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 11, 2014 and each expires January 13, 2018. 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, 2013, 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 2009 through 2013 and compares the budgeted to actual numbers.

The General Fund balance, as shown on page B-6, increased by $137.2 million in fiscal year 2013, an increase of 8.2 percent from fiscal year 2012. Overall tax revenues increased by 5.2 percent from fiscal year 2012 to fiscal year 2013. Individual and Fiduciary Income tax revenues increased by 6.9 percent. Additional tax revenue increases occurred in the form of a 3.2 percent increase in State Sales and Use tax collections, a 0.7 percent increase in Communications Sales and Use tax, a 1.9 percent increase in Public Service Corporation tax collections, a 3.7 percent increase in Premiums of Insurance Companies tax collections and an 8.1 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 7.3 percent decrease in Corporation Income tax collections. Overall revenue and non-tax revenues increased by 4.8 percent and decreased by 3.4 percent, respectively. Overall expenditures increased by 6.5 percent in fiscal year 2013, compared to a 5.0 percent increase in fiscal year 2012. Individual and family service expenditures increased by $355.9 million, or 7.1 percent, and education expenditures increased by $464.6 million, or 6.5 percent. General government expenditures increased $76.7 million or 3.7 percent.

Of the $1.8 billion fund balance as of June 30, 2013, $927.8 million was restricted as the Revenue Stabilization Fund (the “Fund”). During fiscal year 2013, no withdrawal was made from the Fund and $3.7 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 was made 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. Also, Chapter 806, 2013 Acts of Assembly, appropriates an additional amount of $95.0 million to be deposited in fiscal year 2014 as a prepayment towards future deposits required in the 2014-2016 biennium. A deposit of $243.2 million is required during fiscal year 2015 based on fiscal year 2013 revenue collections. Both required deposits are reported as restricted components of fund balance. 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. As of June 30, 2013, the Constitutional maximum is $2.2 billion. 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 2013.

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

	2009	2010	2011	2012	2013
Revenues:					
Taxes					
Individual and Fiduciary Income	$9,481,109	$9,088,252	$9,944,370	$10,612,836	$11,339,966
State Sales and Use	3,116,831	3,291,958	3,216,406	3,335,601	3,441,195
Corporation Income	648,033	806,473	822,259	859,923	796,728
Communications Sales and Use	-	491,698	442,455	424,257	427,262
Deeds, Contracts, Wills and Suits	314,264	290,189	299,967	330,938	388,633
Premiums of Insurance Companies	255,019	261,881	281,563	252,895	262,242
Alcoholic Beverage Sales	173,227	175,093	178,937	186,377	195,192
Tobacco Products	183,750	176,057	173,731	192,453	187,874
Estate	6,006	5,671	2,713	298	-
Public Service Corporations	91,340	97,263	93,777	94,429	96,222
Other Taxes	28,230	26,269	21,808	20,442	18,036
Total Taxes	14,297,809	14,710,804	15,477,986	16,310,449	17,153,350
Rights and Privileges	67,426	68,460	73,283	72,817	76,931
Sales of Property and Commodities	1	824	28,005	30,146	25,477
Assessments and Receipts for Support of Special	396	373	2,777	2,570	858
Institutional Revenue	6,402	6,019	40,122	38,134	37,210
Interest, Dividends, Rents	134,400	113,142	90,905	83,055	72,958
Fines, Forfeitures, Court Fees, Penalties, and	197,875	194,151	222,256	216,032	216,788
Federal Grants and Contracts	-	-	-	-	6,354
Receipts from Cities, Counties, and Towns	10,265	9,761	16,340	16,209	15,813
Private Donations, Gifts and Contracts	118	137	4,595	680	439
Tobacco Master Settlement	58,966	49,182	48,185	49,136	74,010
Other	102,568	168,429	204,033	282,731	238,148
Total Revenues	14,876,226	15,321,282	16,208,487	17,101,959	17,918,336
Expenditures:					
General Government	1,669,257	2,093,036	2,149,242	2,096,588	2,173,327
Education	8,045,614	7,007,842	6,931,515	7,123,221	7,587,805
Transportation	11,863	11,125	516	462	172
Resources and Economic Development	288,877	272,075	306,970	353,567	389,221
Individual and Family Services	4,012,450	4,004,995	4,449,683	5,027,601	5,383,507
Administration of Justice	2,300,008	2,120,477	2,247,447	2,284,948	2,443,464
Capital Outlay	47,421	13,477	6,144	7,627	6,274
Total Expenditures	16,375,490	15,523,027	16,091,517	16,894,014	17,983,770
Revenues Over (Under) Expenditures	(1,499,264)	(201,745)	116,970	207,945	(65,434)
Other Financing Sources (Uses):					
Transfers In	664,141	752,251	693,750	799,070	712,400
Transfers Out	(561,192)	(503,106)	(487,991)	(621,163)	(509,749)
Total Other Financing Sources (Uses)	102,949	249,145	205,759	177,907	202,651
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,396,315)	47,400	322,729	385,852	137,217
Fund Balance, July 1:					
Restricted	-	-	310,778	456,384	707,401
Committed	-	-	443,182	461,140	518,619
Assigned	-	-	220,871	380,036	457,392
Reserved	1,127,908	662,489	-	-	-
Unreserved	1,091,882	160,986	-	-	-
Total Fund Balance, July 1, as restated	2,219,790	823,475	974,831**	1,297,560	1,683,412
Fund Balance, June 30:					
Restricted	-	-	456,384	707,401	940,906
Committed	-	-	461,140	518,619	556,076
Assigned	-	-	380,036	457,392	323,647
Reserved	662,489	379,631	-	-	-
Unreserved	160,986	491,244	-	-	-
Total Fund Balance, June 30	$823,475	$870,875	$1,297,560	$1,683,412	$1,820,629

