REPORT OF THE

COMMISSION ON UNEMPLOYMENT COMPENSATION

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

REPORT DOCUMENT NO. 23

COMMONWEALTH OF VIRGINIA
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EXECUTIVE SUMMARY

I. BACKGROUND

Chapter 33 of Title 30 of the Code of Virginia (§ 30-218 et seq.) establishes the Commission on Unemployment Compensation ("Commission"). The Commission has the following responsibilities:

- Evaluate the impact of existing statutes and proposed legislation on unemployment compensation and the Unemployment Trust Fund;
- Assess the Commonwealth's unemployment compensation program and examine ways to enhance its effectiveness;
- Monitor the current status and long-term projections for the Unemployment Trust Fund; and
- Report annually its findings and recommendations to the General Assembly and the Governor.

The Commission is chaired by Senator John C. Watkins of Powhatan County. The other members of the Commission are Delegate Harry R. Purkey of Virginia Beach, who is the Commission's vice chairman; Delegate Terry G. Kilgore of Scott County; Senator Yvonne B. Miller of Norfolk; Delegate Samuel A. Nixon, Jr. of Chesterfield County; Delegate Lionell Spruill, Sr. of Chesapeake; Senator Frank W. Wagner of Virginia Beach; and Delegate R. Lee Ware, Jr. of Powhatan County.

The Commission met on July 27, 2005, and November 29, 2005. Meeting summaries are posted on the Commission's website at http://dls.state.va.us/uncomp.htm.

II. ACTIVITIES

1. Solvency of the Unemployment Trust Fund

A primary responsibility of the Commission is to monitor the current status and long-term projections for the Unemployment Trust Fund. At the November 29, 2005, meeting, the Virginia Employment Commission ("VEC") reported that the Trust Fund's solvency level as of June 30, 2005, was 54.9%. This level is substantially greater than the 39.3% reported in 2004 and the 45.5% reported in 2003. The VEC projected that the solvency level of the Trust Fund will rise to 68% in 2006 and to 74% in 2007.

The average annual tax per employee, which ranged between $48 and $51 between 1998 and 2001, increased to $140 in 2004, and is projected to reach $162 in 2005. Part of the increase was due to the fund builder tax, which, in response to Trust Fund solvency levels, was activated January 1, 2004. Virginia's employer tax remains the next lowest in the United States.

As a result of the rise in the solvency level above the 50% threshold as of June 30, 2005, the fund builder tax will not be collected after January 1, 2006. The annual average unemployment tax per employee is projected to decline from $162 in 2005 to $148 in 2006 and to $125 in 2007. Despite the assessment of the fund builder tax, Virginia's average tax per employee in calendar year 2004 ($144) was the lowest of the states in the Fourth Judicial Circuit and was nearly half the national average of $276.

2. VEC Budget and Strategic Priorities

All of the VEC's administrative funding is appropriated by the federal government and derived from Federal Unemployment Tax Act (FUTA) payments collected from employers. 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 fiscal year 2004, Virginia's employers paid $192.8 million in FUTA taxes while the VEC received back $63.2 million in FUTA funds from the federal government. Of this sum, $40.2 million was earmarked for administration of the unemployment insurance program, $15.4 million is for job services, and $7.6 million is for veterans' programs, labor market information, and postage.

Virginia ranks 49th among all states in the percentage of FUTA revenue received when compared to the amount paid by its employers. In state fiscal years 2006 and 2007, the unemployment insurance program is projected to face a shortfall of over $8 million. At the same time, the VEC has opened two call centers and faces the need to replace its 20-year-old computer systems at a cost of $45-50 million.

The members of the Commission wrote to all of the members of Virginia's Congressional Delegation to advise them of the inequity in the FUTA allocation formula and its impact on the VEC and its constituencies. In response to these budget issues, the VEC has closed offices and plans to lay off staff, most of whom are hourly wage employees. At the November 29 meeting, the VEC announced a plan to address budget issues by seeking permission to use $66.93 million in Reed Act distributions that were deposited in the Trust Fund and $5.25 million in penalty and interest funds in fiscal year 2008 to modernize the unemployment insurance automated systems, procure a Web-based financial management and accounting system, replace the Virginia Workforce Network information system, and provide additional unemployment insurance and job service administrative funding. The effect of withdrawing money from the Trust Fund to pay for these projects is projected to raise the average annual per-employee unemployment tax by $2.66 for fiscal years 2008 through 2012.

The VEC noted that its Trust Fund balance projections anticipate the appropriations to withdraw these Reed Act funds. Though the Commission was not asked to take action with respect to the VEC's projects, the chairman requested that the members be provided with information regarding the requests.

3. Electronic Payment of Benefits

The VEC briefed the Commission regarding its efforts to provide UI benefit recipients with an electronic funds transfer into a bank account or into a debit account as part of the Virginia Paycard Program. The goal of the project is to eliminate paper benefits checks, which is projected to save $300,000 in check printing costs while giving the ability to provide more timely payments.

4. Senate Bill 772

The Commission was directed to examine the issues raised by Senate Bill 772, patroned by Senator Brandon Bell. The bill provides that an individual earning at least $2,500 but less than $3,500.01 in his base period shall be eligible to qualify for unemployment compensation benefits only if he had earnings of at least $1,250 in each of two quarters in his base period.

The VEC's analysis of the bill's impact on the Trust Fund indicated that SB 772 would reduce the average annual UI tax per employee by $0.63 over five years. Following a discussion of the issue, the Commission took no action on the matter.

5. 2005 Legislation

In the 2005 Session, the General Assembly enacted a pair of bills that increased the minimum amount of wages an employee must have earned in the two highest earnings quarters of his base period (the first four of the five calendar quarters preceding application for benefits) in order to be eligible for unemployment compensation benefits from $2,500 to $2,700. The bills also increased the maximum weekly benefit from $326 to $330.

The increase places Virginia's maximum weekly benefit level of $330 near the middle of the six area jurisdictions, where the maximum weekly benefit amounts range from $426 in North Carolina to $292 in South Carolina. The national average is $346. Virginia's maximum weekly benefit replacement level is 44% of the state's average weekly wage; the national average is 47%. Among other jurisdictions, the replacement rate ranges from 65% (in North Carolina and West Virginia) to 32% (in the District of Columbia).

6. Other Issues

The Commission examined several other issues during the 2005 interim, including:

- VEC's Hurricane Katrina relief efforts.

- The establishment of an Acquisition Work Group, which is studying Virginia's implementation of House Bill 2137 and Senate Bill 1201 (2005) and related issues addressing practices used by some employers to artificially lower their state unemployment tax rates.

- Mark Groves, an attorney from Norfolk, advised the Commission of an issue that impedes his firm's work in collecting court fines, penalties, and costs owed to the city. A valuable tool in collecting debts is the ability to access the debtor's employment history through the VEC's database. However, the VEC's records are based on individual's social security number, and the switch to distinct driver's license numbers has reduced the number of cases when the collectors have access to the social security numbers.

Revising the VEC's process for accessing records in a way that does not rely on social security numbers would be expensive.

- Congress has been considering the Unemployment Compensation Program Integrity Act of 2005, which was submitted to Congress by the Bush Administration in June 2005. The legislation's goal is to reduce improper payments of unemployment benefits. Specific elements would permit states to use a portion of recovered unemployment benefit overpayments for payment control programs; require states to impose a 15% penalty on fraudulent overpayments; permit states to compensate debt collection agencies for recoveries of overpayments and delinquent unemployment taxes by keeping a percentage of the amount collected; require states to charge an employer's experience rating account for unemployment benefits improperly paid due to the employer's failure to provide accurate information; and allow the collection of delinquent benefit overpayments through garnishment of tax refunds. The measure would also allow states to borrow FUTA funds to upgrade their information technology systems.

III. RECOMMENDATIONS

The Commission agreed to endorse the following recommendations for the 2006 Session of the General Assembly:

1. Repeal the provision of § 30-225 of the Code of Virginia, which provides that the Commission shall expire on July 1, 2006.

2. Obtain a line-item appropriation in the 2006-2008 budget for an amount to cover the annual per diems and expenses of the Commission, which are estimated to be $6,000 per year. In the absence of specific funding, the Commission has had to obtain approval from the Joint Rules Committee to meet.

3. Direct the Virginia Liaison Office, by language amendments in both the "caboose" budget bill for the 2004-2006 biennium and the new budget bill for the 2006-2008 biennium, to work with members of the Virginia Congressional Delegation and federal executive branch agencies to increase the amount of FUTA revenue distributed by the U.S. Department of Labor to the VEC from its fiscal year 2004 level of $63.2 million, which represents 32.8% of the $192.8 million in FUTA taxes paid by Virginia's employers, to an amount not less than 50% of the amount of FUTA taxes paid by Virginia's employers.

Report of the Commission on Unemployment Compensation

TO: The Honorable Timothy Kaine, Governor of Virginia
and
The General Assembly of Virginia

Richmond, Virginia
April 2006

I. INTRODUCTION

The Commission on Unemployment Compensation ("Commission") was established for the purpose of monitoring and evaluating Virginia's unemployment compensation system relative to the economic health of the Commonwealth. The Commission is the successor to the Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Trust that was established by Senate Joint Resolution 133 (1977), and was continued as a legislative joint subcommittee each year until its codification as a statutory commission in 2003.

The statutory provisions relating to the Commission are set out in Chapter 33 (§ 30-218 et seq.) of Title 30 of the Code of Virginia. Section 30-222 directs the Commission to:

- Evaluate the impact of existing statutes and proposed legislation on unemployment compensation and the Unemployment Trust Fund;
- Assess the Commonwealth's unemployment compensation program and examine ways to enhance its effectiveness;
- Monitor the current status and long-term projections for the Unemployment Trust Fund; and
- Report annually its findings and recommendations to the General Assembly and the Governor.

The Commission is chaired by Senator John C. Watkins of Powhatan County. The other members of the Commission are Delegate Harry R. Purkey of Virginia Beach, who is the Commission's vice chairman; Delegate Terry G. Kilgore of Scott County; Senator Yvonne B. Miller of Norfolk; Delegate Samuel A. Nixon, Jr. of Chesterfield County; Delegate Lionell Spruill, Sr. of Chesapeake; Senator Frank W. Wagner of Virginia Beach; and Delegate R. Lee Ware, Jr. of Powhatan County.

Information regarding the Commission's activities may be found on its website at http://dls.state.va.us/uncomp.

II. OVERVIEW OF UNEMPLOYMENT COMPENSATION PROGRAM

A. THE FEDERAL-STATE UNEMPLOYMENT INSURANCE SYSTEM

Virginia’s unemployment compensation program provides temporary financial relief to persons who are unemployed through no fault of their own and are looking for work. The program is designed to ensure that at least a significant portion of basic living expenses can be paid while the eligible person searches for suitable work.

State unemployment programs have been established pursuant to the dual federal-state system initiated in the Social Security Act of 1935. The programs are compelled to conform to federal standards through the Federal Unemployment Tax Act. Under this Act, a federal payroll tax is assessed on virtually all employers but employers receive a 90% credit against this federal tax if its state unemployment taxes are paid to a conforming state unemployment insurance program. Each state administers a separate unemployment insurance program within minimum guidelines established by federal law. Eligibility and the amount and duration of benefits are determined by each state.

