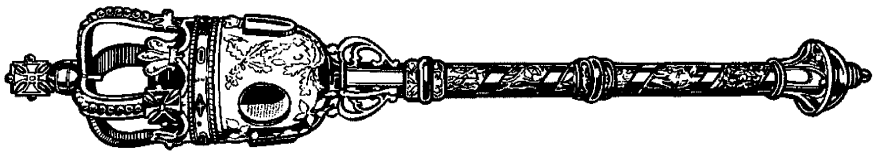
Report of the House Appropriations Subcommittee

on

Compensation & Retirement



House Bill 29
&
House Bill 30

February 19, 2012

REPORT OF THE SUBCOMMITTEE
on
COMPENSATION AND RETIREMENT

Mr. Chairman and Members of the Committee:

On behalf of the Compensation and Retirement Subcommittee, I am pleased to offer you our budget recommendations.

Consistent with the philosophy of our Chairman, the Compensation and Retirement Subcommittee approached this session with three primary objectives. The objectives of our subcommittee heading into this session included 1) building upon our efforts to ensure that we have a healthy and viable retirement system for our public employees for many years to come; 2) providing some relief to our localities as they struggle to deal with the fiscal challenges we have all faced over the last several years; and, 3) find a way to compensate our hard working state employees who at this point have gone 4 years without a pay raise. I am extremely pleased to state that we have been able to pass legislation this session and now make budget recommendations that are intended to meet all three of these goals.

I am pleased to report that with your support we are able to include in our recommendations $367 million general fund in additional funding for VRS retirement contribution payments in the next biennium. In total, the recommendations included in the subcommittee report will result in approximately $4.0 billion in total retirement contribution payments during the next biennium from the state, political subdivisions, school systems and employees.

While fully funding the rates is important, we on the subcommittee continue to emphasize a two-pronged approach to ensuring a healthy retirement system. We believe adequate funding must also be accompanied by reasonable and responsible pension reform. I firmly believe that enactment of House Bill 1189 during the

2010 session, the Chairman's bill, will long be viewed as a turning point where we were able to enact legislation which will help us maintain a sound and financially viable retirement system for generations to come. House Bill 1129 and House Bill 1130, both of which were approved by this committee and passed the House earlier this week build upon these reforms and enactment of these pieces of legislation will continue our efforts to ensure a fair and financially viable system in the future.

Regarding our second objective of providing relief to our localities we are pleased to recommend a policy change which would require the VRS contribution rates for our political subdivisions to be based on the same policy assumptions, most notably the eight percent assumed rate of return, that we have consistently adopted in setting the retirement contributions for our own employees. We estimate that this will reduce the cost for our localities by $70 million compared to their current cost to help offset the increase in their required payments for the teacher's retirement system.

Lastly, I am especially pleased to report that the subcommittee recommendations include a revenue reserve that, contingent on the state meeting our current revenue projections, will provide a two percent salary increase for our state employees and employees of our constitutional officers in fiscal year 2014.

By the time we have reached fiscal year 2014 our employees will have gone close to 6 years without a salary increase. We have had to make many difficult decisions throughout the budget in recent years and due to our financial pressures of recent years, a raise unfortunately has not been possible. However, we must always remember the hard work and significant contributions our state workers make to the Commonwealth.

Finally, Mr. Chairman, I would like to take this opportunity to thank you for your guidance and support during the Session as well

as the members of this Subcommittee for their hard work this Session.

