



Virginia Employment Commission *report to*

The Commission on Unemployment Compensation

Dolores Esser, *Commissioner*
Virginia Employment Commission

October 30, 2006



VEC Trust Fund

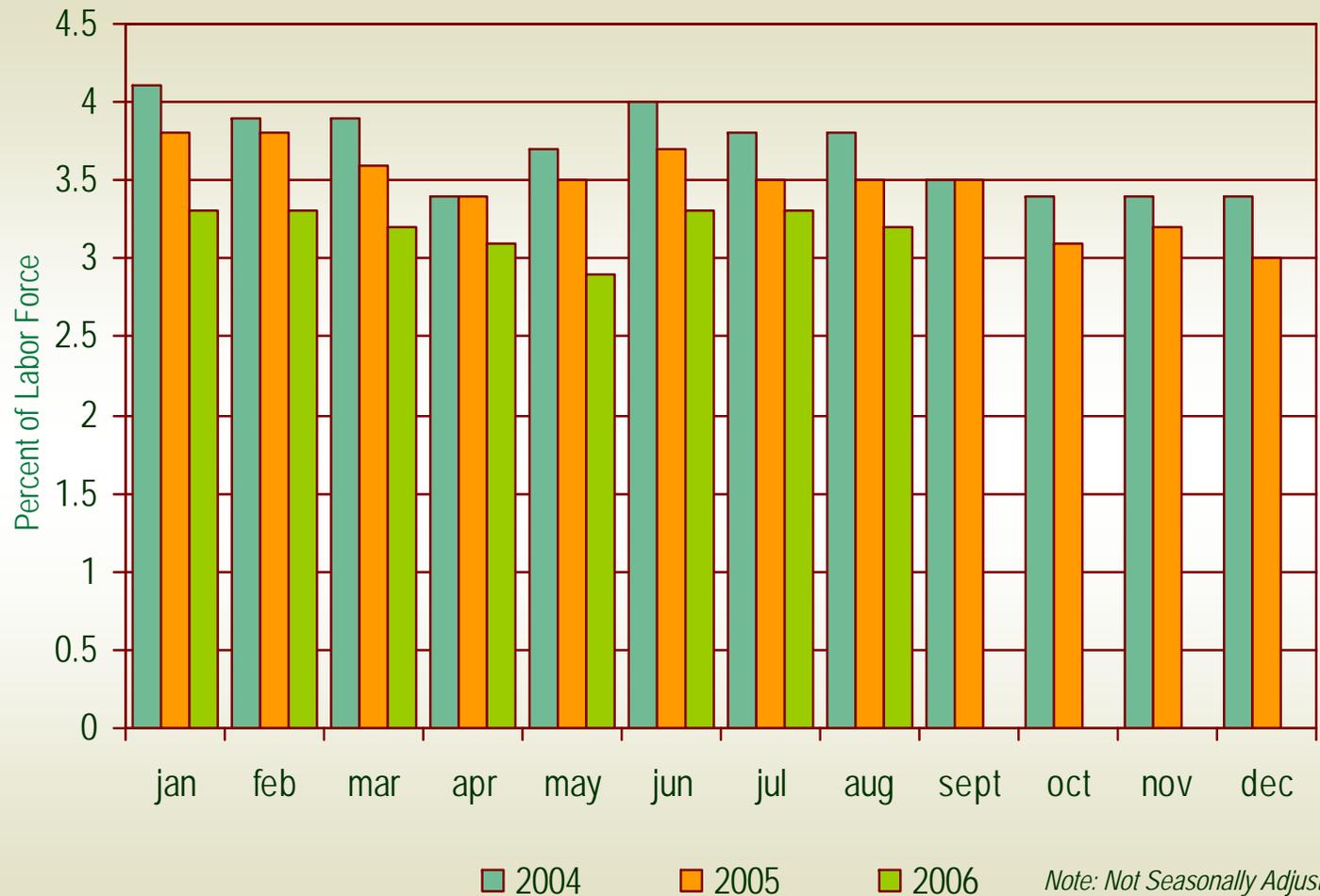




Virginia's Unemployment Rates

2004 - 2006 *(year to date)*

- All unemployment rates are at or below the year-ago rates.
- The rate has not been above 4% since January 2004.

