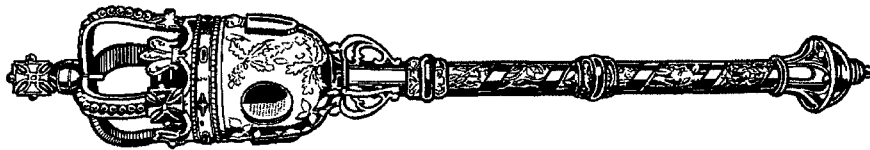


*Report of the
House Appropriations
Subcommittee*

on

Compensation & Retirement



House Bill 1500

February 6, 2011

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. First, I want to thank the Chairman for his support and guidance as you have led this committee through extremely difficult times these past few years.

Consistent with your philosophy, the Compensation and Retirement Subcommittee approached this session with two primary objectives. The first objective was to address the proposal in the introduced budget to reinstate the 5% employee contributions for our current employees in a manner that resulted in a 2% salary reduction and secondly to continue our efforts to ensure the financial viability of our retirement system through a combination of appropriate funding levels and system reforms. I am pleased to offer budget recommendations that are intended to meet these two goals.

I am pleased to report that with your support we are able to include in our recommendations a proposal to reinstate the 5% employee contribution but at the same time provide a full 5% salary offset to our employees. After serious consideration, we do feel it is important to reinstate the 5% employee contribution so that going forward all of our employees are contributing towards their retirement. However, we strongly disagreed on the equitability of implementing it in a manner that resulted in a 2% salary reduction. By the time this biennium will be completed, our employees will have gone 4 and a half years without a salary increase. During the same time it has been necessary to reduce the size of the workforce and institute hiring freezes. We have asked our employees to do more with less. Clearly, employees understood the need to make some sacrifices, however, given that our revenues are increasing a

salary cut does not seem prudent, as we continue to expect more from our employees.

Regarding our second objective, we view that with the enactment of your comprehensive VRS reform bill during last session, House Bill 1189, and the adoption of HB 2410 of this session, which will provide an optional defined contribution plan, we have taken the vital steps to ensuring the long-term financial viability of the Virginia Retirement System. While we view these reforms as the key to sustaining the system over the long-term, we also take seriously our responsibility as the ultimate stewards of the retirement system and as such we spent much of this session discussing the concerns related to the funding actions we adopted last session as well as the funded status of the system.

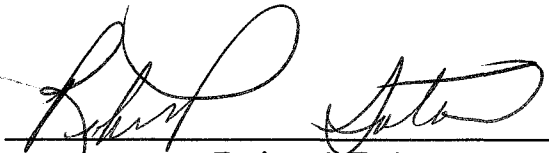
We believe that many of the concerns and reports related to the VRS have been overstated and reflect an overreaction to stock market fluctuations. However, we all agree that funding for the retirement system should return to prior year levels as soon as possible. With that goal in mind, I am pleased to report we have put together a recommendation that will increase contributions payments in FY 2012 to the state employee retirement plans by more \$120 million compared to the budget we adopted in the 2010 session.

Finally, Mr. Chairman, I would like to take this opportunity to thank the members of this Subcommittee for their hard work this Session, especially given the large number of retirement bills that were heard. The Subcommittee reviewed each bill with a long-term view of how legislation would impact the financial viability of the Commonwealth in future bienniums.

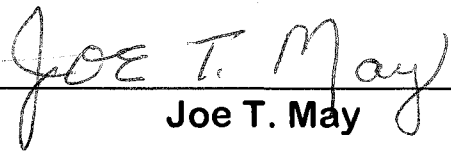
Mr. Chairmen and fellow Committee members, I will ask staff to take you through our detailed recommendations, and then I hope it will be your pleasure to adopt our Subcommittee report.

