



Buddy, Can You Spare a Dime?

Putting North Carolina's Unemployment Insurance System Back to Work

By John Quintero

NC BUDGET & TAX CENTER

A Project of the



NC JUSTICE CENTER

ABOUT THE JUSTICE CENTER

The Justice Center is a statewide, non-profit advocacy organization dedicated to securing economic justice for disadvantaged persons and communities. The mission of the Justice Center is to address poverty by ensuring that low-income individuals and communities have the resources and services they need to move from poverty to economic security. The work of the Justice Center is based on the belief that four objectives must be realized to enable disadvantaged individuals and communities to move from poverty to economic security. They include:

- work that is safe, pays a living wage and provides benefits that will enable a family to be self-sufficient;
- government action that supports and protects those able to work;
- a safety net of income and services that supports those unable to work;
- equal opportunity for low-income persons to achieve economic security free of discrimination.

To achieve its mission, the Justice Center works in collaboration with North Carolina's disadvantaged individuals and communities employing a multi-forum advocacy model in which the Center uses four primary strategies to fight poverty:

Litigation: Undertaking high-impact litigation to ensure that the rights of traditionally underrepresented populations are protected.

Research and Policy Development: Conducting and disseminating policy research and developing alternatives to existing policy on key issues facing traditionally disadvantaged populations.

Public Policy Advocacy: Working with traditionally underrepresented populations to define and shape the public policies that will most dramatically impact their communities.

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North Carolina Living Income Initiative
North Carolina Immigrants Legal Assistance Project
North Carolina Poverty Law Litigation Project
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North Carolina Consumer Action Network
North Carolina Health Access Coalition
Grassroots and Community Empowerment Project

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OVERVIEW

North Carolina's unemployment insurance system provides workers who are involuntarily unemployed with some of the security needed to rebound and seize new opportunities. By temporarily replacing part of the wages lost by individuals who are involuntarily unemployed, North Carolina's unemployment insurance system provides working families with a modest level of economic security and stabilizes local economies during economic downturns. The system also helps unemployed individuals find work, collects key labor market data and finances the state's Worker Training Trust Fund.

Financial pressures that developed during the recession that began this decade pushed the unemployment system into uncharted waters and strained its ability to aid working families and local communities. In 2005, the account dedicated to benefit payments was barely solvent, the funding to operate local employment service offices was hardly sufficient and the Worker Training Trust Fund was essentially empty. These financial problems, in turn, resulted from a combination of short-sighted policies adopted during the 1990s and declines in federal support for the operation of the unemployment insurance system.

Restoring the long-term financial health of the unemployment insurance system requires public leaders to take three steps:

- Adopt a philosophy of "forward financing."
- Adjust the taxable wage base to better grow with the economy.
- Ensure that all employers contribute a fair share.

Absent change, the unemployment insurance system will labor to maintain current benefits and services during severe recessions without having to borrow money or raise taxes at an inopportune time. Reforms also are needed if the system is to better serve a 21st-century economy and align more seamlessly with the larger workforce development system.

This special report of the North Carolina Budget and Tax Center provides an overview of the state's unemployment insurance system, analyzes the recent financial challenges and presents options for reform. Such reforms, in turn, would strengthen the unemployment insurance system's ability to help families coping with a job loss recover and pursue new opportunities.

WHAT IS THE NATIONAL UNEMPLOYMENT INSURANCE SYSTEM?

Established in 1935 under the Social Security Act, unemployment insurance (UI) shields workers against the risk of losing a job involuntarily. By temporarily replacing part of a worker's income, UI serves two major economic purposes. First, UI achieves the microeconomic goal of maintaining a portion of the income and spending of unemployed workers. Second, UI advances a macroeconomic goal of stimulating consumer demand during economic downturns and mitigating the severity of hard times.¹ Most importantly, UI offers unemployed workers and their families some of the economic security needed to position themselves for new opportunities.

The UI system serves three additional purposes. First, to improve the efficiency of the labor market, UI provides employment services to help match unemployed workers to job openings. Second, UI may fund training that enhances the competitiveness of workers. Finally, UI compiles the local labor market data used by state and federal leaders to develop public policies.

UI is a federal-state partnership. The federal government establishes basic guidelines, provides oversight, funds the operations of state systems through a modest tax and pays for half of the extended benefits that may be authorized during times of extreme unemployment. States determine eligibility rules, set insurance levels, establish time limits on the receipt of insurance, levy UI taxes, enforce the laws and pay for half of extended benefits.²

NORTH CAROLINA'S UI SYSTEM

The North Carolina General Assembly established a statewide unemployment insurance program in 1936. Today, the insurance program and the larger UI system are the responsibility of the Employment Security Commission (ESC), an independent state agency overseen by a seven-member committee appointed by the governor. The commission's chair also acts as a full-time executive director.³

Though the most visible part, the insurance program is just one piece of North Carolina's UI system. Besides administering the insurance pool, the ESC operates a network of 93 local employment services offices, runs a labor market research unit and finances the Worker Training Trust Fund - the state's only unrestricted funding source for workforce development initiatives (Figure 1).

FIGURE 1: THE UNEMPLOYMENT INSURANCE SYSTEM

Authority:
North Carolina General Statutes § 96

Purpose:
To insure workers against involuntary unemployment by "the systematic accumulation of funds during periods of employment to provide benefits for periods of unemployment, thus maintaining purchasing power and limiting the serious social consequences of poor relief assistance."

Major Programs:
Unemployment Insurance Trust Fund; Employment Services (network of 93 local offices); Labor Market Information Division; Worker Training Trust Fund

Funding Streams:
State payroll tax (for insurance payments); state appropriations (for operations); federal funding streams (for administration and employment services); interest earnings

UI Trust Fund Financial Data (2005):

<i>Payroll Tax Collection:</i>	\$900.1 million
<i>Insurance Benefits Paid:</i>	\$665.6 million
<i>Trust Fund Balance (12/31):</i>	\$43.3 million

Service Data (2005):

<i>Total Weeks Compensated:</i>	3.2 million
<i>Number of Initial (first) Insurance Payments:</i>	310,000
<i>Average Weekly Insurance Payment:</i>	\$258

Workers Receiving Employment Assessments: 91,745

SOURCES: North Carolina General Statutes; U.S. Department of Labor, Office of Workforce Security; Employment Security Commission

HOW DOES UNEMPLOYMENT INSURANCE WORK?

Every North Carolinian benefits from the UI system. The insurance program protects all wage and salary workers, except for the self-employed and certain agricultural and domestic employees, against the risk of involuntary unemployment. Additionally, any North Carolinian, unemployed or not, may use the local employment service offices to find a job.

