

Central Appropriations

Central Appropriations serves as a holding account for contingent funds, for unallocated cost increases and decreases, and for the Personal Property Tax Relief appropriation.

Major amounts include: \$86.5 million GF for state employee and state-supported local employee salary increases; \$48.5 million GF for the increased cost of state employee health insurance; \$28.4 million for the increased cost of other state employee benefit programs; \$12.7 million GF for a proposed new anti-terrorism fund; \$20 million GF for the Governor's discretionary economic development "Deal Closing Fund"; \$3.0 million for economic contingencies to address emergencies, and \$1,786.0 million for the Personal Property Tax Relief Fund.

Nongeneral fund appropriations of \$166.7 million are included from Tobacco Settlement funds.

Central Appropriations contains five appropriation reversions that together reduce agency general fund budgets by \$574.2 million. These reversions include across-the-board reductions of 6 percent for Executive Branch agencies to produce \$355.7 million; a \$133.2 million reduction in higher education E&G budgets (related to anticipated tuition and fee increases); a \$59.3 million GF reduction in VRS retirement rates; a \$25.0 million GF credit against VRS retirement rates for unclaimed accounts (a similar NGF credit is included as a transfer to the general fund); and \$1.0 million GF savings from the centralized purchase of airline tickets.

- **Compensation Supplements**

- **November 25, 2002, Classified Salary Increase.** Recommends \$23.0 million GF the first year and \$42.4 million the second year to provide performance based salary increases averaging 2 percent for state employees on November 25, 2002.

As proposed, the actual salary increases would range from zero to five percent, based on performance. An additional \$46.5 million GF is budgeted directly to the institutions of higher education as the cost of merit-based increases for faculty.

- **December 1, 2002 State-Supported Local Employees' Salary Increase.** Recommends \$7.8 million GF the first year and \$13.3 million the second year to provide salary increases of 2 percent for

state-supported local employees on December 1, 2000. The difference in the effective date when compared to state employees results from implementation of lag pay.

- ***Technical Adjustments Virginia Sickness and Disability Program.*** Recommends an additional \$5.9 million GF the first year and \$6.2 million GF the second year for increases in VRS rates for the Virginia Sickness and Disability Program. The VRS actuary has recommended contribution rates of 1.22 percent of salary for both years for state employees and 1.57 percent for employees in VaLORS and SPORS. However, the introduced bill eliminates funding for the 0.15 percent of the rate attributable to the long-term-care portion of the program.
- ***Technical Adjustments for Retiree Health Insurance Credit Rates.*** Recommends an additional \$3.8 million GF the first year and \$3.9 million GF the second year for increases in VRS rates for the Retiree Health Insurance Credit. The VRS actuary has recommended premium rates of 1.37 percent of salary for both years.
- ***Technical Adjustments for Group Life Insurance Premiums.*** Provides an additional \$4.2 million GF the first year and \$4.4 million GF the second year to fully fund the VRS-approved premiums for the group life insurance program. The VRS actuary has recommended premium rates of 0.98 percent of salary for both years.
- **Health Insurance Administration**
 - ***Employer Premium Increases.*** Proposes \$24.5 million GF the first year and \$24.0 million GF the second year to fund a 10 percent increase in employer health insurance premiums on July 1, 2002. The premium increase of 10 percent is predicated on several changes to the benefit structure, including a three-tiered co-payment structure for prescription drugs, an increase in employee deductibles and co-payments, and benefit reductions.

On average employee premiums will increase by approximately 11 percent over current FY 2002 levels.

FY 2003 PROPOSED HEALTH INSURANCE PREMIUMS			
<u>Coverage</u>	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
Cost Alliance	\$516	\$0	\$516
Key Advantage			
Single	259	21	280
Employee + 1	385	133	518
Family	513	243	756
Family (Two State Employees)	622	134	756

These premium increases will account for about 54 percent of the actions needed to address the funding requirements embodied in the actuary's recommended increase of 19.4 percent. The remaining \$70.2 million, or 46 percent, will come from benefit reductions and cost sharing with employees.

