

APPENDIX B

Financial Information and Other Information

**APPENDIX B
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INTRODUCTION

This financial and other information was provided by the Commonwealth of Virginia (the "Commonwealth"), its agencies, institutions and authorities. The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

GOVERNMENTAL ORGANIZATION

Under the Constitution of Virginia (the "Constitution"), the legislative, executive and judicial powers of the Commonwealth are divided into three separate and distinct departments.

Legislative Department

The legislative power is vested in the General Assembly, the oldest representative lawmaking body in the United States. The General Assembly is bicameral, consisting of a Senate with 40 Senators elected for four-year terms and a House of Delegates with 100 Delegates elected for two-year terms. The General Assembly convenes annually each January. Regular sessions are 60 days in duration in even numbered years and 30 days in odd numbered years, but each can be extended for an additional 30 days by a two-thirds vote of each house.

The General Assembly is assisted in its legislative function by a full-time staff of over 100 persons and various commissions appointed by the General Assembly. The Joint Legislative Audit and Review Commission was established to carry out continuous legislative review and evaluation of Commonwealth programs from the standpoint of cost effectiveness.

The Auditor of Public Accounts is elected by the General Assembly. The Auditor and a staff of approximately 130 persons audit the accounts of all Commonwealth offices, departments, boards, commissions, institutions and other agencies handling Commonwealth funds and report thereon to the General Assembly.

Executive Department

The Governor, Lieutenant Governor and Attorney General are constitutional officers, elected every four years. The present term of each office began January 16, 2010 and each expires January 18, 2014. The Constitution does not allow a Governor to serve successive terms.

The Governor is the Commonwealth's chief executive officer. The Governor advises the General Assembly on the condition of the Commonwealth and makes recommendations for legislation. The Governor is also charged with the responsibility for preparing and executing the Commonwealth's budget. The Governor's veto of legislation may be overridden only by a two-thirds vote of each house of the General Assembly. If deemed necessary for the welfare of the Commonwealth, the Governor may convene the General Assembly at any time. With few exceptions, the Governor appoints the administrative heads and boards of all Commonwealth agencies. Commonwealth agencies report to the Governor through a cabinet of twelve Secretaries appointed by the Governor to supervise and manage the various functions of the Commonwealth's government.

The Lieutenant Governor is next in line in the event of the Governor's inability to serve. The Lieutenant Governor also serves as President of the Senate, but may not vote except in the event of a tie.

The Attorney General is the chief executive officer of the Department of Law. The Department of Law represents the Commonwealth in all civil cases to which the Commonwealth or any of its agencies is a party and in all criminal cases on appeal to the Supreme Court of Virginia. The Attorney General is also the legal advisor to the Governor, General Assembly and heads of Commonwealth agencies.

Judicial Department

The Supreme Court is the Commonwealth's highest court and consists of seven justices appointed by the General Assembly. Several agencies involved in legal administration operate under the control of the Supreme Court. These include the Judicial Inquiry and Review Commission, the Virginia State Bar and the State Board of Bar Examiners. The Commonwealth is divided into 31 Judicial Circuits over which Circuit Judges preside. The Circuit Courts are courts of record having original jurisdiction in cases involving a specified sum and felonies, and appellate jurisdiction over lower District Courts. A Court of Appeals stands between the Circuit Courts and the Supreme Court and has appellate jurisdiction.

FINANCIAL FACTORS

Budgetary Process

The Governor is the chief planning and budget officer of the Commonwealth. The Secretary of Finance and the Department of Planning and Budget assist the Governor in the preparation of executive budget documents. The Governor's Secretaries advise the Governor and the Department of Planning and Budget on the relative priority of the budget requests from their respective agencies.

The Governor is required by statute to present a bill detailing his proposed budget for the next biennium (the "Budget Bill") and a narrative summary of the bill to the General Assembly by December 20th in the year immediately prior to each even-year session. The Budget Bill is introduced in both the House of Delegates and the Senate. It is referred to the House Appropriations and Senate Finance Committees, which hold joint meetings to hear from citizens, from other General Assembly members and from agency representatives. The Budget Bill is then approved by each Committee in an open session and reported to the respective floors for consideration, debate, amendment and passage. After the bill has passed both houses, differences between the House and Senate versions are reconciled by a conference committee from both houses.

Under constitutional provisions, the Governor retains the right in his review of legislative action on the Budget Bill, to suggest alterations to or to veto appropriations made by the General Assembly. After enactment, the Budget Bill becomes law (the "Appropriation Act").

In the odd-year sessions of the General Assembly, amendments are considered to the Appropriation Act enacted in the previous year. The Governor submits a bill by December 20th which includes his proposed amendments to the current biennial budget. It is then introduced in both houses and is considered in the same manner as the regular biennial Budget Bill. The Appropriation Act enacted in the odd-year session is effective upon passage, whereas the regular biennial Appropriation Act is effective July 1, the beginning of the biennium.

An appropriation for a project or service is initially contained in the Appropriation Act enacted by the General Assembly. An agency request for an increase or other adjustments to its legislative appropriation must be reviewed and approved by the Department of Planning and Budget. Under the Constitution, no money may be paid out of the State Treasury except pursuant to appropriations made by law. No such appropriation may be made which is payable more than two years and six months after the end of the session of the General Assembly at which the appropriation was enacted.

Implementation and administration of the provisions of the Appropriation Act are functions of the Governor, assisted by the Secretary of Finance and the Department of Planning and Budget. This process also involves constant monitoring of revenue collections and expenditures to ensure that a balanced budget is maintained. The Appropriation Act requires that if projected revenue collections fall below amounts appropriated, the Governor must reduce expenditures and withhold allotments of appropriations, with the exception of amounts needed for debt service and specified other purposes, to the extent necessary to prevent any expenditure in excess of estimated revenues. The Appropriation Act provides that up to 15 percent of a general fund appropriation to an agency may be withheld, if required.

The Constitution requires the Governor to ensure that expenses do not exceed total revenues anticipated plus fund balances during the period of two years and six months following the end of the General Assembly session in which the appropriations are made. A Revenue Stabilization Fund was established by constitutional amendment effective January 1, 1993, and is available to offset, in part, anticipated shortfalls in revenues in years when revenues are forecast to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year. Deposits to the Fund are made pursuant to Constitutional provisions based on tax revenue collections as certified by the Auditor of Public Accounts. If in any year total revenues are forecast to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year, the General Assembly may appropriate for transfer up to one-half of the Revenue Stabilization Fund balance to the General Fund to stabilize revenues. This transfer shall not exceed one-half of the forecast shortfall. The maximum balance in the Fund can consist of an amount not to exceed 15 percent of the Commonwealth's average annual tax revenues derived from income and retail sales taxes for the three immediately preceding fiscal years, as certified by the Auditor of Public Accounts. If any amounts accrue to the credit of the Fund in excess of the 15 percent limitation, such as through interest or dividends, the Treasurer shall promptly transfer any such excess amounts to the General Fund.

Development of Revenue Estimates

The development of the General Fund revenue estimate begins with the selection of a forecast of national economic activity for the state budget period prepared by independent economic forecasting firms based on the advice of the Joint Advisory Board of Economists and the Commonwealth's own staff. The national economic forecast is used to develop a forecast of similar indicators of in-state activity. The Governor's Advisory Council on Revenue Estimates also examines the economic assumptions with respect to the general economic climate of the Commonwealth.

After the development of forecasts of major Commonwealth economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Taxation. Adjustments are made on a revenue source-by-source basis for any legislative, judicial or administrative changes that would affect the projected level of revenues but that cannot be forecast by models constructed using historical data. Finally, adjustments are made if revenues are substantially above or below the projected level.

Financial Control Procedures

The General Assembly appropriates funds for a particular program in the Appropriation Act. These funds must then be allotted by the Governor and the Department of Planning and Budget for specific purposes. The State Comptroller accounts for certain specific personnel and non-personnel transactions. Once appropriation, allotment and accounting procedures have been completed, funds are disbursed by the State Treasurer upon a warrant of the State Comptroller drawn at the request of the responsible agency. The Auditor of Public Accounts audits such financial transactions to assure the reporting of such transactions is in compliance with generally accepted accounting principles.

The Director of the Department of Planning and Budget is appointed by the Governor. The Department of Planning and Budget monitors and evaluates the use of resources to ensure that agencies are delivering effective and efficient services. The Governor is empowered to withhold appropriations to agencies in the event that expenditures are no longer warranted or are not being made for the purposes for which the funds were initially appropriated.

The State Comptroller, who is appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of Accounts, the central accounting agency of the Commonwealth. The State Comptroller maintains a complete system of general accounts of every department, division, office, board, commission, institution and agency of the Commonwealth. In order to assure uniform accounting practices among the agencies and to avoid duplication, the State Comptroller also prescribes the accounts and control records that are to be kept by each state agency.

The State Treasurer, who is also appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of the Treasury. This department receives, maintains custody of and disburses all funds of the Commonwealth.

Unlike the State Comptroller and the State Treasurer, the Auditor of Public Accounts is appointed by the General Assembly for a term of four years and is, therefore, part of the Legislative Department rather than the Executive Department. The principal function of the Auditor is to audit the accounts of all state departments, offices, boards, commissions, institutions and agencies handling state funds. In the event the Auditor discovers some irregularity or misuse of funds, it is his duty to inform the Governor, the Joint Legislative Audit and Review Commission and the State Comptroller.

Investment of Public Funds

It is the policy of the State Treasurer to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all statutes governing the investment of public funds. The General Account of the Commonwealth, which is comprised of funds collected and held for various fund groups including the General Fund, is divided into two major portfolios. Both portfolios are managed in accordance with guidelines promulgated by the Treasury Board. The Primary Liquidity Portfolio, representing approximately 75 percent of the General Account, provides for disbursements and operational needs. Safety of principal and liquidity are the objectives of this portfolio. The Extended Duration and Credit Portfolio, which can be up to 25 percent of the General Account, is structured to generate investment returns over the long term higher than the return on the Primary Liquidity Portfolio, while maintaining sound credit quality and providing secondary liquidity.

Financial Statements

The Commonwealth operates on a fiscal year basis beginning on July 1 and ending on June 30. The Commonwealth's financial statements, audited by the Auditor of Public Accounts, for the fiscal year ended June 30, 2012, are contained in the Commonwealth Comprehensive Annual Financial Report (the "CAFR") available at www.doa.virginia.gov. The financial statements conform to GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The financial statements include government-wide statements using full accrual accounting, fund financial statements that use different accounting approaches based on the type of fund, and a reconciliation of the two types of statements. See the section in the CAFR entitled "Management's Discussion and Analysis" for a more detailed explanation of the types of financial statements prepared. The Commonwealth's annual budget is prepared principally on a cash basis and represents departmental appropriations as authorized by the General Assembly. Under the cash basis of accounting, revenues and other financial resources are recognized in the accounting period in which cash is received; expenditures and other financial uses are recognized when cash is disbursed. The section of the CAFR entitled "Required Supplementary Information" reconciles the budgetary (*i.e.*, cash) presentation to the financial statements.

Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

The following tables summarize the Commonwealth's General Fund revenues, expenditures and fund balance on a cash basis for fiscal years 2008 through 2012 and compares the budgeted to actual numbers.

The General Fund balance, as shown on page B-6, increased by \$385.9 million in fiscal year 2012, an increase of 29.7 percent from fiscal year 2011. Overall tax revenues increased by 5.4 percent from fiscal year 2011 to fiscal year 2012. Individual and Fiduciary Income tax revenues increased by 6.7 percent. Additional tax revenue increases occurred in the form of a 4.6 percent increase in Corporation Income tax collections, a 0.7 percent increase in Public Service Corporation tax collections, a 3.7 percent increase in State Sales and Use tax collections and a 7.88 percent increase in other tax collections which includes: Deeds, Contracts, Wills and Suits; Alcoholic Beverage Sales; Tobacco Products; Estate and Other Taxes. Tax revenue decreases occurred in the form of a 10.2 percent decrease in Premiums of Insurance Companies tax collections and a 4.1 percent decrease in Communications Sales and Use tax. Overall revenue and non-tax revenues increased by 5.5 percent and by 8.4 percent, respectively. Overall expenditures increased by 5.0 percent in fiscal year 2012, compared to a 3.7 percent increase in fiscal year 2011. Individual and family service expenditures increased by \$577.9 million, or 13.0 percent, and education expenditures increased by \$191.7 million, or 2.8 percent. General government expenditures declined \$52.7 million or 2.5 percent.

Of the \$1.7 billion fund balance as of June 30, 2012, \$680.9 million was restricted as the Revenue Stabilization Fund (the "Fund"). During fiscal year 2012, no withdrawal was made from the Fund and \$4.2 million in interest was earned. The Fund is segregated from the General Fund and can be used only for constitutionally authorized purposes. Virginia law directs that the Fund be included as a component of the General Fund only for financial reporting purposes.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, and based on fiscal year 2011 revenue collections, a deposit of \$132.7 million is required to the Fund during fiscal year 2013. In addition, a deposit of \$244.6 million is required during fiscal year 2014 based on fiscal year 2012 revenue collections. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. Section 2.2-1829(b) of the Code of Virginia, requires that if certain revenue criteria are met, then an additional deposit to the Fund equal to at least one-half the mandatory deposit must be included in the Governor's budget. The Code further requires that any such additional deposits to the Fund shall be included in the Governor's budget recommendations only if the estimate of General Fund revenues for the fiscal year in which the deposit is to be made is at least five percent greater than the actual General Fund revenues for the immediately preceding fiscal year. These conditions were not met for fiscal year 2012.