To receive insurance, unemployed workers must register at an ESC office or through the telephone or Internet. Claims then are evaluated against monetary and non-monetary criteria. First, a worker must have earned a certain amount of money during a specified base period. North Carolina typically requires a worker to have earned a minimum of six times the average weekly insured wage (or \$4,110 in 2005) within a one-year period.⁴ Second, a worker must demonstrate an attachment to the labor force and be able to work, available for employment and seeking a job.⁵ Some 310,000 unemployed Tar Heels met these monetary and non-monetary criteria and received initial UI payments in 2005 (Figure 2).⁶

FIGURE 2

UNEMPLOYMENT INSURANCE PAYMENT DATA, NC, 2005	
A) Unemployed Workers	
Number of First Insurance Payments	310,000
Average Weekly Insured Unemployed	76,893
% of Unemployed Workers Receiving Insurance	41%
B) Weekly Insurance Payments	
Maximum Weekly Payment	\$457
Average Weekly Payment	\$258
Average Payment as a % of Average Weekly Wage	38%
C) Duration of Insurance Payments	
Maximum	26 weeks
Average	13 weeks
% of claimants exhausting insurance payments	38%

SOURCE: U.S. Department of Labor, Office of Workforce Security; Current Population Survey

The monetary eligibility criteria are used to calculate the amount of insurance paid to a worker. In North Carolina, a worker's weekly payment equals the amount of wages earned during the best-paid quarter in the individual's base period divided by 26, up to statewide cap that changes each August.⁷ The maximum payment in North Carolina equals two-thirds of the average weekly insured wage or \$457/ week in 2005. Most workers, however, received much less: an average of \$258/ week. At these levels, UI only replaces a portion of an unemployed worker's wages. In fact, the typical UI payment replaced only 38 percent of the typical worker's 2005 wages.⁸ That

amount, on an annual basis, would fail to lift a four-person family above the federal poverty level. While UI never was intended to replace an unemployed worker's total income, the program originally aimed to replace 50 percent of a worker's previous earning, up to a specified cap.⁹ Lower replacement rates constrain UI's ability to offer unemployed workers a modest level of economic security and to help stabilize local economies.

Not only are UI payments modest in size, but they also are limited in duration. A worker normally can receive benefits for no more than 26 weeks, though multi-week extensions may be available during times of extreme unemployment. In recent years, the typical unemployed North Carolina worker has received about 13 payments. Owing to the structural changes in the state's economy, however, a growing share of insured workers is receiving the maximum

number of payments. In 2005, for example, 38 percent of UI claimants in North Carolina were jobless six months after receiving their initial UI payment. The share of such workers has risen sharply since 2000.¹⁰ As will be discussed, this trend signals the need to adjust the UI system to better meet the needs of today’s labor market.

WHO BENEFITS FROM UI?

Though modest in size and limited in duration, UI payments have a profound impact on individual workers, their families, local communities and businesses. One national study, for example, found that every \$1 in UI payments yields \$2.15 in economic benefits.¹¹ This impact occurs because families dealing with unemployment typically use all of their insurance proceeds to pay bills. Such an infusion of cash into the economy has a stabilizing effect and helps stem additional unemployment.

North Carolina witnessed the UI system’s impact during the economic downturn that began the decade. The end of the 1990s boom and the structural decline of the state’s traditional industries resulted in a period of massive unemployment. In 2001 and 2002, some 755,000 people filed for UI insurance, and the UI system paid out \$2.6 billion in regular, extended and temporary benefits. After subtracting the taxes paid by businesses and applying an economic multiplier, UI injected some \$3.8 billion into the state’s economy during one of its darkest economic periods (Figure 3).¹² Put differently, UI’s economic impact was equivalent to 1.2 percent of North Carolina’s 2002 gross state product. (See appendix for county-level data.)

Positive impacts aside, UI fails to reach as many individuals, families and communities as it

FIGURE 3

ECONOMIC IMPACT OF UNEMPLOYMENT INSURANCE PAYMENTS, NC, 2001-02 (IN 2005 \$)	
A) Insurance Paid	Amount
Regular Insurance Payments	\$2,170,608,000
Extended Insurance Benefits (EB)	\$6,405,716
Temporary Extended Unemployment Benefits (TEUC)	\$406,139,756
<i>Subtotal</i>	<i>\$2,583,153,472</i>
B) Payroll Tax Contributions	
State Payroll Tax Collections	\$796,343,000
<i>Subtotal</i>	<i>\$796,343,000</i>
C) Net Impact	
Benefits less Contributions	\$1,786,810,472
Economic Multiplier	\$2.15
TOTAL IMPACT	\$3,841,642,515
<i>Net Impact as Percent of 2002 Gross State Product</i>	<i>1.2%</i>

SOURCE: NC Budget & Tax Center

could. UI is a universal program in that virtually all wage earners are insured, but current eligibility rules prevent many unemployed workers from actually collecting insurance. Despite some positive state actions to address this problem, just 41 percent of unemployed Tar Heel received a UI payment in 2005.¹³ Moreover, national studies have found that low-wage workers, women, minorities, temporary/contingent workers and people with uneven work histories are less likely than other workers to receive insurance payments.¹⁴

HOW IS UI FINANCED?

The responsibility of financing UI is shared by the federal government and the state. Both levels of government levy payroll taxes on employers. The first \$7,000 in wages paid to a worker by an employer is subject to a federal tax rate of 6.2 percent. In reality, employers pay much less once they claim a tax credit for their state UI tax payments. That credit results in an effective federal tax rate of 0.8 percent. Put differently, an employer's annual federal UI tax bill equals \$56 per employee or three cents an hour for a full-time, year-round employee.¹⁵ The proceeds of the federal levy are used to operate the national UI system, maintain a loan fund for states that exhaust their trust funds, pay for half of extended benefits and finance state administrative costs. States also occasionally receive federal Reed Act distributions, which may occur when federal unemployment accounts accumulate balances in excess of statutory limits.¹⁶