Virginia's program is codified at Title 60.2 of the Code of Virginia. The Virginia Employment Commission ("VEC") administers the Commonwealth's unemployment compensation program. The VEC's diverse duties include collecting taxes to fund the program, processing and paying benefit claims, providing administrative adjudication of contested claims, ensuring that the Trust Fund is adequately funded, operating a job service program, collecting and publishing labor market information and population projections, and implementing the federal Workforce Investment Act.

B. UNEMPLOYMENT TAXES

Employers are required to pay a state tax to fund the payment of unemployment benefits and and a federal tax to fund program administration. The state unemployment tax (SUTA) is assessed against Virginia employers with one or more employees. The rate of the tax is determined by, among other factors, the employer's "experience rating," which requires employers with higher levels of qualifying claims, based on claims experience over the preceding four years, to pay higher tax rates. An employer's tax liability is determined by multiplying its applicable tax rate by the first $8,000 of each employee's wages.

The proceeds from the SUTA tax are deposited to an account maintained for each state in the federal Unemployment Trust Fund. As used in this report, “Trust Fund” refers to Virginia’s account in the Unemployment Trust Fund. State unemployment taxes collected from Virginia employers are deposited in the Trust Fund and used solely to pay unemployment compensation benefits to unemployed Virginians.

If the Trust Fund is fully solvent, new employers are initially charged a base tax rate of 2.5%. If the Trust Fund's solvency level meets or exceeds 100%, the minimum tax rate for Virginia's employers is zero.

In addition to the base tax, employers may be required to pay two related taxes, depending on the solvency level of the Trust Fund. First, employers may be charged a "pool tax" to cover benefits paid out from the Trust Fund that cannot be charged to specific employers. Costs charged against the pool include (i) benefit payments made to employees of defunct employers and (ii) coverage of benefit payment costs that cannot be recovered from maximum-rated employers to whom they are attributable because of the 6.2% cap on the base tax. If the Trust Fund solvency level is at 50% or more, however, pool taxes are offset by interest earned on the Trust Fund. Second, employers may be required to pay a "fund-builder" tax whenever the Trust Fund's solvency level drops below 50%.

The VEC's administrative costs are paid from the proceeds of the separate federal unemployment tax (FUTA), a payroll tax imposed at the rate of 0.8% of the first $7,000 of wages (or $56 per employee per year). FUTA is collected from Virginia employers by the Internal Revenue Service and remitted to the federal government, which then appropriates portions of the FUTA proceeds back to the states to cover administrative costs of the unemployment compensation program. FUTA receipts are also used by the federal government for other purposes. The VEC's administrative funding level is based upon the U.S. Department of Labor's estimate of the agency's administrative expenses. The VEC does not receive any general fund appropriation from the General Assembly either for administration of the unemployment compensation program or the payment of benefits.

C. CALCULATING THE TRUST FUND SOLVENCY LEVEL

Since 1982, Virginia has measured Trust Fund adequacy by use of a statutorily prescribed high cost multiple approach. Section 60.2-533 of the Code of Virginia requires the VEC to determine as of July 1 of each year the "adequate balance" of the Trust Fund. The Trust Fund is solvent in any year that its June 30 balance is equal to the amount produced by multiplying (i) the high cost multiplier (which has been 1.38 since 1997) by (ii) the total wages paid by taxable employers in the 12 months preceding the computation date, and multiplying this product by (iii) the average of the cost of benefit payments in the three highest-cost years during the 20-year period ending July 1 of the year of the computation.

D. UNEMPLOYMENT COMPENSATION BENEFITS

The amount of benefits payable to an eligible unemployed worker is calculated to provide the person with wage replacement benefits equal to approximately 52% of the person's pre-unemployment weekly wage. However, the weekly benefit payable to eligible persons whose pre-unemployment weekly wages exceed $635 are subject to a statutory cap of $330 per week. As a result, the percentage of pre-unemployment weekly wages payable to recipients whose pre-unemployment wages exceeded $635 is lower than the 52% provided to others.

An employee’s weekly benefit is determined by the wages earned in the highest two of the last four quarters immediately preceding the quarter in which he became unemployed, which period is referred to as the employee's base period. However, if a claimant has earned insufficient wages in the first four of the last five completed calendar quarters to become eligible for benefits, then such claimant's base period is the four most recent completed calendar quarters immediately preceding the first day of the claimant's benefit year.

Virginia employees must have earned at least $2,700 in total wages in the two quarters of the base period in which earnings were highest in order to qualify for benefits. Eligible claimants are not paid for their first week of unemployment, which period is referred to as the "waiting week." The duration of benefits, which range from a minimum of 12 weeks to a maximum of 26 weeks, is determined based on the total amount of wages earned in the base period.

At the beginning of 2001, the minimum weekly benefit was $50 and the maximum weekly benefit was $268. However, all benefit levels were increased by 37.3% pursuant to Governor Gilmore's Executive Order 86, dated November 14, 2001. This increase applied to all persons receiving unemployment benefits for weeks beginning September 9, 2001, through March 9, 2002.

The General Assembly addressed this issue during the 2002 Session by enacting legislation that retroactively codified the executive order's increases in the weekly benefit amount for recipients of unemployment compensation by 37.3% for claims filed between September 9, 2001, and January 1, 2003. For claims filed between January 1, 2003, and January 1, 2004, the weekly benefit amount was increased by 18.65% above the levels in effect prior to September 9, 2001. For claims filed on or after January 1, 2004, the weekly benefit amounts reverted to the levels in effect prior to September 9, 2001.

For claims filed between July 6, 2003, and July 4, 2004, an individual's benefit became 52% of his previous weekly wages during the two highest quarters in his base period, not to exceed the maximum weekly benefit amount of $316. For claims filed between July 4, 2004, and July 3, 2005, the maximum weekly benefit amount was $326.

Pursuant to House Bill 2050 of the 2005 Session, patroned by Delegate Nixon, the minimum weekly benefit was increased from $50 to $54 and the maximum weekly benefit was increased from $326 to $330, for claims filed effective on or after July 3, 2005. The increase places Virginia's maximum weekly benefit level of $330 near the middle of the six area jurisdictions, where the maximum weekly benefit amounts range from $426 in North Carolina to $292 in South Carolina. The national average is $346. Virginia's maximum weekly benefit replacement level is 44% of the Commonwealth's average weekly wage; the national average is 47%. Among other Fourth Circuit jurisdictions, the maximum weekly benefit replacement rate ranges from 65% (in North Carolina and West Virginia) to 32% (in the District of Columbia).

III. COMMISSION ACTIVITIES

The Commission met twice during the 2005 interim.

A. JULY 27, 2005, MEETING

The first meeting of the Commission of the 2005 interim was convened on July 27, 2005. Issues addressed at the meeting included:

- A report on the status of the Trust Fund, provided by VEC Deputy Commissioner James N. Ellenberger;
- An overview by VEC Commissioner Dolores A. Esser of the VEC's budget and strategic priorities;
- A review of unemployment-related legislation enacted in the 2005 Session, provided by M. Coleman Walsh, Jr. of the VEC;
- A report on State Unemployment Tax (SUTA) dumping detection software, presented by Nancy K. Broaddus of the VEC;
- An introduction to a study of unemployment insurance business acquisition laws, provided by Coleman Walsh and W. Thomas Hudson; and
- An overview of pending federal legislative initiatives, provided by Deputy Commissioner Ellenberger.

A summary of the meeting may be reviewed on the Commission's website at http://dls.state.va.us/groups/uncomp/MEETINGS/072705/sm072705.pdf.

At the close of the meeting, the Commission agreed that members of the Congressional delegation be made aware of the inequity in the FUTA allocation formula and its impact on Virginians. Letters describing Virginia's situation, prepared with the assistance of the VEC, were subsequently signed by all members of the Commission and mailed to each member of Virginia's delegation to the U.S. Senate and House of Representatives.

B. NOVEMBER 29, 2005, MEETING

The Commission's second meeting was held on November 29, 2005. Issues addressed at the meeting included:

- Reviews of legislative proposals, including (i) Senate Bill 772 of the 2005 Session; (ii) a repeal of the scheduled "sunsetting" of the Commission; and (iii) a request for a line item appropriation in the Budget Bill for payment of the Commission's expenses;
- An updated report by Deputy Commissioner Ellenberger on the status of the Trust Fund;

- An update by Commissioner Esser of her July report on the VEC's budget issues and attempts to increase Virginia's share of FUTA funds;

- A report on Hurricane Katrina relief efforts in the Commonwealth, provided by Commissioner Esser;

- An overview of issues regarding the electronic payment of unemployment compensation benefits, provided by the VEC's Eddie Sparkman; and

- A discussion of the barriers facing government debt collection attorneys in accessing information in the VEC's data system, by Mark Groves of the Norfolk law firm of Glasser & Glasser.

A summary of the meeting may be reviewed on the Commission's website at http://dls.state.va.us/groups/uncomp/MEETINGS/112905/sm112905.pdf.

IV. STATUS OF THE UNEMPLOYMENT TRUST FUND

A primary responsibility of the Commission is to monitor the current status and long-term projections for the Unemployment Trust Fund. At the Commission's July 27 meeting, Deputy Commissioner Ellenberger advised the Commission that the solvency level of the Trust Fund is at a higher level than at any time since 2002. At that time, the solvency level, which is determined by dividing the balance in the Trust Fund by the statutorily-determined adequate fund balance, was projected to be 49.9% as of June 30, 2005.

Final figures for the solvency status of the Trust Fund were presented at the November 29, 2005, meeting. Deputy Commissioner Ellenberger reported that the Trust Fund's solvency level as of June 30, 2005, was 54.9%. This level is substantially greater than the 39.3% reported in 2004 and the 45.5% reported in 2003. The VEC projected that the solvency level of the Trust Fund will rise to 68% in 2006 and to 74% in 2007. The balance in the Trust Fund increased from $294 million in September 2004 to $504 million in September 2005. A copy of Mr. Ellenberger's presentation may be found at the Commission's website and is attached, along with a summary prepared by the VEC of several key indicators, as Appendix A.

As the Trust Fund's solvency level as of June 30, 2005, was determined to exceed 50%, the unemployment tax rates paid by employers will decline. Employers will not be assessed the 0.2% "fund builder" tax after January 1, 2006. Based on the Trust Fund's solvency level as of June 30, 2005, of 54.9%, the minimum tax rate, including the 0.19% pool tax rate, for 2006 will be 0.3%, or approximately $23 per employee. The minimum rate is reportedly paid by 62% of Virginia employers. The maximum tax rate, including the 0.19% pool tax rate, will be 6.39%, or $511 per employee. For 2005 the maximum state tax rate, which included the fund builder tax, was 6.62%, for a total annual maximum liability of $529.60 per employee.

The average annual unemployment tax per employee, which ranged between $48 and $51 between 1998 and 2002, increased to $140 in 2004. The VEC projects that this amount will rise to $162 in 2005 and then will decline to $148 in 2006, to $125 in 2007, and to $106 in 2008. Virginia's average tax per employee in calendar year 2004 ($144) was the lowest of the states in the Fourth Judicial Circuit and was nearly half the national average of $276.

