

*Report of the
House Appropriations
Subcommittee*

on

Compensation & Retirement



*House Bill 29
&
House Bill 30*

February 17, 2008

REPORT OF THE SUBCOMMITTEE
on
COMPENSATION AND RETIREMENT

Mr. Chairman and Members of the Committee:

The work of the Subcommittee this Session has focused on three primary goals; Through your leadership, you outlined early in the Session the need to address the continuing general fund revenue shortfall while preserving our commitment to core services. You have also emphasized that we must avoid making dramatic changes to our retirement system while the Joint Legislative Audit and Review Commission is in the process of completing its comprehensive review. Finally, you have stressed the need to continue our commitment to fund appropriate pay raises for our public employees on a consistent basis. I am pleased to present to you today a series of amendments in support of these goals.

We believe that while it is a significant challenge to fund a salary increase at a time when revenues are increasing at a much slower rate, it is nevertheless vital to the future of the Commonwealth that we continue our commitment to fund salary adjustments. While deferring salary adjustments in tough times may be fiscally expedient, it only increases the salary disparity and makes it significantly more difficult to retain and attract the quality employees who are essential to the efficient operations of state government.

To that end, Mr. Chairman, the Subcommittee recommends \$126.3 million over the biennium to fund a two percent salary increase for state employees, college faculty and state-supported local employees in the first year. In addition, we are pleased that under your leadership, we have included in a revenue reserve \$53.0 million towards a salary adjustment in the second year of the biennium for all employee groups. It is my hope that this will serve as a starting point next session for a pay raise.

In order to ensure funding was available for these salary adjustments we on the Subcommittee were committed to a thorough review of the Commonwealth's funding for its compensation and benefit programs. Our recommendations include significant savings within the state employee health insurance program as a result of favorable claims experiences in recent years.

Likewise, the Subcommittee recommends that we use a 30-year amortization schedule for calculating contribution rates for all employer groups. We want to assure everyone that these savings assumptions are being recommended after a thorough review of the funding status of these programs and that these proposals will have no impact on the level of benefits received by our employees nor will they have an adverse impact on the financial viability of these programs. In fact, our recommendation will result in a similar savings to our local governments and school divisions at a time of uncertain revenues.

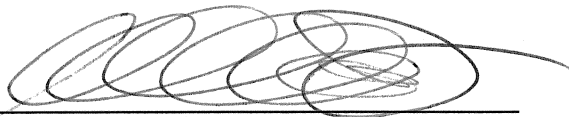
Lastly, Mr. Chairman, our subcommittee reviewed the recommendation submitted by the Governor last week to suspend the cash match portion of the Commonwealth's deferred compensation program, a program that was created by legislation you patroned nearly 10 years ago. Since the inception of this program, the number of state employees participating in their future retirement has increased three-fold. This program saves money by encouraging personal savings rather than the VRS being the sole provider of retirement benefits. We strongly disagree with this recommendation and have therefore rejected it as shortsighted and a step backwards.

Finally, Mr. Chairman, I would like to take this opportunity to thank the members of this Subcommittee for their hard work this Session, especially given the large number of retirement bills that were heard. The Subcommittee reviewed each bill with a long-term view of how legislation would impact the financial viability of the Commonwealth in future bienniums. It is critical that this long-term view be taken as we continue to face the challenges of an aging

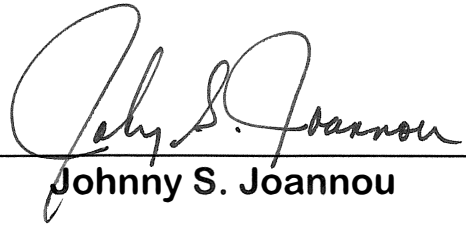
workforce and as we continue to balance the needs of the Commonwealth as a whole.

Mr. Chairmen and fellow Committee members, I will ask staff to take you through our detailed recommendations, and then I hope it will be your pleasure to adopt our Subcommittee report.