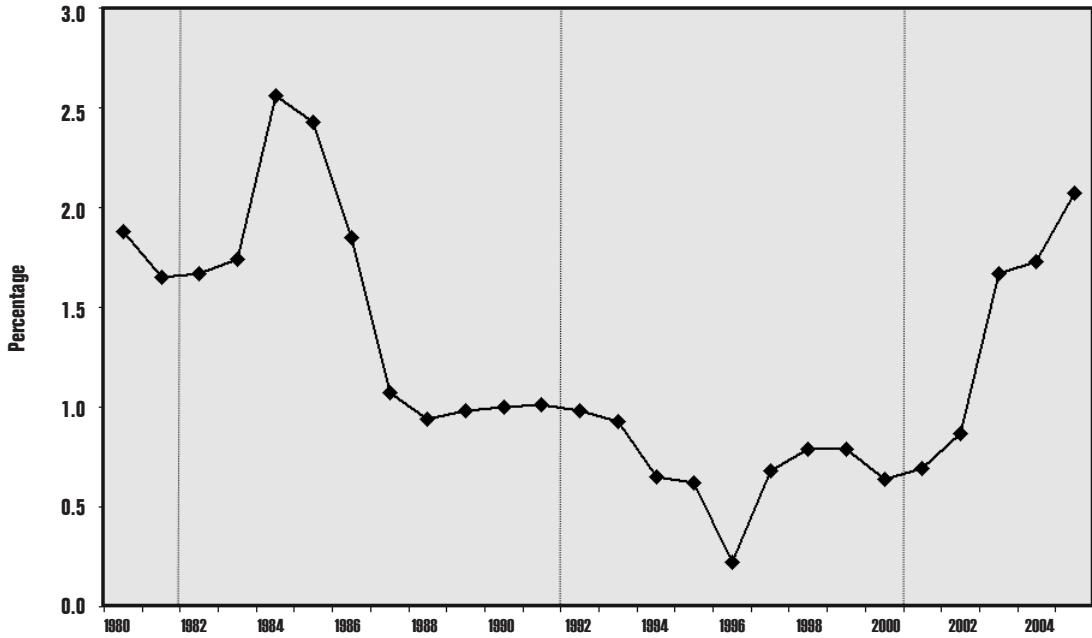
The payroll tax assessed by North Carolina, meanwhile, is used exclusively to fund insurance payments. Federal law requires states to deposit their tax proceeds in a dedicated trust fund held by the U.S. Treasury. States only can use the proceeds to pay benefits, and in the interim, the balances earn a handsome rate of interest. Between 1999 and 2000, for instance, North Carolina's trust fund generated \$190 million in interest.¹⁷ This interest mechanism aims to encourage states to build up balances during good times in order to pay benefits during bad ones. Such a counter-cyclical approach is a hallmark of a social insurance program like UI.

This counter-cyclical goal, however, exists in tension with a distinctive feature of the United States' UI system: experience rating. The taxes paid by an employer vary, at least in part, on that employer's experience using the UI system. In theory, an employer who discharges more employees should pay more in taxes than one who dismisses fewer people. Because no experience-based system is perfectly efficient, there are additional charges (e.g. payments made to employees of a firm that has gone out of business) that are shared collectively by every covered employer. Unfortunately, by linking tax payments to claim histories, experience rating often leads employers to challenge unnecessarily valid insurance claims.¹⁸

North Carolina assesses a variable, experience-rated payroll tax on (in 2005) the first \$16,700 in wages paid by a covered employer to a worker. This wage base changes every August. The actual tax rate depends on the health of the UI trust fund and an employer's experience rating. Higher rates are charged when the trust fund's balance is low than when it is high. Better-rated employers also pay less than poorly-rated ones. Nominal tax rates vary from zero percent to 5.7 percent, depending upon which of the nine authorized tax schedules is in effect.¹⁹ In 2005, the average employer tax rate equaled 2.1 percent of taxable wages. Between 1980 and 2005, the

FIGURE 4

AVERAGE EMPLOYER TAX RATES AS A % OF TAXABLE WAGES, NC, 1980-2005



NOTE: Dotted lines indicate recessions.
 SOURCE: U.S. Department of Labor

average employer tax rate ranged between a high of 2.7 percent of taxable wages in 1984 to a low of 0.2 percent in 1996 (Figure 4).²⁰

By law, the proceeds of the North Carolina’s payroll tax only can be used to pay insurance to eligible workers. Other parts of the UI system depend on other funding streams. The federal government, in theory, is supposed to use the proceeds of its payroll tax to finance the administrative costs incurred by operating state UI systems. Similarly, the federal Wagner-Peyser Act is supposed to fund the employment services provided at local UI offices. Yet as federal support has declined in recent years, the state’s budget has been forced to absorb some of the shortfall.

A by-product of North Carolina’s UI system is its financing of training activities through the Worker Training Trust Fund, the state’s only unrestricted source of workforce development funding. State law requires the ESC to transfer the interest earned by a reserve account into the Worker Training Trust Fund. That fund, in turn, supports programs that “enhance the employability of workers.”²¹ Between 1989 and 2005, the fund spent an annual average of \$13.6 million on initiatives like the North Carolina Community College System’s popular Focused Industrial Training program.²²

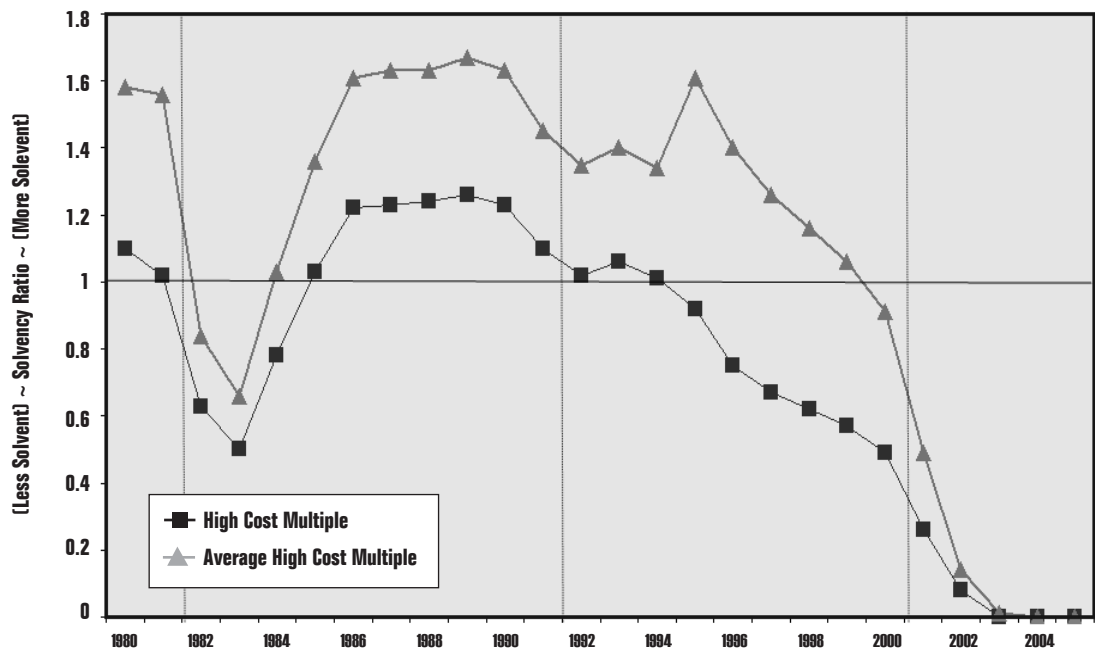
WHAT HAPPENED TO NORTH CAROLINA'S UI SYSTEM?

