

# Central Appropriations

Proposed amendments for FY 2010 result in a net reduction of \$37.5 million GF in the Central Appropriations. This includes decreases of \$88.0 million GF and increases of \$50.5 million GF. The strategies announced in the Governor's September 2009 Budget Reduction Plan account for \$59.5 million of the decreases, while \$28.5 million are newly proposed reductions. Reductions of \$59.4 million GF in funding for teachers that were included under the September 2009 strategies for Central Appropriations have been relocated to public education, and the \$1.7 million reduction for Line of Duty Act benefits is included under the Department of Accounts.

General fund decreases in Central Appropriations for FY 2010 include: a reduction of \$36.1 million from suspension of employers retirement contribution rates for the fourth quarter of FY 2010, \$13.2 million GF through the suspension of employer contributions for Group Life Insurance, Sickness and disability Coverage, and the Retiree Health Care Credit in the fourth quarter of FY 2010, \$19.8 million GF by recording the employee retirement contributions for the fourth quarter of FY 2010 in July instead of June, \$9.3 million GF by implementing a one day furlough of Executive Branch state employees, \$3.2 million GF by lowering agency service charges for use of the state purchasing system (eVA), \$2.5 million GF by suspending the employer cash match on state employee deferred compensation plan, \$1.3 million GF by reducing funding for state-supported local employees by 1/249 of such employees annual salary, which is equivalent to a one day furlough, and \$2.6 million from other actions.

Proposed general fund increases in Central Appropriations for FY 2010 include: \$30.9 million GF in FY 2010 for assistance to localities impacted by the recommendations of the federal Base Realignment and Closure (BRAC) Commission, and economic development incentive payments to SRI International and Rolls Royce; \$19.4 million GF for a one-time correction in the decentralized service rates charged by VITA; and \$188,334 for other actions

For the 2010-12 biennium proposed general fund appropriations for Central Appropriations result in a net reduction of \$1,934.3 million GF. This includes decreases of \$2,035.4 million GF and increases of \$100.9 million GF. The strategies announced in September 2009, account for \$0.8 million of the decreases, while \$2,034.5 million are newly proposed reductions.

General fund decreases in Central Appropriations for the 2010-12 biennium include: a reduction of \$1,900.0 million GF from elimination of the personal property tax relief program, reductions of \$125.8 million GF in employee compensation and benefit programs, \$8.4 million from elimination of 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 in FY 2012, and \$533,974 from other actions.

The proposed compensation reductions include: \$66.2 million GF from reinstatement of an employee retirement contribution by state and local employees, \$33.9 million GF by recording the employee retirement contributions for the fourth quarter of FY 2011 in July instead of June, \$23.7 million GF by suspending the employer cash match on state employee deferred

compensation plan accounts, and \$2.0 million GF from reductions in the employer premiums for state employee group life insurance, the Virginia Sickness and disability Program, and the state employee health insurance credit.

Proposed general fund increases in Central Appropriations for the 2010-12 biennium include: \$98.5 million for increases in the cost of state employee benefit programs, \$2.4 million for the Governor’s Miscellaneous Contingency Reserve, and \$132,692 GF of 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 in FY 2012.

The proposed compensation reductions include: \$77.8 million GF for 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, \$14.0 million for the revised employer contribution rates for the VRS state employee retirement system, the State Police Officers Retirement System (SPORS), the Virginia Law Officers Retirement System (VALORS), and the Judicial Retirement System (JRS), and \$6.8 million GF for an increase in Workers’ Compensation Insurance premiums.

**Governor’s September 2009 Budget Reductions**

- **Governor’s September 2009 Budget Reductions.** The strategies announced in September 2009, contained \$120.5 million in savings from actions in the Central Appropriations. Of these reductions \$59.5 million are included under Central Appropriations in HB/SB 29 and \$0.8 million are continued in HB/SB 30. The \$59.4 million of reductions teachers are included under public education, and the \$1.7 million reduction for line of duty act benefits is included under the Department of Accounts.