Funding Sources for Health Insurance Premium Increase				
	<u>FY 2003</u>	<u>FY 2004</u>	<u>Total</u>	<u>% of Total</u>
July 1, 2002 10% Premium Increase				
GF increase	\$24.5	\$24.0	\$48.5	30.4%
NGF Increase	11.1	10.8	21.9	13.8%
Employee increase	<u>6.1</u>	<u>5.6</u>	<u>11.7</u>	<u>.3%</u>
Total : Premium Increase	\$41.7	\$40.4	\$82.1	53.4%
Benefit Changes and Cost Sharing	\$35.7	\$34.5	\$70.2	46.1%

Five important plan design changes are proposed that shift costs to the employees. As already noted, these account for 46 percent of the actions needed to address the funding requirements.

- **1) Plan Deductible:** Beginning in FY 2003, each individual covered by the health benefits plan will need to pay a new \$50

deductible before services are covered by the plan. This deductible is capped at \$150 per family. In FY 2004, this deductible will increase to \$100 per person with a family cap of \$300.

- **2) Co-Payments:** The existing co-payment of \$15 for a visit to the member's primary care physician will increase to \$20. The existing co-payment of \$25 for a visit to a specialist (with a referral from the member's physician) will increase to \$30.
- **3) Co-Insurance:** At present, a co-insurance payment of 10 percent is paid for services such as diagnostic testing, lab work and x-rays. This co-insurance will increase to 20 percent. In addition a co-insurance payment of 20 percent will be implemented for outpatient hospital services, inpatient hospital services, and physician professional services.
- **4) Stop-loss:** At present, a maximum of \$1,000 out-of-pocket expenses are incurred by any individual before they are no longer expected to pay co-insurance amounts, with a family maximum of \$3,000. As proposed, this will increase to \$2,000 out-of-pocket for an individual, with a family maximum of \$6,000. This stop-loss provision does not apply to the prescription drug program.
- **5) Three-tiered Prescription Drug Program:** At present, Key Advantage members pay \$15 for a 34-day prescription at a retail pharmacy and \$18 for a 90-day mail order prescription. This is proposed to be replaced by a three-tiered program for both retail and mail order prescriptions. At present, there is no definition of mid-cost or high-cost prescriptions.

Key Advantage Prescription Drug Coverage			
	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>
Retail (34-day Supply)			
Generic	\$15	\$15	\$ 0
Mid-cost Brand	15	20	5
High-cost Brand	15	35	20
Mail Order (90-day Supply)			
Generic	18	18	0
Mid-cost Brand	18	33	15
High-cost Brand	18	63	45

- **Deferred Compensation Match**
 - **Deferred Compensation Match.** Reduces the appropriation for the Deferred Compensation Match program by \$2.1 million GF per year and allocates the remaining \$12.0 million per year to agencies. Language governing the implementation of the program has been omitted.

- **Reversion Clearing Account**
 - **Reductions in VRS Contributions.** Proposes a reduction of \$29.0 million GF the first year and \$30.3 million GF the second year in retirement contribution rates. This reduction results from (1) the VRS's actuarially derived retirement contribution rates (rather than the higher Board approved rates); and (2) a 0.17 percent additional cost incurred by not budgeting the board approved rate for FY 2002.

 - **Unclaimed VRS Retirement Accounts.** Proposes to save \$25.0 million GF the first year by taking a credit against VRS retirement contributions for the value of unclaimed retirement accounts.

