

**REPORT OF THE
VIRGINIA LIAISON OFFICE**

**Report on Efforts of the
Virginia Employment Commission
and the Virginia Liaison Office
to Gain Additional Funding
from FUTA Dollars**

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



HOUSE DOCUMENT NO. 70

**COMMONWEALTH OF VIRGINIA
RICHMOND
2006**



COMMONWEALTH of VIRGINIA

Office of the Governor

Timothy M. Kaine
Governor

November 29, 2006

The Honorable John H. Chichester, Chairman
Senate Finance Committee
P.O. Box 904
Fredericksburg, Virginia 22404-0904

The Honorable Vincent F. Callahan, Chairman
House Appropriations Committee
P.O. Box 1173
McLean, Virginia 22101

The Honorable William C. Wampler, Jr., Chairman
Senate Commerce and Labor Committee
510 Cumberland Street, Suite 308
Bristol, Virginia 24201-4387

The Honorable Harvey B. Morgan, Chairman
House Commerce and Labor Committee
P.O. Box 949
Gloucester, Virginia 23061

Dear Chairmen:

The 2006 budget passed by the Virginia General Assembly included an amendment, Item 120 G.2 of the Appropriations Act from the 2006 Special Session I, directing the Virginia Employment Commission (VEC) and Virginia Liaison Office (VLO) to work with Virginia's Congressional Delegation to seek additional administrative dollars for the unemployment insurance program from taxes paid by Virginia employers. The target is to achieve at least 50 percent of the Federal Unemployment Tax Act (FUTA) taxes returned to Virginia. The amendment also directs the VLO to submit a report to the Governor and the chairs of the Senate Committee on Commerce and Labor, the Senate Committee on Finance, the House Committee on Labor and Commerce, and the House Committee on Appropriations by December 1, 2006, that summarizes the activities by the VEC and the VLO in furtherance of this goal.

FUTA Background

The administrative funding for state unemployment insurance programs as well as other employment security programs such as the Employment Service, Veterans and Labor Market Information, comes from the FUTA taxes that employers pay to the Internal Revenue Service. The FUTA tax is imposed at a rate of 0.8% of each employee's first \$7,000 of wages, for a cost of \$56 per employee per year.

In FY 2004 and 2005 Virginia employers paid \$192.8 million and \$199.3 million, respectively, in FUTA taxes. During those same years, Virginia got back only \$63.2 million and \$60.1 million, respectively, to fund these employment security programs for Virginia workers. This represents less than a third (32.8% for 2004 and 30.2% for 2005) of the funds paid by Virginia employers to fund these programs. For each year during the period of 2000 – 2005 Virginia ranked next to last among the 50 states and the District of Columbia in the percentage of FUTA dollars it received.

As a result of this persistent under-funding, services to Virginia employers, claimants and jobseekers have been reduced. In 2005 the persistent under-funding of these programs required the VEC to close offices in Newport News, Richmond, and Virginia Beach and lay off over two hundred workers statewide. Without additional FUTA dollars, more office closings and layoffs may be required in the future.

Activities

In Fall 2006, Patrick O. Gottschalk, Virginia Secretary of Commerce and Trade, along with staff from the VLO, visited the Washington, DC offices of Virginia's Congressional Delegation in person and discussed the FUTA issue. These meetings were organized and led by staff from the VLO. As a result of these meetings, the VLO secured commitments from members of the delegation to introduce legislative fixes for the FUTA issue in the 110th Congress. The VEC had also given briefings on the FUTA issue to the Secretary and his staff.

At the September 2006 annual meeting of the National Association of State Workforce Agencies (NASWA) in Boise, ID, Virginia Employment Commission commissioner Dolores A. Esser introduced a resolution that the full membership passed. This resolution states that Congress should "appropriate sufficient funds annually from the Federal Unemployment taxes collected to ensure that every state will receive a minimum of 50 percent of the Federal Unemployment taxes." NASWA noted that "a significant number of states receive less than 50 percent of the Federal Unemployment taxes paid by their employers each year," and that "the U.S. Department of Labor has used a flawed and inequitable method called the Resource Justification Model by failing to apply population of the state as required by the Social Security Act."

The VEC works closely with Employer Advisory Committees (EACs), who advise the VEC of services needed by the employer community and the citizens of Virginia, and how best to provide these services. EACs also promote the services of the VEC in their area. The VEC gave information on the FUTA issue to the statewide EAC, to be discussed at the September 2006 annual EAC conference in Roanoke. At this conference, the EAC distributed information packets to its employer members instructing them on FUTA. The EAC encouraged its members to contact Virginia's Congressional delegation about FUTA and to advocate for increased federal awards for FUTA-funded activities.

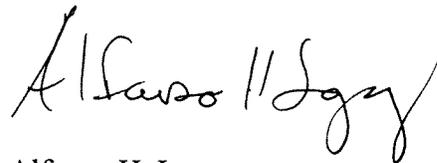
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The VEC also spoke about the FUTA situation in October 2006 at the Unemployment Compensation Commission meeting and at the meeting of VEC stakeholders.

The VLO has assigned staff members to work with the Virginia Congressional Delegation to introduce legislation in the 110th Congress to address FUTA issues with respect to Virginia, in both the U.S. House and Senate. The VLO will continue to coordinate its efforts with Secretary Gottschalk and the VEC in order to actively engage each Virginia Senator and Congressional Representative in bringing about federal legislative solutions to the FUTA issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Alfonso H. Lopez". The signature is written in a cursive style with a large, stylized initial "A".

Alfonso H. Lopez
Director, Virginia Liaison Office

c: Dolores Esser , Virginia Employment Commission