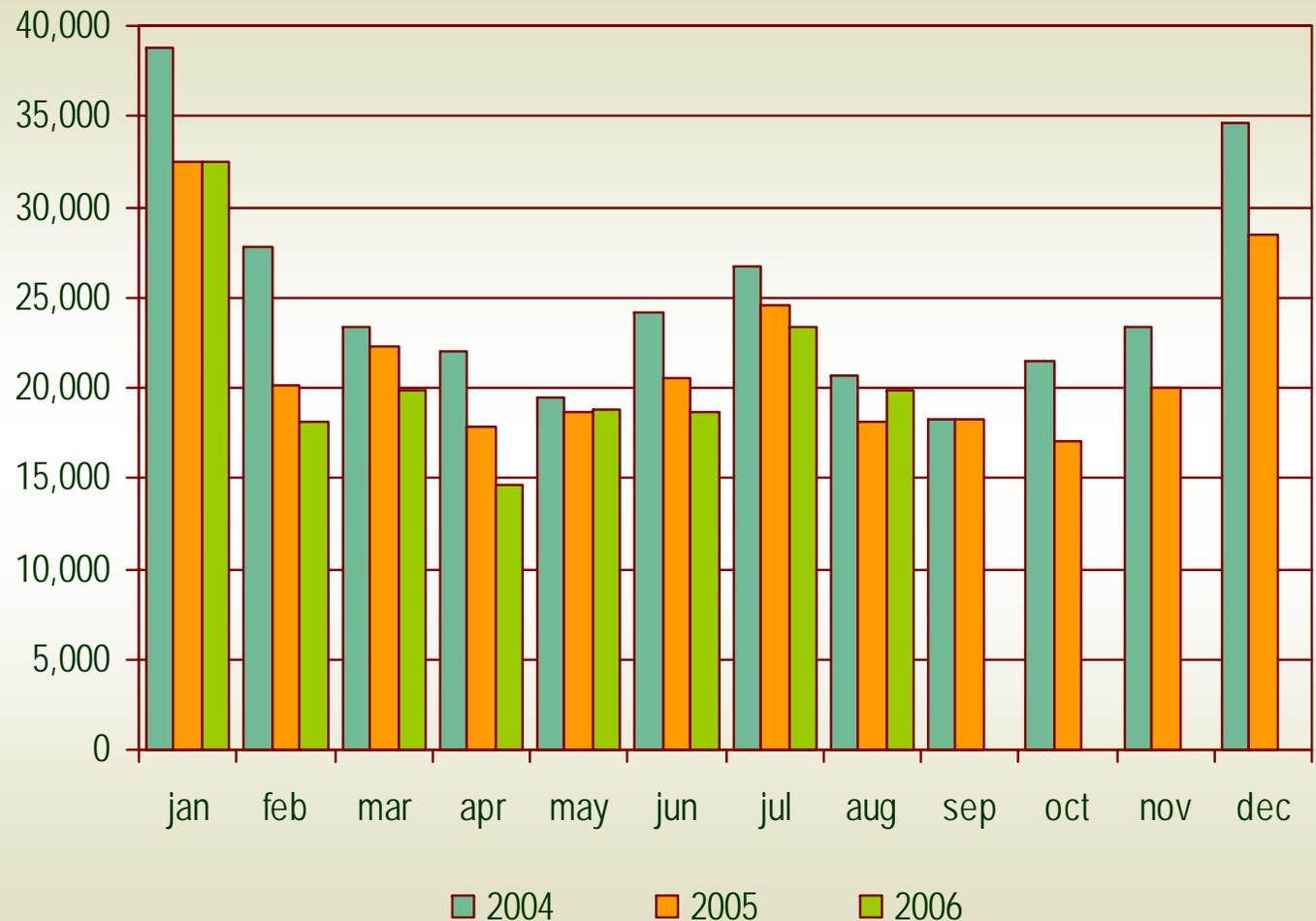




UI Initial Claims

2004 - 2006 *(year to date)*

→ Total initial claims through August this year are down 5.0% because of fewer temporary factory furloughs and generally improving economy. For the same period, initial claims are down 18.3% from 2004.