The economic downturn that started the decade shook every aspect of North Carolina's UI system. The trust fund used to pay benefits ran empty, the federal government reduced funding for the services for which it is responsible, money to keep local offices open was scarce and the Worker Training Trust Fund was depleted. To keep operating and paying benefits to eligible workers across the state, the ESC drained its reserves, sought appropriations from the state and borrowed extensively (and innovatively) from the federal government and from the private market.

Consider the trust fund used to pay insurance. Financial experts evaluate the health of UI funds through solvency measures. Such measures compare a fund's size to its ability to pay benefits at a level comparable to one experienced during a prior recession. Put differently, if the trust fund received no additional revenues, how long could it pay insurance at a level similar to a previous recession? A fund that could sustain that level for at least 12 months is deemed solvent. The two most commonly used solvency measures are the high-cost multiple, which compares fund size to the single worst recession over the past 20 years, and the average high-cost multiple, which compares fund size to the three-worst recessions over the past 20 years.²³ In 2005, North Carolina's trust fund was insolvent according to both measures, even after accounting for a \$260 million injection of federal Reed Act funds in 2002 (Figure 5).²⁴

FIGURE 5

SOLVENCY TRENDS, UNEMPLOYMENT INSURANCE TRUST FUND, NC, 1980-2005



NOTE: Dotted lines indicate recessions. Solid line indicates solvency threshold.
 SOURCE: U.S. Department of Labor

SHORT-SIGHTED POLICY CHOICES UNDERCUT UI

Short-sighted decisions by state leaders during the 1990s compromised the solvency of the UI trust fund and set the stage for today's problems. Like many forms of social insurance, UI is designed to work on a counter-cyclical basis. When times are good, the system should build up reserves that can be used to pay insurance during bad times. Seemingly large balances, however, often tempt elected officials to adopt short-sighted policies that undermine program integrity, regardless of the actual solvency of the system.

That is what happened in North Carolina during the 1990s. As the economy grew, the UI trust fund built what seemed like a large balance, at least in dollar terms. Consequently, the General Assembly enacted a series of 13 payroll tax changes between 1992 and 2000. Previous research has estimated that those changes and the associated forgone interest earnings reduced the size of the UI fund by some \$1.5 billion.²⁵ Revenue reductions also caused the solvency of the trust fund to begin eroding. In 1994 the UI fund was fully solvent, but by 2000, on the eve of the recession, that was no longer so.

Such policy changes ensured that the UI fund would enter the last recession, perhaps the worst period of unemployment in modern times, less prepared than it should have been. Granted the downturn was severe. Structural changes in the state's economy eliminated jobs, increased unemployment and caused longer spells of unemployment. The result: \$2.6 billion in insurance payments just in 2001-02 and the depletion of the trust fund. In total dollars, the size of the trust fund fell from \$1.1 billion in 2000 to \$11 million in 2003.²⁶

This is not to say that tax changes are never appropriate, but rather, that any changes should be judged on the basis of sound actuarial and social insurance principles, not short-term expediency. North Carolina's recent financial problems could have been mitigated if the fund had been allowed to build an adequate balance during the 1990s. If, holding all else equal, the fund had kept the estimated \$1.5 billion in forgone tax revenues, it would have entered the 2001 recession with roughly twice as much cash on hand. That would have allowed the fund to ride out the storm instead of taking on water. Ironically, by compromising the fund's health during the 1990s, the General Assembly was forced to raise taxes during the downturn. By 2005, average payroll tax rates were higher than they were in 1994, before the bulk of the 1990s tax changes occurred, yet the trust fund was not solvent.

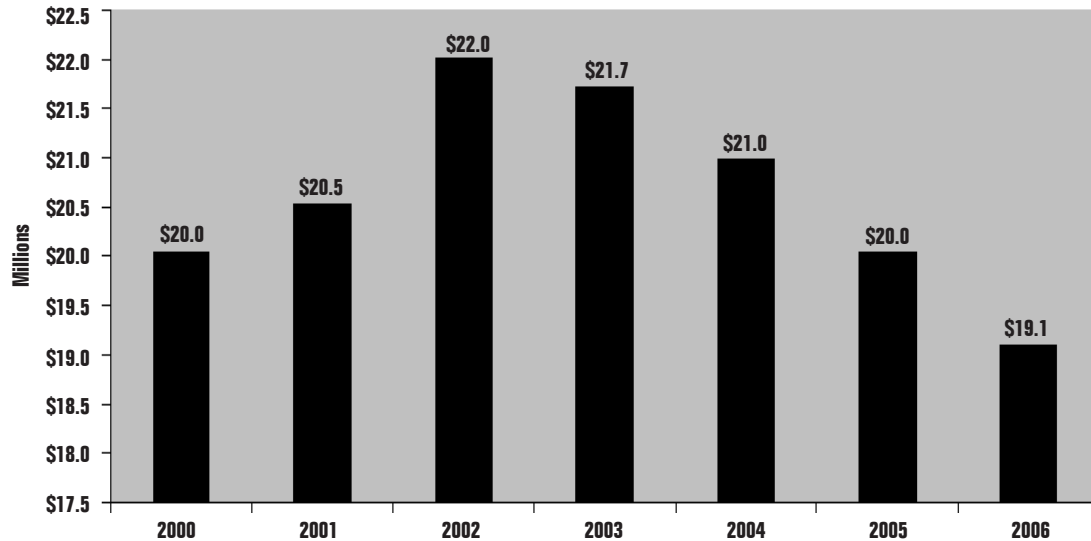
FEDERAL REDUCTIONS WEAKENED UI

Steady reductions in federal support for UI have compounded North Carolina's problems. A portion of the federal payroll tax is supposed to pay certain state administrative costs, while Wagner-Peyser funds (Title II of the Workforce Investment Act) should bankroll the employment service functions provided through the ESC's network of 93 local offices. Yet federal support for such functions steadily has eroded.

Consider Wagner-Peyser funds, which support employment service functions (**Figure 6**). Between program years 2000 and 2006, total federal support to the states, not accounting for inflation, fell by 8.6 percent, going from \$761.7 million to \$696.1 million. During that same

FIGURE 6

FEDERAL WAGNER-PEYSER ALLOCATIONS TO NC, PROGRAM YEARS 2000-2006 (IN 2005\$)



SOURCE: Federal Register, various years

seven-year period, North Carolina's annual inflation-adjusted appropriation fell from \$20.1 million to \$19.1 million, a drop of 4.8 percent.²⁷ This decline occurred during a period in which the state's workforce grew and the demand for the services provided by the UI system increased.