The improvement in the Trust Fund's solvency is attributable in part to declines in the unemployment rate and shorter periods of benefit payments. From October 2003, until September 2005, Virginia's unemployment rate in each month has been less than or equal to the rate in the corresponding month of the previous year. As of September 2005, the year-to-date unemployment rate was 3.6%. Total initial year-to-date claims for unemployment benefits through September 2005 were down 12.8% from the same period in 2004 and down 40.1% from 2003. First payments of unemployment insurance benefits the first nine months of 2005 were down 11.6% from the same period in 2004 and down 34.4% from 2003. Final payments of benefits in the first nine months of 2005 were down 18.6% from the same period in 2004 and down 42.2% from 2003. The average duration for receipt of unemployment benefits was 12.5 weeks in September 2005, down from 13.4 weeks in September 2004.

V. OTHER ISSUES

A. BUDGET AND SRATEGIC PRIORITIES

As previously noted, all of the VEC's administrative funding is appropriated by the federal government from FUTA payments collected from employers. In addition to paying for the administration of state employment security agencies at the federal and state levels, FUTA revenue finances federal loan funds and provides revenue for extended benefits programs.

In fiscal year 2004, Virginia's employers paid $192.8 million in FUTA taxes while the VEC received $63.2 million. Of the money received by the VEC, $40.2 million was earmarked for administration of the unemployment insurance program, $15.4 million is for job services, and $7.6 million is for veterans' programs, labor market information, and postage.

By receiving 32.8% of the funds paid by its employers in FUTA taxes, Virginia ranks 49th among all states in the percentage of FUTA revenue received when compared to the amount paid by its employers. Only Florida received a smaller percentage.

Between fiscal years 2005 and 2006, unemployment insurance funding was cut from $54.3 million to $40 million, and Commissioner Esser reported at the July 27 meeting that a cut of an additional $1.3 million had been announced. Over the same period, program expenditures were reduced from $48.1 million to $42.7 million, producing a projected deficit of $2.7 million. For fiscal year 2007, the unemployment insurance program is projected to face a deficit of $8.5 million and the job services program is projected to face a deficit of $1.6 million.

Several factors contribute to the fiscal woes confronting the VEC. Congress does not appropriate all of the available FUTA tax revenue, in part to help offset the federal budget deficit. The Department of Labor's resource justification model, which determines state administrative funding levels, effectively punishes states such as Virginia that are efficient and have lower employee pay scales. Virginia was one of the first states to automate its systems, which increased efficiency and lowered costs. States with higher unemployment rates receive more money than those, such as Virginia, with comparatively low unemployment levels.

In response to these budget issues, the VEC closed several offices where its leases were expiring. The agency announced plans to lay off several hundred staff, most of whom are hourly wage employees, and classified positions are being left open when employees leave or retire. At the same time, the VEC has opened two call centers to handle inquiries and developed the ability to allow claimants to file via the Internet. VEC also faces the need to replace its 20-year-old computer systems at a cost of $45-50 million. Additional fiscal pressures are being exerted on VEC from the VITA and DRES initiatives. While these centralized procurement services are projected to save money in the long run, VITA has added $200,000 in additional information technology costs without any increase in services. Leasing office space in Northern Virginia through DRES is projected to cost VEC $391,000 in 2006.

Members of the Commission expressed interest in locating unused space in local government buildings that can be made available for use as VEC field offices. The Commission wrote to all of the members of Virginia's Congressional Delegation to advise them of the inequity in the FUTA allocation formula and its impact on the VEC and its constituencies.

At the November 29 meeting, the VEC announced a plan to address budget issues by seeking legislative approval to use $66.93 million in Reed Act distributions that were deposited in the Trust Fund and $5.25 million in penalty and interest funds in fiscal year 2008 to modernize the unemployment insurance automated systems, procure a Web-based financial management and accounting system, replace the Virginia Workforce Network information system, and provide additional unemployment insurance and job service administrative funding. The effect of withdrawing money from the Trust Fund to pay for these projects is projected to raise the average annual unemployment tax by $2.66 per employee for fiscal years 2008 through 2012. A copy of the VEC's November 29 presentation on budgetary issues, including its proposed Reed Act project, is attached as Appendix B.

The VEC noted that its Trust Fund balance projections anticipate the appropriations to withdraw these Reed Act funds. Though the Commission was not asked to take action with respect to the VEC's projects, the chairman requested that the members be provided with information regarding the requests.

The members of the Commission endorsed a proposal to amend the "caboose" budget bill, covering the balance of the 2004-2006 biennium, and the new budget bill for the 2006-2008 biennium, to include language directing the Virginia Liaison Office to persuade the members of the Commonwealth's Congressional Delegation of the need to revise the FUTA funding allocation formula to increase the percentage of payments returned to Virginia. Commissioner Esser suggested that an equitable formula may require each state to receive at least 50% of the amount of FUTA remittances by its employers.

B. BASE PERIOD WAGES DETERMINING ELIGIBILITY FOR BENEFITS

The Commission was directed to examine the issues raised by Senate Bill 772, patroned by Senator Brandon Bell. The bill provides that an individual earning at least $2,500 but less than $3,500.01 in his base period shall be eligible to qualify for unemployment compensation benefits only if he had earnings of at least $1,250 in each of two quarters in his base period. The bill was passed by in the Senate Commerce and Labor Committee with a request by letter that the Commission examine the issues raised by the bill.

The Commission addressed the bill at its November 29 meeting, at which time Senator Bell appeared and spoke in favor of the measure. The VEC's analysis of the bill's impact on the Trust Fund indicated that SB 772 would reduce the average annual UI tax per employee by $0.63 over five years. Following a discussion of the issue, the Commission took no action on the matter.

C. SUTA DUMPING

SUTA dumping refers to attempts by employers to artificially reduce their unemployment compensation tax rates. It may occur when a firm reorganizes or acquires another firm in order to obtain a lower tax rate. An employer's SUTA rate is based in part on its experience in discharging workers. An employer may transfer its business to a new, successor corporation who will pay the lower SUTA rate assessed against new employers, thereby avoiding the higher SUTA liability. This may be done by creating a shell corporation and filing for the state's new employer rate, or purchasing an existing employer account with a lower tax rate and transferring employees to that account. When this occurs, that employer's claims experience is "dumped" on the Trust Fund and becomes a cost that must ultimately be shared by all taxable employers.

Congress addressed the issue of SUTA dumping by enacting H.R. 3463, known as the SUTA Dumping Prevention Act of 2004 (P.L. 108-295). The bill was signed into law in August 2004. Pursuant to the federal legislation, the General Assembly passed legislation in the 2005 Session (House Bill 2137 and Senate Bill 1201) to prohibit a person from transferring a business to a related entity for the purpose of obtaining a lower state unemployment tax rate. The unemployment tax rate may vary among firms based on their experience rating, which is determined in part by their history of laying off employees. Nancy Broaddus, VEC's Chief of Tax, provided members with an overview of an automated SUTA Dumping Detection System. She reported that wages information for the second quarter of 2005 will be available for download to the SUTA dumping software by October 2005.

In the course of preparing the SUTA dumping legislation for the 2005 Session, the VEC convened a working group that identified a need to examine the broader issue of how business acquisitions should be addressed. The working group is continuing to examine this issue, and will report its recommendations to the Commission. W. Thomas Hudson, a member of the working group, expressed concerns that Congressional enactment of the federal SUTA dumping legislation may have unintended consequences and deter bona fide business acquisitions and mergers.

The VEC has convened an Acquisition Work Group to study Virginia's implementation of House Bill 2137 and Senate Bill 1201 (2005) and related issues involving § 60.2-535 of the Code of Virginia. At its July 27 meeting, the Commission expressed support for the formation of a work group to study Virginia's unemployment acquisition and transfer statute. Areas of interest included (i) ensuring that each employer is paying its fair share of unemployment taxes based on its claims experience; (ii) ensuring that the interests of the Commonwealth are not harmed by unduly restricting or penalizing legitimate, arms-length business transactions; and (iii) evaluating the implementation of House Bill 2137 and Senate Bill 1201 to determine if there have been any unforeseen consequences detrimental to the best interests of the Commonwealth.

D. MISCELLANEOUS TOPICS

1. Hurricane Katrina Relief Efforts

Commissioner Esser gave the Commission, at its November 29, 2005, meeting, a report on the VEC's efforts to assist Louisiana, Mississippi, and Alabama in processing and adjudicating unemployment compensation claims in the aftermath of Hurricane Katrina. The assistance was necessitated by the storm's vast impact on the Gulf Coast's economy. Hurricane Katrina is blamed for totally or partially destroying over 44,000 of the 96,000 businesses in Louisiana and nearly 31,000 of the 54,000 businesses in Mississippi.

The VEC received a $400,000 grant from the federal Department of Labor to fund four Reintegration Counselor positions to assist storm evacuees in the Commonwealth. It was estimated that between 7,000 and 15,000 people have relocated from the Gulf Coast to Virginia. Hurricane Katrina has prompted the VEC to institute a review of its Continuity of Operations Plan and Catastrophic Recovery Plan. Additional information regarding these efforts is attached as Appendix C.

2. Pending Federal Legislative Initiatives

Deputy Commissioner Ellenberger advised the Commission that Congress has been considering the Unemployment Compensation Program Integrity Act of 2005, which was submitted to Congress by the Bush Administration in June 2005. The legislation's goal is to reduce improper payments of unemployment benefits. Specific elements would permit states to use a portion of recovered unemployment benefit overpayments for payment control programs; require states to impose a 15% penalty on fraudulent overpayments; permit states to compensate debt collection agencies for recoveries of overpayments and delinquent unemployment taxes by keeping a percentage of the amount collected; require states to charge an employer's experience rating account for unemployment benefits improperly paid due to the employer's failure to provide accurate information; and allow the collection of delinquent benefit overpayments through garnishment of tax refunds. The measure would also allow states to borrow FUTA funds to upgrade their information technology systems.

Commissioner Esser also reported that Congress may not complete its reauthorization of the Workforce Investment Act this year. The House of Representatives has passed one version, a Senate Committee another, and the Executive Branch is pushing yet a third approach.

3. Access to VEC Employment Information by Debt Collection Firms

Mark Groves, an attorney from Norfolk, advised the Commission of an issue that impedes his firm's work in collecting court fines, penalties, and costs owed to the city. A valuable tool in collecting debts is the ability to access the debtor's employment history through the VEC's database. However, the VEC's records are based on individual's social security number, and the switch to distinct driver's license numbers has reduced the number of cases when the collectors have access to the social security numbers. Revising the VEC's process for accessing records in a way that does not rely on social security numbers would be expensive.

4. Electronic Payment of Benefits

The VEC briefed the Commission regarding its efforts to provide UI benefit recipients with an electronic funds transfer into a bank account or into a debit account as part of the Virginia Paycard Program. The goal of the project is to eliminate paper benefits checks, which is projected to save $300,000 in check printing costs while giving the ability to provide more timely payments.

VI. 2006 SESSION UNEMPLOYMENT COMPENSATION LEGISLATION

Several bills affecting Virginia's unemployment compensation system were introduced in the 2006 General Assembly Session.

A. LEGISLATION RECOMMENDED BY THE COMMISSION

1. Senate Bill 79 and House Bill 65: Repeal Sunset on Commission

The Commission agreed to endorse the introduction in the 2006 Session of the General Assembly of legislation to repeal the provision of § 30-225 of the Code of Virginia. This section provides that the Commission shall cease to exist on July 1, 2006.

Legislation implementing this recommendation was introduced by Senator Watkins as Senate Bill 79 and Delegate Purkey as House Bill 65. Both bills passed the General Assembly.