<b>Central Appropriations - September 2009 Budget Reductions</b>			
<b>(\$ in millions)</b>			
<b><u>Action</u></b>	<b><u>State Employees</u></b>	<b><u>Teachers</u></b>	<b><u>Total</u></b>
Suspend Fourth Quarter Retirement Contributions	\$36.1	\$51.3	\$87.4
Reduce Contributions for Non-retirement Benefits	\$13.2	\$8.1	\$21.3
May 28, 2010 Furlough	\$9.3	\$0.0	\$9.3
Supplant Some Line of Duty Act with Employee Benefits	\$1.7	\$0.0	\$1.7
Delay Purchase of Replacement Vehicles	\$0.7	\$0.0	\$0.7
Reduce Productivity Investment Fund	<u>\$0.1</u>	<u>\$0.0</u>	<u>\$0.1</u>
<b>Total: Central Appropriations</b>	<b>\$61.1</b>	<b>\$59.4</b>	<b>\$120.5</b>

## **HB/SB 29**

- **Higher Education Interest**
  - *Higher Education Interest and Charge Card Rebates.* Proposes an additional \$132,692 million GF in FY 2010 to pay institutions of higher education interest on NGF balances held by the state treasury and a prorated share of rebates received by the Commonwealth on credit card purchases.
- **Planning Budgeting and Evaluation**
  - *Productivity Investment Fund.* Proposes a reduction of \$94,800 GF in FY 2010 in support for the Productivity Investment Fund.
- **Compensation Supplements**
  - *State Employee Furlough.* Proposes to save \$9.3 million GF in FY 2010 by implementing a one day furlough of Executive Branch state employees on May 28, 2010. Essential employees, such as state police, and corrections officers, will be placed on an alternative furlough schedule. This strategy recovers salaries only; the Commonwealth will continue to pay benefits so there will be no reduction in retirement, group life insurance, disability, or other salary-based benefits. In addition, \$7.6 million saved from eligible nongeneral fund sources will be transferred to the general fund for a total impact of \$16.9 million.
    - Most Executive Branch employees would take the furlough day on the Friday before the Memorial Day weekend.
    - Certain employees (faculty, public safety, etc.) will take the furlough day on an alternative schedule that will vary by agency.
    - A one day furlough represents a reduction of 0.35 percent in the annual salary.
  - *State-support Local Employee Furlough.* Proposes to save \$1.3 million GF in FY 2010 by reducing funding for state-supported local employees by 1/249 of such employees annual salary, which is equivalent to a one day furlough. This strategy recovers salaries only. The local employer will determine the actual method of implementing this reduction. A reduction of \$237,978 GF for this purpose is taken directly against the budget of the Compensation Board for application of this reduction to employees of locally-elected constitutional officers.
  - *Suspend Deferred Compensation Cash Match.* Proposes to save \$2.5 million GF in FY 2010 by suspending the employer cash match on state employee deferred compensation plan accounts of up to \$20 per pay period for the last five pay periods of FY 2010. In addition, \$1.5 million saved for eligible nongeneral fund sources will be transferred to the general fund for a total impact of \$4.0 million.

- **Employee Benefit Reversions**

- ***Suspend Fourth Quarter FY 2010 Retirement Contributions.*** Proposes to save \$36.1 million GF in FY 2010 through the suspension of employer retirement contributions for the fourth quarter. In addition, \$18.1 million saved from eligible nongeneral fund sources will be transferred to the general fund for a total impact of \$54.2 million.
- ***Suspend Fourth Quarter FY 2010 Benefit Contributions.*** Proposes to save \$13.2 million GF in FY 2010 through the suspension of employer contributions for Group Life Insurance, Sickness and Disability Coverage, and the Retiree Health Care Credit in the fourth quarter of FY 2010. In addition, \$10.5 million saved from eligible nongeneral fund sources will be transferred to the general fund for a total impact of \$23.7 million.
- ***Delay Recording the Fourth Quarter VRS Retirement Payment.*** Proposes to save \$19.8 million GF in FY 2010 by recording the employee retirement contributions for the fourth quarter of FY 2010 in July instead of June. At present, these contributions are paid into a holding account in June and transferred to the VRS in July. In addition, \$12.8 million saved from eligible nongeneral fund sources will be transferred to the general fund for a total impact of \$32.6 million.
- ***Local Employee Severance Program.*** Proposes a language amendment that would extend severance benefits provided to state employees under the Workforce transition Act of 1995 to employees of school boards and other political subdivisions who are involuntarily separated from employment. Local governing bodies would be required to pass a resolution electing to participate in this program. No additional funding is provided.
  - The "cash-out" benefits are phased in to give the greatest benefit to long term employees. The minimum benefit is four weeks and a maximum benefit of thirty-six weeks.