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**SUMMARY OF GENERAL FUND
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – CASH BASIS
(in thousands)**

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012
Revenues:					
Taxes					
Individual and Fiduciary Income	\$10,114,833	\$9,481,109	\$9,088,252	\$9,944,370	\$10,612,836
State Sales and Use	3,302,181	3,116,831	3,291,958	3,216,406	3,335,601
Corporation Income	807,852	648,033	806,473	822,259	859,923
Communications Sales and Use	-	-	491,698	442,455	424,257
Deeds, Contracts, Wills and Suits	456,348	314,264	290,189	299,967	330,938
Premiums of Insurance Companies	396,858	255,019	261,881	281,563	252,895
Alcoholic Beverage Sales	168,862	173,227	175,093	178,937	186,377
Tobacco Products	183,946	183,750	176,057	173,731	192,453
Estate	153,378	6,006	5,671	2,713	298
Public Service Corporations	96,390	91,340	97,263	93,777	94,429
Other Taxes	15,459	28,230	26,269	21,808	20,442
Total Taxes	15,696,107	14,297,809	14,710,804	15,477,986	16,310,449
Rights and Privileges	67,449	67,426	68,460	73,283	72,817
Sales of Property and Commodities	2,460	1	824	28,005	30,146
Assessments and Receipts for Support of Special Services	461	396	373	2,777	2,570
Institutional Revenue	7,590	6,402	6,019	40,122	38,134
Interest, Dividends, Rents	252,284	134,400	113,142	90,905	83,055
Fines, Forfeitures, Court Fees, Penalties, and Escheats	195,716	197,875	194,151	222,256	216,032
Receipts from Cities, Counties, and Towns	10,091	10,265	9,761	16,340	16,209
Private Donations, Gifts and Contracts	31	118	137	4,595	680
Tobacco Master Settlement	53,684	58,966	49,182	48,185	49,136
Other	63,844	102,568	168,429	204,033	282,731
Total Revenues	16,349,717	14,876,226	15,321,282	16,208,487	17,101,959
Expenditures:					
General Government	1,789,768	1,669,257	2,093,036	2,149,242	2,096,588
Education	7,822,396	8,045,614	7,007,842	6,931,515	7,123,221
Transportation	25,971	11,863	11,125	516	462
Resources and Economic Development	329,729	288,877	272,075	306,970	353,567
Individual and Family Services	4,255,474	4,012,450	4,004,995	4,449,683	5,027,601
Administration of Justice	2,424,790	2,300,008	2,120,477	2,247,447	2,284,948
Capital Outlay	370,552	47,421	13,477	6,144	7,627
Total Expenditures	17,018,680	16,375,490	15,523,027	16,091,517	16,894,014
Revenues Over (Under) Expenditures	(668,963)	(1,499,264)	(201,745)	116,970	207,945
Other Financing Sources (Uses):					
Transfers In	634,513	664,141	752,251	693,750	799,070
Transfers Out	(700,861)	(561,192)	(503,106)	(487,991)	(621,163)
Total Other Financing Sources (Uses)	(66,348)	102,949	249,145	205,759	177,907
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(735,311)	(1,396,315)	47,400	322,729	385,852
Fund Balance, July 1:					
Restricted	-	-	-	310,778	456,384
Committed	-	-	-	443,182	461,140
Assigned	-	-	-	220,871	380,036
Reserved	1,424,793	1,127,908	662,489	-	-
Unreserved	1,530,308	1,091,882	160,986	-	-
Total Fund Balance, July 1, as restated	2,955,101	2,219,790	823,475	974,831**	1,297,560
Fund Balance, June 30:					
Restricted	-	-	-	456,384	707,401
Committed	-	-	-	461,140	518,619
Assigned	-	-	-	380,036	457,392
Reserved	1,127,908	662,489	379,631	-	-
Unreserved	1,091,882	160,986	491,244	-	-
Total Fund Balance, June 30	\$2,219,790	\$823,475	\$870,875	\$1,297,560	\$1,683,412

** As restated as required by GASB 54
Source: Department of Accounts.

**SUMMARY OF GENERAL FUND
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND VARIANCE OF ACTUAL-BUDGETARY BASIS
(in thousands)**

	Fiscal Year Ended June 30,			
	2008		2009	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	\$10,171,300	\$(56,467)	\$9,697,300	\$(216,191)
State Sales and Use	3,325,200	(23,019)	3,179,300	(62,469)
Corporation Income	699,100	108,752	685,000	(36,967)
Communications Sales and Use	-	-	-	-
Public Service Corporations	88,000	8,390	92,800	(1,460)
Premiums of Insurance Companies	418,400	(21,542)	257,500	(2,481)
Other [1]	991,300	(13,307)	671,000	34,477
Total Taxes	<u>\$15,693,300</u>	<u>\$ 2,807</u>	<u>\$14,582,900</u>	<u>\$(285,091)</u>
Rights and Privileges	68,800	(1,351)	63,900	3,526
Institutional Revenue	7,500	90	7,500	(1,098)
Interest, Dividends, Rents and Other Investment Income	227,574	24,710	121,986	12,414
Tobacco Master Settlement	54,006	(322)	66,754	(7,788)
Other [2]	291,938	(19,335)	308,597	2,626
Total Revenues	<u>\$16,343,118</u>	<u>\$6,599</u>	<u>\$15,151,637</u>	<u>\$(275,411)</u>
Expenditures:				
General Government	1,832,064	42,296	1,722,663	53,406
Education	7,863,398	41,002	8,083,328	37,714
Transportation	52,042	26,071	53,949	42,086
Resources and Economic Development	353,333	23,604	313,963	25,086
Individual and Family Services	4,275,525	20,051	4,075,027	62,577
Administration of Justice	2,439,998	15,208	2,440,305	140,297
Capital Outlay	511,963	141,411	74,498	27,077
Total Expenditures	<u>\$17,328,323</u>	<u>\$309,643</u>	<u>\$16,763,733</u>	<u>\$388,243</u>
Revenues Over (Under) Expenditures	<u>\$(985,205)</u>	<u>\$316,242</u>	<u>\$(1,612,096)</u>	<u>\$112,832</u>
Other Financing Sources (Uses):				
Transfers In	621,173	13,340	641,273	22,868
Transfers Out	(702,134)	1,273	(556,413)	(4,779)
Total Other Financing Sources (Uses)	<u>\$(80,961)</u>	<u>\$14,613</u>	<u>\$84,860</u>	<u>\$18,089</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(1,066,166)</u>	<u>330,855</u>	<u>(1,527,236)</u>	<u>130,921</u>
Fund Balance, July 1	2,955,101	-	2,219,790	-
Fund Balance, June 30	<u>\$1,888,935</u>	<u>\$330,855</u>	<u>\$692,554</u>	<u>\$130,921</u>

[1] Note that under Taxes above, certain line items have been combined into the "Other" line item; they are: "Deeds, Contracts, Wills and Suits," "Alcoholic Beverage Sales," "Tobacco Products," and "Estate." The reason for this is consistency with the CAFR line items.

[2] Note that under Revenues above, certain line items have been combined into the "Other" line item; they are: "Sales of Property and Commodities," "Assessments and Receipts for Support of Special Services," "Fines, Forfeitures, Court Fees, Penalties, and Escheats," "Receipts from Cities, Counties, and Towns," and "Private Donations, Gifts, and Contracts." The reason for this is consistency with the CAFR line items.

Source: Department of Accounts.

Fiscal Year Ended June 30,

2010		2011		2012	
Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
\$8,960,100	\$128,152	\$9,746,200	\$198,170	\$10,526,400	\$86,436
3,247,500	44,458	3,186,200	30,206	3,282,100	53,501
730,700	75,773	766,600	55,659	827,800	32,123
446,247	45,451	448,900	(6,445)	440,000	(15,743)
94,600	2,663	96,400	(2,623)	93,900	529
242,500	19,381	277,700	3,863	287,300	(34,405)
671,700	1,579	662,456	14,700	717,589	12,919
<u>\$14,393,347</u>	<u>\$317,457</u>	<u>\$15,184,456</u>	<u>\$293,530</u>	<u>\$16,175,089</u>	<u>\$135,360</u>
74,700	(6,240)	88,545	(15,262)	82,838	(10,021)
5,900	119	38,912	1,210	40,511	(2,377)
116,765	(3,623)	75,288	15,617	82,442	613
57,186	(8,004)	52,134	(3,949)	50,205	(1,069)
394,298	(20,623)	349,728	128,278	428,272	120,096
<u>\$15,042,196</u>	<u>\$279,086</u>	<u>\$15,789,063</u>	<u>\$419,424</u>	<u>\$16,859,357</u>	<u>\$242,602</u>
2,147,466	54,430	2,224,688	75,446	2,196,546	99,958
7,042,173	34,331	7,021,369	89,854	7,225,088	101,867
11,680	555	585	69	462	-
284,912	12,837	416,856	109,886	415,708	62,141
4,065,874	60,879	4,540,334	90,651	5,149,191	121,590
2,151,618	31,141	2,367,326	119,879	2,383,519	98,571
19,477	6,000	19,358	13,214	19,397	11,770
<u>\$15,723,200</u>	<u>\$200,173</u>	<u>\$16,590,516</u>	<u>\$498,999</u>	<u>\$17,389,911</u>	<u>\$495,897</u>
<u>\$(681,004)</u>	<u>\$479,259</u>	<u>\$(801,453)</u>	<u>\$918,423</u>	<u>\$(530,554)</u>	<u>\$738,499</u>
740,009	12,242	645,516	48,234	748,237	50,833
(503,274)	168	(467,055)	(20,936)	(602,512)	(18,651)
<u>\$236,735</u>	<u>\$12,410</u>	<u>\$178,461</u>	<u>\$27,298</u>	<u>\$145,725</u>	<u>\$32,182</u>
(444,269)	491,669	(622,992)	945,721	(384,829)	770,681
823,475	-	974,831 **	-	1,297,560	-
<u>\$379,206</u>	<u>\$491,669</u>	<u>\$351,839</u>	<u>\$945,721</u>	<u>\$912,731</u>	<u>\$770,681</u>

** As restated as required by GASB 54

General Fund Revenues

Of total fiscal year 2012 tax revenue, 97.0 percent was derived from six major taxes imposed by the Commonwealth: Individual and Fiduciary Income Taxes, State Sales and Use Taxes, Corporate Income Taxes, Communications Sales and Use Taxes, Taxes on Premiums of Insurance Companies and Taxes on Deeds, Contracts, Wills and Suits.

Individual and fiduciary income taxes are the principal component of General Fund revenues. These revenues support a number of government functions, primarily education, individual and family services, public safety and general government. General Fund revenues are available for payment of debt service obligations of the Commonwealth.

Individual and Fiduciary Income Taxes: (65.1 percent of Total Taxes in fiscal year 2012) The individual and fiduciary income tax applies to income derived by resident and non-resident individuals and fiduciaries. The tax is based on a taxpayer's federal adjusted gross income with modifications, if applicable, and with deductions for personal exemptions and standard or itemized deductions. The following tax rates are applicable to net taxable income for the taxable year 2012:

PERSONAL TAX RATES		
<u>Taxable Income</u>	<u>Rate</u>	<u>Of Excess Over</u>
\$0 – \$3,000	2.00%	
\$3,001 – \$5,000	\$ 60 + 3.00%	\$ 3,000
\$5,001 – \$17,000	\$120 + 5.00%	\$ 5,000
Over \$17,000	\$720 + 5.75%	\$17,000

Source: Department of Taxation.

An individual income tax return for a taxable year must be filed by May 1 of the following year. Prepayment of the tax on most earnings is accomplished through withholdings by employers. Employers must transfer withholding taxes to the Department of Taxation quarterly, monthly or, in some cases, eight times a month. Individual income taxpayers are required to file a declaration of estimated tax for any income not subject to withholding and pay one-fourth of such estimated tax in quarterly installments.

State Sales and Use Taxes: (20.5 percent of Total Taxes in fiscal year 2012) A sales and use tax is imposed at the rate of 4.0 percent on the sale, rental, lease or storage for use or consumption of tangible personal property except food for home consumption. Food for home consumption is taxed at a rate of 2.5 percent. There are certain exclusions from the tax, including motor vehicles, aircraft and large watercraft, sales of gasoline and prescription medicines. One and one-eighth cents of the 4.0 percent sales tax is distributed to localities on the basis of school age population for use in public education.

Retail sellers collect the sales and use taxes from customers at the time of sale. Sellers are required to remit collected taxes either monthly or quarterly.

Corporation Income Taxes: (5.3 percent of Total Taxes in fiscal year 2012) The Commonwealth imposes a 6 percent income tax on the net income of all corporations having income from sources in the Commonwealth, whether domestic or foreign, with the exception of insurance companies, inter-insurance exchanges, state and national banks, banking associations, companies doing business on a mutual basis, credit unions and non-profit corporations. Commonwealth taxable income is based on federal income, with modifications. If a corporation is engaged in multi-state activities, and if its income is taxable both by the Commonwealth and another state, the Commonwealth permits the corporation to apportion its taxable income (other than dividends which are allocated according to the commercial domicile of the taxpayer) according to a three factor formula comprised of property, payroll and sales.

A corporation income tax return must be filed on or before the 15th day of the 4th month following the close of the corporation's taxable year. Corporations are required to make a declaration of estimated tax directly to the Department of Taxation and pay such estimated tax in such taxable year.