2. Line-item Appropriation for Expenses

Section 30-221 of the Code of Virginia provides that all the compensation and expenses associated with meetings of the Commission shall be paid from existing appropriations to the Commission or, if unfunded, shall be approved by the Joint Rules Committee. Since the enactment in 2003 of the legislation that codified the Commission, there has not been any general fund appropriation for the Commission, and the Commission has been required to obtain the approval of the Joint Rules Committee in order to meet. The substantive result is that the costs of its meetings are paid from the budgets for the Clerk's Office, to the detriment of that Office's finances.

The Commission agreed to seek the inclusion in the 2006-2008 biennial budget of a line item appropriation to cover the Commission's expenses, which were estimated to be $6,000 per year. Such an amendment was introduced by Senator Watkins. An amendment to the Governor's introduced budget to provide general fund appropriation for such sum for each year of the 2006-2008 biennium was included in the Senate budget.

3. Lobby for Increase in FUTA Funds

As noted previously, the Commission agreed at the November 29 meeting to support the inclusion of language, in both the "caboose" budget bill for the 2004-2006 biennium and the new budget bill for the 2006-2008 biennium, directing the Virginia Liaison Office to work with members of the Virginia Congressional Delegation and federal executive branch agencies to increase the amount of FUTA revenue distributed by the U.S. Department of Labor to the VEC. The recommendation seeks an increase in FUTA distributions from the fiscal year 2004 level of $63.2 million, which represents 32.8% of the $192.8 million in FUTA taxes paid by Virginia's employers, to an amount not less than 50% of the amount of FUTA taxes paid by Virginia's employers.

Senator Watkins introduced such an amendment. The Senate's 2006-2008 biennial budget includes, as item 120 #2s G.1 language directing the Commissioner of the VEC to work in concert with the Virginia Liaison Office and members of the State Congressional Delegation and federal executive branch agencies to increase the amount of FUTA revenue distributed to the VEC for administration of the Commonwealth's unemployment insurance program.

B. OTHER LEGISLATION

The following six bills pertaining to unemployment compensation that were introduced in the 2006 Session were not reviewed by the Commission:

1. House Bill 144 and Senate Bill 382: Disqualification for Benefits

These identical bills, introduced by Delegate Cole and Senator McDougle, would have disqualified a public school teacher for unemployment compensation benefits if the individual's teaching contract is not renewed as a result of the teacher's failure to comply with the school board's licensure or certification requirements. The bills sought to address the concern of a school district that it is inequitable to pay unemployment benefits to teachers who do not comply with the conditions for continued employment that were agreed to at the inception of the employment. The VEC stated that current practice is to address such situations on a case-by-case basis, with eligibility for benefits being determined by such relevant facts as a teacher's efforts to satisfy the conditions.

House Bill 144 was reported from the Commerce and Labor Committee on a vote of 11-10, and passed the House on a vote of 51-44. The bill was not taken up by the Senate Commerce and Labor Committee. Senate Bill 382 was reported from the Commerce and Labor Committee on a vote of 9-6, but was defeated on the floor of the Senate on a vote of 7-32.

2. House Bill 282: Effect of Failure to Maintain Employment Records

Delegate Spruill introduced legislation that would have eliminated, in situations where an employer is a staffing service or professional service organization that is contractually prohibited from interfacing with the entity to which the employee is assigned, the existing presumption, established pursuant to Virginia Employment Commission regulation 16 VAC 5-32-10 C, which provides that if an employing unit does not maintain required records regarding each worker, there shall be a presumption in favor of the party making an allegation. The burden of overcoming such presumption currently rests upon the party failing to maintain the required records.

The bill was stricken from the docket of the House Commerce and labor Committee at the patron's request.

3. House Bill 567: Maximum Weekly Benefit Amount

Delegate Nixon introduced legislation to increases the maximum weekly benefit from $330 to $347 for claims effective on or after July 3, 2006. The bill was passed without a negative vote in the Senate or House of Delegates.

4. House Bill 964: Filing Unemployment Taxes for Domestic Service Employees

Delegate Bulova introduced House Bill 964, which would requires the VEC to permit employers to pay unemployment taxes and file reports annually, commencing in 2007, if they employ individuals who perform only domestic service and have a quarterly payroll of not more than $2,500. Currently such payments and filings are made quarterly.

The measure was carried over to the 2007 Session by the House Commerce and Labor Committee. The chair of that Committee has requested the Commission to examine the issues raised by House Bill 964.

5. Senate Bill 247: Leaving Employment to Follow Military Spouse

Senator Ticer introduced "trailing military spouse" legislation, which provides that the spouse of a person military service is not disqualified from receiving unemployment compensation benefits if such spouse voluntarily quits his or her employment in order to follow the military serviceperson to the new duty station. As introduced, Senate Bill 247 provided that good cause for leaving employment exists if an employee voluntarily leaves a job to accompany the employee's spouse, who is on active duty in the military or naval services of the United States, to a new military-related assignment established pursuant to a permanent change of duty order from which the employee's place of employment is not reasonably accessible and is located in a state that, pursuant to statute, does not deem a person accompanying a military spouse as a person leaving work voluntarily without good cause. Benefits paid to qualifying claimants shall be charged against the pool rather than against the claimant's employer.

The bill was amended in the Senate Commerce and Labor Committee to provide that it would become effective if the federal government appropriates adequate funds to pay benefits under this provision. With the amendment, the bill was reported by the committee and passed the Senate without a negative vote. When the bill was referred to the House Commerce and Labor Committee, the patron requested that the bill be stricken from the docket.

VII. CONCLUSION

The members of the Unemployment Compensation Commission appreciate the valuable assistance provided by Commissioner Esser and her staff at the Virginia Employment Commission. The Commission members also would like to thank all participants for the assistance they have provided.

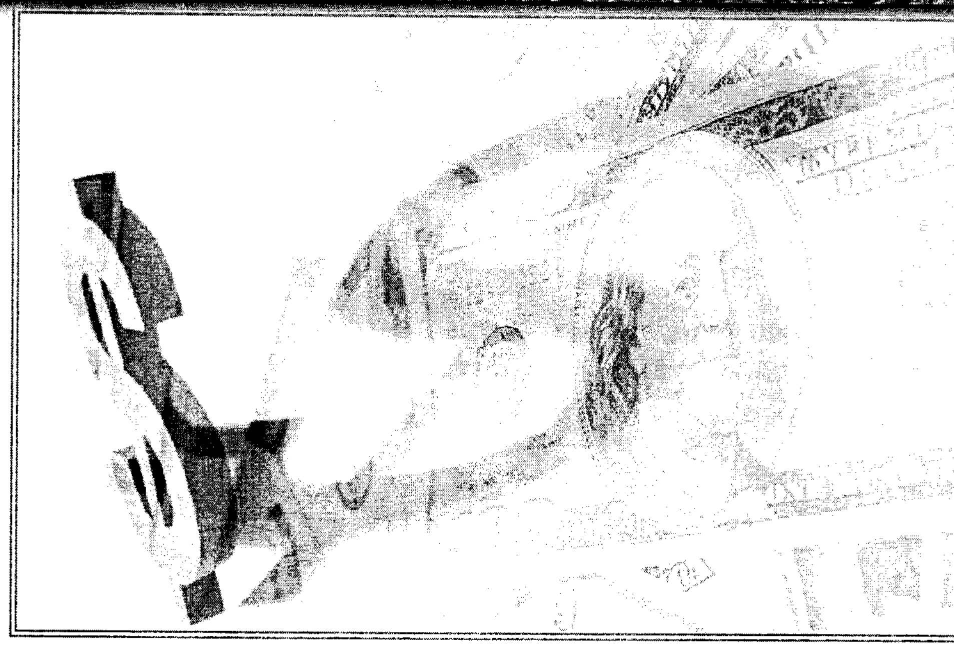
Respectfully submitted,

Senator John C. Watkins, Chairman
Delegate Harry R. Purkey, Vice Chairman
Delegate Terry G. Kilgore
Senator Yvonne B. Miller
Delegate Samuel A. Nixon, Jr.
Delegate Lionell Spruill, Sr.
Senator Frank W. Wagner
Delegate R. Lee Ware, Jr.

