COMMONWEALTH OF VIRGINIA  
RICHMOND  
1993**

## **PREFACE**

Senate Joint Resolution 90, requested the Virginia Employment Commission (VEC) to study the feasibility of establishing a temporary employment service within the VEC. The following work group was established to accomplish the legislative mandate:

**Nikki Nicholau, Chairperson  
Job Service Director, Virginia Employment Commission**

### **Private Sector Representatives**

**Jon King, President  
Virginia Association of  
Temporary Agencies  
Co-President  
Exclusive Temps of VA, Inc.**

**LaVerne King, Co-President  
Exclusive Temps of VA, Inc.  
Richmond**

**Gerri Workman, District  
Manager  
Manpower Temporary Services  
Richmond**

**Joseph Luman  
J. C. Luman & Associates  
Alexandria**

**Susan Clark  
Manpower Temporary Services  
Charlottesville**

**Donna Mason  
Express Services  
Waynesboro**

### **Virginia Employment Commission Representatives**

**Joyce Schuman  
Job Service Manager, Fairfax**

**Donald Martin  
Job Service Manager, Charlottesville**

**Taylor Howell  
Job Service Manager, Harrisonburg**

**Jack Altemus  
Job Service Regional Director, Central  
Region**

**Ron Montgomery  
Legislative Analyst**

**William Jolly  
Personnel Manager**

**Dawna Cox  
Supervisor, Payroll**

While the study concluded that the establishment of a temporary agency by the VEC was not financially and operationally feasible, the study highlighted the need for increased cooperation with private agencies and for additional marketing of VEC services. These efforts should result in improved service to the citizens of the Commonwealth who are seeking temporary employment.

## **TABLE OF CONTENTS**

|  | <b><u>PAGE</u></b> |
|--|--------------------|
| <b>Executive Summary</b>   | <b>1</b>           |
| <b>Introduction</b>  | <b>1</b>           |
| <b>VEC as Employer</b>   | <b>1</b>           |
| <b>VEC as Intermediary</b>   | <b>3</b>           |
| <b>Strengthened VEC - Private Agency Partnerships</b>              | <b>4</b>           |
| <b>Conclusion</b>  | <b>5</b>           |
| <b>Appendix A: Senate Joint Resolution 90</b>                      | <b>6</b>           |
| <b>Appendix B: Cost Estimates</b>                                  |                    |
| <b>B-1 National Agency</b>   | <b>7</b>           |
| <b>B-2 Small, Independent Agency</b>                               | <b>8</b>           |
| <b>Appendix C: Number of Temporary Agencies by County and City</b> | <b>9</b>           |
| <b>Appendix D: Partial List of ALEX Users in Virginia</b>          | <b>10</b>          |

## **EXECUTIVE SUMMARY**

The Virginia Employment Commission (VEC), in response to Senate Joint Resolution 90 (Appendix A), studied the feasibility of establishing a temporary employment service within the VEC. The study work group, chaired by Ms. Nikki Nicholau, VEC Job Service Director, consisted of VEC and private sector representatives. While the study concluded that the establishment of a temporary employment agency within the VEC was not feasible for a number of reasons detailed within this report, the study had two important outcomes. The first was a plan for increased cooperation between the VEC and temporary employment agencies. The second was the identification of the need for additional marketing of the VEC's ability to fill temporary jobs.

## **INTRODUCTION**

The work group initially felt that there were three perspectives from which to view the issue of temporary employment. The options identified were:

1. The VEC could establish, separate and apart from its existing operation, an organization which would operate as a temporary employment agency. In this case, the VEC would be the employer of record.
2. The VEC could continue to act as intermediary between private employers needing temporary employment and individuals needing temporary jobs. Employers would make all hiring decisions and handle payroll.
3. The VEC could work with private agencies, both non-profit and for-profit, to strengthen their efforts in matching job seekers with employers needing short-term, temporary employees. The private agency, as is now the practice, would be the employer of record.

## **VEC AS EMPLOYER**

At first glance, this option appeared to present several benefits to the Commonwealth. The VEC is already in the business of finding individuals jobs; and, as the employer, the agency would be responsible for paying the individuals and collecting and paying taxes. Because many employers of temporary workers just hand the workers cash at the end of the day, often no taxes are paid or collected on these jobs. With the VEC acting as employer there would be the potential for additional tax revenue for the Commonwealth.

Even with the potential for increased tax revenue, it is difficult to justify such a venture, both financially and operationally. Because the VEC could not subsidize through its federal grant the costs associated with running a temporary employment agency, the need to establish a new business entity through which the VEC could employ temporary workers would be the first financial consideration.