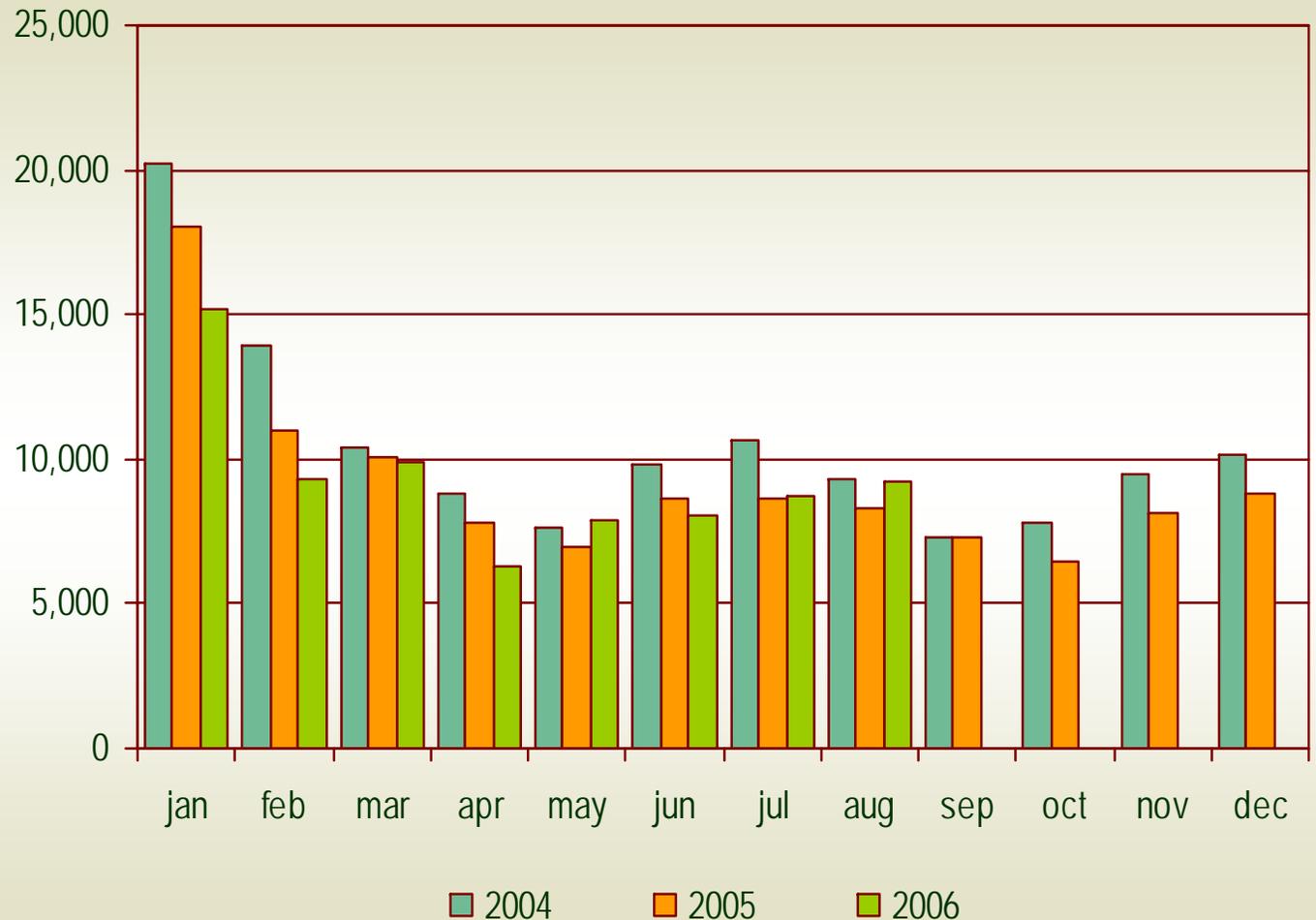




UI First Payments

2004 - 2006 *(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 August, first payments are down 6.1% from last year and 17.8% from 2004.
- The average duration in August was 12.4 weeks, below last August's 12.6 weeks.