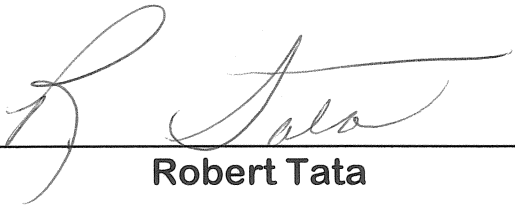
Respectfully Submitted by the House Appropriations Subcommittee
on Compensation & Retirement:




S. Chris Jones, Chairman



Johnny S. Joannou



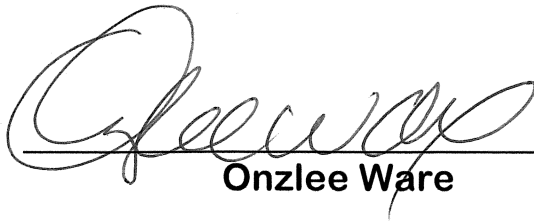
Robert Tata



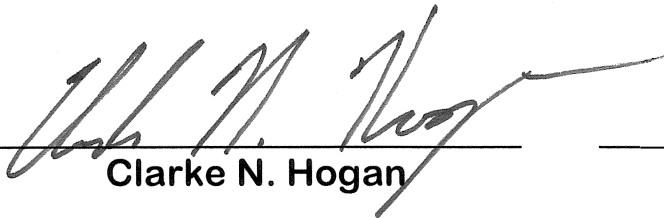
Robert H. Brink



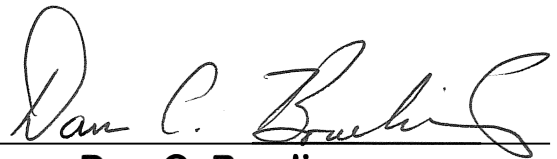
Riley E. Ingram



Onzlee Ware



Clarke N. Hogan



Dan C. Bowling

BUDGET AMENDMENT RECOMMENDATIONS

Amendment

House Bill 29 FY 2008

2008-10 BIENNIAL TOTAL		
General Fund	Nongeneral Fund	FTE

Compensation & Retirement

HB 30

Compensation Board

Eliminate New Funding for Additional Payments for LEOS	(6,000,000)
--------------------------------------------------------	-------------

Department of Accounts

Require Localities (Using 599 Funds) to Support Line of Duty	(8,398,794)
--------------------------------------------------------------	-------------

Central Appropriations

Eliminate VRS Rate Impact Distribution in Introduced Budget	(6,032,191)
Amend Funding for Salary Adjustments - 2% in First Year	4,215,159
Revised Health Insurance Premium Assumptions	(2,986,151)
Reversion Clearing Account for Benefit Funding Adjustments	(119,983,495)

Part III/IV

SCHEV Director Compensation	Language
-----------------------------	----------

	=====	=====	=====
HB 30 SUBTOTAL	0	(139,185,472)	0

Amendments to House Bill 30, as Introduced

Compensation - Retirement Subcommittee

Item 69 #5h

Administration	FY 08-09	FY 09-10	
Compensation Board	(\$2,000,000)	(\$4,000,000)	GF

Language:

Page 42, line 39, strike "\$412,516,288" and insert "\$410,516,288".

Page 42, line 39, strike "\$428,128,258" and insert "\$424,128,258".

Page 46, strike lines 23 through 35.

Explanation:

(This amendment eliminates new funding proposed in the budget bill to pay an increased portion of the cost of providing benefit coverage under § 15.1-138 B, Code of Virginia.)

Compensation - Retirement Subcommittee

Item 267 #4h

Finance	FY 08-09	FY 09-10	
Department Of Accounts Transfer Payments	(\$3,971,897)	(\$4,426,897)	GF

Language:

Page 232, line 4, strike "\$11,348,276" and insert "\$7,376,379".

Page 232, line 4, strike "\$12,648,276" and insert "\$8,221,379".

Explanation:

(This amendment decreases the general fund appropriation for the Line of Duty Act by 35 percent of the funding included in the introduced budget. A companion amendment in Item 397 directs a transfer of House Bill 599 funds to the Line of Duty program to fully fund the program. House Bill 599 funds have traditionally been earmarked to support local law enforcement activities. Approximately 65 percent of the benefits from the Line of Duty Act have traditionally been expended for local employees while the Line of Duty Act has been supported with all state general funds.)

Compensation - Retirement Subcommittee

Item 472 #3h

Central Appropriations	FY 08-09	FY 09-10	
-------------------------------	-----------------	-----------------	--

Amendments to House Bill 30, as Introduced

Central Appropriations (\$2,984,079) (\$3,048,112) GF

Language:

- Page 421, line 46, strike "\$23,190,703" and insert "\$20,206,624".
- Page 421, line 46, strike "\$141,605,634" and insert "\$138,557,522".
- Page 427, strike lines 43 through 58.
- Page 428, strike lines 1 through 55.
- Page 429, strike lines 1 through 10.
- Page 429, line 10, strike "O." and insert "K."