Using figures provided by both a nationally recognized temporary employment agency (Appendix B-1) and a small, independently-run firm (Appendix B-2), the work group determined the average cost of establishing a full service temporary office to be from \$150,000 to \$200,000 per location. The cost to the VEC was expected to be this amount or more for the following reasons:

1. The existing state payroll system is not compatible with that needed to run a temporary agency because temporary workers expect to be paid daily or weekly. The state system can process payroll weekly, but there could be as much as a two week delay due to mandated payroll processing procedures. This delay would be unacceptable to most temporary workers.
2. A new billing system would be needed to compute fees based on hours worked and hourly wage and to generate invoices to employers.
3. Because wages are paid daily or weekly, an operating reserve is necessary to bridge the gap between paying the worker and receiving payment from the invoices generated to employers. Based on information received from private agencies, the time between paying a worker and receiving an employer's payment is expected to be 30 to 90 days.
4. New facilities would be needed because existing VEC buildings are already over-crowded with clients served under its federal grant.
5. The cost of unemployment insurance compensation to the agency also would be substantial. This particular expense is creating an unusually high financial burden for private sector agencies in today's economy. There is no reason to believe that the situation would be less financially burdensome for the VEC.

If the VEC were to establish a temporary service business in the 40 plus locations where it now has offices, the start-up cost could range from six to seven million dollars.

Once established, it is questionable whether the VEC could maintain a financially viable business for several reasons. First, there is an understandable concern over the possibility that the VEC would compete with the 491 existing private agencies operating in more than 700 business locations throughout Virginia.

Because there is at least one private agency in almost every county and city of the Commonwealth (Appendix C), it is inevitable that competition would occur unless the VEC handles only those jobs the private agency is unwilling to handle or cannot themselves cost-justify.

The number of jobs the VEC would need to handle to cover the start-up costs alone would necessitate competition with the private sector. If an average job generated a \$5.00 an hour wage and the fee was 30 percent, an employer would be paying \$6.50 an hour, of which the VEC would earn \$1.50. The VEC would need to generate four million hours of work during the first year to break even. This translates into a minimum of 100,000 hours a year per location established as a temporary agency. There is no indication that the level of demand for temporary workers not being handled through existing practices could justify the cost of such an initiative. To break even, the VEC would need to market its service and to offer a full range of workers to fill employer needs. Competition with the private sector would seem inevitable.

The only jobs that the VEC might handle and not compete with the private sector are generally associated with truck loading and unloading and odd jobs on construction sites. These two areas are not handled by many private agencies for two reasons: (1) the inability to guarantee the safety of the work site and (2) the cost of workers' compensation insurance. It is questionable whether the VEC ought to put itself into a business the private sector already has determined to be risky and unprofitable.

Second is the question of whether employers would be willing to pay an agency fee on top of what would need to be at least federal minimum wage to get workers for temporary jobs which are generally low paying. Employers would probably find it more cost-effective to pay cash directly to the worker, as many do today. Additionally, there are a myriad of other sources (such as newspapers, the bulletin boards of grocery stores and laundromats, etc.) through which employers already recruit temporary workers. Finally, consideration must be given to today's environment which continues to call for the downsizing of government. If the VEC became involved in the operation of a temporary employment agency, the Commonwealth's payroll would increase dramatically, not only with the additional staff needed to support the initiative, but also with the temporary workers themselves, who, in fact, would become state employees.

### **VEC AS INTERMEDIARY**

During its last program year (July 1, 1991, to June 30, 1992) employers listed 21,466 temporary jobs with the VEC. There were 16,605 non-agricultural jobs and 4,861 agricultural jobs. These figures indicate that many employers are using the VEC to meet their need for temporary workers.

As with other jobs listed with the VEC, employers needing temporary workers call the VEC with a job order. Most VEC offices are able to fill these requests, even for work on the day of the call. Many workers wanting temporary jobs visit the VEC daily, knowing jobs often are available. When a worker is referred, the wages are paid to the worker directly by the employer. Generally, the work is in the construction industry or for personal service, such as lawn care, moving assistance, etc. However, the work group concluded that most employers are unaware of the availability of temporary workers through the VEC.

As an intermediary, the VEC has established relationships with many private temporary employment agencies throughout Virginia. Not only does the VEC encourage job seekers to register with temporary agencies, but these agencies also list their job opportunities with the VEC. As employers, representatives of private temporary agencies are often members of the VEC's Employer Advisory Committees. Working together on these committees, the VEC and the agencies share a great deal of information relative to the job market and worker availability.