VIRGINIA EMPLOYMENT COMMISSION

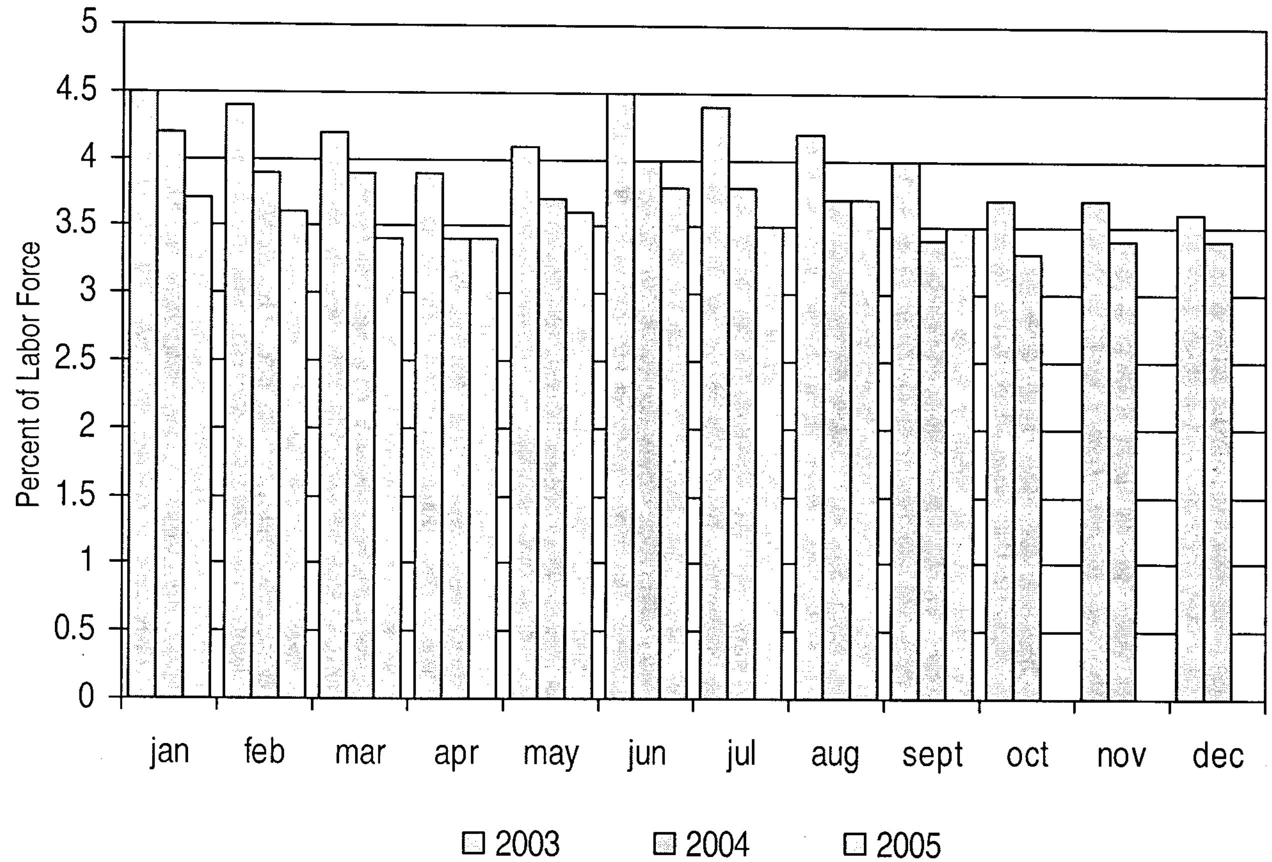
VEC

VEC Trust Fund



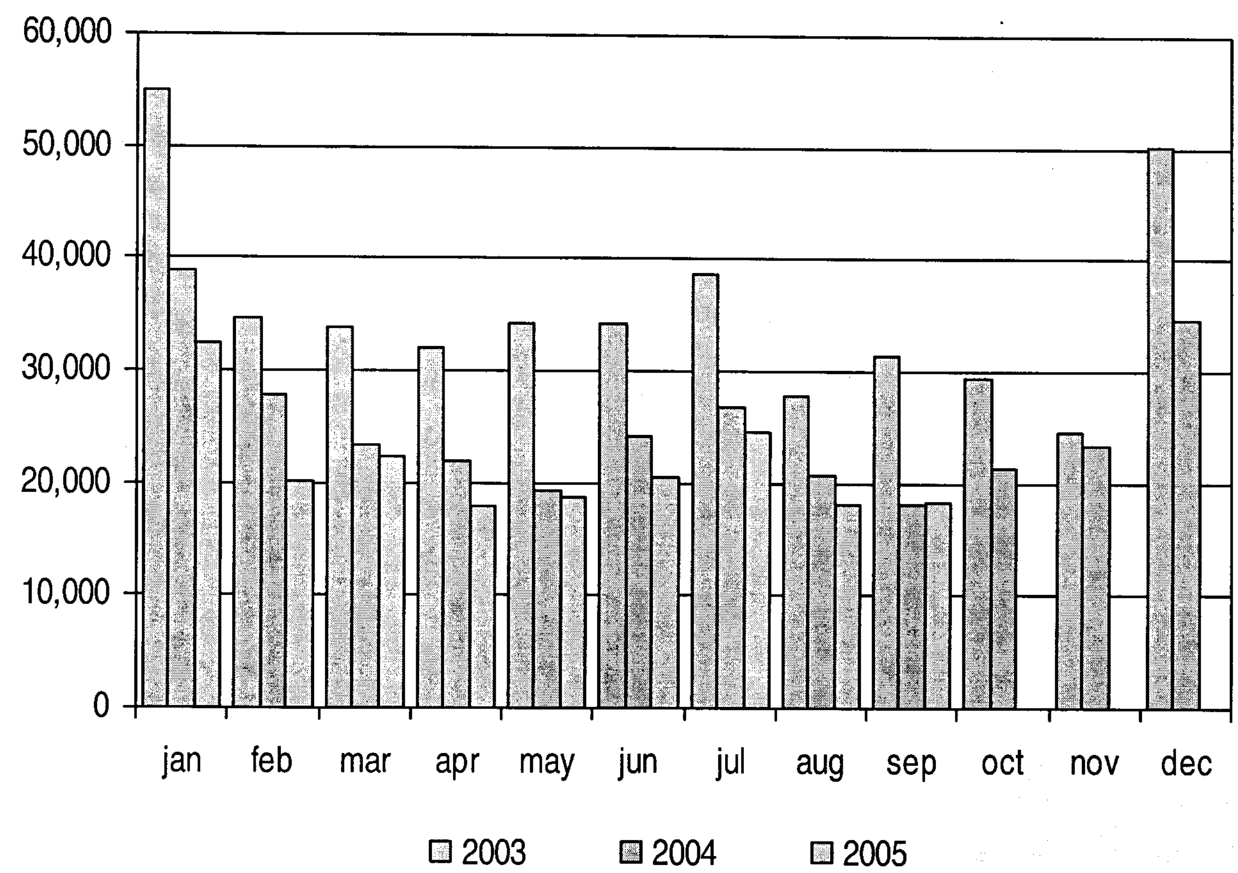
Virginia's Unemployment Rates 2003 - 2005 *(year to date)*

➔ September's unemployment rate was the first in two years to have been above the year-ago rate.



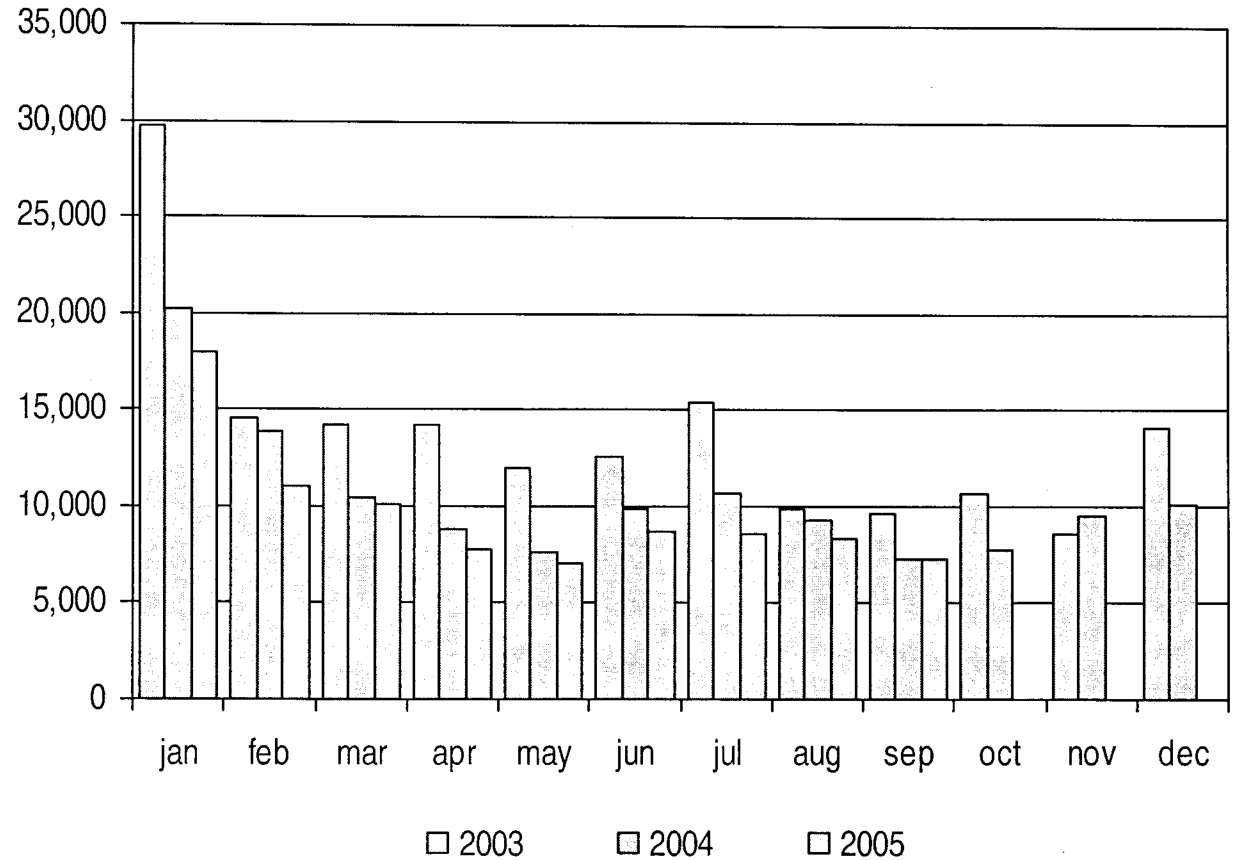
UI Initial Claims 2003 - 2005 *(year to date)*

➔ Total initial claims through September this year are down 12.8% because of fewer temporary factory furloughs and generally improving economy. For the same period, initial claims are down 40.1% from 2003.



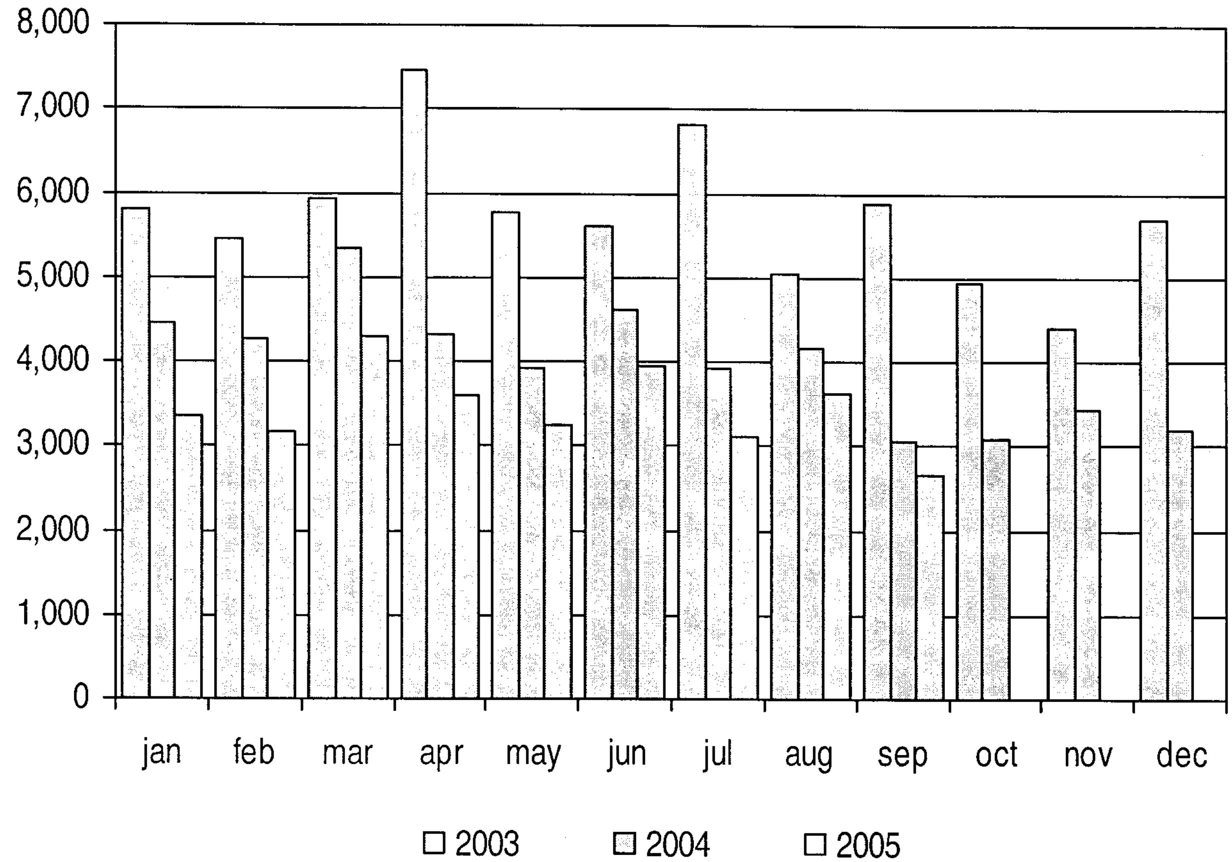
UI First Payments 2003 - 2005 *(year to date)*

- ➔ A claimant can receive only one first payment in his benefit year; so first payments are a good proxy for the number of claimants receiving unemployment benefits.
- ➔ Through September, first payments are down 11.6% from last year and 34.4% from 2003.
- ➔ The average duration in September was 12.5 weeks, below last September's 13.4 weeks.



