

Central Appropriations

Proposed amendments to the 2010-12 biennial appropriation result in a net increase of \$76.4 million GF in Central Appropriations when compared to the appropriation in Chapter 874 of the 2010 Acts of Assembly. This includes increases of \$183.9 million GF and decreases of \$107.5 million GF.

General fund decreases in Central Appropriations include a reduction of \$99.9 million GF from requiring that state employees hired before July 1, 2010 pay the 5 percent employee share of VRS contribution rates; \$7.1 million GF from lowering the employer contribution rate for optional retirement plans for state employees hired before July 1, 2010 from 10.4 percent to 8.5 percent; and \$440,851 GF from elimination or lowering of state contributions for organizational memberships.

General fund increases include \$66.9 million GF for a 3 percent increase in base pay for state employees on July 1, 2011; \$58.2 million GF for VITA rates; \$50.0 million GF to support the Governor's Higher Education Commission initiatives; \$7.3 million GF for higher education interest earnings and credit card rebates; and \$895,000 for other actions.

- **Higher Education Interest**

- *Higher Education Interest and Charge Card Rebates.* Provides an additional \$7.9 million GF in FY 2012 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.

- **Higher Education Innovation and Performance**

- *Higher Education Innovation and Performance.* Provides \$50.0 million GF in FY 2012 to implement recommendations of the Governor's Commission on Higher Education Reform, Innovation, and Investment. This initiative is discussed in greater detail under the higher education section of this document.

- **Program Evaluation Services**

- *Review of Operational Efficiency Proposals.* Includes \$250,000 GF in FY 2012 for the costs of evaluating proposals for improvements in the efficiency of government operations.

- **Employee Compensation and Benefits Supplements**

- *Virginia Retirement System*

- *Virginia Retirement System Employer Contribution Rates.* Chapter 874 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 the state employee 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 to the budget would reduce the projected savings from the 2010 session by \$176.1 million (all funds) in FY 2012. Of this amount, projected general fund balances and transfers reflected on the Revenue page of the budget are reduced by a total of \$122.9 million for FY 2012. The net effect of this action results in a 4 percent increase in the employer contribution rates for state employees. The Governor's amendments also provide a direct appropriation increase of \$53.3 million GF in FY 2012 included in the appropriation for Direct Aid to Public Education to reflect the additional cost of a 2 percent increase in VRS contribution rates for teacher retirement under the Standards of Quality. This proposal does not affect employee cash compensation.

Description	2010 Session Savings (\$ in millions)	Proposed Change	Net
FY 2012 VRS Deferral			
State Employees	\$ 170.1	(\$ 122.9)	\$ 47.3
Teachers	<u>\$ 126.0</u>	<u>(\$ 53.2)</u>	<u>\$ 72.8</u>
Total: VRS Deferral	\$ 296.2	(\$ 176.1)	\$ 120.1

- **Virginia Retirement System State Employee Contributions.** Reduces the amount budgeted for state employee Virginia Retirement System contributions by \$99.9 million GF in FY 2012. In addition, savings of \$53.7 million NGF are proposed to be transferred to the general fund. This transfer brings the total savings from this action to \$153.6 million (all funds). These savings result from requiring state employees hired before July 1, 2010 to pay the full 5 percent employee retirement contribution. As provided for in Chapters 737 and 738 of the 2010 Acts of Assembly, state employees hired on or after July 1, 2010 are required to pay employee contribution, however current employees were exempted from this requirement. This employee share has been paid by the Commonwealth since 1983, when it was assumed in lieu of a 5 percent salary increase. The General Assembly elected to pay the 5 percent employee share of the VRS as opposed to

providing a 5 percent salary increase, resulting in a saving of approximately 15 percent in fringe benefit costs.

- **State Employee Optional Retirement Plan Contributions.** Reduces the amount budgeted for state employee optional retirement plan (ORP) contributions by \$7.1 million GF in FY 2012. These savings result from the application of a 8.5 percent ORP contribution rate to participants hired before July 1, 2010. Chapters 737 and 738 established 8.5 percent as the maximum state contribution for participants hired on or after July 1, 2010. However, the contribution rate for employees hired before this date remained at the 10.4 percent rate established by the *Code of Virginia*. This proposal will align the contribution rates provided for pre and post July 1, 2010 employees.

