

Central Appropriations

Proposed Adjustments as Introduced (\$ in millions)				
	FY 2013 Proposed		FY 2014 Proposed	
	<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
Proposed increases	137.8	0.0	164.3	0.0
Proposed decreases	(124.2)	(0.0)	(114.8)	(0.0)
\$ Net Change	13.6	0.0	49.5	0.0
HB/SB 30, as Introduced	\$40.2	\$89.3	\$76.2	\$89.3
% Change	51.5%	0.0%	185.2%	0.0%
FTEs	0.00	0.00	0.00	0.00
# Change	0.00	0.00	0.00	0.00

Across-the-Board Increases. Net increases totaling \$2.2 million GF in FY 2013 and \$3.1 million GF in FY 2014 have been proposed for inclusion directly in the budgets of state agencies and institutions for: 1) DGS rent charges at the seat of government, and 2) state employee workers compensation premiums.

2012-14 Across-the-Board Increases (\$ millions GF)			
	<u>FY 2013</u>	<u>FY 2014</u>	<u>Total</u>
DGS rent	\$1.3	\$1.7	\$3.0
Workers Comp Premiums	<u>0.9</u>	<u>1.4</u>	<u>2.3</u>
Total	\$2.2	\$3.1	\$5.3

- **Higher Education Interest**

- *Higher Education Interest and Charge Card Rebates.* Proposes 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 proposed reductions reflected revised estimates of program amounts.

- **Compensation Supplements**

- *Employee Bonus.* Provides for a one-time bonus payment equal to three 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 balance of at least two times the cost of the proposed bonus, which is estimated to be \$82.2 million. Actual funding of the bonus will be on an agency by agency basis, with a proration of the bonus to be made for any agency that cannot cover the costs from its general and nongeneral fund balances.
- *Employer Health Insurance Premium Increases.* Proposes an 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

As shown in the following table, the majority of this increase, \$135.7 million GF, is attributable to discontinuation of the subsidy of premiums from reserves and balances in the Health Insurance Fund (HIF) This proposed increase is partially offset by three savings actions: 1) reduce the reserve for claims that have been

incurred but not received for payment (IBNR), (\$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.

Proposed Changes to Employee Health Benefits			
(\$ millions GF)			
	<u>FY 2013</u>	<u>FY 2014</u>	<u>Total</u>
Equalize employer costs (Kaiser premium)	\$(0.9)	\$(0.9)	\$(1.7)
Provide annual vision exam	0.0	0.0	0.0
Outpatient settings for selected surgeries	(0.8)	(0.8)	(1.6)
Eliminate co-payments for Tier 1 & 2 diabetes medications/supplies	1.5	1.5	2.9
Maintenance drug network with 50% penalty	(4.1)	(4.1)	(8.2)
Nutritional counseling	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>
Total	\$(4.2)	\$(4.2)	\$(8.3)

Benefit levels under the state program are maintained with the exception of savings of \$8.2 million that are derived from the requirement that maintenance drugs be obtained through the maintenance drug network.

- ***Line of Duty Act.*** Recommends 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.

Description	FY 2011	FY 2012			Biennium
		2010 Session	2011 Session	FY 2012 Final	
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 proposed 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.** Proposes \$17.4 million GF in FY 2013 and \$18.2 million GF in FY 2014 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. The difference in rates is shown in the following table.

Proposed Employer Retirement Contribution Rates

	2012-14	
	<u>VRS Board</u>	<u>HB/SB 30</u>
VRS (State Employees)	13.07%	8.76%
VRS (Teachers)	16.77%	11.66%
State Police Officers Retirement System (SPORS)	36.62%	24.74%
Va. Law Officers Retirement System (SPORS)	19.52%	14.80%
Judicial Retirement System (SPORS)	54.11%	45.44%

- **Other VRS Provided Benefits.** Proposes a net increase of \$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.** Proposes \$20.0 million GF in FY 2014 to be held in reserve to address future federal budget reductions.

Undistributed Support

- ***Performance Budgeting System Rates.*** Recommends \$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.
- ***Replace Telephone Systems.*** Proposes \$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.*** Proposes a net reduction of \$25.5 million GF in FY 2013 and \$25.3 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 (\$ millions GF)			
	<u>FY 2013</u>	<u>FY 2014</u>	<u>Total</u>
2012-14 Base	\$28.7	\$28.7	\$57.3
Budgeted to Agencies	(20.8)	(20.8)	(41.7)
Recommended Adjustment	<u>(4.7)</u>	<u>(4.4)</u>	<u>(9.1)</u>
2012-14 Central Account for VITA Rates	\$3.1	\$3.4	\$6.5
Recommended for Phone Systems	<u>5.0</u>	<u>1.8</u>	<u>6.8</u>
2012-14 Central Account for VITA Costs	\$8.1	\$5.2	\$13.3

- **State Agency Reductions**

- ***Elimination or Consolidation of Agencies, Boards, and Commissions.*** Proposes to capture additional savings of \$1.3 million GF in FY 2013 and \$2.1 million GF in FY 2014 from elimination or consolidation of selected agencies, boards, and commissions.

**Proposed Savings for Elimination and Consolidation of Agencies,
Boards, and Commissions**

<u>Action</u>	<u>\$ GF</u>		<u>Total</u>
	<u>FY 2013</u>	<u>FY 2014</u>	
Eliminate Virginia National Industrial Defense Authority	\$342,851	\$395,251	\$738,102
Merge Human Rights Council into Office of the Attorney General	87,018	149,413	236,431
Merge Department of Employment Dispute Resolution into Department of Human Resources Management	141,415	215,900	357,315
Merge Department of Correctional Education into DOC and DJJ	437,274	1,073,838	1,511,112
Merge Department of Rehabilitative Services, Department for the Aging, and Department of Deaf and Hard of Hearing	25,984	60,984	86,968
Boards and Commissions	<u>225,000</u>	<u>225,000</u>	<u>450,000</u>
Total	\$1,259,542	\$2,120,386	\$3,379,928

- *Elimination of Organizational Memberships.* Proposes to capture additional savings of \$382,550 GF in FY 2013 and \$382,550 GF in FY 2014 from elimination of selected organizational memberships.

- **Local Aid Reversions**

- *Local Aid Reversions.* Proposes \$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

- **Savings from Freeze on New Hires**

- *Savings from Hiring Freeze.* Includes a reversion of \$10.5 million GF in FY 2013 and \$10.5 million GF in FY 2014 from a hiring freeze for Executive branch agencies. This reversion continues the savings from the hiring freeze adopted in Chapter 890 beginning in FY 2012.

- **Higher Education Reductions**

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