**Respectfully Submitted by the House Appropriations Subcommittee
on Compensation & Retirement:**

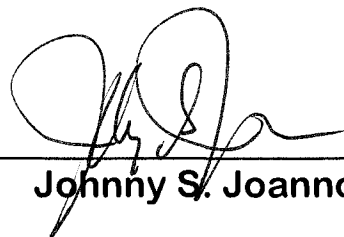


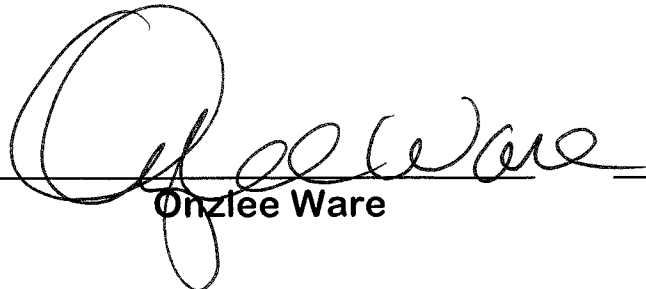
S. Chris Jones, Chairman

Robert Tata

Riley E. Ingram

Joe T. May

Charles D. Poindexter

Johnny S. Joannou

Onzie Ware

HB 1500
Amendment

2010-12 Biennium

General
Fund

Nongeneral
Fund

FTE

Compensation & Retirement

Auditor of Public Accounts

Review of the Health Insurance Fund

Language

Secretary of Administration

Strike Language Mandating Actuarial Audit of HIF

Language

State Compensation Board

Maintain Reimbursement for Retirement at 2011 Level

Language

Department of Human Resource Management

Automated TAL System & Streamlined Leave

Language

Department of Accounts - Transfer Payments

Line of Duty - Extend Deadline for Locality Opt Out

Language

Central Appropriations

HB 2467 - Coverage for Diagnosis and Treatment of Autism

410,000

Restore Funding for ORP for Plan 1 Employees

7,147,767

Restore Funding Related to Proposed 5%/3% Swap

32,991,493

Reinstate the 5% Employee Contr. With 5% Salary Offset

15,057,664

Elim. Delay in 4th Q VRS Pmts in FY 2012 & Incr. Contr. Rates

41,725,458

Amend Language - Employee Contr. Teachers and Localities

Language

Interfund Transfers

Strike NGF Transfer from Proposed 5%/3% Swap

Language

Positions and Employment

Modify Language Adjusting Salaries for Agency Heads

Language

Additional Enactments

HB 2410 - Authorize the Development of an Optional DC plan

Language

Total Compensation & Retirement

97,332,382

0

0.00

Amendments to House Bill 1500, as Introduced

Compensation - Retirement Subcommittee

Item 67.90 #2h

Administration

Compensation Board

Language

Language:

Page 56, after line 15, insert:

"4. The second year retirement benefits rate reimbursed by the Compensation Board to localities and regional jails shall not exceed the rate identified for fiscal year 2011 in Item 469, paragraph I.1."

Explanation:

(This amendment adds language to maintain current reimbursement rates for constitutional officer and staff retirement costs.)

Compensation - Retirement Subcommittee

Item 75 #1h

Administration

Department Of Human Resource
Management

Language

Language:

Page 62, after line 4, insert:

"I. The Department of Human Resources Management shall develop a plan to implement an automated time, attendance and leave (TAL) application for use by executive branch agencies. Concurrently, the Department shall work with state agencies and representatives from the employee associations in the development of a streamlined leave policy. The Department shall submit to the Chairmen of House Appropriations and Senate Finance Committees by October 15, 2011, a report detailing the proposal to implement the automated TAL application and any recommendations to streamline the leave policy."

Explanation:

(This amendment requires the DHRM to develop a plan to implement an automated system for tracking employee leave and work time sheets. In addition, the Department is instructed to develop recommendations for consideration by the 2012 General Assembly regarding the streamlining of employee leave policies. It is estimated that state agencies spend approximately \$50 million a year manually tracking time, attendance and leave for their employees. These two initiatives are a

Amendments to House Bill 1500, as Introduced

recommendation of the Governor's Reform Commission.)

Compensation - Retirement Subcommittee

Item 258 #1h

Finance

Department Of Accounts Transfer
Payments

Language

Language:

Page 209, line 8, strike "2011" and insert "2012".

Explanation:

(This amendment extends the deadline for localities to opt out of the statewide Line of Duty program from July 1, 2011, to July 1, 2012. The 2010 budget granted the localities the ability to opt out of the statewide funding pool and provide the identical benefits to their own employees independently.)

Compensation - Retirement Subcommittee

Item 469 #4h

Central Appropriations

FY 10-11

FY 11-12

Central Appropriations

\$0

\$410,000 GF

Language:

Page 402, line 7, strike "\$27,327,805" and insert "\$26,917,805".

Page 403, line 29, strike "\$11,817,009" and insert "\$12,227,009".