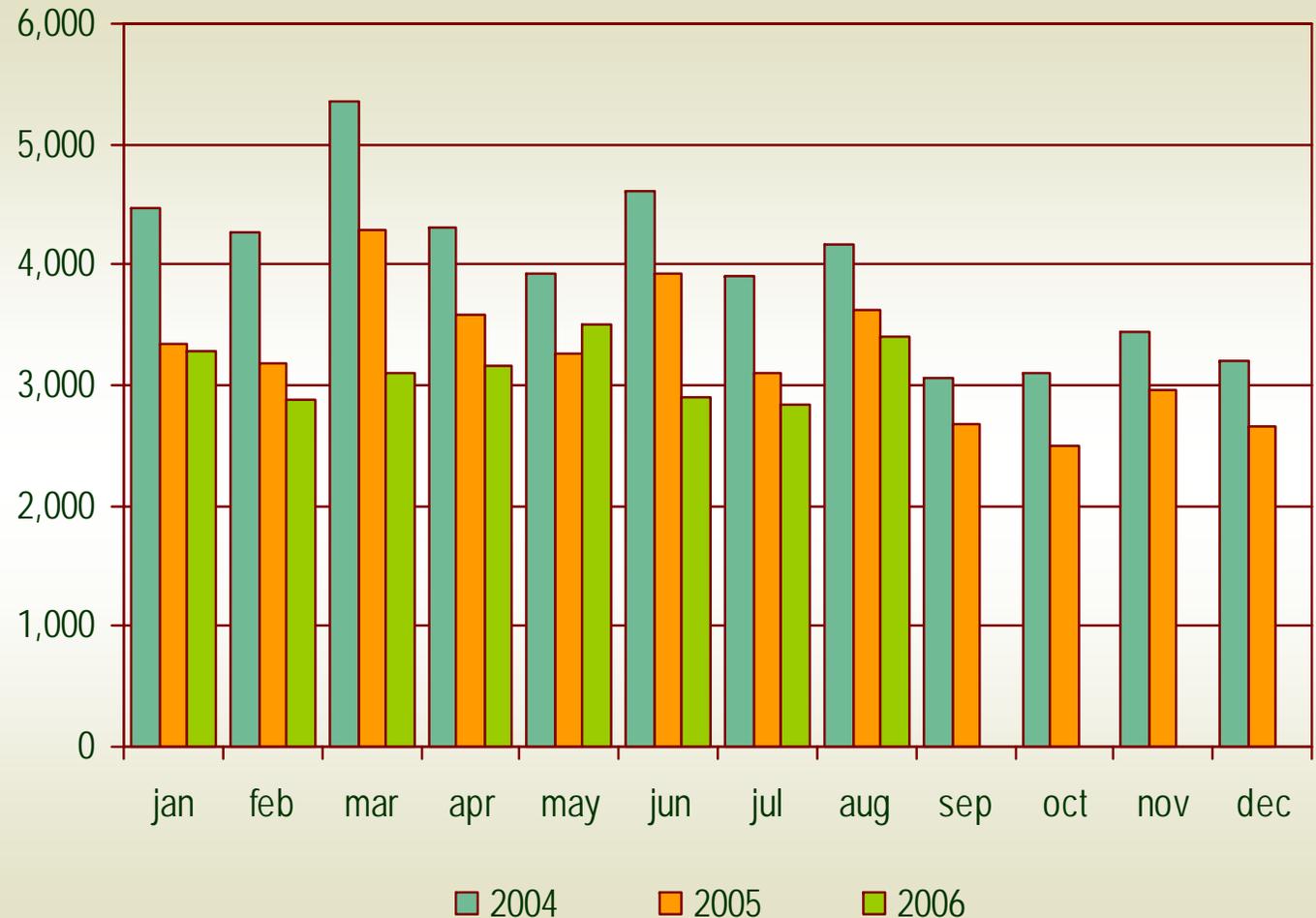


UI Final Payments

2004 - 2006 (year to date)

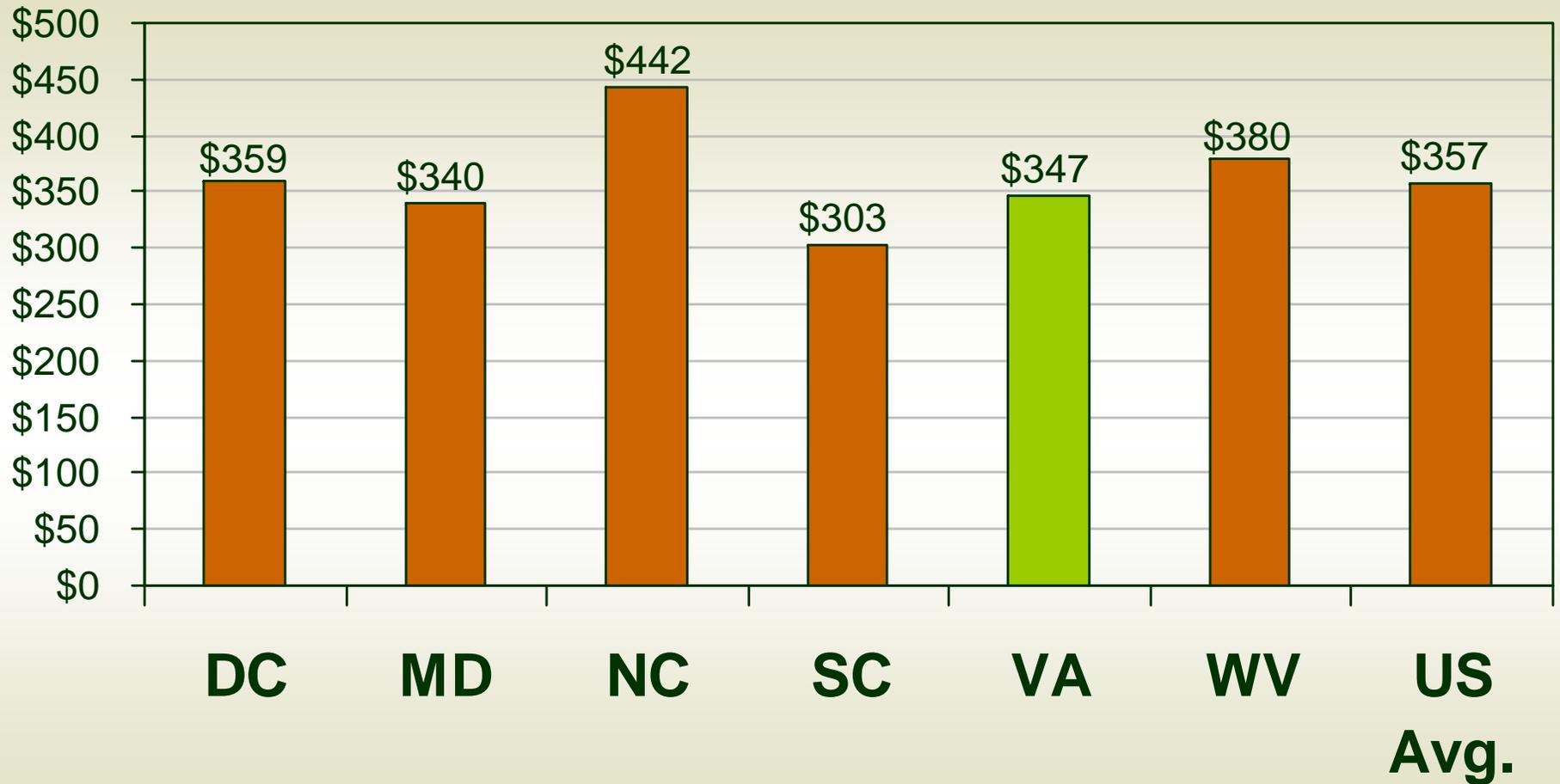
→ For the first eight months of 2006, final payments are down 11.4% from 2005 and 28.4% from 2004.