<u>Years of Service</u>	<u>Weeks of Severance Pay</u>	<u>Comments</u>	<u>Years of Service</u>	<u>Weeks of Severance Pay</u>	<u>Comments</u>
<= 2	4	4 weeks base	13	20	12+2 per year over 9
3	5	4+1 per year over 2	14	22	12+2 per year over 9
4	6	4+1 per year over 2	15	30	2 weeks per year max = 36 weeks
5	7	4+1 per year over 2	16	32	2 weeks per year max = 36 weeks
6	8	4+1 per year over 2	17	34	2 weeks per year max = 36 weeks
7	9	4+1 per year over 2	18	36	2 weeks per year max = 36 weeks
8	10	4+1 per year over 2	19	36	2 weeks per year max = 36 weeks
9	11	4+1 per year over 2	20	36	2 weeks per year max = 36 weeks
10	14	12+2 per year over 9	21	36	2 weeks per year max = 36 weeks
11	16	12+2 per year over 9	22	36	2 weeks per year max = 36 weeks
12	18	12+2 per year over 9	23	36	2 weeks per year max = 36 weeks
13	20	12+2 per year over 9			Change points

- Continued coverage under group health and life insurance programs for up to 12 months, with the employer paying the employer's premium.
- In lieu of severance pay, an eligible employee aged 50 or over may elect to purchase service or age credit and retire. Purchase of such credits would be at the rate of 15 percent of salary per year of service or age -- up to the value of the involuntary "cash out" benefit. This cost will be factored into the retirement rates of the employer, or the teacher retirement pool, beginning with the June 30, 2011 actuarial valuation, which will establish the retirement rates for the 2012-2014 biennium.

- **Unanticipated Expenditures**

*Economic Development Assistance*

- *Incentive Payments to SRI International.* Proposes to restore \$9.4 million GF in FY 2010 for economic development incentive payments to SRI International. The general fund support for these payments had been eliminated in anticipation of funding with federal funds available under the American Recovery and Reinvestment Act of 2009 (ARRA). Final rules for the use of these funds disallowed their use for this purpose.
- *Incentive for Rolls Royce.* Proposes to restore \$2.0 million GF in FY 2010 for economic development incentive payments to Rolls Royce to locate an aerospace engineering and manufacturing facility in Prince George County. The general fund support for these payments had been eliminated in anticipation of funding with federal funds available under the American Recovery and Reinvestment Act

of 2009 (ARRA). Final rules for the use of these funds disallowed their use for this purpose.

#### ***Base Realignment and Closure (BRAC) Assistance***

- ***BRAC Assistance.*** Proposes to restore \$19.5 million GF in FY 2010 for assistance to localities impacted by the recommendations of the federal Base Realignment and Closure (BRAC) Commission. The general fund support for these payments had been eliminated in anticipation of funding with federal funds available under the American Recovery and Reinvestment Act of 2009 (ARRA). Final rules for the use of these funds disallowed their use for this purpose.

#### ***Undistributed Support***

- ***VITA Rates.*** Recommends \$19.4 million GF in FY 2010 for a one-time correction in the decentralized service rates charged by VITA to state agencies under the Northrop Grumman contract for the provision of information technology services, including \$2.8 million in proposed increases that were deferred by the Joint Legislative Audit and Review Commission in December 2009.
- ***Payroll Service Bureau Rates.*** Proposes an additional \$55,642 GF in FY 2010 for increases in service charges by the Department of Accounts for operation of the Payroll Service Bureau at the seat of government, in Richmond.

#### • **State Agency Reductions**

- ***State Agency Reversions.*** Proposes to capture additional savings of \$1.7 million GF in FY 2010 from all state agencies except institutions of higher education.
- ***Delay Replacement of Motor Pool Vehicles.*** Proposes to save \$0.8 million GF in FY 2010 by delaying the purchase of new vehicles for the state's central motor pool.
- ***Purchasing System Rates.*** Proposes to achieve savings of \$3.2 million GF in FY 2010 by lowering agency service charges for use of the state purchasing system (eVA) from 1.0 percent to 0.1 percent.

### **HB/SB 30**

#### • **Personal Property Tax Relief**

- ***Eliminate the Personal Property Tax Relief Program.*** Proposes to save \$950.0 million GF in FY 2011 and \$950.0 million GF in FY 2012 by elimination of funding for the Personal Property Tax Relief Program (Car Tax).

The Governor proposes, through separate legislation, to implement a statewide 1 percent income tax surcharge phased in over two years. The revenues, while not

assumed within the budget, when fully implemented are estimated to generate \$1.9 billion annually which would flow back to local governments under the existing Personal Property Tax Relief Program formula. In order to receive their portion of the revenue, local governments must agree to fully eliminate the property tax on personal vehicles.