The VEC also works closely with a number of non-profit social service agencies who work with individuals seeking temporary employment. Many of these agencies run their own job placement activities for their clients. Agencies such as the Salvation Army, community action agencies, and homeless shelters develop placement opportunities and often are known as the community's source of temporary labor. Many large companies, as part of their community relations efforts, contact these agencies to offer employment opportunities.

### **STRENGTHENED VEC-PRIVATE AGENCY PARTNERSHIPS**

As discussed in the preceding section, the VEC has established relationships with temporary agencies in many communities. Because these agencies are seen as partners of the VEC and because they are experienced in running a temporary employment service, representatives of several firms were asked to serve as members of the work group conducting this study. Working together, the group concluded that: (1) more needs to be done to strengthen existing partnerships to better serve individuals desiring temporary employment; (2) new partnerships need to be established between the VEC and smaller, independently-owned firms; and (3) the VEC needs to do a better job of letting the employer community know of its ability to fill temporary jobs.

One element in the strengthening of relationships is the expansion of the VEC's Employer Vacancy Entry (EVE) system to more temporary agencies. EVE allows a private agency to access the VEC's computer system using a personal computer and a modem. The agencies can actually match jobs they are trying to fill with job seekers registered with the VEC. The agencies can then contact the job seekers to determine if they are interested in the position to be filled. If no

matches are found in the VEC system the job order can be released so that it is accessible to VEC offices and to job seekers using the Automated Labor EXchange (ALEX) in VEC offices and in other locations. (See Appendix D for a list of the agencies and locations having access to ALEX.) This process provides maximum exposure for available jobs.

Several other actions are planned to strengthen the partnership. Mr. Jon King, president of the Virginia Association of Temporary Services, has agreed to include information about the VEC and its services in future correspondence to association members. He also has agreed to invite the Job Service Director to the association's next meeting to discuss other strategies which might be implemented to improve cooperation.

The VEC's local office managers will be directed to contact all temporary agencies in their areas with whom they do not currently work and to establish, where possible, a mechanism to share information about available jobs and individuals desiring temporary employment.

The VEC's Job Service Director and Chief of Marketing and Public Affairs will review the agency's current marketing plan to ensure that it addresses the VEC's ability to assist individuals and employers in the area of temporary employment.

## **CONCLUSION**

As a result of the study initiated by Senate Joint Resolution 90, the following actions will be undertaken to improve the accessibility of temporary jobs to Virginians seeking employment opportunities:

1. ALEX and EVE will be expanded to allow sharing of information on jobs and job seekers.
2. Dialogue between the VEC and the Virginia Association of Temporary Agencies will continue with emphasis on the expansion of cooperative efforts.
3. The VEC will reach out to temporary agencies for the purpose of increasing placement of individuals seeking temporary employment.
4. Efforts to let employers know of the VEC's ability to meet their temporary employment needs will be increased.

The work group feels that this action plan addresses the legislative intent of Senate Joint Resolution 90, ensuring that, in these difficult economic times, all Virginians have full access to employment opportunities.



**SENATE JOINT RESOLUTION NO. 90**

*Requesting the Virginia Employment Commission to study the feasibility of establishing a temporary employment service within the Commission*

Agreed to by the Senate, February 5, 1992

Agreed to by the House of Delegates, March 3, 1992

WHEREAS, job market participation by all able-bodied Virginians is in the public interest; and

WHEREAS, there exists a labor pool comprised of unemployed individuals who (i) are regularly unemployed; (ii) have exhausted unemployment compensation benefits and are currently without regular employment; or (iii) work irregularly and are ineligible for unemployment compensation benefits; and

WHEREAS, there exists a supply of short-term, or temporary, jobs requiring unskilled or semi-skilled labor in many communities throughout the Commonwealth; and

WHEREAS, many such jobs go unfilled because employers are unable to identify and locate individuals to fill them; and

WHEREAS, local Virginia State Job Service offices of the Virginia Employment Commission situated throughout the Commonwealth currently provide job-matching services for regular, full-time employment; and

WHEREAS, such job service offices could conceivably provide job-matching for employers seeking short-term, temporary employees, and individuals ready, willing and able to fill these positions; now, therefore, be it

**RESOLVED** by the Senate, the House of Delegates concurring, That the Virginia Employment Commission be requested to study the feasibility of establishing a temporary employment service within its Virginia State Job Service Division, together with such other related issues as the Commission may deem appropriate.

All agencies in the Commonwealth shall provide assistance upon request in the manner deemed necessary by the Commission.

