

Central Appropriations

Adopted Adjustments (\$ in millions)				
	FY 2013 Adopted		FY 2014 Adopted	
	<u>GF</u>	<u>NGF</u>	<u>GF</u>	<u>NGF</u>
2012-14 Base Budget, Ch. 890	\$26.7	\$89.3	\$26.7	\$89.3
Increases	148.3	0.0	209.5	0.0
Decreases	(139.6)	(0.0)	(130.3)	(0.0)
\$ Net Change	8.7	0.0	79.2	0.0
Chapter 3 (HB 1301, as Adopted)	\$35.4	\$89.3	\$105.9	\$89.3
% Change	32.9%	0.0%	296.6%	0.0%
FTEs	2.00	0.00	2.00	0.00
# Change	2.00	0.00	2.00	0.00

- **Higher Education Interest**

- *Higher Education Interest and Charge Card Rebates.* Reflects a reduction of \$4.6 million GF in FY 2013 and \$4.0 million GF in FY 2014 for payments to institutions of higher education for interest on NGF balances held by the state treasury and a prorated share of rebates received by the Commonwealth on credit card purchases. These reductions reflect revised estimates of program amounts.

- **Compensation Supplements**

- *Employee Bonus.* Provides for a one-time bonus payment equal to 3 percent of base pay on December 1, 2012, for all employees of the Commonwealth, except elected officials, who were employed on April 1, 2012, and who continue employment until at least November 24, 2012. This bonus is contingent on a June 30, 2012, discretionary general fund balances that are recommended for reversion and any available general fund revenue surpluses from FY 2012 being at least \$77.2 million, the estimated cost of the 3 percent bonus. The bonus will be provided on a prorated basis if the available funds are below the \$77.2 million amount.
- *Second Year Employee Pay Raise.* Includes \$54.7 million GF in FY 2014 to provide a 2 percent pay raise in the second year, for state employees effective July 10, 2013,

and for state supported local employees effective August 1, 2013. The language makes the salary adjustment contingent on there being no downward adjustment in the revenue forecast. The language earmarks \$15.5 million GF for the cost of the salary adjustment for state supported local employees and \$39.1 million GF for the salary increase for state employees. In addition to the \$39.1 million provided in central appropriations, \$17.4 million GF is provided directly to the colleges and universities to fund the cost of the 2 percent salary increase for college faculty.

- ***Employer Health Insurance Premium Increases.*** Provides a net increase of \$44.1 million GF in FY 2013 and \$56.1 million GF in FY 2014 to fund the employers' share of the increase in health insurance premiums for the State Employee Health Insurance Program and the University of Virginia Health Insurance program.

2012-14 Health Insurance Increases			
(\$ millions GF)			
	<u>FY 2013</u>	<u>FY 2014</u>	<u>Total</u>
State Health Insurance Program	\$43.6	\$55.6	\$ 99.2
UVA Health Insurance Plan	<u>0.5</u>	<u>0.5</u>	<u>1.0</u>
Total	\$44.1	\$56.1	\$100.2

The amendments included for the state health insurance program included an increase of \$135.7 million GF to fund inflation and a significant reduction in the amount of subsidy from reserves and balances in the Health Insurance Fund (HIF) used to fund a portion of the premiums. This increase is partially offset by three savings actions: 1) reduce the reserve for claims that have been incurred but not received for payment (IBNR) by (\$19.1) million GF; 2) offset early retiree costs with federal funds available under federal health care reform legislation, (\$9.1) million GF; and, 3) health benefit changes, (\$8.3) million, which results in a net increase in funding of \$99.2 million GF for the biennium.

Benefit changes include; 1) equalizing the employer costs for premiums between the Kaiser HMO and COVA Care; 2) provide for annual vision exams; 3) require outpatient settings for selected surgeries; 4) eliminate co-payments for Tier 1 & 2 diabetes medications/supplies; and, 5) cover nutritional counseling services.

Premiums for state employees in COVA Care will increase by an average of around 11 percent in FY 2013. The rates for COBRA and early retirees will increase by less than 1 percent.

