

## Department of Planning and Budget 2009 Fiscal Impact Statement

**1. Bill Number:** SB1006

House of Origin    ☐ Introduced    ☒ Substitute    ☒ Engrossed  
Second House    ☒ In Committee    ☐ Substitute    ☐ Enrolled

**2. Patron:** Quayle

**3. Committee:** Appropriations

**4. Title:**        **Line of Duty Act; definitions; funding for Line of Duty Death and Health Benefits Trust Fund.**

**5. Summary:** This bill amends the Line of Duty Act to include local employees who were disabled in the line of duty after January 1, 1966 (under current law, local employees are covered if they were disabled on or after July 1, 2000). The bill also provides for a \$2.00 fee to be collected per month from alarm company operators for each alarm system monitored to provide funding to the Line of Duty Death and Health Benefits Trust Fund.

**6. Fiscal Impact Estimates:** Preliminary. See comments in Item 8.

**7. Budget Amendment Necessary:** Yes, Item 267. See comments in Item 8.

**8. Fiscal Implications:** This bill charges a monthly fee for alarm systems, thereby creating a nongeneral fund revenue source for Line of Duty payments. This bill could be interpreted as a way of shifting the source of all payments for Line of Duty Act benefits from the general fund, to this new nongeneral fund revenue. Accordingly, a budget amendment in the bill's house of origin replaces the \$9.2 million in general fund dollars appropriated for FY 2010 for Line of Duty payments, with a nongeneral fund appropriation for \$22.8 million. Under the maximum estimated claims as discussed below, an appropriation of \$29.8 million is needed for claims, plus \$891,000 for administrative costs, totaling \$30.7 million.

Claims Costs:

Chapter 847, Item 262 B. of the 2007 Acts of Assembly changed the funding methodology for the Line of Duty Act program from a cash-basis to an actuarial-basis by establishing a general fund appropriation set at a level intended to proportionally (20 percent per year) reduce the funding shortfall between the previous pay-as-you-go funding level and the actuarially determined funding level over the five year period between FY 2008-FY 2010. However, due to the budget shortfall, the Governor's Introduced Budget returns to the pay-as-you-go method.

Currently, local employees disabled on or after July 1, 2000, are eligible for Line of Duty Act benefits. The bill would provide Line of Duty Act benefits to local employees disabled on or after January 1, 1966, which would increase the number of Line of Duty Act benefit recipients.

It is difficult to estimate with precision the number of new benefit recipients as a result of the provisions of this bill. However, based on information provided by the Virginia Retirement System (VRS), the Department of Accounts (DOA) estimates that there may be 900 local employees in the VRS system who would qualify for health benefits under the provisions of this bill. This estimate does not include the additional claims from non-VRS covered pension systems and those not covered by any pension system. The additional claims from local employees not covered by VRS may double the total to 1,800. These estimated 1,800 claims would be in addition to the 616 claims that are currently being paid as Line of Duty Act benefit recipients.

Based on the current claims count of 616 approved claims, the per claim cost on a pay-as-you-go basis is \$12,353. Therefore, the total additional cost created by this bill ranges from an estimated \$11.1 million ( $900 \times \$12,353$ ) to \$22.2 million ( $1,800 \times \$12,353$ ) annually. Therefore, increasing covered claimants by 1,800 as estimated under this bill increases the total cost of the line of duty program by as much as \$22.2 million annually. Therefore, total claims could be as high as \$29.8 million. The costs in future years may change depending upon variances between current and future health insurance rate increases.

#### Administrative Costs:

Costs to DOA to administer claims and health insurance billings for the additional benefit recipients are estimated to be \$742,452 per year for 10 additional positions. This cost is based on an annual salary/fringe benefit cost of \$71,097 per person, and a nonpersonal service cost of \$3,148 per person (costs such as technology, rent, hardware, etc.). This position estimate is based on the maximum number of additional claims. The bill provides for DOA's administrative costs to be paid from the fund.

The Department of State Police anticipates that this bill will result in an additional investigative workload for their agency, but any additional costs are indeterminate at this time.

#### Fees:

Based on information provided by the Virginia Professional Fire Fighters, the \$2.00 monthly fee could generate between \$24.0 million and \$30.0 million annually. This estimate is based on a calculation of approximately one million to one-and-a-half-million alarm systems subject to the new fee. The range in revenue takes into account the unknown number of alarm systems that would qualify, and the uncertainties surrounding the success rate in actually collecting this fee.

It is unclear how many alarm company operators would collect the \$2.00 fee and submit the proceeds to DOA; however, according to the National Burglar and Fire Alarm Association's (NBFAA) website, there are 58 member firms in Virginia as of January 2009. Other firms likely provide this service but are not members of the NBFAA.

The administrative impact on DOA from the new fees would depend upon the number of alarm company operators submitting the fees, (the greater the number, the greater the administrative costs to process the receipts and ensure compliance with the new requirements). However, according to DOA, two additional positions and \$148,490 annually (calculated using same

variables described above) would be needed to develop policies and procedures, and to process the receipts.

### Overall

Total annual additional costs for the 1,800 new claims that may result from this bill are estimated to be a maximum of \$22.2 million for new payments, and \$890,942 for 12 additional positions at DOA for the increased workload; totaling \$23.1 million annually. Combined with the FY 2010 cost of \$9.2 million for the 616 current claims, the total expenditures for the Line of Duty program could increase to as much as \$29.8 million as a result of this bill. Projected revenues, provided by the Virginia Professional Fire Fighters Association, and based on uncertainties surrounding collection compliance, are rough estimates and range from \$24.0 million to \$30.0 million annually, and are to be used for Line of Duty payments and for costs relating to the administration of the Fund by DOA. In the case that this bill should result in excess costs not supported by fee revenue, the balance would need to be provided for with general fund dollars. However, as revenue projections for this bill appear to be greater than expenses resulting from the bill, additional revenues may be used to supplement other costs related to Line of Duty payments.

**9. Specific Agency or Political Subdivisions Affected:** Department of Accounts, Department of Accounts Transfer Payments, and Department of State Police.

**10. Technical Amendment Necessary:** No.

**11. Other Comments:** SB 943 also impacts the Line of Duty Program. This bill amends the definition of a “deceased person” under the Line of Duty Act and results in an additional annual cost of \$225,000 to the Line of Duty Program. A budget amendment was included from the bill’s house of origin for \$225,000 in general fund dollars for costs associated with SB 943. Should the intention of SB 1006 be to shift all funding for the Line of Duty Program to nongeneral fund revenue, the \$225,000 cost created by SB 943 would need to be considered when evaluating whether revenue estimates are adequate to support all costs associated with the Line of Duty Program. However, the referenced general fund amendment would not be required should the program shift to all nongeneral fund revenue.

**Date:** 2/18/2009 dpbaek

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cc: Secretary of Finance