- **Higher Education Interest**

- *Higher Education Interest and Charge Card Rebates.* Proposes an additional \$132,692 million GF in FY 2011 to continue 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. A reduction of \$8.4 million GF is proposed for FY 2012, eliminating funding for the program.

- **Planning Budgeting and Evaluation**

- *Productivity Investment Fund.* Proposes a reduction of \$150,000 GF in FY 2011 and \$650,000 GF in FY 2012 in support for the Productivity Investment Fund. The FY 2012 action eliminates funding for this program

- **Tobacco Settlement**

- *Distribution of Tobacco Settlement.* Proposes reduction of \$3.4 million NGF in FY 2011 and \$3.4 million NGF to reflect actual estimated payments under the Master Settlement Agreement (MSA).

- **Compensation Supplements**

- *Suspend Deferred Compensation Cash Match.* Proposes to save \$11.9 million GF in FY 2011 and \$11.9 million GF in FY 2012 by suspending the employer cash match on state employee deferred compensation plan accounts of up to \$20 per pay period. In addition, \$7.0 million NGF in FY 2011 and \$7.0 million NGF in FY 2012 saved from eligible nongeneral fund sources will be transferred to the general fund for a total impact of \$37.8 million.
- *Employer Health Insurance Premium Increases.* Proposes an additional \$20.3 million GF in FY 2011 and \$57.5 million GF in FY 2012 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. The rates will increase by 5 percent effective July 1, 2010 and 10 percent effective July 1, 2011 for the state health insurance program. Benefit levels under the state program are maintained with the exception of small savings that are derived from the requirement that maintenance drugs be obtained through the maintenance drug network, and the elimination of coverage for non-sedating antihistamines and erectile dysfunction drugs.

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<b>2010-12 Health Insurance Increases</b> (\$ millions GF)			
	<u>FY 2011</u>	<u>FY 2012</u>	<u>Total</u>
State Health Insurance Program	\$ 19.0	\$ 56.3	\$ 75.3
UVa Health Insurance Plan	<u>\$ 1.2</u>	<u>\$ 1.2</u>	<u>\$ 2.4</u>
<b>Total</b>	\$ 20.2	\$ 57.5	\$ 77.7

- ***State Employee Workers' Compensation Premium Increases.*** Recommends an increase of \$3.1 million GF in FY 2011 and \$3.7 million GF in FY 2012 to fund the increase in workers' Compensation Insurance premiums.
- ***Virginia Retirement System Employer Contribution Rates.*** Proposes an increase of \$6.8 million GF in FY 2011 and \$7.1 million GF in FY 2012 to fund the revised employer contribution rates for the VRS state employee retirement system, the State Police Officers Retirement System (SPORS), the Virginia Law Officers Retirement System (VALORS), and the Judicial Retirement System (JRS).

The Virginia Retirement System Board of Trustees certified rates based on a valuation of assets and liabilities using an assumed investment return of 7.5 percent, a cost-of-living increase of 2.5 percent, and an amortization period of 20 years. However, budget language establishes the employer contribution rates based on a valuation of assets and liabilities using an assumed investment return of 8.0 percent, a cost-of-living increase of 3.0 percent, and an amortization period of 30 years. These are the same assumptions used in the budget for FY 2010.

- ***Other VRS Provided Employee Benefits.*** Proposes savings of \$1.0 million GF in FY 2011 and \$1.0 million GF in FY 2012 from reductions in the employer premiums for state employee group life insurance, the Virginia Sickness and disability Program, and the state employee health insurance credit. These savings are achieved by using the same actuarial assumption as were applied to the retirement programs. (See above.)
- ***Delay Recording the Fourth Quarter VRS Retirement Payment.*** Proposes to save \$33.9 million GF in FY 2011 by recording the employee retirement contributions for the fourth quarter of FY 2011 in July instead of June. At present, these contributions are paid into a holding account in June and transferred to the VRS in July.