The Commission shall complete its work in time to submit its findings and recommendations to the Governor and the 1993 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

**ESTIMATED COSTS OF OPENING A NEW OFFICE IN  
ARLINGTON COUNTY, VIRGINIA**

| <b><u>Fixed Assets</u></b>                  | <b><u>Capital Costs</u></b> | <b><u>Annual<sup>1</sup><br/>Depreciation</u></b> |                       |
|---|-----------------------------|---|-----------------------|
| Leasehold Improvements                      | \$ 9,000                    | \$ 1,800  |                       |
| Furniture                                   | 19,400                      | 3,880   |                       |
| Equipment                                   | 9,550                       | 1,910   |                       |
| Telephone System                            | 4,700                       | 940   |                       |
|   | <u>\$ 42,650</u>            |   | \$ 8,530              |
| <br><b><u>Operating Costs</u></b>           |                             |   |                       |
| Staff Compensation <sup>2</sup>             |                             | \$ 95,000   |                       |
| Payroll taxes, ins, etc.                    |                             | 9,500   |                       |
| Fringe benefits                             |                             | 23,750  |                       |
| Sales Promotion Materials                   |                             | 20,500  |                       |
| Recruiting                                  |                             | 20,500  |                       |
| Outside Services <sup>3</sup>               |                             | 35,000  |                       |
| Occupancy <sup>4</sup>                      |                             | 37,620  |                       |
| Office Expenses                             |                             | 30,000  |                       |
| Bad Debt Reserve                            |                             | <u>20,000</u>                                     | 291,870               |
| <br><b><u>Finance Costs<sup>5</sup></u></b> |                             |   | <u>12,000</u>         |
| <br><b>Total Annual Costs</b>               |                             |   | <br><b>\$ 312,400</b> |

<sup>1</sup> Over five years

<sup>2</sup> Manager and two service reps

<sup>3</sup> Payroll, legal/financial, credit/collection, permanent staff recruitment

<sup>4</sup> 1,800 square feet @ \$19/square foot, plus utilities

<sup>5</sup> 8% interest on \$1,800,000 in sales, assuming d.s.o. = 30 days

**Source: Manpower, Incorporated, June 22, 1992**

**ESTIMATED COSTS OF OPENING A NEW OFFICE IN  
RICHMOND, VIRGINIA**

| <b><u>Fixed Assets</u></b>              | <b><u>Capital Costs</u></b> | <b><u>Annual<sup>1</sup><br/>Depreciation</u></b> |                   |
|---|-----------------------------|---|-------------------|
| Furniture                               | \$ 12,000                   | \$ 2,400  |                   |
| Equipment <sup>2</sup>                  | 13,000                      | 2,600   |                   |
| Telephone System                        | 2,500                       | 500   |                   |
| Improvements                            | <u>4,000</u>                | <u>800</u>  |                   |
|   | \$ 31,500                   |   | \$ 6,300          |
| <br><b><u>Operating Costs</u></b>       |                             |   |                   |
| Salaries and Wages <sup>3</sup>         |                             | \$ 95,000   |                   |
| Payroll taxes                           |                             | 9,500   |                   |
| Benefits                                |                             | 15,000  |                   |
| Insurance (business)                    |                             | 4,500   |                   |
| Marketing, Promotion and<br>Advertising |                             | 20,000  |                   |
| Lease/Occupancy <sup>4</sup>            |                             | 16,800  |                   |
| Supplies and office expenses            |                             | 2,000   |                   |
| Telephone                               |                             | 4,200   |                   |
| Professional Services <sup>5</sup>      |                             | 18,000  |                   |
| Payroll Financing <sup>6</sup>          |                             | <u>5,800</u>                                      |                   |
|   |                             |   | <u>190,800</u>    |
| <b>Total Annual Costs</b>               |                             |   | <b>\$ 197,100</b> |

<sup>1</sup> Depreciated over five years

<sup>2</sup> Includes software for testing, evaluation and training

<sup>3</sup> Manager, Administrative Assistant, and two temporary coordinators

<sup>4</sup> 1,400 square feet @ \$12/square foot

<sup>5</sup> Payroll, legal, tax preparation, and collection

<sup>6</sup> Presumes 8% interest on \$800,000, 30 days net

Source: Exclusive Temps of Virginia, Inc., August 25, 1992

## NUMBER OF TEMPORARY AGENCIES BY COUNTY AND CITY

The Virginia Employment Commission's Wage and Contributions Report (July 23, 1992), indicates that there are 491 temporary employment agencies in Virginia having between one and 100 employees. The following list provides a breakdown of the number of agencies identified by county and city.