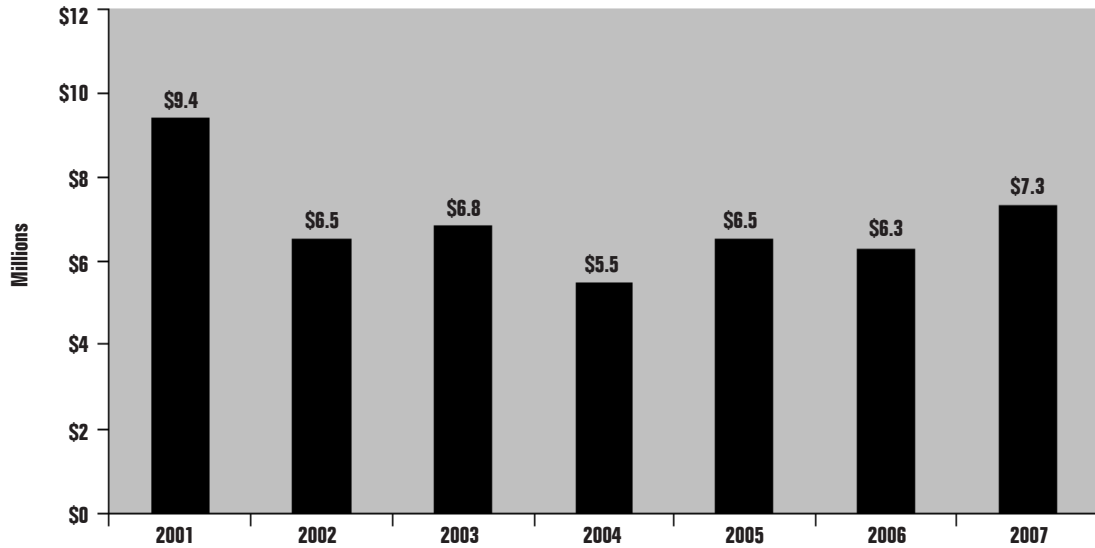
The erosion of federal support for UI administration and employment services has shifted more responsibility for funding UI to the state's budget. The General Assembly initially helped the ESC by diverting funds from the Worker Training Trust Fund for other UI-related purposes, and then, after that fund was depleted, the legislature began appropriating money from the General Fund (Figure 7).²⁸ Without a \$7.3 million appropriation from the General Assembly in the current fiscal year, for example, the ESC likely would have had to shut some local offices. Unfortunately, increases in General Fund spending have not been adequate to offset declines in other revenues or meet new demands.

HOW CAN THE UI SYSTEM BE STRENGTHENED?

When it comes to UI financing, North Carolina historically has been seen as a national leader. The developments of recent years, however, appear to have undercut support for sound policies. Unless state leaders renew their commitment to responsible financing, the UI system will lose its core abilities to stabilize local economies during downturns and provide working families confronting unemployment with a basic measure of economic security. Restoring the UI system's long-term health requires public leaders to take three steps: 1) adopt a philosophy of "forward financing," 2) adjust the taxable wage base to better grow with the economy, and 3) ensure that all employers contribute a fair share.

FIGURE 7

GENERAL FUND APPROPRIATIONS TO THE ESC, FISCAL YEARS 2001-2007 (IN 2005\$)



SOURCE: Employment Security Commission

ADOPT “FORWARD FINANCING”

Social insurance programs like UI are designed to operate on a counter-cyclical basis. In other words, the system should accumulate adequate resources during times of economic prosperity in preparation for paying out insurance during economic downturns. Such “forward financing” permits a state to address a downturn without having to reduce insurance payments or raise taxes during a time of economic hardship.²⁹ North Carolina unfortunately abandoned this approach during the 1990s in favor of “pay-as-you-go” financing. That system ties tax rates and revenue flows to arbitrary targets rather than sound insurance principles and also reduces the size of interest payments earned by the state’s trust fund. While pay-as-you-go financing often permits short-term tax breaks, it frequently leads to tax increases during and after a recession. This is exactly what happened in North Carolina in recent years, and today average tax rates are higher than they were in 1994 - before most of the 1990s tax reductions took effect. To avoid repeating this problem, state leaders should return to a philosophy of forward financing the UI trust fund.

ADJUST THE TAXABLE WAGE BASE

North Carolina is one of 17 states that wisely adjust their taxable wage bases for growth in payrolls. In other words, the amount of wages subject to taxation automatically increases along with wages and salaries. Such an approach results in a fairer and sounder UI system.³⁰ North Carolina currently levies its variable experience-rated payroll tax on the first \$17,300 in wages paid by a covered employer to a worker. This wage base changes every August and must equal 50 percent of the state’s average annual wage.

Increasing the share of wages subject to taxations is one way for North Carolina to rebuild and strengthen its UI fund. Take 2005. That year, approximately 44 percent of all the wages paid in covered employment were subject to the state payroll tax. That tax, in turn, generated some \$900 million for the UI fund. If the ratio of taxable wages to all covered wages instead had equaled 50 percent, holding all else equal, then the UI fund would have collected an additional \$141 million, money that could have been used to improve the trust fund's solvency and prepare for the next downturn.³¹

ENSURE THAT ALL EMPLOYERS PAY A FAIR SHARE

Every state finances its UI fund through variable experience-rated payroll taxes paid by employers. Nominal tax rates in North Carolina vary from zero percent to 5.7 percent, depending upon which of the nine authorized tax schedules is in effect. To strengthen the state's UI system, North Carolina's leaders should reevaluate both the lowest and highest tax rates currently authorized.

North Carolina instituted a zero tax rate during the 1990s. While a zero rate for employers with a good experience rating sounds harmless, it actually contains three flaws. First, it causes a "free rider" problem. All firms benefit from the existence of UI benefits, but a zero tax rate allows some employers to benefit without having to pay into the fund. Second, under a zero rate, a sizable number of firms often wind up paying little or no tax. In North Carolina, for example, 12 percent of covered employers paid no taxes in 2005.³² Third, because no experience-rated system is perfectly effective, there are additional charges (i.e. payments made to employees of a firm that has gone out of business) that must be shared by all employers. A zero tax rate, however, exempts employers from paying for shared costs. To avoid such problems, North Carolina should eliminate the zero tax rate and set a minimum rate that ensures that all employers contribute something meaningful to the UI system.

