

JLARC Meeting – November 13, 2017

MINUTES

AttendingJLARC Members:

Delegate Robert Orrock, Chairman; Delegate Terry L. Austin, Delegate Betsy B. Carr; Delegate M. Kirkland Cox, Senator Emmett Hanger, Senator Janet Howell, Delegate Chris Jones, Delegate R. Steven Landes, Delegate James P. Massie, Senator Ryan McDougle, Senator Thomas K. Norment, Delegate John M. O'Bannon, Delegate Kenneth Plum, Senator Frank Ruff, Ms. Martha Mavredes, Ex Officio.

JLARC Staff:

Hal Greer, Director; Justin Brown, Senior Associate Director; Tracey Smith, Associate Director; Kimberly Sarte, Associate Director; Kate Agnelli; Lauren Axselle, Erik Beecroft, Sarah Berday-Sacks, Jamie Bitz, Danielle Childress, Drew Dickinson, Kathy DuVall, Nick Galvin, Maria Garnett, Mark Gribbin, Paula Lambert, Jeff Lunardi, Liana Major, Bridget Marcek, Joe McMahon, Ellen Miller, Jordan Paschal, Ellie Rigsby, Nathan Skreslet, Brittany Utz, Nichelle Williams, Christine Wolfe.

Others:

Terance Rephann (Regional Economist with the Weldon Cooper Center for Public Service); Sara Wilson, Rue White, Anne Waring, Diane Anderson, Jeff Presseau (Department of Human Resource Management); Trish Bishop, Rory Badura, Cindy Wilkinson, Jeanne Chenault (Virginia Retirement System); Mary Morris, Gary Ometer, Vivian Shields, Chris McGee, Jordan Forbes (VA529); Bill Howard, Laura Mooser, Matt Mullen (Mercer Health and Benefits); Eric Link (VITA); Mark Smith (George Mason University); Michael Jay and Skip Maupai (House Appropriations Committee staff); Charles Kennington, Adam Rosatelli (Senate Finance Committee staff); Phil Leone (Virginia Tech); Mike Woods, Karin Addison (Troutman Sanders); Fletcher Mangum (CEO of Mangum Economic Consulting); Ross Grogg (Kemper Consulting); Wayne Huggins (Lobbyist for Virginia State Police Association); Ron Jordan (Lobbyist for Virginia Government Employees Association); Linda Cole (VDACS); Micah Fairchild (DCR); Michael Martz (Richmond Times Dispatch); and Saraya Wintersmith, Mallory Noe-Payne (Virginia Public Radio).

The meeting was called to order at 10:05 a.m. by Delegate Orrock, Chairman. Delegate Orrock recognized Hal Greer, JLARC staff Director, who provided the Commission with a brief overview of the meeting agenda.

Total Compensation for State Employees

Mr. Greer then provided the Commission with some brief remarks about the *Total Compensation for State Employees* study and introduced Jeff Lunardi, the project leader for the

study. Mr. Lunardi introduced the study team members, recognized Mercer staff who were in attendance, and provided the Commission with a presentation on the report. Mr. Lunardi responded to several questions from the Commission throughout his presentation.

Delegate Orrock asked if the team looked at whether other states have prioritized state employee salary increases for job roles with the most significant workforce challenges, and whether they have encountered any challenges or legal issues regarding inequitable treatment of employees. Mr. Lunardi indicated that other states have taken this approach with state employee salary increases, and the team did not identify any states that have experienced legal challenges related to this type of approach.

Senator Ruff asked if the team tried to quantify the cost of statewide turnover. Mr. Lunardi mentioned that chapter 3 of the report includes some examples of turnover cost, such as the cost of training a new VDACS inspector. He also explained that state agencies have experienced increases in overtime costs as a result of staff turnover, as well as increased IT costs due to the use of contractors when agencies are not able to backfill vacant IT positions. Mr. Lunardi stated that the team was not able to calculate the overall total cost of statewide turnover.

Delegate Landes asked about the impact of impending retirements of baby boomers, and said that this presents a challenge for agencies but also a potential opportunity. He commented that developing a bench, building skills internally, backfilling positions, and succession planning can all present a challenge. Mr. Lunardi stated that retirement is not the main challenge, but rather it is ensuring that there is a bench and successfully backfilling the positions.

At the conclusion of the Commission's questions, Delegate Orrock stated that the Commission will approve the *Total Compensation for State Employees* report by general consensus. There being no objections, the report was approved unanimously by the Commission.

Subsequently, Delegate Orrock invited Sara Wilson, Director of the Department of Human Resource Management to provide the Commission with her remarks in response to the JLARC report. Ms. Wilson thanked the members of the General Assembly for authorizing funding to DHRM for purposes of developing an exit survey and indicated that DHRM plans to begin using the survey in January 2018. She also commented that DHRM has been talking to many agencies about workforce planning to ensure that this is useful. Ms. Wilson's last comment was regarding health insurance benefits. She explained that Virginia basically has a 90-10 model where the state pays for 90 percent of health insurance premiums and employee pays the remaining 10 percent. She said that this approach is instead of the more usual 80-20 model because Virginia needs to have a competitive compensation package for state employees in years when there is no salary increase. Ms. Wilson further stated that if changes are made to employee benefits, the General Assembly needs to be mindful of the total impact to state employees.