- **Centralized Airline Ticket Purchases.** Proposes to save \$500,000 GF the first year and \$500,000 GF the second year through centralized purchasing of airline tickets.
- **Across-the-Board Reductions**
 - **Executive Branch 6 Percent Reductions.** Captures \$176.8 million GF the first year and \$178.9 million GF the second year from 6 percent appropriation reductions from Executive Branch agencies. The exact nature of the reductions is not specified. Numerous exemptions have been granted including: law enforcement programs, statutory salaries, direct aid to public education and debt service.
- **Higher Education Tuition Policy**
 - **College Tuition and Fee Plan Savings.** Proposes savings of \$43.1 million GF the first year and \$90.1 million GF the second year from increases in tuition and fees at Virginia’s institutions of higher education. This topic is discussed more fully in the section devoted to higher education.
- **Personal Property Tax Relief**
 - **Personal Property Tax Relief.** Proposes the appropriation of \$819.2 million GF the first year and \$966.7 million GF the second year to: 1) keep the Car Tax reimbursement program at 70 percent for Calendar Year 2003 and 2) move the reimbursement level to 100 percent in Calendar Year 2004.
- **Anti-Terrorism Account**
 - **Anti-Terrorism Initiatives.** Provides \$5.0 million GF the first year and \$7.7 million GF the second year in a new contingency account to pay for the cost of unspecified anti-terrorism initiatives.
- **Tobacco Settlement**
 - **Tobacco Settlement and Revitalization Fund.** Proposes the appropriation of \$73.8 million NGF the first year and \$65.0 million NGF the second year for the Tobacco Settlement and Revitalization Fund. This fund provides payments to farmers to compensate them for tobacco losses and to revitalize tobacco dependent communities.

- **Virginia Tobacco Settlement Fund.** Proposes the appropriation of \$14.8 million NGF the first year and \$65.0 million GF the second year for the Virginia Tobacco Settlement Fund.
- **Economic Contingency**
 - **Economic Contingency Fund.** Proposes an appropriation of \$1.5 million GF the first year and \$1.5 million GF the second year for the Economic Contingency Fund. This fund may be used to supplement the appropriations to state agencies in case of an emergency or an unexpected cost increase. In addition to this direct appropriation, language authorizes the Governor to use up to \$1.0 million GF of the unappropriated general fund balance for purposes of economic contingency.
 - **Governor’s Development Opportunity Fund.** Proposes \$10.0 million GF each year for the Governor’s Development Opportunity Fund. This is \$10.0 million less than the amount budgeted for the 2000-02 biennium.
 - **Technology Research Fund.** Proposes \$9.0 million GF the first year and \$7.7 million GF the second year for the Technology Research Fund.
 - **Semiconductor Education Grant Program.** Proposes \$1.5 million GF the first year for a major semiconductor manufacturer based in Northern Virginia. The funds are to be used to support semiconductor education programs in partnership with the state’s engineering schools and with various community colleges.
 - **Semiconductor Wafer Performance Fund.** Proposes \$3.7 million GF the second year for a major semiconductor manufacturer based in Northern Virginia as the first installment of a performance-based manufacturing grant program approved by the 1996 General Assembly.
 - **Semiconductor Wafer Performance Fund II.** Proposes \$3.0 million GF the second year for a major semiconductor manufacturer based in Central Virginia. This is the first installment of a performance-based semiconductor manufacturing grant program approved by the 1997 General Assembly.

- **Virginia Equine Center Foundation.** Proposes \$1.3 million GF the first year and \$1.3 million GF the second year to the Virginia Equine Center Foundation, for debt service payments.
- **Legal Defense.** Proposes \$50,000 GF each year for the Legal Defense that was previously budgeted as a separate item in Central Appropriations.
- **Higher Education Desegregation Plan**
 - **Higher Education Desegregation Plan.** Funding of \$3.8 million GF each year for the Higher Education Desegregation Plan, which was previously budgeted to the Central Appropriations, has been moved to the State Council of Higher Education.
- **Refunds of Taxes and Fees**
 - **Sum Sufficient.** Proposes a sum sufficient appropriation from which to pay refunds of taxes and fees.