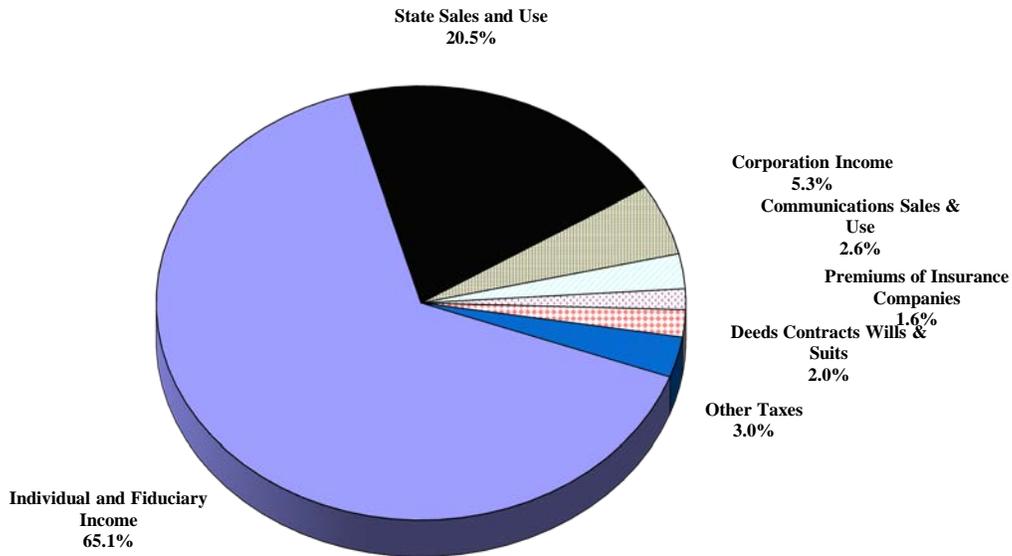
Communication Sales and Use Taxes: (2.6 percent of Total Taxes in fiscal year 2012) Effective for fiscal year 2010, statutory changes required that the Communication Sales and Use Tax Fund be included as part of the General Fund for reporting purposes. Since this fund was previously reported as an agency fund, there was no beginning balance impact. However, the comparability of revenue and expense amounts are affected. The Commonwealth collects communication sales and use taxes and disburses these amounts to localities.

Taxes on Premiums of Insurance Companies: (1.6 percent of Total Taxes in fiscal year 2012) Insurance companies are required to pay an annual license tax measured by the gross premium income derived from business done in the Commonwealth. The rate of tax varies according to the type of company. Insurance companies subject to this state license tax must make a declaration of estimated tax and pay one-fourth of such estimated tax in quarterly installments.

Taxes on Deeds, Contracts, Wills and Suits: (2.0 percent of Total Taxes in fiscal year 2012) The Commonwealth taxes the admission to record of deeds, deeds of trust, mortgages, leases and contracts at the rate of 25 cents per \$100 of consideration or value, whichever is greater. An additional tax is imposed on deeds or conveyances of real estate at the rate of 50 cents per \$500 of consideration or value, exclusive of the value of any lien or encumbrance. A tax is also imposed on the probate of wills and grants of administration not exempt by law at the rate of 10 cents per \$100 of the value of the probate estate. A tax ranging from \$5 to \$25 is imposed on the filing of various types of legal actions.

The following pie chart summarizes general revenue fund tax revenue by source.

**COMPOSITION OF GENERAL FUND TAX REVENUES BY SOURCE
Fiscal Year Ended June 30, 2012**



Collection of Delinquent Tax

When the Department of Taxation determines that taxes are delinquent, the taxpayer is sent a billing notice. A second notice is sent 30 days later demanding immediate payment within 10 days. If payment is not received at the end of that time, the Department of Taxation may take legal action to obtain payment including the placement of a lien on the taxpayer's wages or bank account. If the delinquency exceeds \$100, the Department of Taxation may issue a memorandum of lien against the taxpayer's property. If subsequent to these actions satisfactory payment arrangements are not made, the Department of Taxation may execute the memorandum of lien or initiate court proceedings against the taxpayer.

Penalties for late payment or nonpayment of most taxes are assessed at the rate of 6 percent per month, not to exceed 30 percent of the delinquent tax liability. Interest on late or under payments is charged at an annualized rate of interest established pursuant to Section 6621(a) (2) of the federal Internal Revenue Code, plus 2 percent.

The following table presents total outstanding collectible tax receivables for all tax types at the end of fiscal years 2008 through 2012:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Amount</u>
2008.....	\$178,122,389
2009.....	259,893,992
2010.....	351,827,736
2011.....	466,300,479
2012.....	489,381,022*

Source: Department of Taxation.

*Amount does not include non-billed or uncollectible receivables

General Fund Expenditures

General Fund expenditures relate to resources used for those services traditionally provided by a state government, which are not accounted for in any other fund. These services include general government, legislative, public safety, judicial, health and mental health, human resources, licensing and regulation, and primary and secondary education (See table on page B-6).

Education: (42.2 percent of Total Expenditures in fiscal year 2012) Expenditures for education support individuals in developing knowledge, skills and cultural awareness, including elementary and secondary education instruction, supervision and assistance.

Individual and Family Services: (29.8 percent of Total Expenditures in fiscal year 2012) Expenditures for individual and family services support programs to benefit the economic, social and physical well-being of the individual and family, including disease research, control and prevention.

Administration of Justice: (13.5 percent of Total Expenditures in fiscal year 2012) Expenditures for administration of justice relate to the activities of the civil and criminal justice systems. These activities encompass the apprehension, trial, punishment and rehabilitation of law violators, and the deterrence and detection of crime.

General Government: (12.4 percent of Total Expenditures in fiscal year 2012) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental projects, distribution of sales and use taxes to localities, and payments to localities pursuant to the Personal Property Tax Relief Act of 1998.

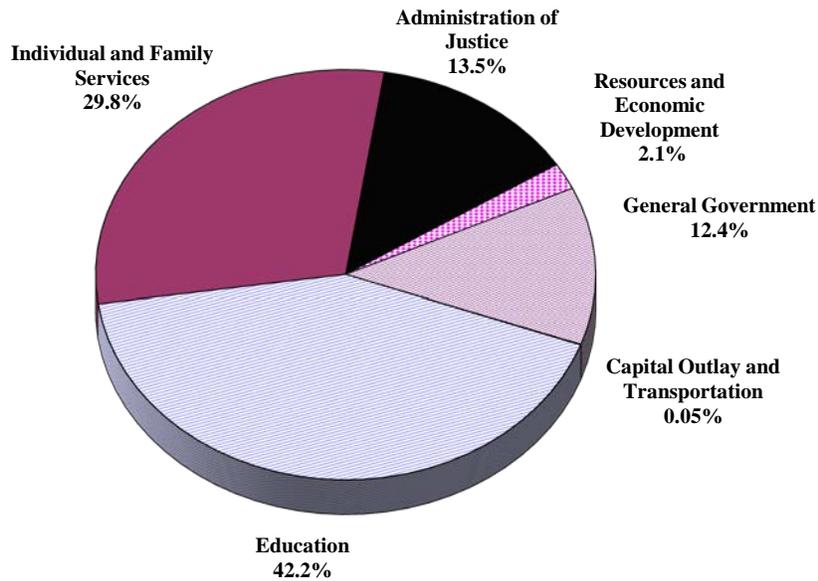
Resources and Economic Development: (2.1 percent of Total Expenditures in fiscal year 2012) Resources and economic development expenditures support activities to develop the Commonwealth's economic base,

including alternative natural resources, and to regulate this base with regard to the public interest of the Commonwealth.

Capital Outlay & Transportation: (0.05 percent of Total Expenditures in fiscal year 2012) Expenditures for capital outlay relate to the construction and renovation of state-owned buildings and facilities. Transportation expenditures relate to the movement by road, water or air of people, goods and services, and the regulation thereof.

The following pie chart summarizes the general fund expenditures by source:

**DISTRIBUTION OF GENERAL FUND EXPENDITURES BY SOURCE
Fiscal Year Ended June 30, 2012**



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General Fund Balance

The Commonwealth's General Fund unreserved fund balance for the last ten fiscal years is shown below:

UNRESERVED GENERAL FUND ENDING BALANCE (in thousands)

<u>Fiscal Year</u>	<u>Cash Basis</u>	<u>Modified Accrual Basis</u>
2003	\$241,626	\$(220,982)
2004	677,089	36,941
2005	1,126,576	520,546
2006	1,804,483	973,461
2007	1,534,573	563,367
2008	1,091,882	78,468
2009	160,986	(927,977)
2010	491,244	(1,069,071)
2011	*	*
2012	*	*

Source: Department of Accounts.

*See 2011 and 2012 below for an explanation as to how GASB 54 has required a change in the unreserved General Fund balance classification.

2008. General Fund revenues and other sources were less than expenditures and other uses by \$735.3 million in fiscal year 2008. The General Fund unreserved balance on a budgetary basis decreased by \$442.7 million, or 28.8 percent, from fiscal year 2007 to fiscal year 2008 while reserved General Fund balances decreased by \$292.6 million or 20.6 percent over fiscal year 2007. Total revenues and total expenditures increased by 1.3 percent and 6.6 percent, respectively. Transfers to the General Fund increased by 3.8 percent while transfers out decreased by 2.2 percent. Transfers to and from Component Units in fiscal year 2008 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2009. General Fund revenues and other sources were less than expenditures and other uses by \$1.4 billion in fiscal year 2009. The General Fund unreserved balance on a budgetary basis decreased by \$930.9 million, or 85.3 percent, from fiscal year 2008 to fiscal year 2009 while reserved General Fund balances decreased by \$465.4 million or 41.3 percent during the same period. Total revenues and total expenditures decreased by 9.0 percent and 3.8 percent, respectively. Transfers to the General Fund increased by 4.7 percent while transfers out decreased by 19.9 percent. Transfers to and from Component Units in fiscal year 2009 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2010. General Fund revenues and other sources exceeded expenditures and other uses by \$47.4 million in fiscal year 2010. The General Fund unreserved balance on a budgetary basis increased by \$330.3 million, or 205.1 percent, from fiscal year 2009 to fiscal year 2010 while reserved General Fund balances decreased by \$282.9 million or 42.7 percent during the same period. Total revenues increased by 3.0 percent and total expenditures decreased by 5.2 percent. Transfers to the General Fund increased by 13.3 percent while transfers out decreased by 10.4 percent. Transfers to and from Component Units in fiscal year 2010 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2011. General Fund revenues and other sources exceeded expenditures and other uses by \$322.7 million in fiscal year 2011. Total revenues increased by 5.8 percent and total expenditures increased by 3.7 percent. Transfers to the General Fund decreased by 7.8 percent while transfers out decreased by 3.0 percent. Transfers to and from Component Units in fiscal year 2011 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the previous fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are

those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2011 in these new classifications.

2012. General Fund revenues and other sources exceeded expenditures and other uses by \$385.9 million in fiscal year 2012. Total revenues increased by 5.5 percent and total expenditures increased by 5.0 percent. Transfers to the General Fund increased by 15.2 percent while transfers out increased by 27.3 percent. Transfers to and from Component Units in fiscal year 2012 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2012 in these new classifications.

Nongeneral Fund Revenues

Nongeneral fund revenues consist of all revenues not accounted for in the General Fund. Included in this category are special taxes and user charges earmarked for specific purposes, the majority of institutional revenues and revenues from the sale of property and commodities, and receipts from the federal government.

Approximately 50 percent of the nongeneral revenues are accounted for by grants and donations from the federal government, motor vehicle taxes and institutional revenues. Institutional revenues consist primarily of fees and charges collected by institutions of higher education, medical and mental hospitals and correctional institutions. Motor vehicle related taxes include the motor vehicle fuel tax, motor vehicle sales and use tax, oil excise tax, driver's license fee, title registration fee, motor vehicle registration fee and other miscellaneous revenues.

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Below is a summary of revenues and expenditures for the largest of the Commonwealth's Special Revenue Funds, the Commonwealth Transportation Fund, prepared according to generally accepted accounting principles.

COMMONWEALTH TRANSPORTATION FUND
(in thousands)

	Fiscal Year Ended June 30,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total revenues	\$3,739,225	\$3,461,872	\$3,617,895	\$3,849,149	\$3,871,439
Total expenditures	3,913,037	3,725,125	3,422,843	3,884,844	4,488,603
Revenues over (under) expenditures	(173,812)	(263,253)	195,052	(35,695)	(617,164)
Other sources (uses) net	64,576	(150,232)	384,440	461,147	929,228
Revenue and other sources (uses) over (under) expenditures	(109,236)	(413,485)	579,492	425,452	312,064
Beginning fund balance (adjusted)	1,952,832	1,843,596	1,430,111	2,009,078	2,434,530
Ending fund balance	\$1,843,596	\$1,430,111	\$2,009,603	\$2,434,530	\$2,746,594

Notes: Included in the Commonwealth Transportation Fund (formerly Highway Maintenance and Construction Fund) is the activity of the Highway Maintenance and Operating Fund and the Transportation Trust Fund. The Transportation Trust Fund was created in September 1986 during a special session of the Virginia General Assembly.

Source: Reports of the Comptroller, 2008-2012.

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The 2012 - 14 Appropriation Act

On December 19, 2011, Governor McDonnell presented the Budget Bill for the 2012-2014 biennium that began July 1, 2012 (House Bill/Senate Bill 30) (the “2012 Budget Bill”). The 2012 Budget Bill focused on the core functions of government, and was developed with five main objectives:

- Promote job creation, economic development, and entrepreneurship;
- Reform, reallocate, and reinvest in programs that make government more efficient, effective, and accountable;
- Fund the key budget areas of education and transportation;
- Address problem areas of pension funding, transportation maintenance, and higher education funding;
- Build up cash reserves and liquidity to provide flexibility to address future adverse economic events.

The proposed 2012 Budget Bill was considered by the 2012 Session of the Virginia General Assembly, which convened on January 11, 2012. The General Assembly adjourned on March 10, 2012 without adopting a biennial budget and immediately convened in a special session to consider the reintroduced 2012 Budget Bill, HB 1301.