Explanation:

(This amendment removes funding included in the introduced budget for the cost of the changes in the VRS contribution rates for state employees and state supported local employees through the compensation board as proposed in the introduced budget. It also deletes language which specified that contribution rates for public school teachers and state employees be calculated on an assumed 24-year amortization for the retirement programs. A companion amendment under Item 472.10 includes additional savings and language specifying contribution rates which assume a 30-year amortization for all programs administered through the VRS.)

Compensation - Retirement Subcommittee

Item 472 #4h

Central Appropriations

FY 08-09

FY 09-10

Central Appropriations

\$44,910,279

(\$40,695,120)

GF

Language:

- Page 421, line 46, strike "\$23,190,703" and insert "\$68,100,982".
- Page 421, line 46, strike "\$141,605,634" and insert "\$100,910,514".
- Page 424, line 38, strike "three percent on July 1, 2009." and insert: "two percent on November 25, 2008."
- Page 425, line 37, strike "three percent on July 1, 2009." and insert: "two percent on November 25, 2008."
- Page 425, line 46, strike "\$65,861,622" and insert: "\$23,783,375 the first year and \$43,907,743".
- Page 426, line 18, strike "three percent no earlier than July 1, 2009" and insert: "two percent no earlier than November 25, 2008."
- Page 426, line 22, strike "three percent on July 1, 2009" and insert: "two percent on December 1, 2008."
- Page 426, line 38, strike "\$29,659,885" and insert:

Amendments to House Bill 30, as Introduced

"\$9,592,504 the first year and \$17,709,227".

Page 426, line 41, strike "\$26,563,841" and insert:

"\$11,534,400 the first year and \$19,773,258".

Page 426, line 44, strike "three percent effective July 1, 2009." and insert:

"two percent effective November 25, 2008".

Page 426, line 46, strike "three" and insert "two".

Explanation:

(This amendment adjusts the language and funding included in the introduced budget for an across-the-board salary adjustment for state employees, college faculty and staff and state-supported local employees. The introduced budget assumed a three percent adjustment for these employees effective in the beginning of fiscal year 2010 (July 1, 2009). This amendment adjusts the funding and language to reflect a two percent salary adjustment in the first year or the biennium, effective November 25, 2008, for state employees and college faculty and December 1, 2008, for state-supported local employees.)

Compensation - Retirement Subcommittee

Item 472 #5h

Central Appropriations

FY 08-09

FY 09-10

Central Appropriations

(\$3,836,821)

\$850,670 GF

Language:

Page 421, line 46, strike "\$23,190,703" and insert "\$19,353,882".

Page 421, line 46, strike "\$141,605,634" and insert "\$142,456,304".

Page 423, strike lines 55 through 57.

Page 424, strike lines 1 through line 36.

Page 424, line 37, strike "H.1." and insert "G.1."

Page 426, line 16, strike "G." and insert "H."

Page 427, line 2, strike "\$19,111,711 the first year and \$14,757,282" and insert:

"\$15,274,890 the first year and \$15,607,952".

Page 427, strike line 14 through 33.

Page 427, line 34, strike "4." and insert "3."

Explanation:

(This amendment adjusts the funding included in the introduced budget for increases in the employer share of the insurance premiums for the state employee health insurance program. The introduced budget assumed an 8 percent rate of inflation with a net increase of 5.28 percent for fiscal year 2009, after other adjustments, with a 3.99 percent for fiscal year 2010. The fiscal year 2009 amount in

Amendments to House Bill 30, as Introduced

the introduced budget was higher than the 2010 amount because the introduced budget funded the second year of the phase-in of the proposal to fund early retiree health benefits on an actuarial basis but limited to the funding to the first year of the biennium. The amendment adjusts funding based on an assumed 6 percent inflation adjustment and an assumption the Commonwealth is reverting to the policy of funding health care benefits for all beneficiaries using the practices in place prior to FY 2008. The amended budget assumes a net premium adjustment 4.22 percent effective July 1, 2008.)

