



BETTER COMMUNITIES THROUGH SOUND GOVERNMENT

March 8, 2021

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Aubrey L. Layne, Jr.  
Virginia Secretary of Finance  
Patrick Henry Building  
1111 East Broad Street  
Richmond, VA 23219

Dear Secretary Lane,

We are writing to discuss an important issue concerning the use of increasing revenues and one-time funding becoming available to Virginia. With the acceleration of vaccine distribution and the tremendous amount of federal fiscal stimulus coming to us, Virginia is poised to have a very strong economic rebound and revenue increase in the near term. This will give us an opportunity to make our state more resilient with strategic investments in our infrastructure and bolster our balance sheet to withstand future economic shocks. Improving our balance sheet should be considered similar to an infrastructure investment that provides long-term returns. Improving our balance sheet by reducing the unfunded liability of the Teacher Retirement Fund would be a prudent, long-term investment that would continue to provide returns for Virginia and its localities for many years to come.

Virginia Retirement System staff confirmed that any deposit to the Teacher Retirement Plan would be treated as an actuarial gain recognized over the next 20 years. For example, VRS staff estimated that the \$61 million deposit to the Plan proposed in the Governor's introduced budget and adopted in the enrolled budget would result in an estimated 5 basis point reduction in future Teacher plan contribution rates. With a fiscal year 2022 Teacher payroll of approximately \$9 billion, the 5 basis point reduction in employer rates from the \$61 million contribution will produce an annual savings of approximately \$4.5 million. Using a 40% factor for the General Fund portion and remaining 60% applicable to localities, these annual savings will be \$1.8 million for General Fund and \$2.7 million for localities. Each additional \$12 million in funding above the actuarial required contribution would lower future contributions by another 1 basis point. Another way to view this is that any additional VRS contribution provides a 7.4% annual rate of return on funds invested – a much superior return than the 1-2% returns currently being earned on Treasury deposits.

This provides a strong argument that now is a good time to bolster Virginia's balance sheet assets with *additional* deposits to the Teacher Retirement Fund using what should be considered one-time or temporary revenue increases. The added benefit of reducing retirement system unfunded liabilities is that it also reduces ongoing contribution costs to the benefit of both the state and localities for *many* years to come. The Virginia Municipal League hopes you will give this issue strong consideration in developing your amendments to the budget.

Sincerely,

Michelle Gowdy  
Executive Director, Virginia Municipal League

Cc: K. Joseph Flores,  
Deputy Secretary of Finance

Manju Ganeriwala,  
State Treasurer

Daniel Timberlake,  
Director of the Department of Planning  
and Budget

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