Economic Development Incentives & Evaluation: Film Incentives

Following Ms. Wilson's remarks, Mr. Greer introduced Terry Rephann, Regional Economist with the Weldon Cooper Center for Public Service who performed extensive data and economic impact analysis for the JLARC economic development incentive reports. Mr. Greer then introduced Ellen Miller who provided the Commission with a presentation on the *Economic Development Incentives 2017* and *Evaluation: Film Incentives* reports.

Delegate Orrock asked if any states require localities to share in the cost of the incentives. Ms. Miller said that she is not aware of any local cost-sharing requirements in other states.

At the conclusion of Ms. Miller's presentation, Delegate Orrock stated that the Commission will approve the *Economic Development Incentives 2017* and *Evaluation: Film Incentives* reports by general consensus. There being no objections, the reports were approved unanimously by the Commission.

JLARC Recommendations for Legislative Action

Subsequently, Mr. Greer provided a brief presentation of JLARC recommendations for legislative action and highlighted recommendations to strengthen oversight of high-risk contracts, allocate permits to prioritize human consumption, strengthen regional water planning, and contain higher education non-academic costs. At the conclusion of Mr. Greer's presentation, Delegate Orrock stated that this presentation was for informational purposes and no action is required by the Commission at this time.

Funded Status of Prepaid529 Fund

Mr. Greer then introduced Joe McMahon, Principal Analyst for Ongoing Oversight, who provided the Commission with a brief presentation on the Prepaid529 funded status. Delegate Orrock asked if providing a rebate would create an expectation among future customers that they would also receive a rebate. Mr. McMahon said that this would be important to consider. He explained that Virginia529 could provide a notice that that this would not necessarily happen or would only occur above a certain funded status. Delegate Orrock asked if any other states have provided rebates. Mr. McMahon said none have yet, but Maryland has considered doing so. He said that this is new territory across the country because the funded status of many prepaid plans is higher compared to several years ago.

Delegate Orrock then recognized Shawn McLaughlin, Chair of the Virginia529 Board who provided the Commission with a presentation of the Prepaid529 program funded status. Senator Norment asked if Virginia529 has any intention of reducing the pricing load or offering a rebate to contract holders. Mr. McLaughlin said Virginia529 does not intend to do either of these options.

Delegate Orrock said he can see the rebate being problematic, but given the current funded status, perhaps Virginia529 should consider a policy to reduce the pricing load under

certain circumstances. He then asked if Virginia529 can enter into contracts with four-year institutions to help keep tuition costs manageable. For example, JMU announced that they are increasing tuition by about 15 percent but they are agreeing to limit annual increases over the next four years to three percent per year. Senator Norment stated that he had a similar thought about this and explained that UVA and William & Mary are trying to take similar approaches. He referred to the William & Mary Promise program where a student's tuition is frozen for four years. Senator Norment further stated that some higher education institutions seem to be demonstrating more financial creativity than Virginia529. Mr. McLaughlin responded by explaining that he lives these issues every day as a financial investment advisor. He said that he is a parent of four children, and his oldest child is about to go off to college. He said there is a lot of uncertainty in the market and it is also difficult to predict tuition. He stated that a 138% funded status is a good problem to have, but Virginia529 does not know what the future holds. He explained that Virginia529 has a fear that mandating a rebate could create future problems.

Delegate O'Bannon asked at what point would Virginia529 consider doing something to address the affordability of college. Mr. McLaughlin said there is no perfect answer, and a 150% funded status would get them close to a 100% probability of meeting their future liabilities. He said that other states have been too optimistic and it has resulted in financial trouble.

Delegate O'Bannon asked why Virginia529 suffered more from the technology bubble than the Great Recession. Mr. McLaughlin indicated this was probably due to being over-invested in technology stocks.

Mr. Greer then approached the podium and stated that the staff respectfully disagrees with the Virginia529 Board Chair, and that JLARC staff would like to take a closer look at potential options and a more balanced look at what other states have done, and provide additional information to the Commission at the July 2018 meeting.

Delegate Orrock said that he is concerned about rebates and the expectations it creates. He indicated that looking at the 10 percent pricing load seems to be more reasonable.

Mr. Greer clarified that JLARC staff have not made any recommendations yet, but will plan to look more closely at this issue and provide the Commission with additional information in 2018.

Lastly, Mr. Greer announced that the next Commission meeting is scheduled for December 11, 2017, which will include a presentation on the findings and recommendations from the report on early childhood development programs, as well as annual reports on state spending for K-12 SOQ and VRS oversight.

There being no further business, the Commission rose at 11:51 a.m.

Approved by: Hal E. Greer
Hal E. Greer, Director

Date: 11/16/17

Prepared by: Paula Lambert
Paula C. Lambert
Manager, Fiscal and Administrative Services &
Senior Legislative Analyst