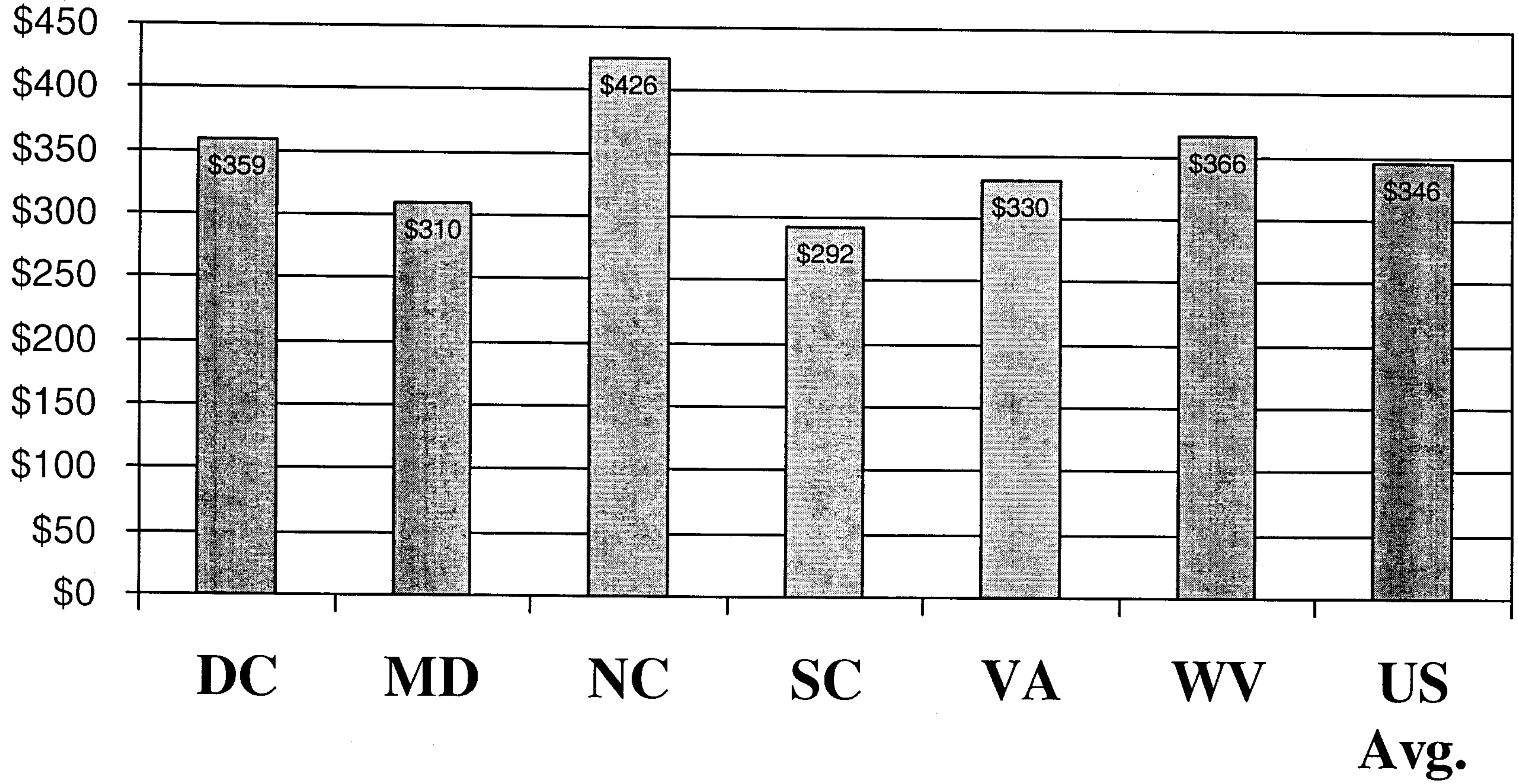
UI Final Payments 2003 - 2005 *(year to date)*

- ➔ For the first nine months of 2005, final payments are down 18.6% from 2004 and 42.4% from 2003.
- ➔ The exhaustion rate in September was 33.9%, down from last September's 35.0%.



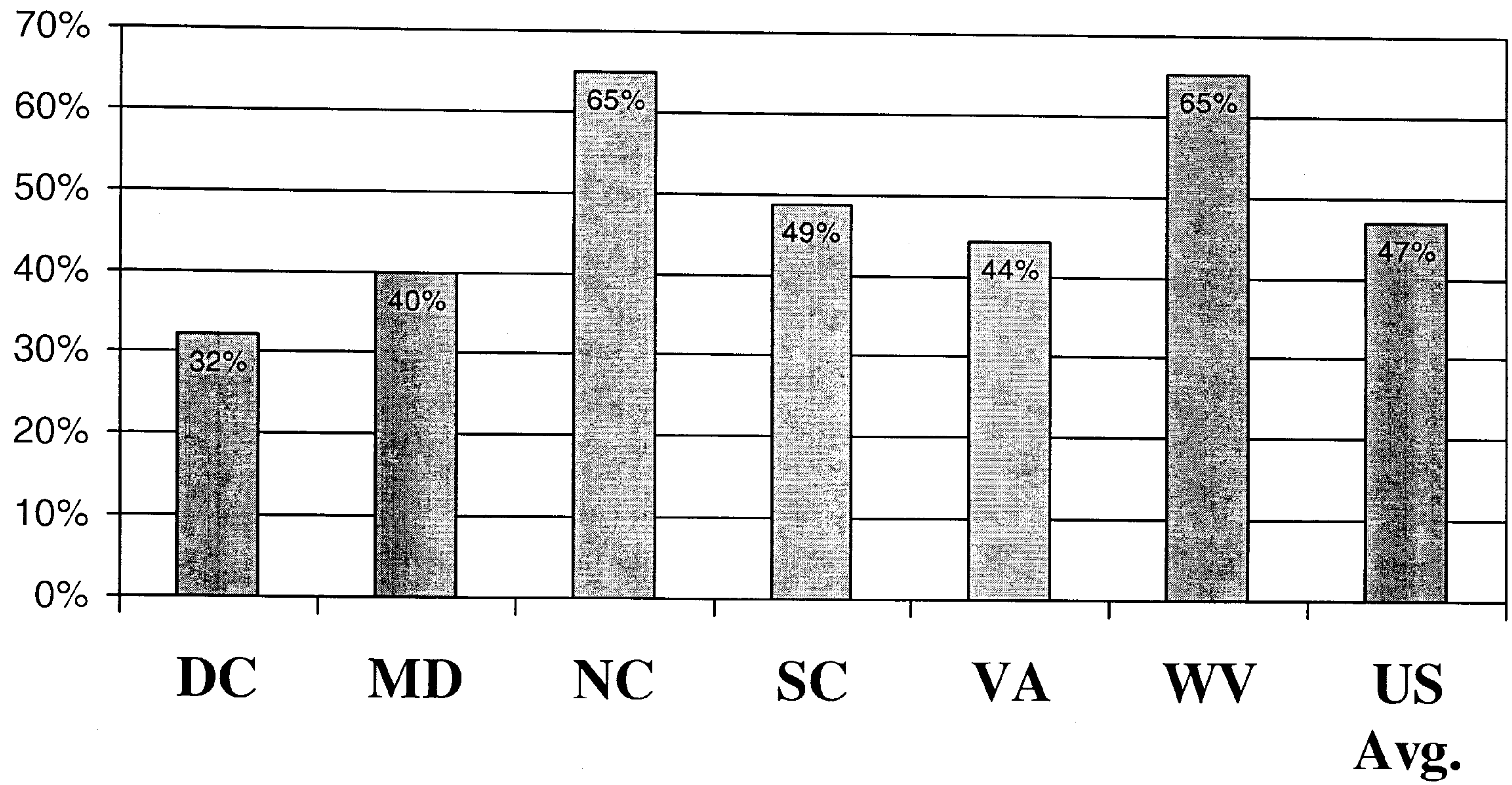
2005 Maximum Weekly Benefit

Fourth Circuit



2005 Maximum Weekly Benefit Replacement Rate

Fourth Circuit



Trust Fund Data
(Millions of Dollars)

(Projections will be updated in December)

	2004	2005
January 1 Balance	$200.3	$274.3
Tax Revenue	$453.5	$545.8
Interest Revenue	$14.7	$22.0
Benefits	$385.3	$348.8
December 31 Balance	$274.3*	$493.3
Solvency Level (6/30)	39.3%	54.9%

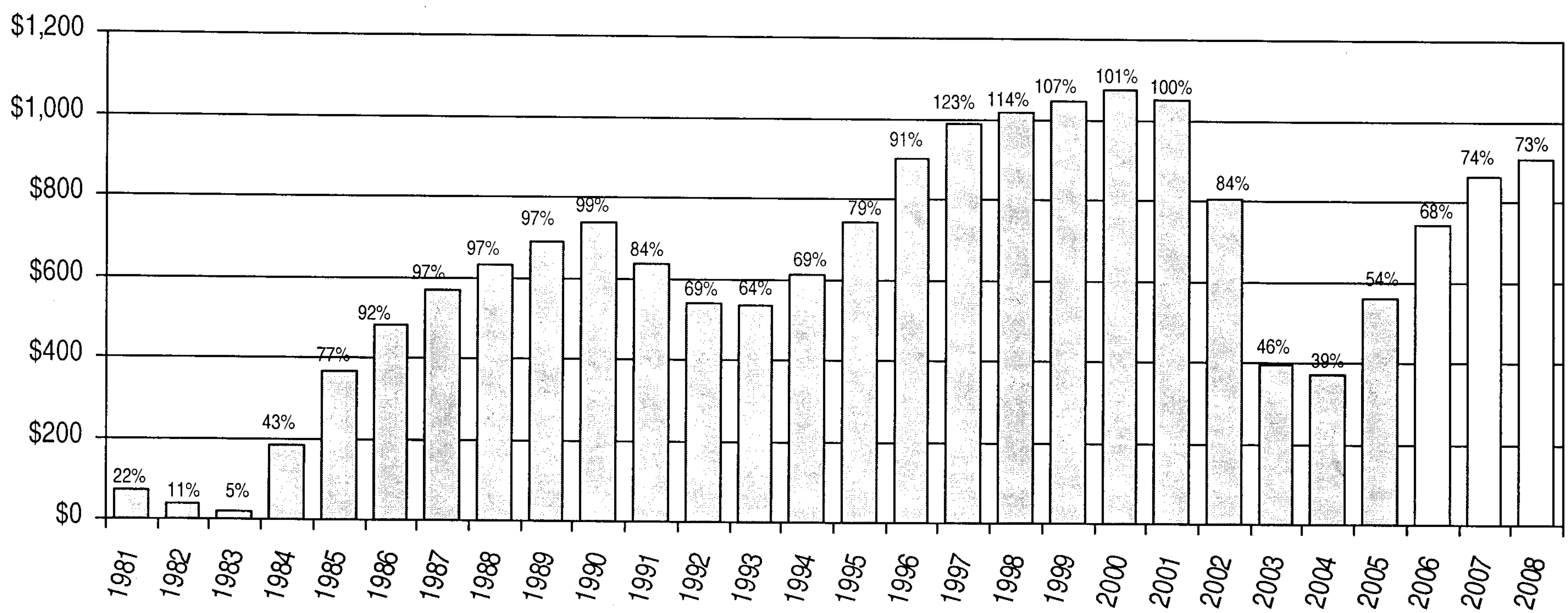
*$9 million in Reed Act money deducted from Trust Fund balance for FY05 and FY06 appropriations for JS and UI administration.