On the opposite end of the spectrum, North Carolina should consider raising its top tax rate of 5.7 percent - the rate paid by six percent of all employers in 2005. Federal law requires that state's levy a maximum tax rate of at least 5.4 percent on employers with the worst experience ratings. However, if maximum tax rates are set too low, firms that dismiss many workers escape from having to pay for the costs they impose on the UI system. Moreover, low maximum rates may lead to unfair situations where employers with good experience ratings wind up subsidizing those with bad ratings. A recent national study by the Government Accountability Office, for example, found that the construction and agriculture industries consistently pay less in taxes than is drawn in insurance payments by former employees, while the finance, real estate and insurance industries regularly pay more.³³ To avoid this problem, North Carolina should reevaluate the effectiveness of the current top tax rate.

WHY SHOULD THE UI SYSTEM BE STRENGTHENED?

Strengthening the health of North Carolina's UI system is essential to meeting the demands of the modern economy and the changing needs of the workforce. UI's founders designed the

program for an industrial rather than service economy. At the time, unemployment was a cyclical and temporary process. The economy would slow down, firms would fire employees, those workers would collect unemployment and employers would re-hire workers when the economy improved. Today, unemployment is structural. An employee who loses a job is more likely to be permanently displaced rather than temporarily dismissed. Though recessions now are much shorter than they historically have been, the labor market takes much longer to recover, if it recovers fully at all.³⁴

North Carolina learned the lessons of the new unemployment during the last recession. Much of the unemployment that occurred during a recession that, officially at least, lasted only a few months resulted from the structural decline of traditional industries. An unemployed textile worker, for example, was unlikely to regain a job or find comparable work in the same industry. The jobs and many of the firms simply have vanished.

At the same time that the nature of unemployment has changed, the characteristics of the workforce have changed. UI originally was designed for a world in which families were supported by a sole, full-time male worker who would often spend an entire career at one employer. Today, women and/ or members of minority groups account for a growing share of the workforce. Additionally, contingent, temporary and low-wage work account for a growing share of the workforce. In 2005, for instance, 22 percent of Tar Heels worked part-time. Women were more likely than men to be employed part time, while African Americans were more likely than whites or Hispanics to labor on a part-time basis. Even more alarmingly, 28.1 of all North Carolina workers earned less than \$9.60 an hour in 2005, the amount needed to bring a four-person family to the federal poverty level.³⁵

Modern realities place new pressures upon North Carolina's UI system. Despite some positive reforms, UI in North Carolina still reaches a fraction of unemployed workers. Increases in long-term unemployment also mean that a growing share of workers stops receiving insurance before securing a new job. Furthermore, workers displaced from traditional industries are less likely to find jobs that pay as well or offer the same benefits as their previous position. For such workers, the current UI system is ill-equipped to provide them with the security needed to access and pursue the training needed to position themselves for new, more lucrative opportunities.

Strengthening the fiscal health of the UI system is an essential step for improving its ability to meet the needs of today's workers and economy. Absent stronger financing, the system will struggle to perform its current mission, fail to respond to the realities of a changed labor force and prove incapable of pursuing innovative strategies that provide working families with a basic level of economic security and help them rebound from a period of unemployment.

A POTENTIAL INNOVATION: RETHINKING THE WORKER TRAINING TRUST FUND

One part of the UI system that is ripe for innovation is the Worker Training Trust Fund, the state's only unrestricted source of workforce development dollars. After having spent a yearly average of \$13.6 million per year on ESC operations and education/ training initiatives during the 1990s, the fund essentially ran dry during the last downturn and stopped supporting

activities. The training fund now is slowly starting to rebuild, thereby affording public leaders an opportunity to strengthen the fund and use it to more effectively aid workers and their families.³⁶

Going forward, North Carolina could use part of the training fund as a kind of workforce development venture fund that awards grants on a competitive basis. Under the direction of the Commission on Workforce Development, which by its very composition would reflect the diverse interests of businesses and workers, such a grant program could support training that focuses on low-skilled or vulnerable workers; is linked to the needs of a particular economic sector and/ or geographic region; involves private and nonprofit intermediaries; fosters cooperation among the different parts of the workforce development system; better aligns the state's workforce development and economic development efforts; and uses outcome measurements to gauge success. One way to quickly seed such a venture fund would be to divert a portion of the revenues generated from the statutorily-authorized tax surcharge imposed when the UI fund's reserve account falls below a certain threshold to the initiative.

A POTENTIAL INNOVATION: ALIGNING THE WORKFORCE DEVELOPMENT SYSTEM

Responding to the UI's system's financial challenges also creates an opportunity to reconsider UI's relationship to the larger workforce development system. In 1933 the Wagner-Peyser Act created a nationwide Employment Service (ES) to help match job seekers and employers. Following the creation of UI, responsibility for ES was vested with state employment security agencies.³⁷

Consistent with its roots in an industrial economy, ES traditionally has focused on providing the kinds of short-term services needed to match job seekers and employers. In fact, Wagner-Peyser dollars cannot be used to support training activities. Yet in today's service-based economy, unemployed workers, especially those dislocated from traditional industries, need to upgrade their skills and education in order to find work that pays a family-supporting wage.³⁸ Limitations on funding for training - coupled with such factors as the age of the ES system, its dedicated funding stream and the relative independence of the ESC - has resulted in an ES system that operates at some distance from the other parts of North Carolina's workforce development system.

Elected leaders are in a position to push ES towards better coordination with the larger workforce development system to the needs of today's labor market. For example, while ES cannot fund training, it can coordinate with the training opportunities supported by the federal Workforce Investment Act or offered by the community colleges. Is such coordination occurring, and how can it be encouraged or improved upon? Similarly, is the current network of 93 local ES offices appropriate, or would a smaller network provide better services at a lower cost? Answering such questions is essential to efforts to improve North Carolina's workforce and economy.

CONCLUSION

North Carolina's system of unemployment insurance provides workers who are involuntarily unemployed with the security needed to rebound and seize new economic opportunities while strengthening local economies at the same time. Unfortunately, the past few years have been challenging ones for the state's UI system due to a series of short-sighted policy decisions on the part of state and federal leaders. Changes consequently are needed to strengthen the ability of the UI system to achieve its core goals and help North Carolina meet the needs of today's workers and employers.

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All judgments and errors are the author's.