- **Line of Duty Act.** Provides an additional \$1.7 million GF in FY 2013 and \$1.7 million GF in FY 2014 to support premiums charged for the Line of Duty Benefit.
- **Repay Deferred Employer Retirement Contributions.** Chapter 874 of the 2010 Acts of Assembly anticipated savings of \$325.2 million (all funds) in FY 2011 and \$296.2 million (all funds) in FY 2012 from lower VRS contribution rates based on the "normal rate" for state employees in both years, and the "normal rate" in FY 2011 and the "normal rate" plus 20 percent of the unfunded actuarial accrued liability in FY 2012 for teachers. As a result of these lower contribution rates, funding provided to agencies in excess of the "normal rate" would revert to the general fund.

Amendments approved in 2011 reduced the projected savings from the 2010 Session by \$69.8 million (all funds) in FY 2012. Of this amount, projected general fund balances and transfers reflected on the revenue page of the budget were reduced by a total of \$38.8 million for FY 2012 as a result of fully funding the initial VRS rates for the 4th quarter of FY 2012. The adopted amendments also provide a direct appropriation increase of \$31.0 million GF in FY 2012 for Direct Aid to Public Education to reflect the additional cost of a 2.4 percent increase in VRS contribution rates for teacher retirement under the Standards of Quality above the rates paid in FY 2011. These actions did not affect employee cash compensation.

<u>Description</u>	<u>FY 2011</u>	<u>FY 2012</u>		<u>FY 2012</u> <u>Final</u>	<u>Biennium</u>
		<u>2010</u> <u>Session</u>	<u>2011</u> <u>Session</u>		
VRS Deferral					
State Employees (Revenue Action)	\$163.0	\$170.1	(\$38.8)	\$131.3	\$294.4
Teachers (Appropriation Action)	<u>162.1</u>	<u>126.1</u>	<u>(3.0)</u>	123.0	<u>285.2</u>
Subtotal	\$325.2	\$296.2	(\$41.8)	\$254.4	\$579.5
Interaction of Normal Cost + 20% UAAL and Delay of 4th Quarter 2011 Payment	<u>(19.5)</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>(19.5)</u>
Total: VRS Deferral	\$305.7	\$296.2	(\$41.8)	\$254.4	\$560.1

Amendments adopted for 2012-14 begin the repayment of the deferred employer retirement contributions, as required by the 2010 and 2011 Appropriation Acts. These Acts require repayment over a ten year period at the interest rate assumed by the VRS Board, which for 2012-14 is 7.0 percent. The cost is \$24.7 million GF for FY 2013 and \$25.8 million GF for FY 2014.

- **Employer Contribution Rates.** Adds \$17.4 million GF in FY 2013 and \$18.2 million GF in FY 2014 for increased employer retirement contribution rates. This amount is based on an 8.0 percent rate of return, 2.5 percent inflation rate, and a thirty year amortization period. These assumptions differ from the recommendations of the VRS board, which used a 7.0 percent rate of return, 2.5 percent inflation rate, and a thirty year amortization period in its rate setting process. Provisions of Chapters 701 (HB 1130) and 823 (SB 498) of the 2012 Acts of Assembly specifies a timetable to phase in the full funding of the VRS Board recommended rates by the start of 2018-20 biennium.
- **Local Employer Contribution Rates.** Includes language setting the required VRS retirement rates for localities at the higher of 70 percent of the VRS board recommended rate for the biennium or the effective FY 2012 rate. Language also allows for the phase-in of the VRS-Board approved employer contribution rates for local employers over three biennia.
- **Other VRS Provided Benefits.** Adds a net \$553,559 GF in FY 2013 and \$577,739 GF in FY 2014 for changes the employer premiums for state employee group life insurance, the Virginia Sickness and Disability Program, and the state employee health insurance credit. The reduction in employer rates for the Sickness and Disability program will also result in transfers of \$3.4 million in FY 2013 and \$3.6 million in FY 2014 from agency nongeneral funds to the general fund.

Other VRS Benefit Changes			
(\$ GF)			
	<u>FY 2013</u>	<u>FY 2014</u>	<u>Total</u>
Group Life Insurance	\$3,875,096	\$4,043,595	\$7,918,691
Retiree Health Care Credit	227,928	237,893	465,821
Sickness and Disability Program	<u>(3,549,425)</u>	<u>(3,703,749)</u>	<u>(7,253,174)</u>
Total	\$553,599	\$577,739	\$1,131,338

- **Unanticipated Expenditures**

Federal Action Contingency Trust Fund

- *Federal Action Contingency Trust Fund.* Includes language which authorizes the appropriation of \$20.0 million GF in FY 2014, from any FY 2013 general fund balances, for the Federal Action Contingency Trust (FACT) Fund to address future federal budget reductions.