→ The exhaustion rate in August was 33.9%, down from last August's 34.1%.



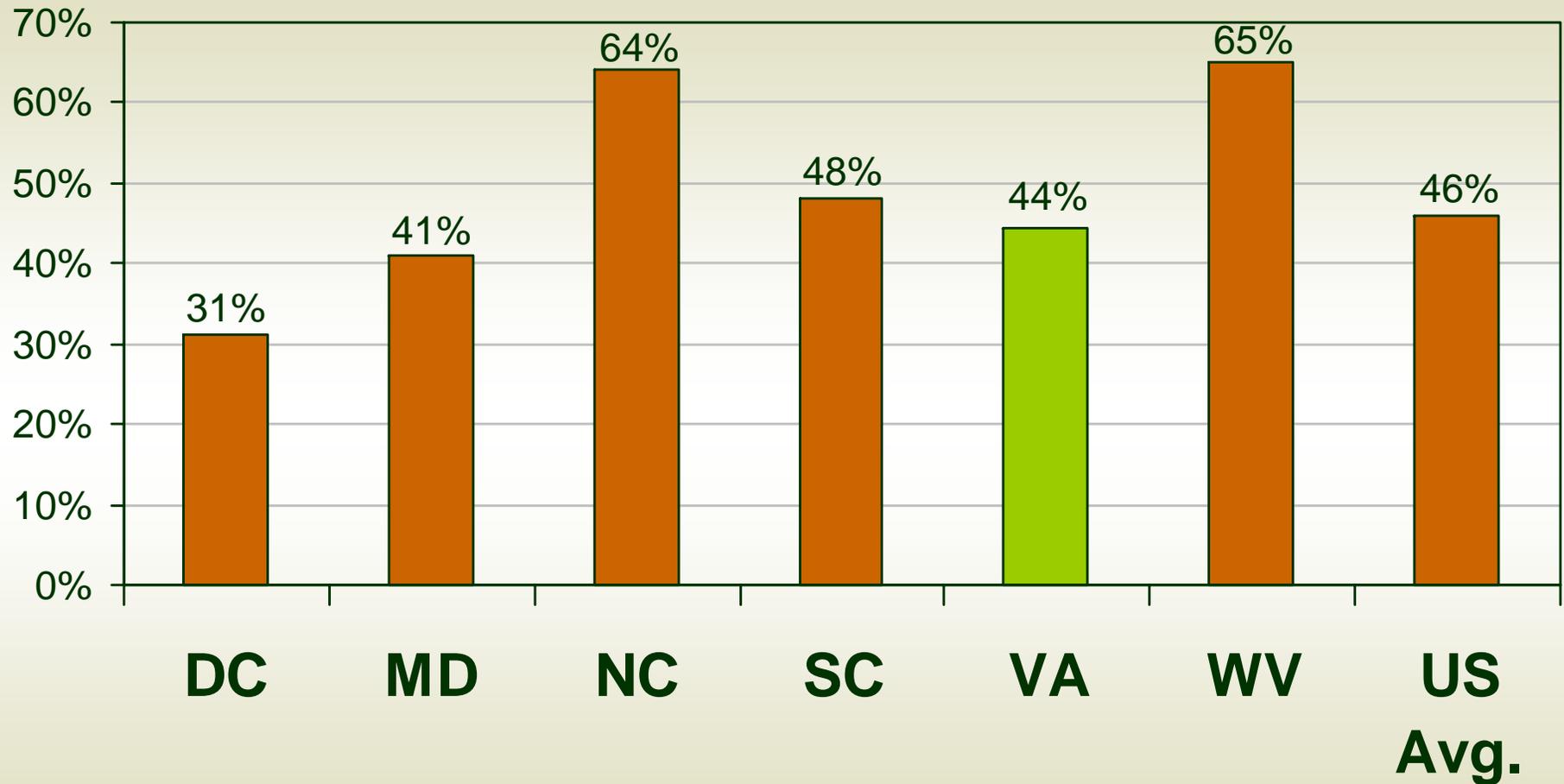


2006 Maximum Weekly Benefit Fourth Circuit





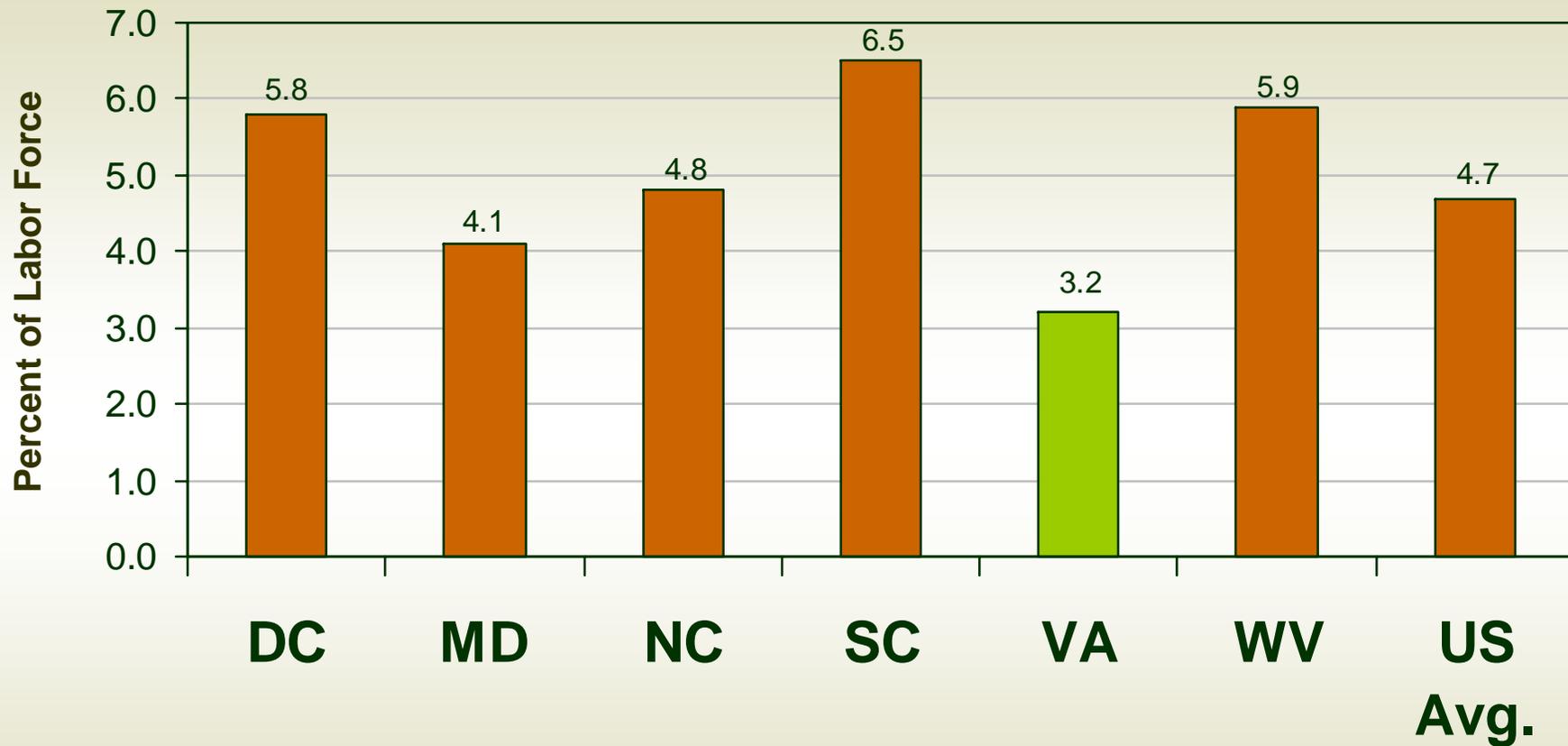
2006 Maximum Weekly Benefit Replacement Rate Fourth Circuit





August 2006 Unemployment Rates

Fourth Circuit



Note: Seasonally Adjusted Rates



Impact of Ford Norfolk Plant Closure

Company	Layoffs
Ford	2,400
Direct Suppliers	1,700
Indirect Suppliers	1,400
Other (consumption by above 3 categories)	3,150
TOTAL	8,650

Sources: Hampton Roads Planning District Commission and VEC.



Trust Fund Data

(Millions of Dollars)

(Projections will be updated in December)

	2005	2006
January 1 Balance	\$274.3	\$498.9
Tax Revenue	\$542.4	\$533.9
Interest Revenue	\$21.6	\$30.0
Benefits	\$339.5	\$345.7
December 31 Balance	\$498.9	\$650.1*
Solvency Level (6/30)	54.9%	70.5%

*\$67 million in Reed Act money deducted from Trust Fund balance for FY07 and FY08 appropriations for JS and UI administration and capital projects.



Actual



Projected



Trust Fund Solvency

Adequate Fund Balance

→ Solvency = $1.38 \times \text{Average Cost Rate} \times \text{Wages}$.

→ 1.38 represents 16.5 months of benefits with no revenue.

→ **Average Cost Rate** is the average of 3 highest ratios of benefits to total wages in the past 20 years.

→ **Wages** are total wages paid by taxable employers for the year ending June 30.

→ Solvency Level = $\text{June 30 balance} \div \text{Adequate Fund Balance}$.