APPENDIX: County-Level Unemployment Insurance Data, 2001-02

	UNEMPLOYMENT RATE (%)			INDIVIDUALS RECEIVING UI PAYMENTS (#)			TOTAL UI PAYMENTS RECEIVED (2005 \$)		
	2001	2002	TWO-YEAR AVERAGE	2001	2002	TWO-YEAR AVERAGE	2001	2002	TWO-YEAR TOTAL
North Carolina	5.6	6.6	6.1	431,961	463,831	447,896	\$1,041,142,419	\$1,320,377,250	\$2,361,519,669
Alamance	5.6	7.1	6.4	8,852	10,130	9,491	\$17,630,110	\$25,320,661	\$42,950,771
Alexander	5.9	7.0	6.5	3,741	3,603	3,672	\$6,631,210	\$7,027,305	\$13,658,516
Alleghany	8.7	9.1	8.9	1,157	1,029	1,093	\$1,678,520	\$2,078,203	\$3,756,723
Anson	8.6	9.3	9.0	2,081	2,201	2,141	\$4,126,617	\$4,448,696	\$8,575,312
Ashe	8.1	8.3	8.2	2,313	2,033	2,173	\$4,428,624	\$4,051,664	\$8,480,288
Avery	5.5	6.3	5.9	964	981	973	\$1,530,893	\$1,784,290	\$3,315,183
Beaufort	8.7	9.1	8.9	3,154	3,200	3,177	\$6,736,841	\$7,092,950	\$13,829,791
Bertie	8.0	8.1	8.1	1,053	1,300	1,177	\$1,850,585	\$2,241,911	\$4,092,496
Bladen	8.8	9.8	9.3	2,004	2,144	2,074	\$5,836,139	\$5,823,751	\$11,659,890
Brunswick	5.7	6.7	6.2	3,288	3,783	3,536	\$7,675,937	\$10,916,762	\$18,592,699
Buncombe	4.3	5.0	4.7	7,324	7,840	7,582	\$16,797,385	\$21,499,988	\$38,297,373
Burke	6.6	7.9	7.3	8,911	8,111	8,511	\$16,783,270	\$16,875,872	\$33,659,142
Cabarrus	4.9	5.5	5.2	7,867	8,405	8,136	\$16,906,604	\$19,793,673	\$36,700,277
Caldwell	6.6	8.0	7.3	9,153	8,702	8,928	\$15,692,948	\$16,811,669	\$32,504,616
Camden	4.0	4.3	4.2	298	321	310	\$326,401	\$378,782	\$705,184
Carteret	5.4	5.9	5.7	2,394	2,673	2,534	\$4,718,401	\$5,670,833	\$10,389,234
Caswell	6.8	8.1	7.5	2,244	2,224	2,234	\$3,207,827	\$3,623,573	\$6,831,400
Catawba	6.4	8.3	7.4	15,410	15,037	15,224	\$30,579,633	\$38,088,668	\$68,668,301
Chatham	4.1	5.1	4.6	2,697	3,071	2,884	\$4,439,776	\$6,658,451	\$11,098,227
Cherokee	8.8	10.2	9.5	2,044	1,814	1,929	\$3,976,126	\$4,258,102	\$8,234,228
Chowan	5.5	6.1	5.8	672	799	736	\$906,980	\$1,214,803	\$2,121,783
Clay	5.0	5.6	5.3	362	358	360	\$548,868	\$590,950	\$1,139,818
Cleveland	9.3	10.1	9.7	10,271	9,321	9,796	\$27,625,649	\$22,997,056	\$50,622,706
Columbus	8.4	9.1	8.8	2,692	2,860	2,776	\$6,669,337	\$8,437,226	\$15,106,563
Craven	5.7	6.2	6.0	2,770	2,983	2,877	\$6,261,015	\$6,886,965	\$13,147,980
Cumberland	6.1	7.0	6.6	9,595	10,396	9,996	\$20,112,850	\$26,224,853	\$46,337,703
Currituck	3.0	3.0	3.0	451	497	474	\$766,134	\$880,025	\$1,646,160
Dare	5.7	5.5	5.6	2,244	2,402	2,323	\$4,927,962	\$5,332,745	\$10,260,707
Davidson	6.3	6.7	6.5	13,674	14,613	14,144	\$26,607,289	\$24,950,398	\$51,557,687
Davie	5.3	5.7	5.5	2,648	2,573	2,611	\$5,184,933	\$5,149,863	\$10,334,796
Duplin	6.2	7.5	6.9	2,553	2,865	2,709	\$4,899,266	\$6,493,688	\$11,392,954
Durham	4.4	5.8	5.1	7,056	9,308	8,182	\$20,622,583	\$36,110,143	\$56,732,725
Edgecombe	8.4	11.0	9.7	4,251	5,033	4,642	\$8,611,436	\$13,001,161	\$21,612,597
Forsyth	4.7	5.7	5.2	12,241	14,188	13,215	\$30,337,732	\$40,950,772	\$71,288,504
Franklin	5.0	6.5	5.8	2,466	3,102	2,784	\$4,832,186	\$7,293,980	\$12,126,166
Gaston	7.7	7.7	7.7	15,734	14,496	15,115	\$41,499,939	\$37,469,813	\$78,969,752