On April 18, 2012, the General Assembly approved HB 1301 and sent it to the Governor for signature. On May 4, 2012, the Governor offered 88 amendments to HB 1301, the most significant of which addressed two overarching themes: job creation and K-12 education. Other amendments were technical in nature.

The General Assembly reconvened on May 14, 2012 and rejected 24 of the Governor’s proposed amendments. On June 11, 2012, Governor McDonnell vetoed one item, and ruled a second item unconstitutional, and signed HB 1301 into law.

The 2012-14 Appropriation Act, also known as Chapter 3 of the 2012 Acts of Assembly Special Session I, became effective July 1, 2012, and honors the priorities Governor McDonnell set in the introduced budget. It prioritizes spending on the core functions of government; reduces the unfunded liabilities in the Virginia Retirement System with a \$2.21 billion in total employer contributions (this does not include law enforcement, or the judiciary); provides \$33.7 million in new funding for economic development and private sector job creation; \$30 million in FY 2013 in new mental health funding; and directs \$880.9 million in new funding to K-12 and furnishes higher education systems. The 2012-14 Appropriation Act also provides additional deposits into the Revenue Stabilization Fund of \$132.7 million in 2013 and \$166.4 million as a preliminary appropriation for 2014.

Other initiatives include: \$5 million over the biennium to implement a life sciences initiative, consisting of a research consortium comprised of publicly-supported institutions of higher education in the Commonwealth that will contract with private entities, foundations, and other governmental sources to perform research in the biosciences; restores \$2 million over the biennium for the Governor's Motion Picture Opportunity Fund; provides \$3 million in FY 2013 for the Growth Acceleration Program and the Commonwealth Research and Commercialization Fund at the same level each year, which programs are designed to facilitate the overall growth and development of the technology industry in the Commonwealth; and provides \$2 million over the biennium to expand the Commonwealth’s cyber security and modeling and simulation efforts.

The following table summarizes the 2012-14 Appropriation Act.

2012-14 Appropriation Act (Chapter 3, 2012 General Assembly)

	FY 2013	FY 2014	Total
GENERAL FUND			
Revenue			
Unreserved Balance June 30, 2012	\$675,516,651	-	\$675,516,651
Additions to balance	2,805,080	\$4,179,328	6,984,408
Official revenue estimates	16,313,139,429	17,041,740,657	33,354,880,086
Lottery Proceeds Fund	-	-	-
Transfers	397,837,581	414,034,675	811,872,256
Total general fund resources available for appropriation	<u>\$17,389,298,741</u>	<u>\$17,459,954,660</u>	<u>\$34,849,253,401</u>
Appropriations			
Legislative	\$69,483,521	\$69,494,101	\$138,977,622
Judicial	421,813,051	421,697,380	843,510,431
Executive	16,829,067,943	17,011,067,873	33,840,135,816
Independent Agencies	-	-	-
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	<u>17,320,364,515</u>	<u>17,502,259,354</u>	<u>34,822,623,869</u>
Capital Outlay	20,300,000	-	20,300,000
Total appropriations	<u>\$17,340,664,515</u>	<u>\$17,502,259,354</u>	<u>\$34,842,923,869</u>
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2012	\$4,539,872,660	-	\$4,539,872,660
Official revenue estimates	23,669,716,061	\$25,106,646,860	48,776,362,921
Lottery Proceeds Fund	457,300,000	462,000,000	919,300,000
Bond proceeds	1,057,027,948	56,936,092	1,113,964,040
Total nongeneral fund revenue available for appropriation	<u>\$29,723,916,669</u>	<u>\$25,625,582,952</u>	<u>\$55,349,499,621</u>
Appropriations			
Legislative	\$3,506,435	\$3,506,435	\$7,012,870
Judicial	32,605,193	32,605,193	65,210,386
Executive Department	23,964,099,991	25,178,802,014	49,142,902,005
Independent Agencies	594,310,214	653,502,303	1,247,812,517
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	<u>24,594,521,833</u>	<u>25,868,415,945</u>	<u>50,462,937,778</u>
Capital Outlay	1,160,942,877	58,897,631	1,219,840,508
Total appropriations	<u>\$25,755,464,710</u>	<u>\$25,927,313,576</u>	<u>\$51,682,778,286</u>

Source: Department of Planning and Budget.

The 2013 Amendments to the 2012 Appropriation Act

On December 17, 2012, Governor McDonnell presented his proposed amendments to Chapter 3 of the 2012 Acts of Assembly, Special Session I, affecting the remainder of the 2012-2014 biennium. In these amendments, the Governor addressed increased liquidity to guard against future economic uncertainty and the potential impact of federal spending reductions; increased support for instructional spending in public education; continued investments in higher education; improvements in funding availability for transportation; and improvements in support to localities.

Although the revised revenue forecast went up by a modest \$98.7 million over the biennium, the Governor called for spending reductions through a combination of targeted savings, reduction plans, and other appropriation reductions. In the process of developing budget amendments, the Governor asked agencies to submit reduction plans equating to four percent of their general fund budgets. Included in the Governor's amended budget was a total of \$58.8 million in savings from these plans. In addition to this, targeted reductions in Medicaid and Direct Aid to Public Education totaled \$33.9 million. Various other technical, caseload, and formulaic changes yielded a total of \$431.6 million in general fund appropriation reductions. These included a \$202.5 million adjustment to the Health Care Fund, \$51.2 million in Direct Aid to Public Education to adjust for available lottery funds, and a reduction of \$41.6 million to reflect anticipated caseload and program expenditure changes in Comprehensive Services for At Risk Youth and Families.

In light of recent ambiguity centered around the federal budget and to guard against future economic uncertainty, the Governor's amendments included a supplemental payment into the Revenue Stabilization Fund of \$50 million. This deposit will be in addition to the \$244.6 million mandatory deposit for 2014. In addition, the introduced budget earmarked a portion of the proceeds from the potential sale of the Brunswick Correctional Center for deposit into the Federal Action Contingency Trust (FACT) Fund.

In the area of public education, the introduced budget amendments included \$58.8 million for a two percent pay increase for all instructional personnel funded through the Standards of Quality model. Other public education funding included items such as \$4.9 million to fully fund Standard of Quality standards for blind and visually impaired students and \$15 million for strategic compensation grants.

The Governor's amendments for higher education increased tuition assistance grants and provided an additional \$30 million of new investments. This new funding included over \$4.2 million to cover interest earnings and credit card rebates for higher education institutions; \$5.7 million for workforce development initiatives; \$4.9 million for enrollment growth; \$7.8 million in incentive funding to support degree completion; \$3.9 million for base operating costs; \$1.9 million for financial aid; \$1.0 million for research and other initiatives; and \$600,000 to maintain support of college room, board, books and supplies stipends through the Virginia Military Survivors and Dependents program.

The introduced budget redirected a portion of general fund sales tax revenue for use in transportation. This will result in an additional \$48.1 million in available funding. For localities, the Governor's amendments included the restoration of \$45 million in aid-to-locality reductions; \$2.1 million to fund salary increases for Assistant Commonwealth's Attorneys; \$7.5 million in additional Base Realignment and Closure Assistance support; a \$16.9 million increase in the Water Quality Improvement Fund; and \$200 million in bond authorizations for Water Quality Projects.

Other notable funding in the introduced budget bill included \$64.4 million for the state employee health insurance fund; \$14.1 million for inmate medical care; and \$14.3 million to open in 2014 the River North prison in Grayson County.

2013 Amendments to the 2012 Appropriation Act (as introduced in HB 1500/SB 800)

	FY 2013	FY 2014	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2012	\$976,011,000	-	\$976,011,000
Additions to balance	(194,915,367)	\$3,503,712	(191,411,655)
Official revenue estimate	16,416,452,248	17,037,085,606	33,453,537,854
Revenue Stabilization Fund	-	-	-
Transfers	405,383,024	425,337,018	830,720,042
Total general fund resources available for appropriation	<u>\$17,602,930,905</u>	<u>\$17,465,926,336</u>	<u>\$35,068,857,241</u>
Appropriations			
Legislative	\$69,483,521	\$69,512,380	\$138,995,901
Judicial	423,087,296	423,325,763	846,413,059
Executive	16,663,209,230	17,385,433,522	34,048,642,752
Independent Agencies	-	-	-
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	<u>17,155,780,047</u>	<u>17,878,271,665</u>	<u>35,034,051,712</u>
Capital Outlay	20,300,000	3,700,000	24,000,000
Total appropriations	<u>\$17,176,080,047</u>	<u>\$17,881,971,665</u>	<u>\$35,058,051,712</u>
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2012	\$4,307,352,991	-	\$4,307,352,991
Official revenue estimate	24,594,805,887	\$24,565,376,742	49,160,182,629
Lottery Proceeds Fund	480,300,000	462,000,000	942,300,000
Bond proceeds	1,051,527,948	388,991,092	1,440,519,040
Total nongeneral fund revenue available for appropriation	<u>\$30,433,986,826</u>	<u>\$25,416,367,834</u>	<u>\$55,850,354,660</u>
Appropriations			
Legislative	\$3,506,435	\$3,506,435	\$7,012,870
Judicial	32,905,193	32,905,193	65,810,386
Executive Department	24,883,518,960	24,558,297,333	49,441,816,293
Independent Agencies	594,310,214	666,356,112	1,260,666,326
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	<u>25,514,240,802</u>	<u>25,261,065,073</u>	<u>50,775,305,875</u>
Capital Outlay	1,156,442,877	413,032,631	1,569,475,508
Total appropriations	<u>\$26,670,683,679</u>	<u>\$25,674,097,704</u>	<u>\$52,344,781,383</u>

Source: Department of Planning and Budget.

INDEBTEDNESS OF THE COMMONWEALTH

The Constitution of Virginia, in Section 9 of Article X, provides for the issuance of debt by or on behalf of the Commonwealth. Sections 9(a), (b) and (c) provide for the issuance of debt to which the Commonwealth's full faith and credit is pledged and Section 9(d) provides for the issuance of debt not secured by the full faith and credit of the Commonwealth, but which may be supported by and paid from Commonwealth tax collections subject to appropriations by the General Assembly. The Commonwealth may also enter into leases and contracts that are classified on its financial statements as long-term indebtedness. Certain authorities and institutions of the Commonwealth may also issue debt. This section discusses the provisions for and limitations on the issuance of general obligation debt and other types of debt of the Commonwealth and its authorities and institutions.

Section 9(a) Debt

Section 9(a) of Article X provides that the General Assembly may contract general obligation debt: (1) to meet certain types of emergencies, (2) to meet casual deficits in the revenue or in anticipation of the collection of revenues of the Commonwealth and (3) to redeem a previous debt obligation of the Commonwealth. Total indebtedness issued pursuant to Section 9(a) (2) shall not exceed 30 percent of an amount equal to 1.15 times the annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the preceding fiscal year.

Section 9(b) Debt

Section 9(b) of Article X provides that the General Assembly may authorize the creation of general obligation debt for capital projects. Such debt is required to be authorized by an affirmative vote of a majority of the members elected to each house of the General Assembly and approved in a statewide referendum. The outstanding amount of such debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three immediately preceding fiscal years ("9(b) Debt Limit"). Thus, the amount of such debt that can be issued is the 9(b) Debt Limit less the total amount of such debt outstanding ("Debt Margin"). There is an additional 9(b) debt restriction on the amount of such debt that the General Assembly may authorize in any year. The additional authorization restriction is limited to 25% of the 9(b) Debt Limit less any 9(b) debt authorized in the current and prior three fiscal years.

The phrase "taxes on income and retail sales" is not defined in the Constitution or by statute. The record made in the process of adopting the Constitution, however, suggests an intention to include only income taxes payable by individuals, fiduciaries and corporations and the state sales and use tax.

Section 9(c) Debt

Section 9(c) of Article X provides that the General Assembly may authorize the creation of general obligation debt for revenue producing capital projects for executive branch agencies and institutions of higher learning. Such debt is required to be authorized by an affirmative vote of two-thirds of the members elected to each house of the General Assembly and approved by the Governor. The Governor must certify before the enactment of the bond legislation and again before the issuance of the bonds that the net revenues pledged are expected to be sufficient to pay principal and interest on the bonds issued to finance the projects.

The outstanding amount of Section 9(c) debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three immediately preceding fiscal years. While the debt limits under Sections 9(b) and 9(c) are each calculated as the same percentage of the same average tax revenues, these debt limits are separately computed and apply separately to each type of debt.

Effect of Refunding Debt

In general, when the Commonwealth issues bonds to refund outstanding bonds issued pursuant to Section 9(b) or 9(c) of Article X of the Constitution, the refunded bonds are considered paid for purposes of the constitutional limitations upon debt incurrence and issuance and the refunding bonds are counted in the computations of such limitations. Section 9(a) (3) provides that in the case of the refunding of debt incurred in accordance with Section 9(c) of Article X, the debt evidenced by the refunding bonds will be counted against the 9(c) Debt Limit unless the Governor does not provide the net revenue sufficiency certification, in which case the debt evidenced by the refunding bonds will be counted against the 9(b) Debt Limit.

