

Central Appropriations

Amendments, as adopted, to the 2010-12 biennial budget result in a net increase of \$110.5 million GF in Central Appropriations when compared to the appropriation in Chapter 874 of the 2010 Acts of Assembly. This includes increases of \$214.5 million GF offset by decreases of \$103.8 million GF.

General fund decreases in Central Appropriations include a reduction of \$92.8 million GF from requiring that state employees hired before July 1, 2010 pay the 5 percent employee share of VRS contribution rates; \$10.5 million GF from a hiring freeze on Executive Branch positions; and \$357,890 GF from elimination or lowering state contributions for organizational memberships.

General fund increases include \$107.8 million GF to increase the base pay for state employees hired before July 1, 2010 by 5 percent effective July 1, 2011; \$55.2 million GF for VITA rates; \$41.7 million GF to eliminate the fourth quarter VRS payment deferral; \$8.8 million GF for higher education interest earnings and credit card rebates; and \$1.0 million for other actions.

- **Higher Education Interest**

- *Higher Education Interest and Credit Card Rebates.* Provides an additional \$8.8 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.

- **Employee Compensation and Benefits Supplements**

- Virginia Retirement System (VRS)*

- *Virginia Retirement System Employer Contribution Rates.* 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 to the budget reduce 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 are 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. This proposal does not affect employee cash compensation.

<u>Description</u>	<u>2010 Session Savings</u>	<u>Change</u>	<u>Net</u>
FY 2012 VRS Deferral			
State Employees	\$170.1	(\$38.8)	\$131.3
Teachers	<u>126.0</u>	<u>(31.0)</u>	<u>95.0</u>
Total VRS Deferral	\$296.2	(\$69.8)	\$226.3

- ***Virginia Retirement System State Employee Contributions.*** Reduces the amount budgeted for state employee Virginia Retirement System contributions by \$92.7 million GF in FY 2012. 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 the 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 savings of approximately 15 percent in fringe benefit costs.
- ***Eliminate the Fourth Quarter VRS Deferral.*** Provides \$41.7 million GF in FY 2012 to eliminate the deferral of 4th quarter FY 2012 VRS payments into FY 2013, as was assumed in Chapter 874 of the 2010 Acts of Assembly.

<u>Eliminate 4th Quarter VRS Lag</u>	<u>GF</u>
Employee Share	\$20.8
Employer Share	14.9
Higher Ed NGF Reserve	<u>6.0</u>
Total	\$41.7

- ***Monthly VRS Payments.*** Adds language increasing the frequency of payments to the Virginia Retirement System from a quarterly to a monthly basis.
- ***State Employee Optional Retirement Plan Contributions.*** Rejected a proposal to reduce the amount budgeted for state employee optional retirement plan (ORP)

contributions by \$7.1 million GF in FY 2012. These savings would have resulted from the application of an 8.5 percent ORP contribution rate to participants hired before July 1, 2010. Chapters 737 and 738 of the 2010 Acts of Assembly reaffirmed the contribution rate for employees hired before July 1, 2010 at the 10.4 percent rate established by the *Code of Virginia*.

Compensation

- ***Employee 5 Percent Salary Increase.*** Provides \$107.8 million GF in FY 2012 for a 5 percent increase in base pay effective June 25, 2011, for all employees of the Commonwealth hired before July 1, 2010, and who are members of the Virginia Retirement System’s defined benefit retirement programs, except elected officials and judges. This increase will offset the impact of shifting the 5 percent employee retirement contribution back to existing employees. Chapters 737 and 738 of the 2010 Acts of Assembly 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 a net cost of \$15.1 million GF in FY 2012 .

Changes in Employee Compensation (\$ in millions GF)	
Action	FY 2012
5% Salary Increase	\$107.8
5% VRS Employee Contribution	<u>(92.7)</u>
Net Total	\$15.1

Other Compensation Actions

- ***Savings from Hiring Freeze.*** Captures savings of \$10.5 million GF in FY 2012 resulting from a hiring freeze for Executive Branch agencies.
- ***Line of Duty Act.*** Provides an additional \$400,000 GF to support premiums charged for the Line of Duty Act’s benefits in FY 2012. This brings the total available for Line of Duty Act premiums to \$3.4 million GF.
- ***Local Employee Retirement Contribution.*** Rejected language that would have required local employees hired on or after July 1, 2011 to pay the 5 percent employee VRS retirement contribution, and would have permitted local employers to require employees hired prior to July 1, 2010 to pay this employee

contribution if they also provided a salary increase of at least 3 percent. Chapters 737 and 738 of the 2010 Acts of Assembly left the treatment of new local employees at the option of the local employer.

- ***Health Insurance Coverage for Autism Spectrum Disorders.*** Provides \$410,000 GF in FY 2012 for the employer premiums required to provide benefits for the diagnosis and treatment of autism spectrum disorders for children ages two through six as required by Chapters 876 and 878 of the 2011 Acts of Assembly.

- **Unanticipated Expenditures**

Undistributed Support

- ***VITA Rates.*** Includes a net increase of \$26.6 million GF in FY 2011 and \$28.7 million GF in FY 2012 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.
- ***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 \$357,890 GF in FY 2012 from a reduction in, or elimination of state contributions for selected organizational memberships.