Compensation - Retirement Subcommittee

Item 472.10 #1h

Central Appropriations

FY 08-09

FY 09-10

Central Appropriations

(\$59,070,757)

(\$60,912,738) GF

Language:

Page 429, after line 23, insert:

"472.10. Reversion Clearing Account - (\$59,070,757) (\$60,912,738)

Miscellaneous (226000)

Fund Sources: General (\$59,070,757) (\$60,912,738)."

A. Due to excess balances in the state Employee Health Insurance fund the Director of the Department of Planning and Budget is hereby directed to withhold and transfer to this item a \$30 million general fund appropriation each year of the biennium from state agencies and institutions of higher learning for expenditures budgeted for the employer contributions into the state employee health insurance program. The Director of the Department of Human Resources Management shall provide a credit to the agencies in the amount identical to the general fund appropriation withheld and a corresponding amount of decreased nongeneral fund contributions.

B.1. Contribution rates paid to the Virginia Retirement System (VRS) for the retirement benefits of state employees, state police officers, state judges, and state law enforcement officers eligible for the Virginia Law Officers Retirement System shall be based on a valuation of retirement assets and liabilities that assume an investment return of eight percent, a cost of living increase of three percent, and an amortization period of 30 years.

2. Retirement contribution rates for each year, excluding the five percent employee portion, shall be: 8.81 percent for public school teachers, 6.23 percent for state employees, 20.05 percent for state police officers, 14.23 percent for the Virginia Law

Amendments to House Bill 30, as Introduced

Officers Retirement System, and 34.51 percent for the Judicial Retirement System.

3. Contribution rates paid on behalf of state employees to other programs administered by the VRS shall be: 0.82 percent for the public employee group life insurance program, 1.94 percent for the Virginia Sickness and Disability Program, and 1.18 percent for the state employee retiree health insurance credit.

4. Contribution rates paid on behalf of public school teachers shall be 1.08 percent for the teacher retiree health insurance credit.

C.1. The Director of the Department of Planning and Budget shall withhold and transfer general fund amounts estimated at \$12,039,214 the first year and \$12,559,658 the second year from the appropriations of state agencies and institutions of higher learning to this item, representing savings from changes in the contribution rates for state employee benefits as provided for in paragraph B of this item.

2. The Director of the Department of Planning and Budget shall withhold and transfer general fund amounts estimated at \$78,931 the first year and \$78,931 the second year from the appropriations of the Compensation Board for reimbursements to Constitutional Officers to this item, representing savings from changes in the contribution rates for VRS benefits as provided for in paragraph B of this item.

3. The Director of the Department of Planning and Budget shall withhold and transfer general fund amounts estimated at \$16,952,612 the first year and \$18,274,149 the second year from Item 140 of this Act and transfer to this item, representing the savings that will be realized from the application of the contribution rates for public teachers included in paragraph B of this item."

Explanation:

(This amendment assumes savings of \$59.3 million the first year and \$60.5 million the second year from the general fund which will be realized through two actions. The amendment assumes \$30.0 million in savings each year of the biennium by offering a credit reducing agency expenditures for the employer premium to the employee health insurance program. Currently the balances in the health insurance fund are significantly above the actuarially required reserves. The portion of the excess balances that is attributable to general fund payments into the fund is approximately \$60 million. The \$60 million in savings is being reprogrammed to fund a 2 percent salary adjustment for state employees effective November 25, 2008.

Amendments to House Bill 30, as Introduced

In addition, the amendment assumes savings of approximately \$29.3 million the first year and \$30.5 million the second year for general fund that will be realized from calculating the VRS contribution rates for state employees and public school teachers using a 30-year amortization period. A companion amendment in Item 472 assumes savings of \$3.0 million each year by eliminating funding included in the introduced budget for the VRS contribution rate changes as proposed in the introduced budget.)

Compensation - Retirement Subcommittee

Item 4-6.01 #5h

Positions and Employment

Employee Compensation

Language

Language:

Page 530, strike lines 3 through 9 and insert:

"d) Should a vacancy occur for the Director of the State Council of Higher Education on or after the date of enactment of this act the salary for the new director shall be established by the State Council of Higher Education based on the salary range for Level I agency heads. Furthermore, the state council may provide a bonus of up to five percent of the annual salary for the new director."

Explanation:

(This amendment deletes language included in the introduced budget related to the salary of the Director of the State Council for Higher Education (SCHEV) and replaces it with language clarifying the compensation structure for any new SCHEV Director.)