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General Obligation Debt Limit and Debt Margin

Using individual and fiduciary income, corporate income and the state sales and use tax revenues, as of June 30, 2012, the debt limits pursuant to Article X, Section 9 of the Constitution of Virginia are as follows:

COMPUTATION OF LEGAL DEBT LIMITS (in thousands)

	<u>Taxes</u>	<u>Fiscal Year Ended June 30,</u>		
		<u>2010</u>	<u>2011</u>	<u>2012</u>
Individual and Fiduciary Income [1]		\$9,088,252	\$9,944,370	\$10,612,836
Corporation Income [2]		806,473	822,259	859,923
State Sales and Use [3]		3,264,210	3,190,452	3,314,677
Total		<u>\$13,158,935</u>	<u>\$13,957,081</u>	<u>\$14,787,436</u>
Average tax revenues for the three fiscal years				<u>\$13,967,817</u>
<hr/>				
Section 9(a)(2) General Obligation Debt Issuance Limit and Margin [4]:				
Debt Issuance Limit:				
30% of 1.15 times annual tax revenues for fiscal year 2012				\$5,101,665
Less 9(a)(2) Bonds Outstanding at June 30, 2012:				<u>0</u>
Debt Margin for Section 9(a)(2) General Obligation Bonds				<u>\$5,101,665</u>
<hr/>				
Section 9(b) General Obligation Debt Issuance Limit and Margin:				
Debt Issuance Limit:				
1.15 times the average tax revenues for three fiscal years as calculated above				\$16,062,990
Less 9(b) Bonds Outstanding at June 30, 2012:				
Public Facilities Bonds [6]			831,148	
Transportation Facilities Refunding Bonds [5] [6]			0	
Bond Anticipation Notes			<u>0</u>	
Total 9(b) Bonds Outstanding at June 30, 2012				<u>831,148</u>
Debt Margin for Section 9(b) General Obligation Bonds				<u>\$15,231,842</u>
<hr/>				
Debt Authorization Limit:				
25% of 1.15 times average tax revenues for three fiscal years as calculated above				\$4,015,747
Less 9(b) debt authorized during the three prior fiscal years				<u>0</u>
Maximum additional 9(b) debt that may be authorized by the General Assembly (subject to referendum):				<u>\$4,015,747</u>
<hr/>				
Section 9(c) General Obligation Debt Issuance Limit and Margin:				
Debt Issuance Limit:				
1.15 times the average tax revenues for three fiscal years as calculated above				\$16,062,990
Less 9(c) Bonds Outstanding at June 30, 2012:				
Parking Facilities [6]			18,383	
Transportation Facilities [6]			24,210	
Higher Educational Institutions [6]			906,474	
Bond Anticipation Notes			<u>0</u>	
Total 9(c) Bonds Outstanding at June 30, 2012				<u>949,067</u>
Debt Margin for Section 9(c) General Obligation Bonds				<u>\$15,113,923</u>

[1] Includes taxes imposed pursuant to Articles 2 and 9 of Chapter 3, Title 58.1 of the Code of Virginia.

[2] Includes taxes imposed pursuant to Article 10 of Chapter 3, Title 58.1 of the Code of Virginia.

[3] Includes taxes imposed pursuant to Chapter 6, Title 58.1 of the Code of Virginia, less taxes identified in Sections 58.1-605 and 58.1-638.

[4] Debt limit applies only to debt authorized pursuant to Article X, Section 9(a) (2) of the Constitution of Virginia.

[5] These bonds refunded certain Section 9(c) debt and because the Governor did not certify the feasibility of the refinanced project, they must be applied against the Section 9(b) Debt Limit.

[6] Net of unamortized premium, discount and deferral on debt defeasance.

Source: Department of Accounts, Department of the Treasury.

Tax-Supported Debt – General Obligation

Tax-supported debt of the Commonwealth includes both general obligation debt and debt of agencies, institutions, boards and authorities for which debt service is expected to be made in whole or in part from appropriations of tax revenues.

Outstanding Section 9(b) debt as of June 30, 2012 includes the unamortized portion of (a) \$613 million of general obligation bonds authorized and approved by the voters in November 1992, (b) \$1.0 billion in general obligation bonds authorized and approved by the voters in November 2002, and (c) various series of refunding bonds issued to advance refund certain series of bonds. Outstanding Section 9(c) debt as of June 30, 2012 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 1983 to 2012, one series of Transportation Facilities Bonds issued in 2006, and four series of Parking Facilities Bonds (including refunding bonds) issued between 2004 and 2012. Outstanding general obligation debt does not include 9(b) and 9(c) advance refunded bonds for which funds have been deposited in irrevocable escrow accounts in amounts sufficient to meet all required future debt service.

Other Tax-Supported Debt

Section 9(d) of Article X provides that the restrictions of Section 9 are not applicable to any obligation incurred by the Commonwealth or any of its institutions, agencies or authorities if the full faith and credit of the Commonwealth is not pledged or committed to the payment of such obligation.

There are currently outstanding various types of 9(d) revenue bonds issued by authorities, political subdivisions and agencies for which the Commonwealth's full faith and credit is not pledged. Certain of these bonds, however, are paid in part or in whole from revenues received as appropriations by the General Assembly from general tax revenues, while others are paid solely from revenues derived from enterprises related to the operation of the financed capital projects.

The debt repayments of the Virginia Public Building Authority, the Virginia College Building Authority 21st Century College and Equipment Programs, The Innovative Technology Authority, the Virginia Biotechnology Research Park Authority and several other long-term capital leases or notes have been supported all or in large part by General Fund appropriations.

The Commonwealth Transportation Board (“CTB”) has issued various series of bonds authorized under the State Revenue Bond Act. These bonds are secured by and payable from funds appropriated by the General Assembly from the Transportation Trust Fund. The Transportation Trust Fund was established by the General Assembly in 1986 as a special non-reverting fund administered and allocated by the Transportation Board for the purpose of increased funding for construction, capital and other needs of state highways, airports, mass transportation and ports. As of June 30, 2012, \$2.7 billion in CTB bonds were outstanding. During 2007, the CTB was authorized by the General Assembly to issue up to \$3.0 billion in Capital Projects Revenue Bonds, with an additional \$180 million authorized in 2008. As of June 30, 2012, \$1.7 billion had been issued under this authorization.

The Virginia Port Authority (“VPA”) issues bonds secured by its share of the Transportation Trust Fund. As of June 30, 2012, \$237 million of Commonwealth Port Fund Revenue Bonds were outstanding. In 2008, the Authority was authorized to issue an additional \$155 million in Commonwealth Port Fund Revenue Bonds. However during 2011, \$30 million of that amount was rescinded. On July 27, 2011, the VPA issued \$57.4 million of the 2008 authorization.

Leases and Contracts

Capital Leases. The Commonwealth is involved in numerous agreements to lease buildings, energy efficiency projects and equipment. For a detailed description, see "Notes to the Financial Statements" included in the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012. These lease agreements are for various terms, and each lease contains a nonappropriation clause indicating that continuation of the lease is subject to funding by the General Assembly. The principal balance of all tax-supported capital leases outstanding was \$168.6 million as of June 30, 2012.

Installment Purchases. The Commonwealth also finances the acquisition of certain personal property and equipment through installment purchase agreements. The length of the agreements and the interest rates charged vary. In most cases, the agreements are collateralized by the personal property and equipment acquired. Installment purchase agreements contain nonappropriation clauses indicating that continuation of the installment purchase is subject to funding by the General Assembly. The principal balance of tax-supported installment purchase obligations outstanding was \$215.1 million as of June 30, 2012.

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Outstanding Tax-Supported Debt

The following table summarizes for the past five fiscal years the outstanding indebtedness of the Commonwealth, its agencies, institutions and authorities for which appropriated tax revenues are required to pay debt service. In certain instances, debt service may be paid with or payable from other non-tax sources (e.g., toll revenues, port revenues and user fees), but the underlying security remains the appropriation of tax revenues by the Commonwealth.

OUTSTANDING TAX-SUPPORTED DEBT (in thousands)

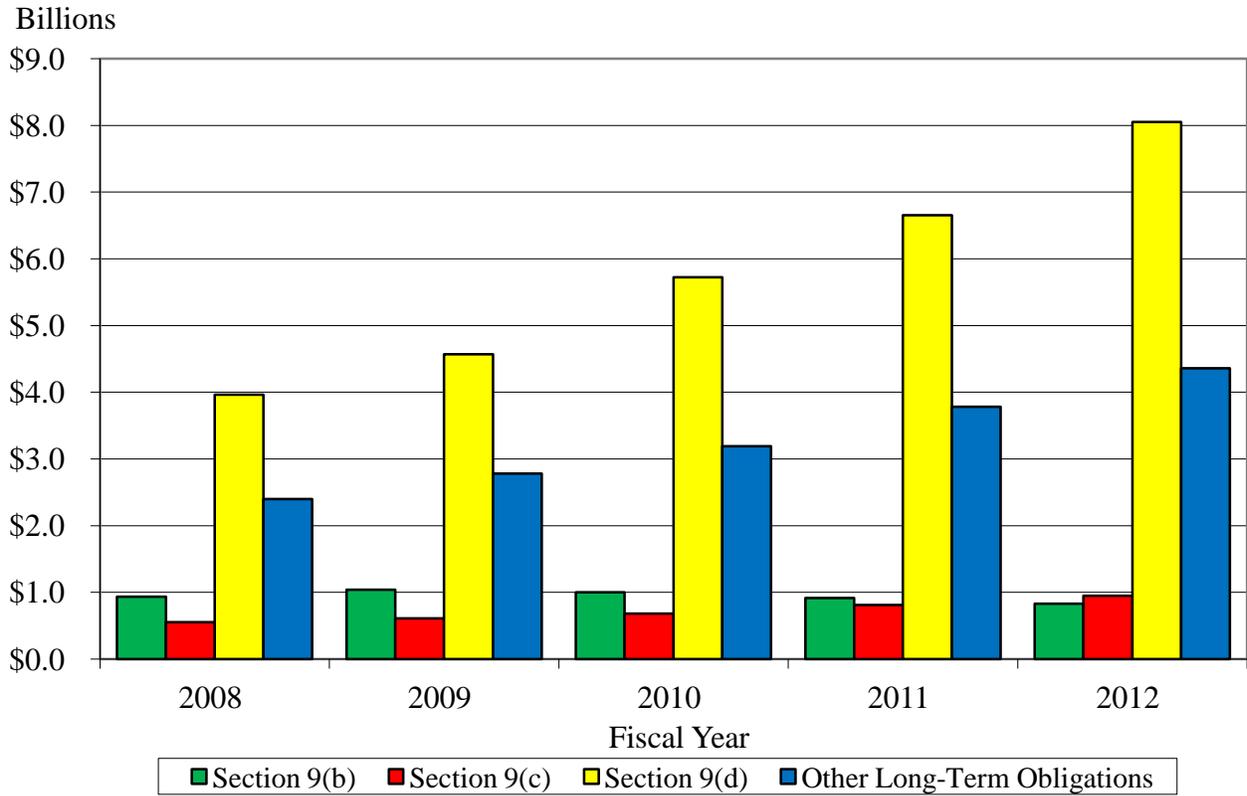
	Fiscal Year Ended June 30,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Obligation Debt:					
Section 9(a)	-	-	-	-	-
Section 9(b) [1]	\$935,105	\$1,040,636	\$999,841	\$914,574	\$831,148
Section 9(c)					
Higher Educational Institutions [1]	487,296	573,550	631,275	765,280	906,474
Transportation Facilities [1]	59,294	30,358	28,394	26,355	24,210
Parking Facilities [1]	7,590	6,526	21,151	19,445	18,383
Sub-Total Section 9(c)	<u>554,180</u>	<u>610,434</u>	<u>680,820</u>	<u>811,080</u>	<u>949,067</u>
Total General Obligation Debt	<u>1,489,285</u>	<u>1,651,070</u>	<u>1,680,661</u>	<u>1,725,654</u>	<u>1,780,215</u>
Section 9(d) Debt:					
Transportation [1]	948,507	908,601	1,428,918	2,008,601	2,655,481
Virginia Public Building Authority [1]	1,719,455	2,092,662	2,276,819	2,418,513	2,566,789
Virginia Port Authority [1]	218,596	200,886	194,287	186,011	237,321
Virginia College Building Authority 21st Century/Equipment [1]	899,572	1,203,701	1,677,617	1,909,586	2,470,589
Innovation and Entrepreneurship Investment Authority	6,270	5,415	4,480	3,465	2,375
Newport News Industrial Development Authority	14,640	10,025	5,150	-	-
Virginia Biotechnology Research Partnership Authority [1]	47,852	45,409	42,650	39,955	37,162
Virginia Public Broadcasting Board	8,520	5,830	2,990	-	-
Virginia Aviation Board	2,195	1,909	1,623	1,336	1,050
Fairfax County Economic Development Authority	96,992	93,442	89,722	85,827	81,747
Total Section 9(d) Debt	<u>3,962,599</u>	<u>4,567,880</u>	<u>5,724,256</u>	<u>6,653,294</u>	<u>8,052,514</u>
Other Long-Term Obligations:					
Transportation Notes Payable	12,325	8,000	8,000	8,000	8,000
Capital Leases	250,250	216,600	201,501	206,738	168,566
Installment Purchase Obligations	173,572	218,202	214,976	219,291	215,120
Compensated Absences	575,271	573,904	559,828	559,672	569,021
Regional Jail Financing Program	9,980	8,231	6,445	4,617	2,748
Pension Liability	1,237,460	1,410,513	1,653,718	2,050,195	2,446,240
Other Liabilities and Notes Payable	20,203	106,052	111,338	90,039	73,457
OPEB Liability	119,658	239,340	433,688	643,837	877,630
Total Other Long-Term Obligations	<u>2,398,719</u>	<u>2,780,842</u>	<u>3,189,494</u>	<u>3,782,389</u>	<u>4,360,782</u>
Total Tax-Supported Debt [2]	<u>\$7,850,603</u>	<u>\$8,999,792</u>	<u>\$10,594,411</u>	<u>\$12,161,337</u>	<u>\$14,193,511</u>

[1] Net of deferral on debt defeasance, unamortized discounts and/or premiums.

[2] Numbers may not add to totals due to rounding.

Source: Department of the Treasury; Department of Accounts.