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)



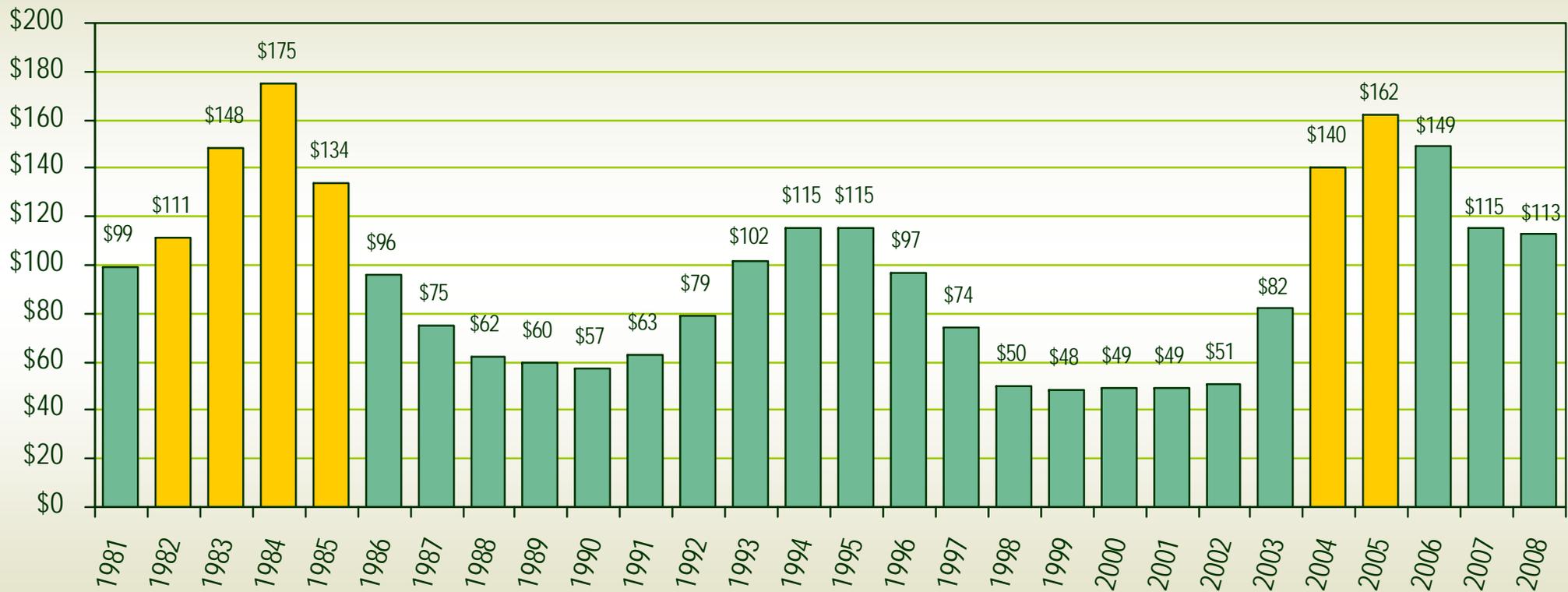
➔ 2006 – 2008 projected.



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)



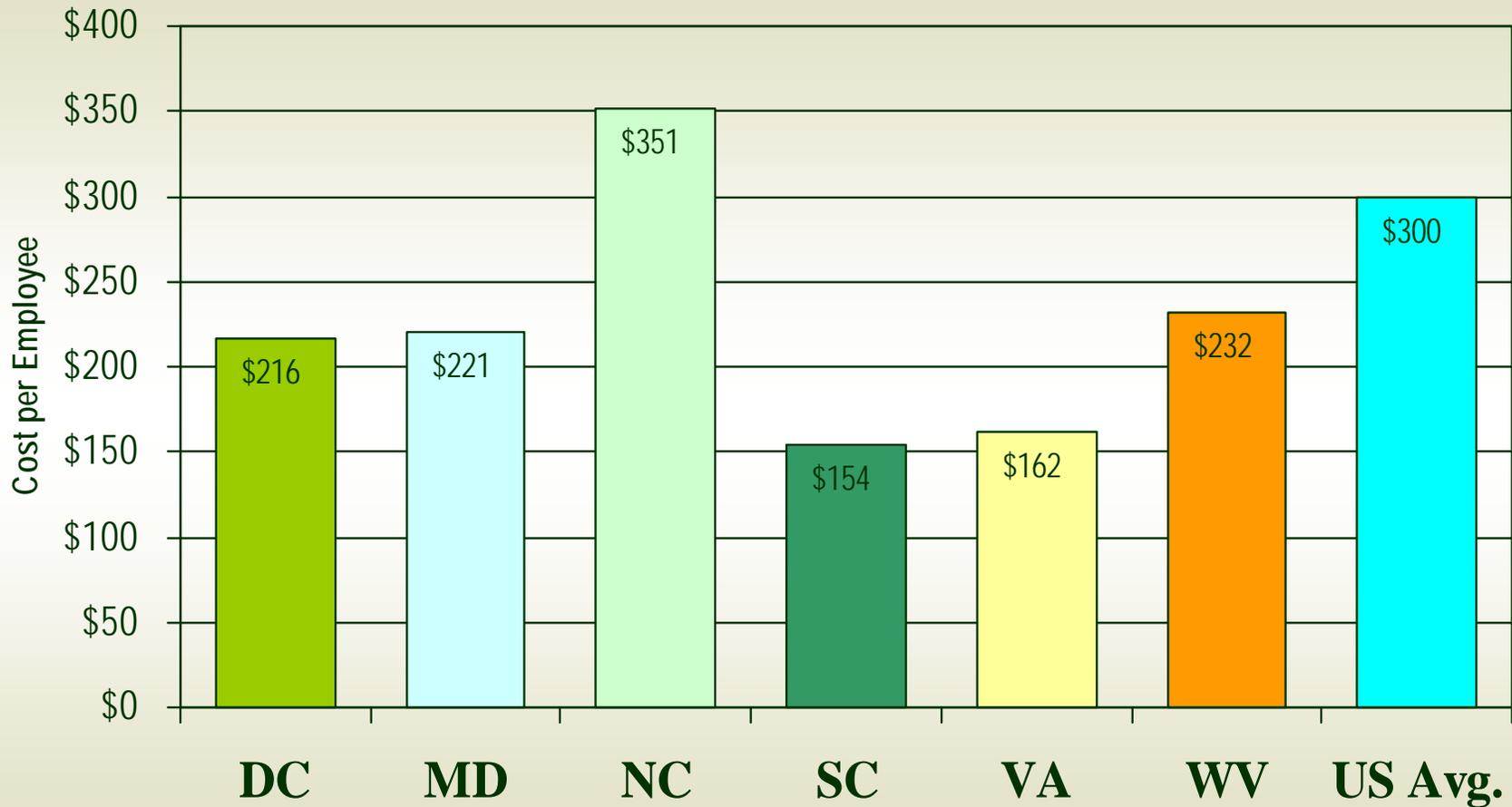
■ Fund Builder Tax in effect.