- ***State Employee Virginia Retirement System Contributions.*** Proposes to save \$18.3 million GF in FY 2011 and \$37.4 million GF in FY 2012 by partial reinstatement of the employee contribution for VRS retirement. Since 1983 the Commonwealth has paid the statutorily required 5.0 percent employee contribution on behalf of its employees. As proposed, employees will begin to pay the first 1 percent of this contribution on July 1, 2010, and 2 percent on July 1, 2011. In addition, \$12.0 million NGF the first year and \$24.6 million NGF the first year saved from eligible nongeneral fund sources will be transferred to the general fund for a total impact of \$92.3 million.
- ***State Employee Optional Retirement Plan Contributions.*** Proposes to save \$3.4 million GF the first year and \$7.0 million GF the second year by instituting an employee contribution for the optional retirement plans. At present, the state contribution to these programs is statutorily set at 10.4 percent of salary. There is no mandatory employee contribution. As proposed faculty and other affected employees will begin to pay the first 1 percent of this contribution on July 1, 2010, and 2.0 percent on July 1, 2011. In addition, \$3.9 million NGF the first year and \$8.0 million NGF the first year saved from eligible nongeneral fund sources will be transferred to the general fund for a total impact of \$22.3 million
- ***Public Employee Retirement Eligibility.*** Proposed language included in the budget will increase the early retirement requirements for state employees, teachers, and employees of political subdivisions hired on or after July 1, 2010 and covered by the Virginia Retirement System (VRS) and the Judicial Retirement System (JRS) from the current age 50 with 30 years of service to age 55 with 30 years of service. The early retirement requirements for state employees in the state Police Officers Retirement System (SPORS) and Virginia Law Officers Retirement System (VALORS) will increase from the current age 50 with 25 years of service to age 55 with 25 years of service.
- ***Retirees' Annual Cost of Living Adjustments.*** Proposed language included in the budget will alter the calculation of the annual cost of living adjustments (COLAs) provided to members of the Virginia Retirement System (VRS), the Judicial Retirement System (JRS), the State Police Officers Retirement System (SPORS), and Virginia Law Officers Retirement System (VALORS) who are hired on or after July 1, 2010. At present VRS COLAs are calculated based on full coverage for the first three percent increase in the Consumer Price Index plus one-half of each of the next three percent for a maximum annual increase of five percent. Under the proposed revision the calculation would provide full coverage for the first two percent increase in the CPI plus one-half of each of the next four percent up to a maximum annual increase of six percent.

<b><u>Example: CPI Increase</u></b>	<b><u>10.0%</u></b>	<b><u>5.0%</u></b>	<b><u>3.0%</u></b>
<b>Current COLA:</b>			
Fully recognize the first 3%	3.0%	3.0%	3.0%
1/2 of the next 4%	<u>2.0%</u>	<u>1.0%</u>	<u>0.0%</u>
<b>Total COLA</b>	<b>5.0%</b>	<b>4.0%</b>	<b>3.0%</b>
<b>Proposed COLA:</b>			
Fully recognize the first 2%	2.0%	2.0%	2.0%
1/2 of the next 8%	<u>4.0%</u>	<u>1.5%</u>	<u>0.5%</u>
<b>Total COLA</b>	<b>6.0%</b>	<b>3.5%</b>	<b>2.5%</b>

- *Local Employee Severance Program.* Proposes a language amendment that would continue the local employee severance program proposed in the amendments included in HB/SB 29. (See above.) No additional funding is provided.

- **Unanticipated Expenditures**

*Miscellaneous Contingency Reserve*

- *Additional Appropriation.* Proposes an additional \$1.2 million GF in FY 2011 and \$1.2 million GF in FY 2012 for the Governor’s Miscellaneous Contingency Reserve.

- **State Agency Reductions**

- *Expenses of Annual Leases.* Proposes to capture additional savings of \$80,632 GF in FY 2011 and \$80,632 GF in FY 2012 from a reduction in the administrative expenses of annual leases.
- *Purchasing System Administrative Expenses.* Proposes to achieve savings of \$186,355 GF in FY 2011 and \$186,355 GF in FY 2012 by lowering the administrative expenses of annual leases.

- **Federal Stimulus Funding**

- *Federal Stimulus Funding.* Proposed language makes several changes to the Commonwealth’s use of federal stimulus funds available under the American Recovery and Reinvestment Act of 2009:
  - *Fiscal Stimulus - Higher Education.* The allocation of federal stimulus funding for support of Educational and General Programs at institutions higher education is proposed to be reduced by \$51.7 million in FY 2010.

- Fiscal Stimulus - General. The allocation of \$109.5 million of general fiscal stimulus previously approved for FY 2010 is proposed to be reallocated from twenty-one individual items (nine capital projects and twelve operating programs) to support local sheriffs' offices, and local and regional jails under the Compensation Board. This corresponds to action taken at the end of FY 2009, which reallocated general fiscal stimulus previously set aside for FY 2011 to support local sheriffs' offices, and local and regional jails under the Compensation Board