OUTSTANDING TAX-SUPPORTED DEBT
As of June 30, 2008-2012



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Outstanding Tax-Supported Debt Service

The following table summarizes annual debt service on outstanding tax-supported debt as of June 30, 2012. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

ANNUAL DEBT SERVICE REQUIREMENTS Tax-Supported Debt Outstanding at June 30, 2012 (\$ in thousands)

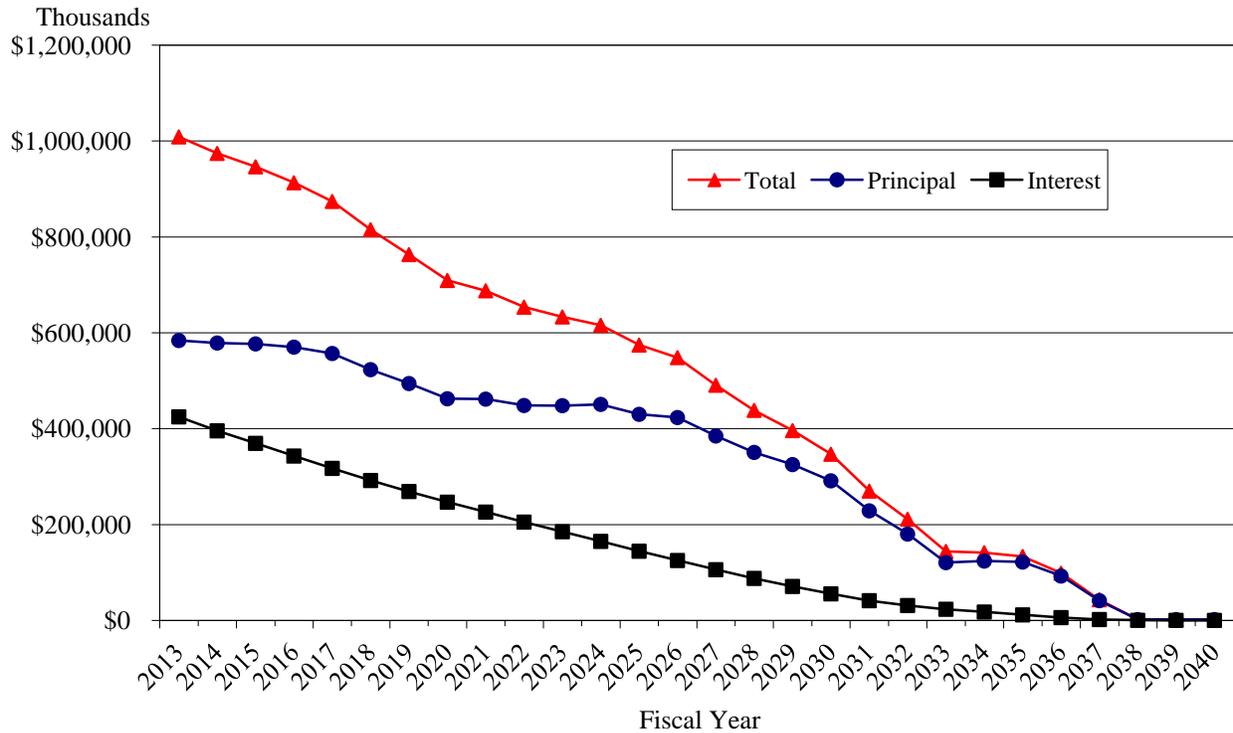
Fiscal Year	General Obligation Debt			Other Tax-Supported Debt			Total		
	Sections 9(a), 9(b) and 9(c)			Section 9(d) [1] [2]					
Ending June 30	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$119,250	\$77,263	\$196,513	\$464,791	\$347,479	\$812,270	\$584,041	\$424,742	\$1,008,783
2014	120,545	71,811	192,356	458,254	323,777	782,031	578,799	395,588	974,387
2015	119,785	66,191	185,976	457,183	303,276	760,459	576,968	369,467	946,435
2016	111,895	60,590	172,485	458,292	282,415	740,707	570,187	343,005	913,192
2017	104,160	55,416	159,576	452,789	261,851	714,640	556,949	317,267	874,216
2018	98,050	50,513	148,563	425,190	241,458	666,648	523,240	291,971	815,211
2019	97,270	46,181	143,451	397,001	222,842	619,843	494,271	269,023	763,294
2020	96,865	41,877	138,742	365,653	204,864	570,517	462,518	246,741	709,259
2021	98,680	37,580	136,260	363,041	188,496	551,537	461,721	226,076	687,797
2022	93,500	33,194	126,694	354,960	172,005	526,965	448,460	205,199	653,659
2023	93,875	28,868	122,743	354,231	156,281	510,512	448,106	185,149	633,255
2024	93,325	24,580	117,905	357,441	140,376	497,817	450,766	164,956	615,722
2025	84,920	20,264	105,184	345,074	124,201	469,275	429,994	144,465	574,459
2026	79,200	16,414	95,614	344,134	108,633	452,767	423,334	125,047	548,381
2027	70,425	12,941	83,366	314,426	92,949	407,375	384,851	105,890	490,741
2028	54,700	9,715	64,415	295,885	78,015	373,900	350,585	87,730	438,315
2029	39,260	7,235	46,495	285,885	63,718	349,603	325,145	70,953	396,098
2030	29,295	5,487	34,782	262,000	50,001	312,001	291,295	55,488	346,783
2031	24,660	4,113	28,773	204,010	37,137	241,147	228,670	41,250	269,920
2032	14,460	2,945	17,405	165,730	28,157	193,887	180,190	31,102	211,292
2033	13,805	2,274	16,079	106,815	21,062	127,877	120,620	23,336	143,956
2034	12,455	1,633	14,088	111,435	15,920	127,355	123,890	17,553	141,443
2035	9,930	1,060	10,990	111,880	10,555	122,435	121,810	11,615	133,425
2036	5,835	616	6,451	86,785	5,315	92,100	92,620	5,931	98,551
2037	2,560	365	2,925	38,730	1,549	40,279	41,290	1,914	43,204
2038	1,675	244	1,919	0	0	0	1,675	244	1,919
2039	1,730	165	1,895	0	0	0	1,730	165	1,895
2040	1,785	84	1,869	0	0	0	1,785	84	1,869
Subtotal	1,693,895	679,619	2,373,514	7,581,615	3,482,332	11,063,947	9,275,510	4,161,951	13,437,461
Add Unamortized Premium & Accretion on Capital Appreciation Bonds	115,291	-	115,291	562,736	-	562,736	678,027	-	678,027
Less Unamortized Discount & Deferral on Debt Defeasance	(28,969)	-	(28,969)	(43,200)	-	(43,200)	(72,169)	-	(72,169)
TOTAL	\$1,780,217	\$679,619	\$2,459,836	\$8,101,151	\$3,482,332	\$11,583,483	\$9,881,368	\$4,161,951	\$14,043,319

[1] Includes Virginia Biotechnology Research Partnership Authority, Fairfax County Economic Development Authority (Va. Dept. of Transportation Camp 30 Project), Innovation and Entrepreneurship Investment Authority, Virginia Aviation Board, Tax Refund Note, and Transportation Notes Payable. Does not include other capital leases, installment purchase obligations, regional jail reimbursement payments, compensated absences, pension liability, pollution remediation liability or uninsured employer's fund.

[2] Includes transportation notes payable of \$8,000 (dollars in thousands) for the primary government.

Source: Department of the Treasury; Department of Accounts.

**ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2012
(in thousands)**



**RATIOS OF OUTSTANDING TAX-SUPPORTED DEBT
TO POPULATION AND PERSONAL INCOME**

Fiscal Year	Population [1]	Personal Income [2][3] (000's)	Outstanding Debt (000's)	Tax-Supported Debt/Capita	Debt/Income
2008	7,795,424	345,285,000	7,850,603	1,007.08	2.3%
2009	7,882,590	347,723,000	8,999,792	1,141.73	2.6%
2010	8,001,024	360,754,000	10,594,411	1,324.13	2.9%
2011	8,104,384	373,311,727	12,161,337	1,500.59	3.3%
2012	8,185,867	373,311,727	14,193,511	1,733.90	3.8%

Sources: [1] U.S. Census Bureau.

[2] U.S. Department of Commerce, Bureau of Economic Analysis.

[3] 2012 personal income data is not yet available. The estimate of 2012 personal income is the 2011 personal income.

Authorized and Unissued Tax-Supported Debt

As of June 30, 2012, the following tax-supported debt had been authorized by the General Assembly and remained unissued:

Section 9(b) Debt:

Higher Educational Institutions Bonds	\$0
Park and Recreational Facilities Bonds	0
Subtotal 9(b) Debt:	<u><u>\$0</u></u>

Section 9(c) Debt:

Higher Educational Institutions Bonds	\$490,790,412
Parking Facility Bonds	225,918
Subtotal 9(c) Debt:	<u><u>\$491,016,330</u></u>

Section 9(d) Debt :

Transportation Capital Projects Revenue Bonds	\$1,487,335,000
Northern Virginia Transportation District Program	24,700,000
Virginia Public Building Authority -- Projects	216,717,254
Virginia Public Building Authority -- Jails	265,715,430
Virginia Public Building Authority -- Juvenile Detention Facilities	0
Virginia College Building Authority -- 21 st Century Projects	1,485,690,361
Virginia College Building Authority -- 21 st Century Equipment	118,318,426
Virginia Port Authority	64,998,665
Capital Lease Revenue Financings	0
Subtotal 9(d) Debt:	<u><u>\$3,663,475,137</u></u>

Total	<u><u>\$4,154,491,467</u></u>
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Source: Department of the Treasury; Department of Accounts.

Moral Obligation Debt

The Virginia Housing Development Authority, the Virginia Resources Authority and the Virginia Public School Authority are authorized to issue bonds secured in part by a moral obligation pledge of the Commonwealth. All three are designed to be self-supporting from their individual loan programs. The Commonwealth may fund deficiencies that may occur in debt service reserves for moral obligation debt. By the terms of the applicable statutes, the Governor is obligated to include in his annual budget submitted to the General Assembly the amount necessary to restore any such reported deficiency, but the General Assembly is not legally required to make any appropriation for such purpose. However, neither the Virginia Housing Development Authority nor the Virginia Public School Authority have bonds outstanding that are secured by the moral obligation pledge. To date, the Virginia Resources Authority has not reported to the Commonwealth that any such reserve deficiencies exist. The table below summarizes the Commonwealth's outstanding moral obligation indebtedness for the past five fiscal years.

OUTSTANDING MORAL OBLIGATION DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Virginia Housing Development Authority [1]	\$391,691	\$ --	\$ --	\$ --	\$ --
Virginia Resources Authority [1]	681,886	726,416	669,839	684,005	801,384
Total	<u>\$1,073,577</u>	<u>\$726,416</u>	<u>\$669,839</u>	<u>\$684,005</u>	<u>\$801,384</u>

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.

Source: Department of the Treasury, Department of Accounts

Other Debt

There are several authorities and institutions of the Commonwealth that issue debt for which debt service is not paid through appropriations of state tax revenues and for which there is no moral obligation pledge to consider funding debt service or reserve fund deficiencies. A portion of the debt shown is additionally secured by a biennial contingent appropriation in the event available funds are less than the amount required to pay debt service. The following table summarizes for the past five fiscal years outstanding indebtedness of authorities and institutions whose debt falls into these categories.

OUTSTANDING OTHER DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Institutions of Higher Education [1]	\$1,147,172	\$1,356,659	\$1,333,083	\$1,450,714	\$1,541,802
Virginia College Building Authority					
Public Higher Education Financing Program	1,037,650	1,289,525	1,476,645	1,633,910	1,715,515
Virginia College Building Authority					
Private College Program	455,295	532,530	524,645	634,395	639,597
Virginia Housing Development Authority [1]	6,487,296	6,754,384	6,739,603	6,438,200	5,945,174
Virginia Public School Authority [1]	3,030,087	3,258,258	3,235,947	3,215,448	3,378,084
Virginia Port Authority	292,982	223,541	288,764	284,558	281,978
Commonwealth Transportation Board					
Federal Highway Reimbursement Anticipation Notes [1]	677,297	548,695	414,319	274,650	182,450
Grant Anticipation Notes (GARVEES) [1]	--	--	--	--	298,728
Hampton Roads Sanitation District	359,904	360,136	547,318	560,996	639,286
Total	<u>\$13,487,683</u>	<u>\$14,323,728</u>	<u>\$14,560,324</u>	<u>\$14,492,871</u>	<u>\$14,622,614</u>

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.

Source: Department of the Treasury.

Commonwealth Debt Management

Debt Capacity Advisory Committee

The Debt Capacity Advisory Committee (the "Committee") is charged by statute with annually estimating the amount of tax-supported debt which may prudently be authorized for the next biennium, consistent with the financial goals, capital needs and policies of the Commonwealth. Such estimate is provided to the Governor and General Assembly. The Committee is also required to review annually the amount and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are either secured by a moral obligation pledge to replenish reserve fund deficiencies or for which the Commonwealth has a contingent or limited liability. The Committee provides its recommendations on the prudent use of such obligations to the Governor and the General Assembly.

The Committee also reviews the amounts and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are neither tax-supported debt nor obligations secured by a moral obligation pledge to replenish reserve fund deficiencies. The Committee may recommend limits, when appropriate, on these other obligations. The Committee's latest report can be found at <http://www.trsvirginia.gov/debt/dcac.aspx>.

Capital Outlay Plan

The Department of Planning and Budget has prepared a Six-Year Capital Outlay Plan (the "Plan") for the Commonwealth. The Plan lists proposed capital projects, and it recommends how the proposed projects should be financed. More specifically, the Plan distinguishes between immediate demands and longer-term needs, assesses the state's ability to meet its highest priority needs, and outlines an approach for addressing priorities in terms of costs, benefits and financing mechanisms. The General Assembly has set out requirements for the funding of capital projects at a level not less than two percent of the General Fund revenues for the biennium, and the portion of that amount that may be recommended for bonded indebtedness.