→ 2006 – 2008 projected.



Average Tax per Employee

Fourth Circuit – Year ending 12/31/05





FUTA Funding Issue

- In 2004 Virginia received 32.8% of the FUTA taxes paid by our employers for program administration—the second lowest in the country.
- In 2005 Virginia's return of its FUTA taxes fell to 30.2%.



FUTA Funding – Steps Taken

- NASWA adopted resolution calling for every state to receive a minimum 50% return of its FUTA taxes.
- Secretary of Commerce and Trade has addressed the issue with the Virginia Liaison Office and members of our congressional delegation.
- Employer Advisory Committees (EAC) have taken up this issue:
 - Recent Roanoke conference
 - Letters and materials (see packet)



VEC Business Projects

- With support from the U.C. Commission and VEC stakeholders, the General Assembly appropriated \$67 million in Reed Act funds to support three critical business projects and supplement UI and JS program administration.
- Those projects are:
 - UI Systems Modernization
 - VWNIS
 - Financial Management System



Status of Business Projects

→ UI Systems Modernization

- Project team and project manager selected
- Project initiation documentation prepared
- Development of requirements begun

→ VWNIS

- Contract awarded to GeoSolutions
- Project plan finalized by November 15
- Project execution to begin November 30

→ Financial Management System

- Will participate in the Commonwealth's Enterprise Architecture Initiative for statewide financial management system



Federal Regulation on Confidentiality

- The USDOL published a final regulation regarding the confidentiality of U.I. data.
- Rule is effective October 27, 2006.
- States have 2 years to adopt conforming legislation.
- Agency staff are currently reviewing the regulation to determine what changes Virginia must make.



Regulatory Review

- Internal work group established to conduct required periodic review of agency regulations.
- Will begin work in November 2006
- Input from all stakeholders and interest groups welcomed.
- Point of contact:
 - ⇒ Coleman Walsh
 - P.O. Box 1358, Attn: Room 126
 - Richmond, VA 23218-1358
 - Coleman.Walsh@vec.virginia.gov



VITA Federal Cost Allocation Issues

- Expenses that can be charged to Federal grants are governed by Federal regulations
- Applicable regulatory requirements summarized and interpreted in OMB Circular A-87 (rev. 2004)



VITA Federal Cost Allocation Issues

- Generally, Circular A-87 requires that
 - Cost must be reasonable
 - Based on actual incurred costs that benefited Federal grants
 - Sufficient billing detail to enable state agency to properly allocate the charges to the grants it administers
 - Any savings achieved are credited back to the Federal grants



VITA Federal Cost Allocation Issues

- If the requirements of Circular A-87 are not met, charges assessed against Federal grants may be disallowed
- Disallowed costs must be repaid from non-federal funds. Federal grant funds cannot be used to pay a disallowed cost.



VITA Federal Cost Allocation Issues

- 9/29/06 – HHS letter to CIO declining to approve VITA's Central Service Cost Allocation Plan. Deferral of payments recommended by HHS until resolution reached
- 10/10/06 – CIO response outlining steps to be taken
- 10/11/06 – Multi-agency Cost Allocation Work Group formed by CIO with input from cabinet secretaries. *Objective: develop acceptable plan by mid-November*
- 10/17/06 – Initial meeting of workgroup
- 10/24-25/06 – Workgroup meeting with HHS staff



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