Page 403, after line 46, insert:

"6. Included in this appropriation in the second year is funding to adjust the employer premiums for the state employee health insurance program to reflect the enactment of House Bill 2467 of the 2011 General Assembly Session."

Explanation:

(This amendment provides \$410,000 general fund pursuant to the enactment of House Bill 2467 of the 2011 General Assembly. House Bill 2467 mandates health insurance plans in Virginia, including the state employee health insurance plan, provide benefits for the diagnosis and treatment of autism spectrum disorder for children ages two through six. As a result of this mandate, it is estimated that the cost to the state health insurance program will increase slightly more than \$1.0 million in total funds (\$0.4 million general fund). This equates to a premium for the state employee health insurance plan of slightly less than one-tenth of one percent.)

Amendments to House Bill 1500, as Introduced

Compensation - Retirement Subcommittee

Item 469 #5h

Central Appropriations	FY 10-11	FY 11-12	
Central Appropriations	\$0	\$7,147,767	GF

Language:

Page 402, line 7, strike "(\$27,327,805)" and insert "(\$20,180,038)".

Page 410, strike lines 15 through 23.

Page 410, strike lines 34 through 38.

Page 410, line 24, strike "4." and insert "3."

Page 410, line 29, strike "5." and insert "4."

Explanation:

(This amendment deletes language included in the introduced budget decreasing the employer contribution for Plan 1 employees, in the system prior to July 1, 2010, in the optional retirement plan for higher education faculty, from 10.4% to 8.5%. The amendment restores the funding to continue the contributions at the 10.4% rate.)

Compensation - Retirement Subcommittee

Item 469 #6h

Central Appropriations	FY 10-11	FY 11-12	
Central Appropriations	\$0	\$32,991,493	GF

Language:

Page 402, line 7, strike "(\$27,327,805)" and insert "\$5,663,688".

Page 410, strike lines 3 through 14.

Page 410, line 15, strike "3." and insert "T.1."

Page 410, strike lines 24 through 33.

Page 410, line 34, strike "6." and insert "2."

Explanation:

(This amendment deletes language included in the introduced budget requiring, effective July 1, 2011, Plan 1 state employees to pay the 5% employee retirement contribution that the state has been paying on their behalf since 1983 in lieu of a pay raise. The introduced budget would have provided a partial salary offset of 3% to be implemented concurrently. The amendment restores the \$33.0 million general fund removed from the introduced budget as a result of this proposal. In addition, the amendment deletes language which proposed transferring \$18.2 million in nongeneral fund savings to the general fund, \$11.8 million of which would have

Amendments to House Bill 1500, as Introduced

come from the higher education institutions.)

Compensation - Retirement Subcommittee

Item 469 #7h

Central Appropriations
Central Appropriations

FY 10-11
\$0

FY 11-12
\$15,057,664 GF

Language:

Page 402, line 7, strike "(\$27,327,805)" and insert "(\$12,270,141)".

Page 410, strike lines 3 through 14 and insert:

"T.1. Every "state employee," except elected officials, who is not a "person who becomes a member on or after July 1, 2010," as those terms are defined in § 51.1-124.3, Code of Virginia, shall be required to pay member contributions on a salary reduction basis in accordance with § 414(h) of the Internal Revenue Code in the amount of five percent of creditable compensation, effective June 25, 2011, if the employee is (i) a member covered by the defined benefit plan of the Virginia Retirement System established under Chapter 1 of Title 51.1 (§ 51.1-100 et seq.), (ii) a member of the State Police Officers' Retirement System under Chapter 2 of Title 51.1 (§ 51.1-200 et seq.), or (iii) a member of the Virginia Law Officers' Retirement System under Chapter 2.1 of Title 51.1 (§ 51.1-211 et seq).

2. The base salary of employees described in subparagraph T.1. above shall be increased by five percent effective on June 25, 2011.

3. Out of the general fund appropriation for this item, \$15,057,664 in the second year shall be transferred to state agencies and institutions of higher education to support the net general fund cost as a result of the actions described in paragraphs 1 and 2 above."

Explanation:

(This amendment reinstitutes the 5% employee contribution for Plan 1 state employees effective June 25, 2011, and provides a 5% salary offset concurrently. The amendment includes \$15.1 million general fund to reflect a slight increase in federal tax and fringe benefit expenditures as a result of this action.)