RETIREMENT PLANS

The Commonwealth contributes to four defined benefit pension plans each of which is administered by the Virginia Retirement System ("System"). The System acts as a common investment and administrative agent for the Commonwealth, local school boards and political subdivisions in Virginia. The plans administered by the System consist of the Virginia Retirement System ("VRS"), the State Police Officers Retirement System ("SPORS"), the Virginia Law Officer's Retirement System ("VaLORS") and the Judicial Retirement System ("JRS"). Membership in the VRS consists of Commonwealth employees, public school teachers and employees of political subdivisions that have voluntarily joined the system. Membership in SPORS consists of Commonwealth state police officers. Membership in VaLORS consists of law enforcement and corrections officers of the Commonwealth other than state police officers, and membership in JRS consists of judges in the Commonwealth's Circuit Courts, General District Courts, Court of Appeals and Supreme Court. Membership in the applicable retirement plans is mandatory for all eligible employees. VRS is the largest of four systems covering 330,147 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2012, as compared with 11,679 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 36,822 inactive vested members who are no longer contributing but have not withdrawn previous contributions and may be eligible for a retirement benefit in the future.

ACTIVE MEMBER DISTRIBUTION OF PENSION AND RETIREMENT PLANS

	Fiscal Year Ended June 30	
	2011	2012
State Employees (VRS).....	78,392	79,030
Teachers (VRS).....	145,707	146,690
Employees of Political Subdivisions (VRS).....	103,902	104,427
State Police Officers (SPORS).....	1,741	1,886
Virginia Law Officers (VaLORS).....	9,604	9,413
Judges (JRS).....	394	380

Source: Virginia Retirement System.

The System's Board of Trustees administers all four plans pursuant to statute. Each plan provides retirement, disability and death benefits. In addition, most members of all four plans are covered by group term life insurance.

The General Assembly established a new plan (Plan 2) for all members who are hired on or after July 1, 2010. Members with service before July 1, 2010 are in Plan 1. The different provisions for Plan 1 and Plan 2 members are set forth in the table below:

Defined Benefit Plan Provisions

AS ESTABLISHED BY TITLE 51.1 OF THE *CODE OF VIRGINIA* (1950), AS AMENDED

Members qualify for retirement when they become vested (have at least five years of service credit and meet the age and service requirements for their plan, as shown in the following table. The benefit is calculated using a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit at retirement.

PROVISIONS	PLAN 1 <i>Hired Before July 1, 2010</i>	PLAN 2 <i>Hired On or After July 1, 2010</i>
Average Final Compensation	Average of the member's 36 consecutive months of highest compensation as a covered employee.	Average of the member's 60 consecutive months of highest compensation as a covered employee
Member Contributions	State employees, other than elected officials, judges and optional retirement plan participants, contributed 5% of their compensation each month to their member contribution accounts. School division and political subdivisions may elect to pick up the 5% member contribution on behalf of their employees.	State employees contribute 5 percent of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may contribute all or a portion of the 5 percent member contribution as elected by the employer.
Vesting and Refunds	Vested members who leave covered employment are eligible for a full refund of their member contribution account balance. Non-vested members are eligible for a refund, excluding any contributions made by the employer after July 1, 2010 and the interest on these contributions. <i>Exception:</i> Members who are involuntarily separated from employment for causes other than job performance or misconduct are eligible for a full refund, including any employer contributions and interest.	Same as Plan 1.
Normal Retirement Age	VRS: Age 65. SPORS, VaLORS and political subdivision hazardous duty employees: Age 60.	Normal Social Security retirement age. Same as Plan 1.
	JRS: Age 65.	Same as Plan 1.

Earliest Unreduced Retirement Eligibility	VRS: Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit.	Normal Social Security retirement age with at least five years of service credit or when age and service credit equal 90. <i>Example:</i> Age 60 with 30 years of service credit. Note: Plan 2 state employees, except those covered under SPORS and VaLORS, must be at least age 60 to qualify for retirement under the Workforce Transition Act (WTA) if not qualified under the rule of 90.
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.	Same as Plan 1.
	JRS: Age 65 with at least five years of service credit or age 60 with at least 30 years of service credit. Service earned under JRS is weighted. The weighting factors under Plan 1 are: <ul style="list-style-type: none"> • 3.5 for JRS members appointed or elected before January 1, 1995 • 2.5 for JRS members appointed or elected on or after January 1, 1995 Weighted and non-weighted service credit counts toward calculating the benefit.	Same as Plan 1. Service earned under JRS is weighted. The weighting factors under Plan 2 are: <ul style="list-style-type: none"> • 1.5 for JRS members appointed or elected before age 45 • 2.0 for JRS members appointed or elected between ages 45 and 54 • 2.5 for JRS members appointed or elected at age 55 or older Weighted and non-weighted service credit counts toward calculating the benefit.
Earliest Reduced Retirement Eligibility	VRS: Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.	Age 60 with at least five years of service credit.
	SPORS, VaLORS and political subdivision employees: Age 50 with at least five years of service credit.	Same as Plan 1.
	JRS: Age 55 with at least five years of service credit.	Same as Plan 1.
Retirement Multipliers	VRS and JRS: 1.7 percent.	Same as Plan 1.
	SPORS, sheriffs and regional jail superintendents: 1.85 percent.	Same as Plan 1.

 VaLORS: 1.7 percent or 2.0 percent. 2.0%

 Political subdivision hazardous duty employees: 1.7 percent or 1.85 percent as elected by the employer. Same as Plan 1.

Cost-of-Living Adjustment (COLA)	Matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half the remaining increase, up to a maximum COLA of 5%. During years of no inflation or deflation, the COLA is 0%.	Matches the first 2% increase in the CPI-U and half the remaining increase, up to a maximum COLA of 6%. During years of no inflation or deflation, the COLA is 0%.
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Following is a summary of additions and deductions of the four retirement plans, including additions and deductions attributable to VRS members who are employees of local school boards and political subdivisions. The political subdivisions have voluntarily joined the VRS, and the Commonwealth is responsible only for administration of the programs.

**RETIREMENT PLANS
 ADDITIONS AND DEDUCTIONS
 (in thousands)**

	Fiscal Year Ended June 30,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Additions:					
Member Contributions	\$25,304	\$20,543	\$26,498	\$27,623	\$230,967
Employer Contributions	2,122,864	2,076,860	1,834,686	1,520,403	1,585,817
Net Investment Income (net of expenses)	981,838	752,986	774,306	1,030,658	1,052,001
Other	584	9,324	1,187	1,420	3,892
Total Additions	<u>3,130,590</u>	<u>2,859,713</u>	<u>2,636,677</u>	<u>2,580,104</u>	<u>2,872,677</u>
Deductions:					
Benefits	2,536,268	2,733,223	3,035,274	3,263,895	3,401,775
Refunds	102,935	91,348	93,086	100,544	88,923
Administrative Expenses	25,522	31,701	24,501	25,857	26,227
Other	298	668	4,050	6,675	721
Total Deductions	<u>2,665,023</u>	<u>2,856,940</u>	<u>3,156,911</u>	<u>3,396,971</u>	<u>3,517,646</u>
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	465,567	2,773	(520,234)	(816,867)	(644,969)
Net appreciation (depreciation) in fair value of investments	<u>(3,756,138)</u>	<u>(12,253,992)</u>	<u>5,458,822</u>	<u>7,680,954</u>	<u>(414,764)</u>
Net Assets Held in Trust at the End of the Year	<u>\$53,599,632</u>	<u>\$41,348,413</u>	<u>\$46,287,001</u>	<u>\$53,151,088</u>	<u>\$52,091,355</u>

Source: Virginia Retirement System.

Each employer contributes an amount for any period equal to the sum of the normal cost and amortization of the unfunded actuarial accrued liability, if any. The Commonwealth's liability is determined, at a minimum, every two years by the System's Board of Trustees on the basis of studies by the consulting actuary. With respect to teachers, the Commonwealth pays a share of the employer contributions on the compensation of teachers who are employees of local school boards with the Commonwealth's portion determined by a formula that uses the student/teacher ratio, average teachers' salaries and the source of revenue used for salary. Employees contribute 5 percent of their creditable compensation unless the contribution is assumed by the employer as in the case of Commonwealth employees, judges, state police officers, and state law enforcement and correctional officers other than state police officers. Effective July 1, 2011, Commonwealth employees (except elected officials), state police

officers, and state law enforcement and correctional officers other than state police officers began paying the 5% employee contribution. This contribution is handled as a pre-tax payroll deduction.

Employer contributions are calculated under an entry age normal cost method, and the unfunded actuarial accrued liability is amortized as a level percentage of payroll within 30 years or less. The entry age normal cost method is designed to produce level normal costs over the working lifetime of the participating employees and to permit the amortization of any unfunded liability over a period of years. The unfunded liability arises because normal costs based on the current benefit provisions have not been in effect throughout the working lifetime of current employees and because of actuarial losses. Post-retirement benefit adjustments are pre-funded during the employees' working lifetime.

The Commonwealth's contribution rate for the 2012 fiscal year was determined in accordance with the actuarial valuation as of June 30, 2009. In calculating the Commonwealth's contribution rate for the 2012 fiscal year, the actuary assumed a 7.5 percent net investment yield compounded annually, a 2.5 percent inflation allowance in the salary scale, a 20-year amortization period for the Unfunded Actuarial Accrued Liability (UAAL) and valued the assets using a modified market basis.

For fiscal year 2011, pension contributions due or required were based on the June 30, 2009 actuarial valuation, which used a 20-year funding period for the UAAL. The General Assembly again funded less than the rate determined by the actuary by extending the funding period for these groups from 20 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. In addition, only the employer normal cost of the rate was funded and this was reduced by the expected rate reduction associated with the savings related to the adoption of the revised benefits provision under Plan 2. As a result, the fiscal year 2011 employer rate for teachers was reduced from 12.91% to 3.93% and for state employees from 8.46% to 2.13%. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 25.56%, 15.93% and 46.79% to 7.76%, 5.12% and 28.81%, respectively. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

For fiscal year 2012, pension contributions due or required were based on the June 30, 2009 actuarial valuation, which used a 20-year funding period for the UAAL. The General Assembly again funded less than the rate determined by the actuary by extending the funding period for these groups from 20 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. In addition, for state employees, only the employer normal cost of the rate was funded for the first nine months of the fiscal year, and this was reduced by a factor representing the savings associated with the adoption of the revised benefit provisions of Plan 2. As a result, the fiscal year 2012 employer rate for state employees was reduced from the actuary's recommended rate of 8.46% to 2.08% for the first nine months of the fiscal year and increased to 6.58% for the last quarter of the year. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 25.56%, 15.93% and 46.79% to 7.73%, 5.07% and 28.65%, respectively for the first nine months of the fiscal year and then increased to 21.16%, 13.09% and 42.58%, respectively for the last quarter. The employer contribution rate for teachers was reduced from 12.91% to 6.33%. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

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The normal contribution and accrued liability cost rates (expressed as percentages of covered compensation) recommended by the actuaries are as follows:

**RETIREMENT SYSTEMS CONTRIBUTIONS, ACCRUED LIABILITY AND SUPPLEMENTARY COSTS
(1997-1998 biennium through 2012 fiscal year)^[1]**

	<u>State Employees</u>	<u>School Teachers</u>	<u>State Police</u>	<u>Virginia Law Officers' [2]</u>	<u>Judges</u>
Normal contribution rate:					
1997-98	2.73	3.51	9.39	-	15.12
1998-99	3.56	4.54	8.72	-	17.34
1999-00	4.18	5.09	10.52	4.18	18.74
2000-01	4.24	5.83	8.92	8.92	27.85
2001-02	4.00	6.03	7.45	7.91	26.11
2002-03	4.00	6.03	7.99	8.51	22.27
2003-04	4.00	6.03	7.99	8.51	22.27
2004-05	4.00	6.03	7.99	8.51	22.19
2005-06	4.00	6.03	7.99	8.51	22.19
2006-07	2.80	4.45	7.47	8.06	24.49
2007-08	2.80	4.45	8.35	8.06	24.49
2008-09	2.93	4.71	8.84	8.24	25.13
2009-10	2.93	4.71	8.84	8.24	25.13
2010-11	2.67	4.68	8.81	5.81	30.15
2011-12	2.67	4.68	8.81	5.81	30.15
Accrued liability rate:					
1997-98	2.08	3.77	3.99	-	13.98
1998-99	2.28	3.95	8.12	-	14.34
1999-00	1.85	3.95	8.68	1.85	15.51
2000-01	0.98	1.71	16.08	7.23	17.15
2001-02	0.24	(1.79)	17.55	17.09	18.89
2002-03	0.24	(1.79)	17.01	16.49	22.73
2003-04	0.24	(1.79)	17.01	16.49	22.73
2004-05	(0.11)	2.07	17.01	16.49	22.81
2005-06	(0.11)	2.07	17.01	16.49	22.81
2006-07	4.53	6.73	12.35	9.33	15.59
2007-08	4.53	6.73	14.34	9.33	15.59
2008-09	5.09	7.13	15.25	8.54	12.91
2009-10	5.09	7.13	15.25	8.54	12.91
2010-11	5.79	8.23	16.75	10.12	16.64
2011-12	5.79	8.23	16.75	10.12	16.64
Total contribution rate:					
1997-98	4.81	7.28	13.38	-	29.10
1998-99	5.84	8.49	16.84	-	31.68
1999-00	6.03	9.04	19.20	6.03	34.25
2000-01	5.22	7.54	25.00	16.15	45.00
2001-02 [3]	4.24	4.24	25.00	25.00	45.00
2002-03 [4]	4.24	4.24	25.00	25.00	45.00
2003-04 [5]	4.24	4.24	25.00	25.00	45.00
2004-05 [6]	3.89	8.10	25.00	25.00	45.00
2005-06 [7]	3.89	8.10	25.00	25.00	45.00
2006-07 [8]	7.33	11.18	19.82	17.39	40.08
2007-08 [9]	7.33	11.18	22.69	17.39	40.08
2008-09 [10]	8.02	11.84	24.09	16.78	38.04
2009-10 [11]	8.02	11.84	24.09	16.78	38.04
2010-11 [12]	8.46	12.91	25.56	15.93	46.79
2011-12 [13]	8.46	12.91	25.56	15.93	46.79

Source: Virginia Retirement System

[1] Rates for FY 2000 reflect "carve out" of a portion of the retirement rate for the Virginia Sickness and Disability Program.