Gates	4.4	4.4	4.4	363	334	349	\$437,290	\$300,582	\$737,872
Graham	9.1	9.8	9.5	1,317	1,251	1,284	\$2,286,512	\$1,917,734	\$4,204,246
Granville	6.4	7.2	6.8	2,631	2,800	2,716	\$5,658,445	\$7,448,272	\$13,106,717
Greene	6.8	7.3	7.1	1,059	1,081	1,070	\$2,115,044	\$2,132,631	\$4,247,675
Guliford	5.1	6.3	5.7	19,561	22,757	21,159	\$50,053,580	\$69,623,337	\$119,676,918
Halifax	9.8	10.4	10.1	3,939	4,185	4,062	\$9,586,405	\$9,445,405	\$19,031,810
Harnett	6.3	7.4	6.9	3,908	4,506	4,207	\$10,557,118	\$13,053,813	\$23,610,931
Haywood	5.7	6.3	6.0	2,490	2,414	2,452	\$5,609,691	\$7,009,104	\$12,618,796
Henderson	4.4	5.1	4.8	3,571	3,964	3,768	\$6,029,416	\$9,013,653	\$15,043,069
Hertford	7.3	6.6	7.0	3,915	4,317	4,116	\$2,351,099	\$1,839,831	\$4,190,931
Hoke	6.7	7.7	7.2	2,131	2,176	2,154	\$3,523,038	\$4,721,418	\$8,244,456
Hyde	7.3	7.6	7.5	412	423	418	\$667,675	\$690,943	\$1,358,618
Iredell	5.9	6.6	6.3	8,529	8,051	8,290	\$21,281,846	\$21,364,249	\$42,646,095
Jackson	4.4	4.7	4.6	1,344	1,457	1,401	\$2,416,717	\$2,858,362	\$5,275,079
Johnston	4.3	5.5	4.9	4,122	5,219	4,671	\$9,839,334	\$16,105,331	\$25,944,665
Jones	5.7	6.9	6.3	524	590	557	\$791,073	\$1,105,436	\$1,896,509
Lee	6.2	7.6	6.9	3,218	3,396	3,307	\$6,353,702	\$8,630,150	\$14,983,852
Lenoir	8.1	8.7	8.4	3,586	3,436	3,511	\$8,211,030	\$7,798,871	\$16,009,901
Lincoln	6.8	7.1	7.0	5,575	5,289	5,432	\$12,881,193	\$12,311,184	\$25,192,377
Macon	4.7	5.2	5.0	4,625	4,238	4,432	\$1,925,018	\$2,518,196	\$4,443,213
Madison	5.6	5.9	5.8	994	1,109	1,052	\$2,079,270	\$2,321,674	\$4,400,943
Marin	7.1	6.6	6.9	888	857	873	\$2,425,944	\$2,637,188	\$5,063,132
McDowell	7.3	8.3	7.8	1,485	1,572	1,529	\$8,963,536	\$8,385,051	\$17,348,587
Mecklenburg	4.4	5.8	5.1	21,114	27,798	24,456	\$72,006,384	\$114,997,472	\$187,003,856
Mitchell	9.1	10.3	9.7	1,474	1,543	1,509	\$3,680,995	\$3,885,327	\$7,566,322
Montgomery	6.9	8.2	7.6	2,554	2,644	2,599	\$3,964,509	\$4,952,909	\$8,917,418
Moore	4.9	6.3	5.6	3,537	3,752	3,645	\$6,135,706	\$8,671,209	\$14,806,914
Nash	6.4	8.0	7.2	4,471	4,955	4,713	\$10,662,159	\$15,105,048	\$25,767,207
New Hanover	5.0	6.2	5.6	5,711	6,826	6,269	\$18,816,741	\$27,272,781	\$46,089,521
Northampton	8.6	9.5	9.1	930	974	952	\$2,899,826	\$2,937,949	\$5,837,775
Onslow	5.6	6.7	6.2	3,084	3,899	3,492	\$6,214,785	\$9,238,609	\$15,453,394
Orange	3.5	4.3	3.9	2,191	2,723	2,457	\$6,199,943	\$9,722,918	\$15,922,861
Pamlico	5.6	5.8	5.7	358	371	365	\$819,604	\$880,110	\$1,699,714
Pasquotank	5.1	5.5	5.3	931	1,025	978	\$1,940,177	\$2,191,576	\$4,131,753
Pender	5.7	7.5	6.6	1,984	2,307	2,146	\$4,394,587	\$7,424,504	\$11,819,090
Perquimans	5.5	5.5	5.5	838	769	804	\$704,148	\$692,656	\$1,396,804
Person	6.9	7.4	7.2	2,411	2,463	2,437	\$6,294,696	\$6,874,721	\$13,169,418
Pitt	5.9	6.5	6.2	5,817	5,977	5,897	\$14,247,399	\$16,345,038	\$30,592,437
Polk	4.3	5.0	4.7	586	627	607	\$1,004,348	\$1,335,026	\$2,339,373
Randolph	5.6	6.4	6.0	10,197	11,323	10,760	\$18,914,992	\$21,596,595	\$40,511,587

(cont.)

	UNEMPLOYMENT RATE (%)			INDIVIDUALS RECEIVING UI PAYMENTS (#)			TOTAL UI PAYMENTS RECEIVED (2005 \$)		
	2001	2002	Two-Year Average	2001	2002	Two-Year Average	2001	2002	Two-Year Total
North Carolina	5.6	6.6	6.1	431,961	463,831	447,896	\$1,041,142,419	\$1,320,377,250	\$2,361,519,669
Richmond	8.4	10.7	9.6	4,112	4,403	4,258	\$8,334,878	\$9,887,831	\$18,222,709
Robeson	9.9	9.9	9.9	8,584	8,377	8,481	\$21,746,439	\$19,237,677	\$40,984,116
Rockingham	7.0	8.0	7.5	7,756	7,531	7,644	\$15,855,132	\$17,311,301	\$33,166,433
Rowan	6.7	6.4	6.6	9,941	9,067	9,504	\$23,001,060	\$17,568,489	\$40,569,549
Rutherford	7.6	9.4	8.5	5,804	5,526	5,665	\$12,009,474	\$13,254,234	\$25,263,708
Sampson	6.2	6.9	6.6	2,652	2,711	2,682	\$6,931,972	\$7,017,860	\$13,949,832
Scotland	9.4	10.0	9.7	3,021	3,385	3,203	\$6,182,860	\$7,207,627	\$13,390,487
Stanly	7.2	7.2	7.2	4,456	4,291	4,374	\$10,407,501	\$9,614,226	\$20,021,727
Stokes	5.4	6.0	5.7	2,608	2,615	2,612	\$5,866,989	\$6,877,880	\$12,744,870
Surry	6.3	7.9	7.1	5,582	5,617	5,600	\$11,370,099	\$13,830,398	\$25,200,497
Swain	8.1	8.3	8.2	1,025	1,040	1,033	\$2,116,856	\$2,243,850	\$4,360,706
Transylvania	5.1	7.2	6.2	1,325	1,549	1,437	\$2,795,401	\$6,931,860	\$9,727,262
Tyrell	8.1	9.0	8.6	255	379	317	\$426,733	\$651,063	\$1,077,797
Union	4.1	5.1	4.6	4,245	5,245	4,745	\$10,892,346	\$16,778,799	\$27,671,144
Vance	9.2	10.1	9.7	3,435	3,349	3,392	\$7,014,402	\$8,519,406	\$15,533,808
Wake	4.0	5.6	4.8	18,377	25,884	22,131	\$65,733,776	\$117,217,548	\$182,951,324
Warren	8.7	9.1	8.9	1,071	1,099	1,085	\$2,718,700	\$2,474,319	\$5,193,018
Washington	7.2	8.2	7.7	715	793	754	\$1,349,612	\$1,750,954	\$3,100,566
Watauga	3.7	4.1	3.9	966	1,056	1,011	\$2,126,808	\$2,527,351	\$4,654,159
Wayne	5.7	6.5	6.1	4,094	4,068	4,081	\$8,817,359	\$10,004,784	\$18,822,143
Wilkes	6.1	8.4	7.3	5,000	4,518	4,759	\$9,804,849	\$12,823,004	\$22,627,852
Wilson	7.5	7.7	7.6	3,986	4,504	4,245	\$9,780,728	\$11,538,520	\$21,319,248
Yadkin	5.2	5.8	5.5	3,129	2,673	2,901	\$5,372,934	\$5,379,989	\$10,752,923
Yancey	9.9	9.4	9.7	1,604	1,454	1,529	\$4,526,291	\$3,457,090	\$7,983,381

SOURCE: Employment Security Commission



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