Mr. Chairman 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

Robert Tata

Riley E. Ingram

Joe T. May

Charles D. Poindexter

Thomas A. Greason

Johnny S. Joannou

Onzlee Ware

Budget Amendment Recommendations

Amendment	House Bill 29 FY 2012	2012-14 BIENNIAL TOTAL GF	NGF	FTE
Compensation and Retirement				
HB 29 (2010-12 Budget)				
Department of Accounts Transfer Payments				
LOD - Non-participating Localities Provide Benefits Directly	Language			
LOD - Non-Participating Localities do not Contribute to Adminstrative Cost	Language			
Strike LOD Workgroup Language	Language			
HB 30 (2012-14 Budget)				
Compensation Board				
Adjust Reimbursement for VRS Rates - Sheriffs		($2,852,952)		
Adjust Reimbursement for VRS Rates - Finance Directors		($36,852)		
Adjust Reimbursement for VRS Rates - Commissioners of Revenue		($118,380)		
Adjust Reimbursement for VRS Rates - Commonwealths Attorneys		($440,626)		
Adjust Reimbursement for VRS Rates - Circuit Court Clerks		($209,730)		
Adjust Reimbursement for VRS Rates - Treasurers		($112,214)		
Adjust Lang. - Comp Board Reimbursement for Retirement Contribution		Language		
Department of Human Resource Management - Administration of Health Insurance				
Medication Therapy Management Pilot Program		Language		
Employee Health Insurance Fund Language		Language		
Health Insurance Premiums Report		Language		
Deaprtment of Accounts				
Transfer Commonwealth Health Research Fund to DOA - Transfer Payments			($2,454,288)	
Department of Accounts Transfer Payments				
LOD - Non-participating Localities Provide Benefits Directly	Language			
LOD - Non-Participating Localities do not Contribute to Adminstrative Cost	Language			
Transfer Commonwealth Health Research Fund to DOA - Transfer Payments			$2,454,288	1.00
Central Appropriations				
Lang. - State Employees Receiving Salary Supplements from Localities		Language		
Local Option to Adjust 5% Employee Contribution Policy		Language		
Delete Contigent Bonus Language		Language		
VRS Rates for Teacher Retirement System		Language		
Include Local Plans in VRS Rate of ROR Language		Language		
State Employee Health Ins. - Consistency Between Pharmacy Providers		Language		
Revenue Reserve - 2% Salary Incr. in the 2nd Year		$42,234,404		
Part 4 - Positions and Employment				
Eliminate Code-Duplicative General Provision Language		Language		
TOTAL:		$38,463,650	$0	1.00

Compensation - Retirement Subcommittee Item 84 #1h

Administration
Administration Of Health Insurance Language

Language:
Page 59, after line 31, insert:
"E. The Department of Human Resource Management shall develop a proposal to implement a Medication Therapy Management pilot program for state employees with certain disease states including Type II diabetes. The Department shall consult with all provider stakeholders in order to establish program parameters and include any recommendations for the program as part of the 2013 introduced budget."

Explanation:
(This amendment includes language requiring the Department of Human Resource Management to develop a proposal for, as part of the state employee health insurance program, a Medication Therapy Management pilot program.)

Compensation - Retirement Subcommittee Item 84 #2h

Administration
Administration Of Health Insurance Language

Language:
Page 59, strike lines 27 through 31 and insert:
"D. Any balances remaining in the reserved component of the Employee Health Insurance Fund shall be considered part of the overall Health Insurance Fund. It shall be the state policy of the General Assembly that future premiums for the state employee health insurance program shall be set in a manner so that the balance in the Health Insurance Fund shall be no less than the estimated Incurred But Not Paid liability for the Fund."

Explanation:
(This amendment deletes old language related to the state Health Insurance Fund and replaces it with language establishing a formal policy goal for the level of funding in the state employee health insurance fund. This language is consistent with a recommendation from the Auditor of Public Accounts in its review of the

Health Insurance Fund.)

Compensation - Retirement Subcommittee Item 84 #3h

Administration

Administration Of Health Insurance Language

Language:

Page 59, after line 31, insert:

"E. On or before January 1 of each year the Director of the Department of Human Resource Management shall provide to the Chairmen of the House Appropriations and Senate Finance Committees a report detailing the assumptions included in the Governor's introduced budget for the state employee health insurance plan. The report shall include the proposed premium schedule that would be effective for the upcoming fiscal year and any proposed changes to the benefit structure."

Explanation:

(This amendment is self-explanatory.)