Actual   Projected

June 30 Balances (millions) and Solvency Level

➔ When solvency drops below 50%, Fund Builder Tax is triggered the following year.

(Projections will be updated in December)

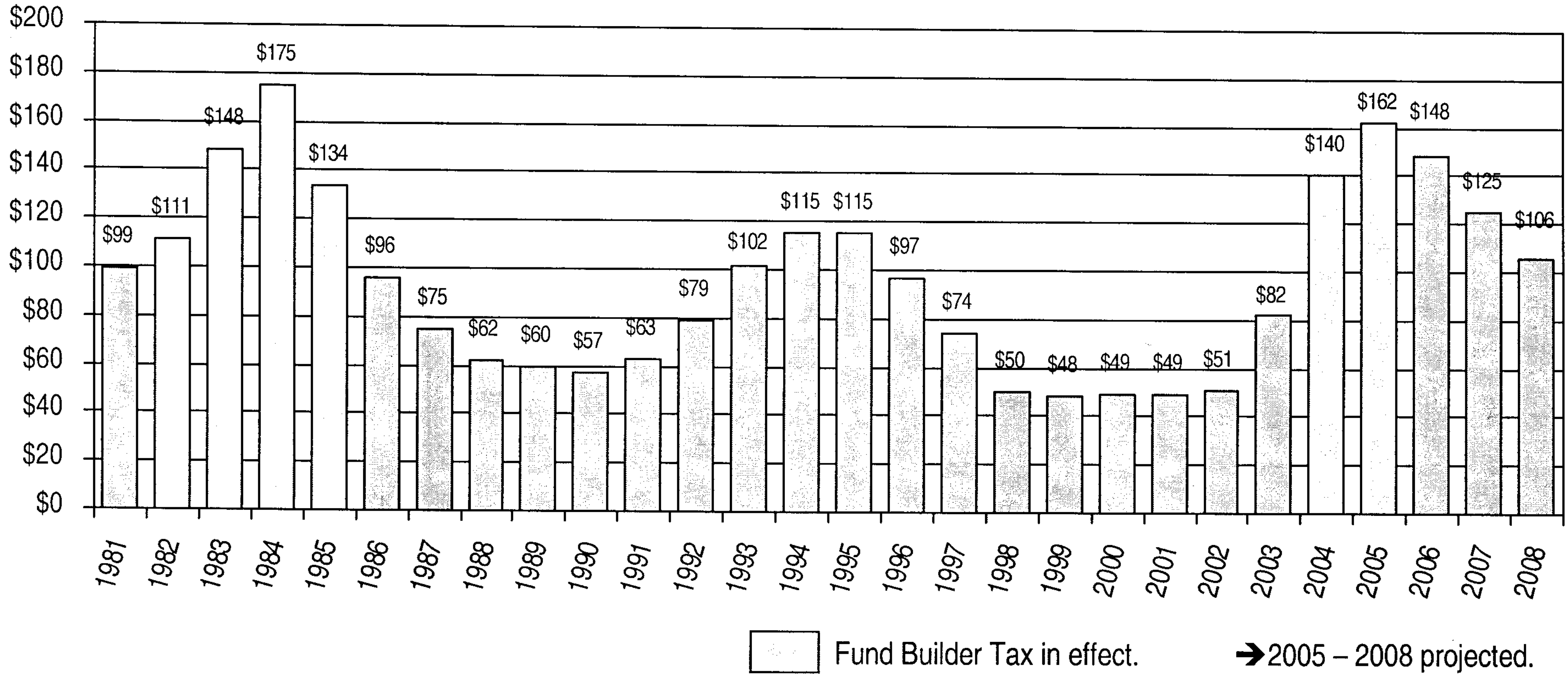


➔ 2006 – 2008 projected.

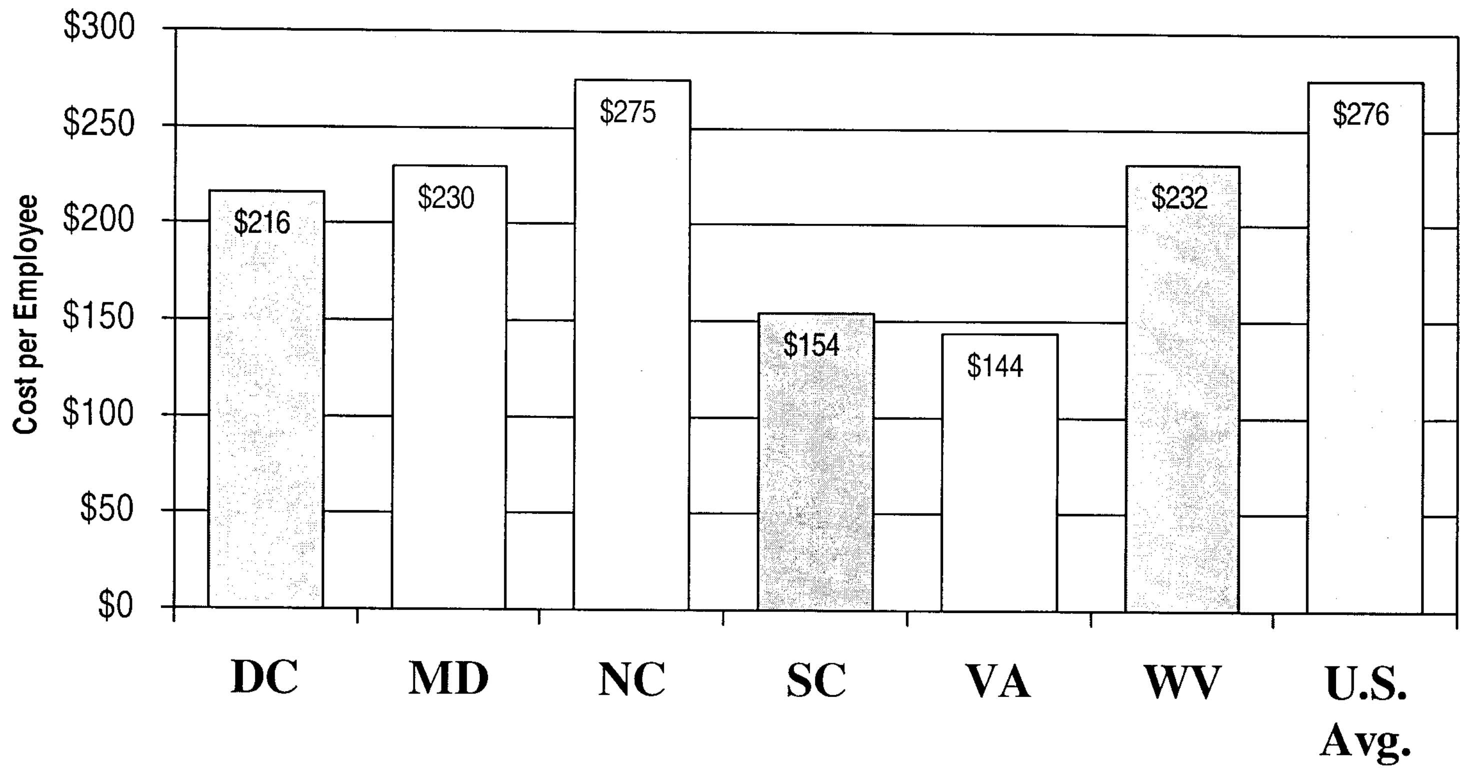
Average Tax per Employee

➔The increases from 2003 through 2008 are the result of higher benefit schedules and the recession.

(Projections will be updated in December)



Average Tax per Employee
Fourth Circuit – Year ending 12/31/04



VEC Budget

Report to the Commission on Unemployment Compensation

Dolores Esser, *Commissioner*
Virginia Employment Commission

November 29, 2005

VEC Administrative Funding

➔ Employers pay a FUTA tax to the Internal Revenue Service
(FUTA is the Federal Unemployment Tax Act).

➔ FUTA is a flat tax of 0.8% on first $7,000 of each employee's wages, which costs $56 per employee per year.

VEC Administrative Funding
(continued)

- Revenue from the FUTA tax is used to pay for SESA (State Employment Security Agency) administration at both the state and national levels.
- Virginia's employers paid $192.8 million in FUTA taxes in FY 2004.
- VEC received $63.2 million from U.S. DOL in FY 2004.

VEC Administrative Funding
(continued)

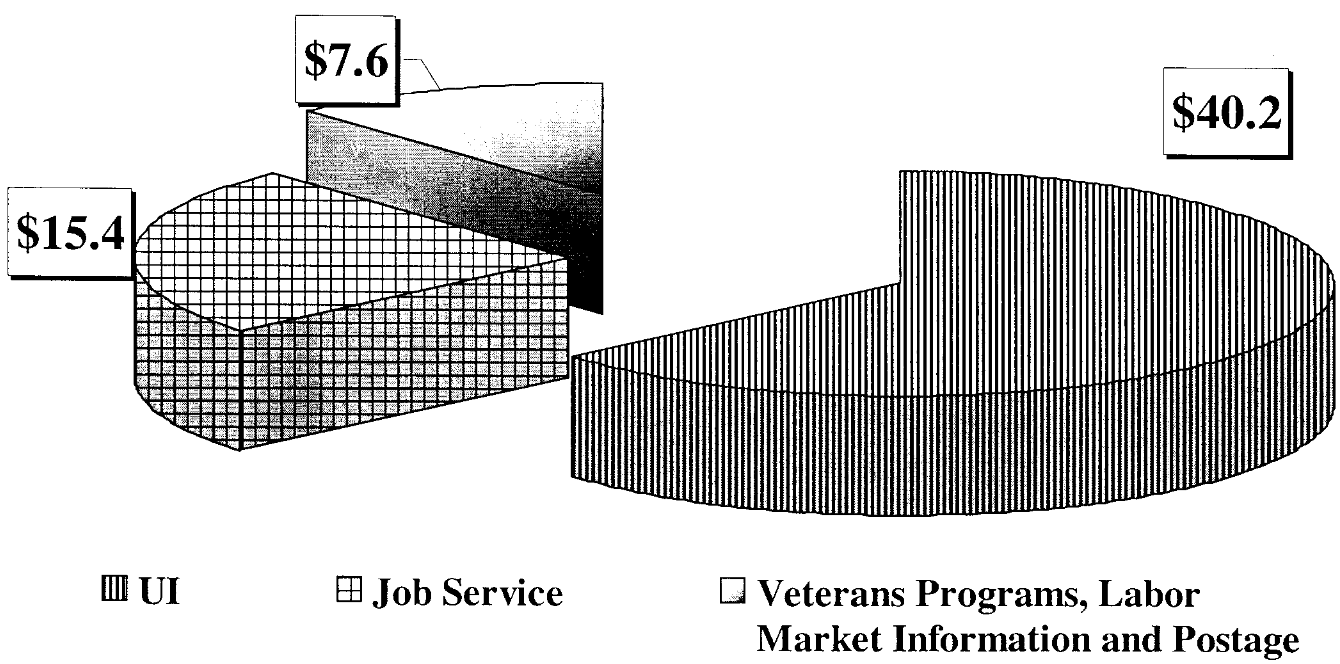
➔ FY 2004 grants of $63.2 million were divided into:

✓ $40.2 million for UI;

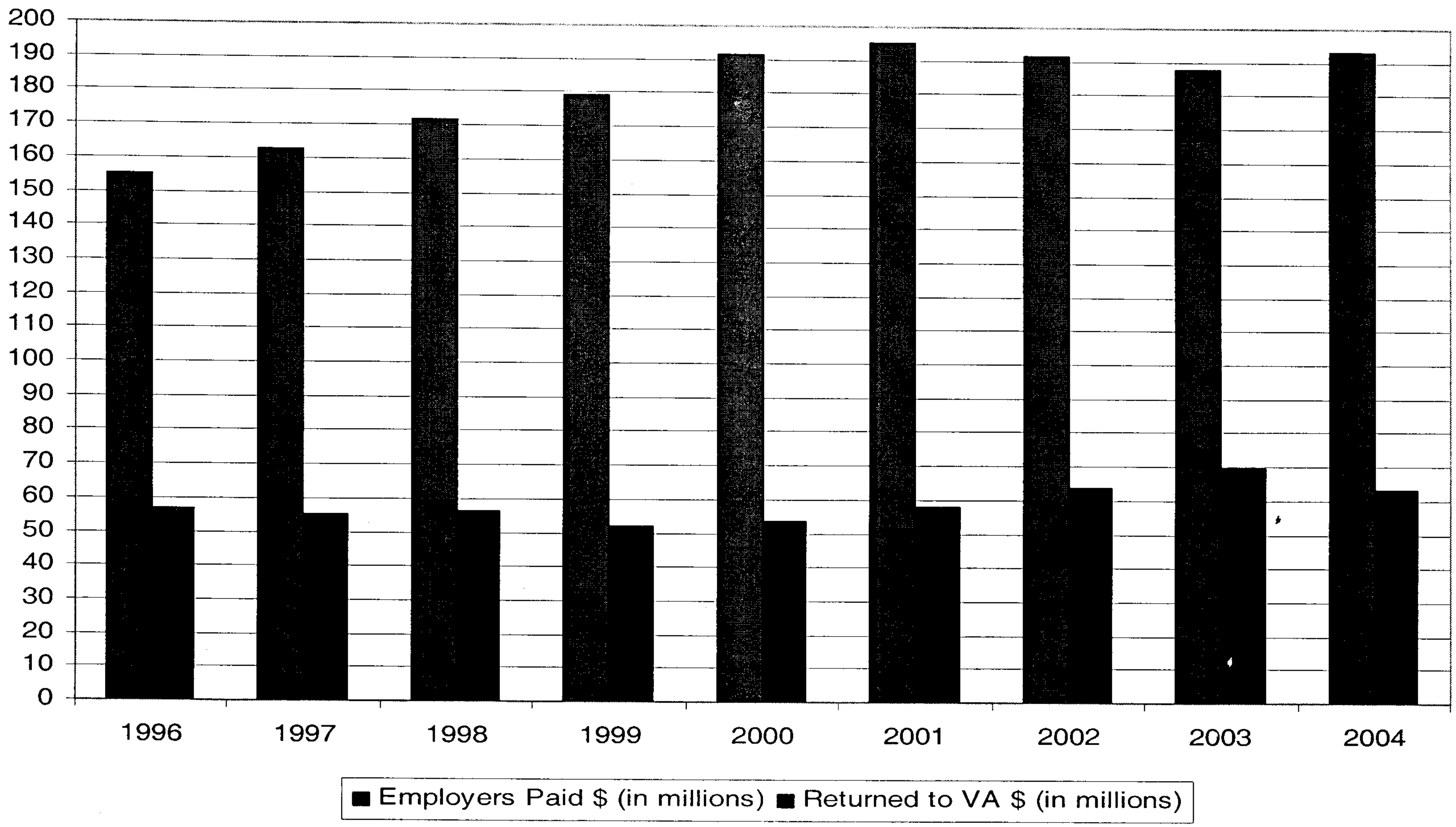
✓ $15.4 million for Job Service;

✓ $7.6 million for Veterans Programs, Labor Market Information and Postage.

VEC Administrative Funding (by FUTA) 2004



9-Year Virginia FUTA History



Unemployment Insurance Program

Applicable State Fiscal Year (SFY)	SFY '06	SFY '07	SFY '08
Applicable Federal Fiscal Year (FY)	FY '05	FY '06	FY '07
Unemployment Insurance Funding	$54.3	$33.8	$35.3
Unemployment Insurance Expenditures	$48.1	$42.7	$43.8
Fund Balance – Surplus/(Shortfall)	**$6.2**	**($8.9)**	**($8.5)**
Carry-in SFY '07 & '08		**$4.0**	**$0.2**
Adjusted Fund Balance – Surplus/(Shortfall)	**$6.2**	**($4.9)**	**($8.3)**
Unemployment Insurance Adjustments – Decrease/(Increase)			
Impact of Request for Reed Act Funding to keep Local Offices Open [Decision Pkg 725]		$1.8	$2.1
Request for State Funding – Reed Act [Decision Pkg 725]		$3.0	$0.3
Request for State Funding – P&I [Decision Pkg 725]		-	$5.2
Surplus to Automation, not administration	($2.2)	-	-
Anticipated Future Year Savings from Internal Agency Initiatives		$0.3	$0.7
NET ADJUSTMENTS	**($2.2)**	**$5.1**	**$8.3**
NET FUND BALANCE	**$4.0**	**$0.2**	**-**

FY = Federal Fiscal Year (October- September) *SFY = State Fiscal Year (July – June)* **All Figures in Millions*

Job Service Program

Applicable State Fiscal Year (SFY)	SFY '05	SFY '06	SFY '07	SFY '07
Applicable Federal Program Year (PY)	PY '04	PY '05	PY '06	PY '06
Job Service Funding	$21.4	$19.6	$15.6	$15.6
Job Service Expenditures	$19.9	$19.1	$19.1	$21.3
Fund Balance – Surplus/(Shortfall)	**$1.5**	**$0.5**	**($3.5)**	**($5.7)**
Carry-in SFY '07 & '08		**$1.5**	**$1.3**	**-**
Adjusted Fund Balance – Surplus/(Shortfall)	**$1.5**	**$2.0**	**($2.2)**	**($5.7)**
Job Service Adjustments				
Impact of Request for Reed Act Funding to keep Local Offices Open [Decision Pkg 725]		($0.7)		
Salary & Benefit cost increase for additional staff			($1.5)	
Request for State Funding – Reed Act [Decision Pkg 725]			$3.7	$5.7
NET ADJUSTMENTS	-	**($0.7)**	**$2.2**	**$5.7**
NET FUND BALANCE	**$1.5**	**$1.3**	**($0.0)**	**-**

PY = Federal Program Year (July-June) *SFY = State Fiscal Year (July – June)* **All Figures in Millions*

Proposed Reed Act Projects
(Projections will be updated in December)

- ➔ Modernize UI Automated Systems- Tax, Benefits, Wage Processing
- ➔ Uses $45 Million in Reed Act Funds Over FYs 07 & 08

Proposed Reed Act Projects

(Projections will be updated in December)

- ➔ Procure a Web-based Financial Management/Accounting System
- ➔ Uses $3 Million in Reed Act Funds Over FYs 07 & 08

Proposed Reed Act Projects
(Projections will be updated in December)

- ➔ Replace the Existing Virginia Workforce Network Information System
- ➔ Uses $3.1 Million in Reed Act Funds in FY 07

Proposed Reed Act Projects

(Projections will be updated in December)

- ➔Additional UI Administrative Funding
- ➔Uses $6.45 Million in Reed Act Funds Over FYs 07 & 08
- ➔Also Uses $5.25 Million in Penalty and Interest Funds in FY 08

Proposed Reed Act Projects
(Projections will be updated in December)

- ➔ Additional Job Service Administrative Funding
- ➔ Uses $9.4 Million in Reed Act Funds Over FYs 07 & 08

Proposed Reed Act Projects

(Projections will be updated in December)

- ➔ All 5 Projects
- ➔ Use Total of $66.92 Million in Reed Act Funds and $5.25 Million in Penalty and Interest Funds in FY 08
- ➔ Use of Reed Act Funds Raises UI Tax by Average of $2.66 per Employee for CYs 2008 - 2012

Workforce Development Study Committee HRJ 713

- Recommendations:
  - Create a Deputy Chief of Staff for Workforce Development in the Governor's Office to replace the Special Advisor.
  - The Deputy Chief of Staff would serve as fiscal agent for WIA funds.
  - Deputy Chief of staff would serve as staff to the Virginia Workforce Council (VWC) and lead the VWC in developing policies and procedures.
  - Deputy Chief of Staff and VWC would develop and implement a statewide strategic plan for workforce development, to include performance measures and evaluate performance based on those measures.
  - The statewide strategic plan would also address the needs for reforms in workforce policies, including the need for reform at the local WIB level.

HURRICANE KATRINA RELIEF EFFORTS

By The

VIRGINIA EMPLOYMENT COMMISSION

Shortly after Hurricane Katrina struck the gulf coast, state workforce agencies from across the country rallied to assist that region deal with the devastation that had been wrought. Despite all of the pictures we have seen on television and in the newspapers, the true economic impact isn't readily apparent until you consider the following:

- Both Mississippi and Louisiana took more UI claims in the 8 weeks following Katrina than they had in the entire 12-month period ending June 30, 2005.
- Nearly 31,000 of Mississippi's 54,000 employers had their businesses totally or partially destroyed.
- Over 44,000 of Louisiana's 96,000 employers had their businesses totally or partially destroyed.

The Virginia Employment Commission sent staff to Mississippi to assist with the processing and adjudication of UI claims. In addition, four of our staff were intimately involved in preparing Camp Pickett to receive evacuees from Louisiana and Mississippi. Although no evacuees were transported to Camp Pickett, the Red Cross has reported that at least 7,659 gulf coast evacuees re-located to Virginia. VEC staff provided the following services for these people:

- 392 UI and 130 Disaster Unemployment Assistance (DUA) claims were taken on behalf of Louisiana, Mississippi and Alabama.
- 176 registered with Job Service to find work in Virginia.

- Employers filed 83 job orders totaling 244 job openings for the hurricane victims.

- 66 referrals were made resulting in 2 placements as of October 31.

In addition, the VEC received a $400,000 grant from the USDOL to fund 4 Reintegration Counselor positions. The duties of these counselors include identifying evacuees who are residing in Virginia, assessing their needs, and referring them to the appropriate public or private entity that can help meet their needs. The reintegration counselors also work closely with state and local agencies to develop effective partnerships that can provide timely and appropriate assistance to the evacuees. These positions have been filled within the last 30 days. One of the immediate results achieved was identifying nearly 300 evacuees in the Charlottesville area who had not registered with the Red Cross or FEMA and, consequently, had not received any services.

As a result of Hurricane Katrina, the VEC has instituted a review of its Continuity of Operations Plan and its Catastrophic Recovery Plan. We will be participating in a work group sponsored by the U. S. Department of Labor to develop ways to improve the national response to disasters of such a widespread magnitude. In addition, we will be involved in a regional effort to explore the feasibility of developing a multi-state contingency plan to more effectively respond to the impact of a major disaster.