There also are 23 multi-location agencies, including Abacus, ADIA, Kelly, Labor Force of Virginia, Manpower, Select Temporaries, Western Temporaries, and others. A county or city breakdown for these agencies is not available. In addition, VEC records indicate another 61 agencies doing business in Virginia show only an out-of-state address for unemployment tax purposes.

The VEC estimates that there are well over 700 temporary agency locations in Virginia.

### COUNTIES:

| <u>County</u> | <u>#</u> | <u>County</u>  | <u>#</u> | <u>County</u>  | <u>#</u> |
|---------------|----------|----------------|----------|----------------|----------|
| Accomac       | 1        | Franklin       | 1        | Nottoway       | 1        |
| Albemarle     | 4        | Frederick      | 1        | Prince Edward  | 1        |
| Arlington     | 28       | Halifax        | 1        | Prince George  | 1        |
| Bedford       | 1        | Henrico        | 21       | Prince William | 7        |
| Buchanan      | 1        | Isle of Wight  | 1        | Roanoke        | 5        |
| Campbell      | 2        | James City     | 2        | Rockingham     | 1        |
| Chesterfield  | 23       | King William   | 2        | Spotsylvania   | 1        |
| Culpeper      | 3        | Loudoun        | 4        | Surry          | 1        |
| Dinwiddie     | 1        | Louisa         | 1        | Tazewell       | 1        |
| Essex         | 1        | Montgomery     | 1        | Wythe          | 2        |
| Fairfax       | 89       | Northampton    | 1        | York           | 2        |
| Fauquier      | 1        | Northumberland | 1        |                |          |

### CITIES:

| <u>City</u>      | <u>#</u> | <u>City</u>   | <u>#</u> | <u>City</u>    | <u>#</u> |
|------------------|----------|---------------|----------|----------------|----------|
| Alexandria       | 10       | Hampton       | 6        | Portsmouth     | 2        |
| Bristol          | 1        | Harrisonburg  | 5        | Radford        | 1        |
| Charlottesville  | 5        | Hopewell      | 2        | Richmond       | 33       |
| Chesapeake       | 9        | Lynchburg     | 9        | Roanoke        | 13       |
| Colonial Heights | 2        | Manassas      | 5        | Salem          | 1        |
| Danville         | 5        | Manassas Park | 1        | South Boston   | 1        |
| Fairfax          | 4        | Martinsville  | 1        | Suffolk        | 2        |
| Falls Church     | 4        | Newport News  | 15       | Virginia Beach | 27       |
| Franklin         | 2        | Norfolk       | 19       | Waynesboro     | 2        |
| Fredericksburg   | 2        | Petersburg    | 1        | Winchester     | 1        |

## PARTIAL LIST OF ALEX USERS IN VIRGINIA

| <b><u>USER</u></b>                      | <b><u>LOCATION</u></b> |
|---|------------------------|
| Bath County Public Schools              | Bath County            |
| Bedford Public Library                  | Bedford                |
| Brunswick Vocational Technical School   | Brunswick County       |
| Paul D. Camp Community College          | Franklin               |
| Capital Area Training Consortium        | Richmond               |
| Clinch Valley College                   | Wise                   |
| Commonwealth College                    | Norfolk                |
|   | Portsmouth             |
|   | Richmond               |
| Doswell Howard Vocational School        | Winchester             |
| Three High Schools                      | Fairfax County         |
| Germanna Community College              | Locust Grove           |
| Heritage High School                    | Lynchburg              |
| Icon Employment Services                | Alexandria             |
| J. Sargeant Reynolds Community College  | Richmond               |
| Kee Business College                    | Richmond               |
| Langley Air Force Base                  | Hampton                |
| Loudoun County Government               | Loudoun County         |
| New Options Group                       | Richmond               |
| New River Community College             | Dublin                 |
| Northern Virginia Community College     | Several Campuses       |
| Oceana Naval Air Station                | Virginia Beach         |
| Old Dominion University                 | Norfolk                |
| Piedmont Job Training                   | Charlottesville        |
| Private Industry Council's Job Center   | Harrisonburg           |
| Department of Rehabilitative Services   | Falls Church           |
| Department of Social Services           | Hampton                |
|   | Lynchburg              |
|   | Newport News           |
|   | Poquoson               |
|   | Verona                 |
| Southside Virginia Community College    | Emporia                |
| Veterans' Center                        | Alexandria             |
| Department for the Visually Handicapped | Alexandria             |
|   | Bristol                |
|   | Richmond               |
|   | Roanoke                |
| Warren County High School               | Front Royal            |