Compensation

- **Employee 3 Percent Salary Increase.** Provides \$66.9 million GF in FY 2012 for a 3 percent increase in base pay on July 1, 2011 for all employees of the Commonwealth who are members of the Virginia Retirement System's defined benefit retirement programs, except elected officials. This action would also offset the \$53.7 million NGF transfer to the GF by \$35.3 million. This increase will partially offset the impact of shifting the 5 percent employee retirement contribution back to existing employees. Chapters 737 and 738 exempted current employees from this requirement. This employee share has been paid by the Commonwealth since 1983, when it was assumed in lieu of a 5 percent salary increase.

When combined with the proposed changes in the payment of employee retirement contributions, the proposals result in net savings of \$40.1 million GF in FY 2012 and increase NGF transfers to the GF by \$18.2 million

Proposed Changes in Employee Compensation (\$ in millions GF)	
Proposed Action	FY 2012
3% Salary Increase	\$ 66.9
5% VRS Employee Contribution	(99.9)
ORP Rates from 10.4% to 8.5%	<u>(7.1)</u>
Net Total	\$ (40.1)

- **Employee Bonus.** Provides for a one-time bonus payment equal to 2 percent of base pay on December 1, 2011 for all employees of the Commonwealth, except

elected officials, who were employed on January 1, 2011. This bonus would be paid to most state employees only if agencies generate year end balances of approximately \$110.0 million GF or more, approximately twice the estimated \$55 million GF cost of the 2 percent bonus. If available funding is less than this amount, the one-time bonus payment will be prorated to a percent of base pay for the general fund payroll that equates to one-half of the amount of excess revenues collected.

Other Compensation Actions

- *Line of Duty Act.* Provides additional \$400,000 GF to support premiums charged for the Line of Duty Benefit in FY 2012. This brings the total available for Line of Duty Act premiums to \$3.4 million GF.
- *Local Employee Retirement Contribution.* A proposed language amendment would require local employees hired on or after July 1, 2011 to pay the 5 percent employee VRS retirement contribution. Additionally, local employers would be permitted to require employees hired prior to July 1, 2010 to pay this employee contribution if they also provide a salary increase of at least 3 percent. Chapters 737 and 738 left the treatment of new local employees at the option of the local employer. The proposed language does not address employees entering the system between July 1, 2010 and July 1, 2011. Chapters 737 and 738 gave the localities the option of paying the 5 percent, or a portion of the 5 percent, on behalf of their new employees, contingent on the locality paying the 5 percent employee contribution on behalf of their Plan 1 employees. Therefore, based on the proposed language those localities and school boards that begin requiring their Plan 1 employees to pay the 5 percent employee contribution would also be required to make the employees entering the system between July 1, 2010 and July 1, 2011 pay the 5 percent regardless of whether or not they are provided a pay raise. For localities that do not elect to require Plan 1 employees to pay the 5 percent, they would continue to have the option, under the provisions of Chapters 737 and 738, to pay all of, or a portion of, the employee contribution for the employees hired during FY 2011.

- **Unanticipated Expenditures**

Undistributed Support

- *VITA Rates.* Includes a net increase of \$28.1 million GF in FY 2011 and \$30.2 million GF in FY 2012 for a correction in the decentralized service rates charged by VITA to state agencies under the Northrop Grumman contract for the provision of information technology services. These rate changes are discussed in greater detail under the Technology section of this document.

- *Performance Budgeting System Rates.* Provides \$245,000 GF in FY 2012 for the agency costs of operating the Performance Budgeting System. An additional \$250,000 NGF will be paid from agency budgets.

- **State Agency Reductions**

- *Reduce or Eliminate Organizational Memberships.* Captures savings of \$440,851 GF in FY 2012 from a reduction in, or elimination of state contributions for selected organizational memberships.