Department of Planning and Budget
2009 Fiscal Impact Statement

1. **Bill Number:** HB2026

House of Origin	X	Introduced	___	Substitute	___	Engrossed
Second House	__	In Committee	___	Substitute	___	Enrolled

2. **Patron:** Marshall, D.W.

3. **Committee:** General Laws

4. **Title:** **Virginia Employee Voluntary Accounts Program.**

5. **Summary:** Creates the Virginia Employee Voluntary Accounts Program. Under the program, private employers with not more than 50 employees that have not offered a payroll savings deduction plan to employees in the preceding year may enroll to offer tax-deferred retirement plans to their employees. The Program will be administered by a board of directors, which is authorized to hire a director and staff, and to retain a financial institution to serve as third-party administrator for the management of the assets of the Program. The Program is not authorized to accept enrollees or funds until a plan of operation for the Program has been approved by the Internal Revenue Service.

6. **Fiscal Impact Estimates:** Not Available

7. **Budget Amendment Necessary:** See Item 8

8. **Fiscal Implications:** This bill would create a new state entity that would administer a retirement program for small businesses. As such, this new agency will need to be funded for the cost of administering the new program which includes both personnel costs and other expenses. These costs include but may not be limited to the following:

   a) Personnel expenses to include salary and benefits for the executive director and required staff.
   b) Non-personnel expenses to include the cost of office space used, equipment, supplies, etc..
   c) Legal fees required at program start-up to accomplish Internal Revenue Service approval.
   d) Meeting costs, per diem payments, and the reimbursement of expenses for members of the board.
   e) The potential cost of a third part administrator to manage fund assets.
   f) Other contract expenses, such as the cost of a third party auditor and other required services.

   Personnel Costs:
   Based upon similar activities in the Commonwealth, it is estimated that this new entity will eventually require a staff of approximately 20 employees and perhaps more depending on the complexity of the benefits programs ultimately offered to enrollees and the number of enrollees. The average annual cost of a state employee including benefits is estimated to be

approximately $56,852 ($42, 254 for salaries and $14,598 for benefits). Using this average and assuming 20 employees, the annual personnel costs would be estimated at $1,137,040. This cost excludes the annual salary of the executive director which would be anywhere between $100,000 and $160,000 based upon the salaries of similar agencies.

Non-personnel Costs:
Based on similar sized agencies, the basic annual non-personnel cost of operating an agency this size (excluding certain contractual services) could range from approximately $121,000 to $255,000 based on the following;

a) Facility rent expenses; between $100,000 and $168,000.
b) Equipment rentals; between $2,000 and $10,000
c) Stationary and forms; between $1,000 and $3,000
d) Printing expenses; between $6,000 and $14,000
e) Office supplies; between $2,000 and $10,000
f) Telecommunications services; between $10,000 and $50,000

Other Costs:
In addition to the costs listed above, the bill stipulates that an independent accountant should perform an annual audit of the program's accounts. Depending on the complexity of the accounts the cost of this service could be expected to range between $60,000 and $200,000.

Also required by the bill is the contracting of a financial institution to manage the fund's assets. The ultimate cost to the fund of this service will depend largely on the number of enrollees, and the complexity of the program's benefits.

Not included in any of the costs listed above are the expenses of board meetings and associated per diems for members, insurance to indemnify board members, and one-time start-up specific cost such as the purchase of office furniture and other items, and the added potential legal fees that may be required in the process to get Internal Revenue Service approval of the program's plan.

The bill stipulates that any funds appropriated for the cost of establishing the program will be recovered through the assessment of administrative fees. The bill also requires that a plan of operation be adopted prior to accepting any enrollees or funds. In addition, the plan will need to be approved by the Internal Revenue Service prior to allowing enrollment. Because the primary source of funding for the program is to be administrative fees to enrollees and some work will be required prior to allowing enrollment, some level of appropriation will be required to start up the program without immediate reimbursement. As a result, it is likely that the only fund source that could be used to start-up the program would be the general fund.

Due to the fact that it is difficult to predict the level of activity required to create a plan for the program and to obtain Internal Revenue Service approval, the actual amount that will be needed during the start-up phase of the program and consequently, the amount that needs to be appropriated for the first year of operations is unknown.

9. Specific Agency or Political Subdivisions Affected: N/A

10. Technical Amendment Necessary: No

11. Other Comments: None

Date: 1/22/2009 JDH
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