Compensation - Retirement Subcommittee

Item 469 #8h

Central Appropriations
Central Appropriations

FY 10-11
\$0

FY 11-12
\$41,725,458 GF

Amendments to House Bill 1500, as Introduced

Language:

Page 402, line 7, strike "\$27,327,805)" and insert "\$14,397,653".

Page 405, line 15, strike "6.08%" and insert "2.08%".

Page 405, line 18, strike "11.73%" and insert "7.73%".

Page 405, line 21, strike "9.07%" and insert "5.07%".

Page 405, line 24, strike "32.65%" and insert "28.65%".

Page 406, after line 4, insert:

" 2. For pay periods effective December 10, 2011, through February 9, 2012, the payments to VRS for the retirement programs as shown in I.1. above shall be increased by 1.5%.

3. For pay periods effective February 10, 2012, through April 9, 2012, the payments to VRS for the retirement programs as shown in I.1. above shall be increased by 2.5%.

4. For pay periods effective on or after April 10, 2012, the payments to VRS for the retirement programs as shown in I.1. above shall be increased by 4.5%."

Page 406, line 5, strike "2." and insert "5."

Page 406, line 10, strike "3." and insert "6."

Page 406, line 12, strike "3 and 4" and insert "1 and 2".

Page 406, line 13, strike "\$135,467,080" and insert "\$214,818,255".

Page 406, line 17, strike "4." and insert "7."

Page 406, line 21, strike "5." and insert "8."

Page 406, line 31, strike "7.16" and insert "5.16".

Page 407, line 31, after "paydays", strike the remainder of the line and insert:

"fiscal year 2011 to fiscal year 2012."

Page 407, line 32, strike "respectively."

Page 407, line 32, after "2011" strike ", and July 10," and insert ".".

Page 407, strike line 33.

Page 407, after line 37 insert:

"3. Out of the general fund appropriation for this item, \$41,725,458 in the second year is available to be transferred to state agencies and institutions of higher education to support the general fund cost, and if necessary to offset any one-time non-general fund cost incurred by the institutions of higher education, related to eliminating the delay in the transfer of employer paid retirement payments beginning in fiscal year 2012."

Explanation:

(This amendment provides \$41.7 million general fund to eliminate the deferral, to fiscal year 2013, assumed in Chapter 874, Acts of Assembly of 2010, for the 4th quarter fiscal year 2012 VRS payments. In addition, this amendment authorizes a

Amendments to House Bill 1500, as Introduced

phase-in increase in the contribution rates paid to the VRS during fiscal year 2012. During the last quarter of the fiscal year, the payments for the regular VRS program will be the full VRS rate. The increased VRS rates will result in \$43.5 million in additional payments to the VRS that would be transferred to the general fund under Chapter 874. In total, this amendment will increase payment to the VRS for state employee retirement by more than \$120 million in fiscal year 2012. In addition, this amendment sets the VRS contribution rate for the teacher's retirement system at 5.16% as adopted in Chapter 874.)

Compensation - Retirement Subcommittee

Item 3-1.01 #6h

Transfers

Interfund Transfers

Language

Language:

Page 460, strike lines 27 through 31.

Page 460, line 32, strike "UU." and insert "TT".

Page 460, line 34, strike "VV." and insert "UU."

Page 460, line 38, strike "WW." and insert "VV."

Page 460, line 41, strike "XX." and insert "WW."

Explanation:

(This amendment deletes language transferring \$18.2 million from nongeneral fund sources to the general fund pursuant to savings from the proposal in the introduced budget to reinstate the 5% employee contribution with a 3% salary offset. This proposal has been eliminated and therefore the transfer will not occur.)

Compensation - Retirement Subcommittee

Item 4-6.01 #1h

Positions and Employment

Employee Compensation

Language

Language:

Page 509, line 29, strike "three" and insert "five".

Page 509, line 29, strike "July 1" and insert "June 25".

Page 509, line 33, after the first "seq.),", insert "or".

Page 509, line 33, strike ", or" and insert ".".

Page 509, strike line 34.

Amendments to House Bill 1500, as Introduced

Explanation:

(This amendment increases the salaries of the Cabinet secretaries and agency heads listed in the General Provisions and elsewhere in the Appropriation Act by 5 percent effective June 25, 2011, as long as those Cabinet secretaries and agency heads were members of the VRS, State Police Retirement System, or Virginia Law Officers' Retirement System prior to July 1, 2010. This amendment corresponds to the treatment of state employee groups.)