[2] The Virginia Law Officers' Retirement System was established October 1, 1999.

[3] Contributions actually paid in FY 2002 were 2.12%, 3.60%, 12.50%, 8.07% and 22.50% for State, School Teachers, State Police, VaLORS and Judges, respectively.

[4] Contributions actually paid in FY 2003 were 0.00%, 3.77%, 11.05%, 12.00% and 29.00% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[5] Contributions actually paid in FY 2004 were 3.77%, 3.77%, 12.79%, 13.95% and 32.03% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[6] Contributions actually paid in FY 2005 were 3.91%, 6.03%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

- [7] Contributions actually paid in FY 2006 were 3.91%, 6.62%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
- [8] Contributions actually paid in FY 2007 were 5.74%, 9.20%, 16.71%, 14.96% and 36.47% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
- [9] Contributions actually paid in FY 2008 were 6.15%, 10.30%, 20.76%, 15.86% and 38.01% for State, School Teachers, State Police, VaLORS, and Judges, respectively. State Police computed and paid rates reflect an increase of 2.87% resulting from an increase in the multiplier from 1.70% to 1.85%, effective July 1, 2007.
- [10] Contributions actually paid in FY 2009 were 6.23%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
- [11] Contributions actually paid in FY 2010 were 6.26%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively. However, these contributions were suspended for state employee groups for April, May and the first half of June 2010, and for school teachers for the entire fourth quarter of FY 2010.
- [12] Contributions actually paid in FY 2011 were 2.13%, 3.93%, 7.76%, 5.12% and 28.81% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
- [13] Contributions actually paid in FY 2012 were 6.33% for School Teachers and 2.08%, 7.73%, 5.07% and 28.65% for State, State Police, VaLORS, and Judges, respectively for the period July 2011 through March 2012 and 6.58%, 21.16%, 13.09%, and 42.58% for State, State Police, VaLORS, and Judges, respectively for April, May and June 2012.

Effective October 1, 1983, the Commonwealth assumed the 5 percent employee contribution previously paid by its employees who are members of the VRS, SPORS, VaLORS and JRS. The total contribution rate actually being paid by the Commonwealth for Commonwealth employees, state police officers, state law enforcement and correctional officers other than state police officers, and judges through the 2010 fiscal year is, therefore, higher by that amount than what is shown in the summary. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers began paying the 5% employee contribution through payroll deduction.

The most recent actuarial valuation review of the Commonwealth's liability under the VRS, SPORS, VaLORS and JRS was performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2011. Below is the schedule of Funding Progress for the various pension plans. The 2010 data reflects a reduction in the assumed rate of return on investments from 7.50% to 7.00%. For further discussion of the funding status of the pension programs, see "Retirement and Pension Systems" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2012.

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SCHEDULE OF FUNDING PROGRESS

(dollars in millions)

Biennial Actuarial Valuation Date 6/30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Virginia Retirement System						
2011	\$52,559	\$75,185	\$22,626	69.9%	\$14,709	153.8%
2010	52,729	72,801	20,072	72.4	14,758	136.0
2009 [1]	53,185	66,323	13,138	80.2	14,948	87.9
2008	52,548	62,554	10,006	84.0	14,559	68.7
2007	47,815	58,116	10,301	82.3	13,834	74.5
2006	42,669	52,822	10,153	80.8	13,002	78.1
2005 [1]	40,372	49,628	9,256	81.3	12,212	75.8
2004	39,691	43,958	4,267	90.3	11,510	37.1
2003	39,243	40,698	1,455	96.4	10,885	13.4
2002	38,957	38,265	(692)	101.8	10,669	(6.5)
State Police Officers Retirement System (SPORS)						
2011	\$617	\$986	\$369	62.6%	\$100	370.3%
2010	634	949	315	66.8	98	323.2
2009 [1]	647	879	232	73.6	101	230.0
2008	646	844	198	76.6	103	193.2
2007	595	806	211	73.8	101	209.4
2006	539	730	191	73.8	94	204.1
2005 [1]	514	673	159	76.4	91	174.8
2004	510	656	146	77.8	82	178.0
2003	509	616	107	82.6	79	135.4
2002	508	595	87	85.4	81	107.4
Virginia Law Officer's Retirement System (VaLORS)						
2011	\$926	\$1,683	\$757	55.0%	\$356	212.5%
2010	925	1,579	654	58.6	346	189.0
2009 [1]	913	1,412	499	64.7	359	138.9
2008	873	1,281	408	68.2	368	110.8
2007	766	1,166	400	65.7	341	117.2
2006	656	1,096	440	59.9	321	137.0
2005 [1]	575	980	405	58.7	307	132.0
2004	509	927	418	54.9	298	140.3
2003	458	854	396	53.6	292	135.6
2002	418	806	388	51.9	306	126.8
Judicial Retirement System (JRS)						
2011	\$371	\$569	\$198	65.2%	\$59	336.8%
2010	372	560	188	66.5	61	307.8
2009 [1]	378	521	143	72.5	63	228.4
2008	374	495	121	75.6	61	199.9
2007	340	442	102	76.9	58	177.3
2006	302	424	122	71.3	54	224.1
2005 [1]	288	402	114	71.5	52	220.7
2004	285	366	81	78.0	48	168.8
2003	282	348	66	81.1	48	137.5
2002	281	352	71	79.8	48	147.9

[1] Revised economic and demographic assumptions due to experience study.

Source: Virginia Retirement System.

In addition to the defined benefit programs described above, the Commonwealth also makes contributions to a defined contribution retirement plan for political appointees. Contributions for this plan are based on 10.4% of each appointee's salary. At June 30, 2012, this plan had 280 accounts and total assets of approximately \$7,515,320.

OTHER LONG-TERM LIABILITIES

Employee Benefits Other than Pension Benefits

Employees of the Commonwealth accrue annual leave at a rate of four to nine hours semi-monthly, depending on their length of service. The maximum accumulation is dependent on years of service, but in no case may it exceed 42 days. All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program ("VSDP"). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at the current earnings rate or \$5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

The VSDP was established for all full-time, classified state employees, including state police officers, and other state law enforcement and correctional officers. Part-time, classified state employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. After a seven calendar-day waiting period following the first incident of disability, the VSDP provides short-term disability benefits from 60% to 100% of compensation up to a maximum of 125 work days. After a 180 calendar day waiting period, eligible employees receive long-term disability benefits equal to 60% of compensation until they return to work, until age 65 (age 60 for state police officers and other state law enforcement and correctional officers), or until death. Eligibility periods for non-work related disability coverage and certain income replacement levels apply for employees hired on or after July 1, 2009.

In addition to providing pension benefits, the Commonwealth provides life insurance for active and retired employees and a retiree health insurance credit to offset a portion of the cost of health insurance premiums for qualifying state retirees under VRS, SPORS, JRS and VaLORS. The estimated costs of these benefits are funded over the working lives of the employees through employer contributions and investment income.

Self-Insurance

The Commonwealth provides several types of self-insurance for the benefit of state agencies and institutions. The Department of the Treasury, Division of Risk Management, administers self-insurance programs for general (tort) liability, medical malpractice and automobile liability. The Department of Human Resource Management administers the state employee health care self-insurance fund. At June 30, 2012, \$718.3 million was reported as the combined estimated claims payable for self-insurance.

Medicaid Payable

The Department of Medical Assistance Services estimates, based on past experience, the total amount of claims that will be paid from the Medicaid program in the future which relate to services provided before year end. At June 30, 2012, the estimated liability related to normal operations totaled \$685.9 million. Of this amount, \$341.3 million is reflected in the General Fund and \$344.6 million in the Federal Trust Special Revenue Fund.

For a more detailed explanation of Other Long-Term Liabilities, see "Notes to the Financial Statements" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2012.

Other Post Employment Benefits (OPEB) – Financial Statement Reporting

The Commonwealth currently has five postemployment benefit programs other than the retirement plans described above (“OPEB Programs”). They are: Retiree Health Insurance Credit, Group Life Insurance, Virginia Sickness and Disability Plan, Pre-Medicare Retiree Health Insurance Program and Line of Duty Death and Health Insurance Benefit.

The Governmental Accounting Standards Board (GASB) issued accounting and reporting standards for other postemployment benefits. The VRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, in their published financial statements for the fiscal year ended June 30, 2007. The Commonwealth, as an employer, implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ended June 30, 2008.

The Commonwealth’s OPEB programs promise benefits to individuals who perform services for government today to be paid following the conclusion of their service. Historically, the Commonwealth and most other government employers financed other post employment benefit programs on a pay-as-you-go basis. The new reporting standards require expenses associated with these programs to be calculated and reported on an actuarial basis even though payment is deferred until after an individuals’ service ends. As of June 30, 2012, the Commonwealth’s estimated annual required OPEB contribution was \$293.9 million and the estimated unfunded actuarial liabilities were \$5.1 billion.

LABOR RELATIONS

It is against public policy for Commonwealth or local officials to recognize any labor union as a representative of public employees or to engage in collective bargaining with any labor union. Public employees of the Commonwealth do not have a legal right to strike, and no strike by employees of the Commonwealth has ever taken place. Any such employee who engages in any organized strike or willfully refuses to perform his duties shall, according to state law, be deemed to have terminated his employment. The General Assembly has rejected several recent legislative proposals to authorize public employees to engage in collective bargaining.

LITIGATION

The Commonwealth, its officials and employees are named as defendants in legal proceedings which occur in the normal course of governmental operations, some involving claims for substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth with respect to these lawsuits. However, any ultimate liability resulting from these suits is not expected to have a material adverse effect on the financial condition of the Commonwealth.

TOBACCO SETTLEMENT

The Commonwealth is a party to the national tobacco settlement (the “Settlement”) between leading United States tobacco product manufacturers, 45 other states, the District of Columbia and 5 territories. The Settlement provides that tobacco companies pay a total of \$206 billion to the participating states by the year 2025; significantly curb their advertising; and disband industry trade groups. The Commonwealth’s share of the total amount to be paid to states through 2025 would be approximately \$4.1 billion. The exact dollar amount is contingent upon certain adjustments as set forth in the Settlement. Under the Settlement, the tobacco companies will make three types of payments. Tobacco companies made five “initial payments” totaling approximately \$13 billion over the six year period ending in January 2003. In addition, the tobacco companies make “annual payments” that began on April 15, 2000. Such payments will be paid annually into perpetuity and will be adjusted annually based on inflation and volume adjustments as determined by future sales of cigarettes. Approximately \$8.6 billion of the Settlement has been deposited into a strategic contribution fund and allocated based on the states’ contribution toward resolving the Settlement. The “strategic contribution payments” will be made in equal installments over a 10-year period beginning in 2008.

The Commonwealth created the Tobacco Indemnification and Community Revitalization Commission and Fund (the “TICR Commission” and “TICR Fund,” respectively). Fifty percent of the amounts received by the Commonwealth from the Settlement is allocable to the TICR Commission (the “TICR Commission Allocation”).

The TICR Commission distributes moneys in the TICR Fund to (i) provide payments to tobacco farmers as compensation for the elimination or decline in tobacco quotas and (ii) promote economic growth and development in tobacco dependent communities.

In 2002, the General Assembly authorized the securitization of the TICR Commission Allocation and created the Tobacco Settlement Financing Corporation (the "Corporation"). The Corporation was established to carry out the financing, purchasing, owning and managing of the portion of the TICR Commission Allocation that may be sold by the Commonwealth from time to time. On May 16, 2005, the Corporation issued \$448,260,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2005 (the "Series 2005 Bonds"). Net proceeds of the sale were deposited to the Tobacco Indemnification and Community Revitalization Endowment established pursuant to Section 3.1-1109.1 of the Code of Virginia to fund economic development projects throughout Southside and Southwest Virginia. On May 3, 2007, the Corporation issued \$1,149,273,283 of its Tobacco Settlement Asset-Backed Bonds, Series 2007 (the "Series 2007 Bonds"). A portion of the proceeds of the Series 2007 Bonds were used to defease and refund the outstanding Series 2005 Bonds. The Series 2007 Bonds are backed solely by the TICR Commission Allocation. Tobacco Bonds issued by the Corporation are not obligations of the Commonwealth or any instrumentality other than the Corporation.

The Commonwealth also created the Virginia Foundation for Healthy Youth, and within it, the Virginia Tobacco Settlement Foundation to coordinate and finance efforts to restrict the use of tobacco products by minors through such means as educational and awareness programs on the health effects of tobacco use on minors and laws restricting the distribution of tobacco products to minors. Ten percent of the annual amount received by the Commonwealth from the Settlement is allocated to the Virginia Tobacco Settlement Fund (the "Foundation Allocation"). Chapter 345 of the 2007 Virginia Acts of Assembly authorizes the securitization of the Foundation Allocation, however no securitization of the Foundation Allocation has occurred. The remaining forty percent of unallocated Settlement payments are deposited to the General Fund.

The allocation and expenditures of the annual amounts received by the Commonwealth from the settlement are subject to appropriation by the General Assembly.