Miscellaneous Contingency Reserve Account

- *Miscellaneous Contingency Reserve Account.* Captures savings \$750,000 GF each year from reducing the funding in the Miscellaneous Contingency Reserve Account from \$1.5 million GF to \$750,000 GF each year.

Undistributed Support

- *Performance Budgeting System Rates.* Provides \$1.4 million GF in FY 2013 and \$1.4 million GF in FY 2014 for the agency costs of operating the Performance Budgeting System.
- *Agency Support Cost.* Net increases totaling \$2.2 million GF in FY 2013 and \$3.1 million GF in FY 2014 have been included directly in the budgets of state agencies and institutions for: 1) DGS rent charges at the seat of government (\$1.3 million in FY 2013 and \$1.7 million in FY 2014); and, 2) state employee workers compensation premiums (\$0.9 million in FY 2013 and \$1.4 million in FY 2014).
- *Replace Telephone Systems.* Includes \$5.0 million GF in FY 2013 and \$1.8 million GF in FY 2014 for the replacement of telephone systems for the Attorney General, Department of Taxation, Health Department, Department of Environmental Quality, and Department of Corrections.
- *VITA Rates.* Includes a net reduction of \$27.5 million GF in FY 2013 and \$27.3 million GF in FY 2014 in the amount reserved in the Central Appropriations to assist state agencies in addressing the increases in the costs of information technology services charged by the Virginia Information Technologies Agency (VITA). These rate changes are discussed in greater detail under the Technology section of this document.

2012-14 VITA Costs
(\$ in millions GF)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>Total</u>
2012-14 Base	\$28.7	\$28.7	\$57.3
Transferred to Agencies	(20.8)	(20.8)	(41.7)
Reduction	<u>(6.7)</u>	<u>(6.4)</u>	<u>(13.1)</u>
2012-14 Central Account for VITA Rates	\$1.1	\$1.4	\$2.5
Funding for Phone Systems	<u>\$5.0</u>	<u>\$1.8</u>	<u>\$6.8</u>
2012-14 Central Account for VITA Costs	\$6.1	\$3.2	\$9.3

- **State Agency Reductions**

- *Elimination or Consolidation of Agencies, Boards, and Commissions.* Captures savings of \$1.1 million GF in FY 2013 and \$2.0 million GF in FY 2014 from elimination or consolidation of selected agencies, boards, and commissions pursuant to the passage of Chapter 803 of the 2012 Acts of Assembly (HB 1291).
- *Elimination of Organizational Memberships.* Captures additional savings of \$93,500 GF in FY 2013 and \$185,300 GF in FY 2014 from elimination of selected organizational memberships.

- **Local Aid Reversions**

- *Local Aid Reversions.* Includes \$10.0 million GF in FY 2013 and \$15.0 million GF in FY 2014 to reduce the existing reversion clearing account from \$60.0 million GF reduction in state aid to localities in each year to \$50.0 million in FY 2013 and \$45.0 million in FY 2014. Under this program localities choose whether to achieve their reductions by one of three methods: 1) reductions to a single program; 2) a percentage reduction in all state payments; or, 3) reimburse the Commonwealth and forego any reductions to state payments they receive. Localities are to certify the method by which they intend to implement these reductions by August 30, 2012, and August 30, 2013.

- **Executive Branch Agency Reversion**

- *Savings from Hiring Freeze.* Replaces the \$10.5 million GF in annual savings assumed in the introduced budget, and originally assumed for FY 2012, resulting

from a hiring freeze for Executive Branch agencies with a reversion of \$13.0 million GF each year from an across-the-board reduction for executive branch agencies based on the distribution of each agencies GF salary base. The additional \$2.5 million GF in savings each of the two years is intended to offset \$5.0 million GF in funding provided in Chapter 2 of the 2012 Special Session I Acts of Assembly (HB 1300) to reduce the FY 2012 reversion from \$10.5 to \$5.5 million GF.

- **Higher Education Reductions**

- *Reduce Higher Education Reversion.* Provides \$10.0 million GF in FY 2013 and \$10.0 million GF in FY 2014 to eliminate the higher education reversion.