Compensation - Retirement Subcommittee Item 468 #1h

Central Appropriations

Central Appropriations Language

Language:

Page 358, after line 7, insert:

"O. Any supplemental salary payment to a state employee or class of state employees by a local governing body shall be governed by a written agreement between the agency head of the employee or class of employees receiving the supplement and the chief executive officer of the local governing body. Such agreement shall also be reviewed and approved by the Director of the State Department of Human Resource Management. At a minimum, the agreement shall specify the percent of state salary or fixed amount of the supplement, the resultant total salary of the employee or class of employees, the frequency and method of payment to the agency of the supplement, and whether or not such supplement shall be included in the employee's state benefit calculations. A copy of the agreement shall be made available annually to all employees receiving the supplement. The receipt of a local salary supplement shall not subject employees to any personnel or

payroll rules and practices other than those promulgated by the State Department of Human Resource Management."

Explanation:

(This amendment includes language establishing policies and procedures for state employees receiving locality salary supplements.)

Compensation - Retirement Subcommittee Item 468 #2h

Central Appropriations

Central Appropriations Language

Language:

Page 355, strike lines 26 through 29, and insert:

"K. Each county, city, town, local public school board, or other local employer who has elected to pay an equivalent amount in lieu of the member contributions required of an employee who is not a person who becomes a member on or after July 1, 2010, may require such employee to pay member contributions on a salary reduction basis in accordance with § 414(h) of the Internal Revenue Code up to the amount of the five percent of the employee's creditable compensation."

Explanation:

(This amendment gives localities and school boards that are paying the 5% employee contribution on behalf of their Plan 1 employees the option of requiring their employees to pay a portion or all of the 5% employee contribution.)

Compensation - Retirement Subcommittee Item 468 #4h

Central Appropriations

Central Appropriations Language

Language:

Page 354, line 31, strike "11.66" and insert "10.23".

Page 354, line 33, strike "These rates" and insert:

"The rates for the state employee plans".

Page 354, after line 47 insert:

"7. In addition, included in the appropriation under Direct Aid for Public Education is $30,000,000 from the general fund in each year to provide a lump sum payment to the Virginia Retirement System on or before July 15 of each fiscal year as the initial

repayment for the deferral of teacher retirement contributions during the 2010-12 biennium."

Explanation:

(This amendment modifies the language related to the VRS contribution rate to be charged to local school boards for the teacher retirement plan. The amendment decreases the rate that will be charged to the school boards from 11.66% to 10.23% which is the calculated rate excluding the repayment calculation for the 2010-12 contribution deferral. The language authorizes an initial repayment of a $30.0 million lump sum payment each year which represents the state share of an additional 1.13% rate payment.)

Compensation - Retirement Subcommittee — Item 468 #5h

Central Appropriations

Central Appropriations — Language

Language:

Page 354, line 26, after "teachers," insert "employees of political subdivisions,".
Page 354, line 29, after "percent" insert ", a 2.5 percent cost of living adjustment,".

Explanation:

(This amendment include political subdivisions in the paragraph that states the contribution rates paid to the Virginia Retirement System shall be based on an assumed 8% rate of return and a 30 year amortization period. The amendment also clarifies that the rates are to be based on an assumed COLA of 2.5%.)

Compensation - Retirement Subcommittee — Item 468.10 #1h

Central Appropriations	**FY 12-13**	**FY 13-14**	
Central Appropriations	$0	$42,234,404	GF

Language:

Page 358, after line 7, insert:

"468.10. Revenue Reserve	$0	$42,325,378
Fund Sources: General	$0	$42,325,378."

A. The Governor is hereby authorized to allocate a sum of up to $42,324,404 from this appropriation to the extent necessary to offset any downward revisions of the general fund revenue estimate prepared for fiscal years 2013 and

2014 after the enactment by the General Assembly of the 2012 Appropriation Act. If the general fund revenue estimates prepared subsequent to the 2012 General Assembly Session do not result in downward revisions; and, if within 5 days of the preliminary close of the fiscal year ending on June 30, 2013, the Comptroller's analysis does not determine that a revenue re-forecast is required pursuant to § 2.2-1503.3, Code of Virginia, then such appropriation shall be used only for employee compensation purposes as follows:

1. Contingent upon the requirements of paragraph A. above, the appropriation for this item includes $33,222,158 from the general fund for the cost of an increase in the base salary of the following employees by two percent effective July 10, 2013:
a. Full-time and other classified employees of the Executive Department subject to the Virginia Personnel Act;
b. Full-time employees of the Executive Department not subject to the Virginia Personnel Act, except officials elected by popular vote;
c. Any official whose salary is listed in § 4-6.01 of this act, subject to the ranges specified in the agency head salary levels in § 4-6.01 c; and
d. Full-time professional staff of the Governor's Office, the Lieutenant Governor's Office, the Attorney General's Office, Cabinet Secretaries Offices, including the Deputy Secretaries, the Virginia Liaison Office, and the Secretary of the Commonwealth's Office.
e. Heads of agencies in the Legislative Department;
f. Full-time employees in the Legislative Department, other than officials elected by popular vote; and
g. Secretaries and administrative assistants as provided for in Item 1 of this act.
h. Judges and Justices in the Judicial Department;
i. Heads of agencies in the Judicial Department; and,
j. Full-time employees in the Judicial Department.
k. Commissioners of the State Corporation Commission and the Virginia Workers' Compensation Commission, the Executive Directors of the Virginia College Savings Plan and the Virginia Office for Protection and Advocacy, and the Directors of the State Lottery Department, and the Virginia Retirement System;

2. Full-time employees of the State Corporation Commission, the Virginia College Savings Plan, the State Lottery Department, Virginia Workers' Compensation Commission, the Virginia Retirement System, and Virginia Office for Protection and Advocacy.

3.a. Employees in the Executive Department subject to the Virginia Personnel Act

shall receive the salary increases authorized in this paragraph only if they attained at least a rating of "Contributor" on their latest performance evaluation.
b. Salary increases authorized in this paragraph for employees in the Judicial and Legislative Departments, employees of Independent agencies, and employees of the Executive Department not subject to the Virginia Personnel Act shall be consistent with the provisions of this paragraph, as determined by the appointing or governing authority. The appointing or governing authority shall certify to the Department of Human Resource Management that employees receiving the awards are performing at levels at least comparable to the eligible employees as set out in subparagraph 2.a. of this paragraph.

4. The Department of Human Resource Management shall increase the minimum and maximum salary for each band within the Commonwealth's Classified Compensation Plan two percent on July 10, 2013. No salary increase shall be granted to any employee as a result of this action. The department shall develop policies and procedures to be used in instances where employees fall below the entry level for a job classification due to poor performance. Movement through the revised pay band shall be based on employee performance.

5. The cost for the two percent salary adjustment authorized in paragraphs 1 and 2 above for employees of the institutions of higher education shall be covered within the appropriation provided to the individual institutions.

6. The following agency heads, at their discretion, may utilize agency funds or the funds provided pursuant to this paragraph to implement the provisions of existing pay plans:
a. The heads of agencies in the Legislative and Judicial Departments;
b. The Commissioners of the State Corporation Commission and the Virginia Workers' Compensation Commission;
c. The Attorney General;
d. The Director of the Virginia Retirement System;
e. The Director of the State Lottery Department;
f. The Director of the University of Virginia Medical Center;
g. The Executive Director of the Virginia College Savings Plan;
h. The Executive Director of the Virginia Port Authority; and
i. The Executive Director of the Virginia Office for Protection and Advocacy.

B. The base rates of pay, and related employee benefits, for wage employees may be increased by up to two percent no earlier than July 10, 2013. The cost of such

increases for wage employees shall be borne by existing funds appropriated to each agency.

C. Contingent upon the requirements of paragraph A. above, the appropriation for this item includes $9,012,246 from the general fund for the cost of an increase of two percent in the base salary of locally elected constitutional officers and full-time employees of locally elected constitutional officers."

Explanation:

(This amendment includes a revenue reserve fund of $42.4 million from the general fund. The funding, contingent on specific revenue requirements, would provide a 2% salary increase to state employees and employees of constitutional officers in the second year.)

Compensation - Retirement Subcommittee Item 4-6.01 #1h

Positions and Employment

Employee Compensation Language

Language:

Page 438, strike lines 27 through 33.

Explanation:

(This amendment strikes language contained in the General Provisions empowering state agencies to seek compromise and settlement of erroneous payroll overpayments using payroll deductions. The language will no longer be necessary because similar provisions are contained within House Bill 939.)