** 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,			
	2009		2010	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	$9,697,300	$(216,191)	$8,960,100	$128,152
State Sales and Use	3,179,300	(62,469)	3,247,500	44,458
Corporation Income	685,000	(36,967)	730,700	75,773
Communications Sales and Use	-	-	446,247	45,451
Public Service Corporations	92,800	(1,460)	94,600	2,663
Premiums of Insurance Companies	257,500	(2,481)	242,500	19,381
Other [1]	671,000	34,477	671,700	1,579
Total Taxes	$14,582,900	$(285,091)	$14,393,347	$317,457
Rights and Privileges	63,900	3,526	74,700	(6,240)
Institutional Revenue	7,500	(1,098)	5,900	119
Interest, Dividends, Rents and Other Investment Income	121,986	12,414	116,765	(3,623)
Tobacco Master Settlement	66,754	(7,788)	57,186	(8,004)
Other [2]	308,597	2,626	394,298	(20,623)
Total Revenues	$15,151,637	$(275,411)	$15,042,196	$279,086
Expenditures:				
General Government	1,722,663	53,406	2,147,466	54,430
Education	8,083,328	37,714	7,042,173	34,331
Transportation	53,949	42,086	11,680	555
Resources and Economic Development	313,963	25,086	284,912	12,837
Individual and Family Services	4,075,027	62,577	4,065,874	60,879
Administration of Justice	2,440,305	140,297	2,151,618	31,141
Capital Outlay	74,498	27,077	19,477	6,000
Total Expenditures	$16,763,733	$388,243	$15,723,200	$200,173
Revenues Over (Under) Expenditures	$(1,612,096)	$112,832	$(681,004)	$479,259
Other Financing Sources (Uses):				
Transfers In	641,273	22,868	740,009	12,242
Transfers Out	(556,413)	(4,779)	(503,274)	168
Total Other Financing Sources (Uses)	$84,860	$18,089	$236,735	$12,410
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,527,236)	130,921	(444,269)	491,669
Fund Balance, July 1	2,219,790	-	823,475	-
Fund Balance, June 30	$692,554	$130,921	$379,206	$491,669

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[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," "Federal Grants and Contracts," "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,

2011		2012		2013	
Final Budget	**Variance of Actual Favorable (Unfavorable)**	**Final Budget**	**Variance of Actual Favorable (Unfavorable)**	**Final Budget**	**Variance of Actual Favorable (Unfavorable)**
$9,746,200	$198,170	$10,526,400	$86,436	$11,092,600	$247,366
3,186,200	30,206	3,282,100	53,501	3,471,616	(30,421)
766,600	55,659	827,800	32,123	820,900	(24,172)
448,900	(6,445)	440,000	(15,743)	440,000	(12,738)
96,400	(2,623)	93,900	529	95,300	922
277,700	3,863	287,300	(34,405)	255,600	6,642
662,456	14,700	717,589	12,919	743,309	46,426
$15,184,456	$293,530	$16,175,089	$135,360	$16,919,325	$234,025
88,545	(15,262)	82,838	(10,021)	79,663	(2,732)
38,912	1,210	40,511	(2,377)	41,668	(4,458)
75,288	15,617	82,442	613	68,064	4,894
52,134	(3,949)	50,205	(1,069)	52,733	21,277
349,728	128,278	428,272	120,096	413,991	89,886
$15,789,063	$419,424	$16,859,357	$242,602	$17,575,444	$342,892
2,224,688	75,446	2,196,546	99,958	2,360,523	187,196
7,021,369	89,854	7,225,088	101,867	7,670,879	83,074
585	69	462	-	172	-
416,856	109,886	415,708	62,141	512,266	123,045
4,540,334	90,651	5,149,191	121,590	5,488,489	104,982
2,367,326	119,879	2,383,519	98,571	2,477,411	33,947
19,358	13,214	19,397	11,770	36,297	30,023
$16,590,516	$498,999	$17,389,911	$495,897	$18,546,037	$562,267
$(801,453)	$918,423	$(530,554)	$738,499	$(970,593)	$905,159
645,516	48,234	748,237	50,833	699,253	13,147
(467,055)	(20,936)	(602,512)	(18,651)	(493,024)	(16,725)
$178,461	$27,298	$145,725	$32,182	$206,229	$(3,578)
(622,992)	945,721	(384,829)	770,681	(764,364)	901,581
974,831 **	-	1,297,560	-	1,683,412	-
$351,839	$945,721	$912,731	$770,681	$919,048	$901,581

** As restated as required by GASB 54

General Fund Revenues

Of total fiscal year 2013 tax revenue, 97.1 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: (66.1 percent of Total Taxes in fiscal year 2013) 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 2013:

PERSONAL TAX RATES

Taxable Income	Rate	Of Excess Over
$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: (20.1 percent of Total Taxes in fiscal year 2013) 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: (4.6 percent of Total Taxes in fiscal year 2013) 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.

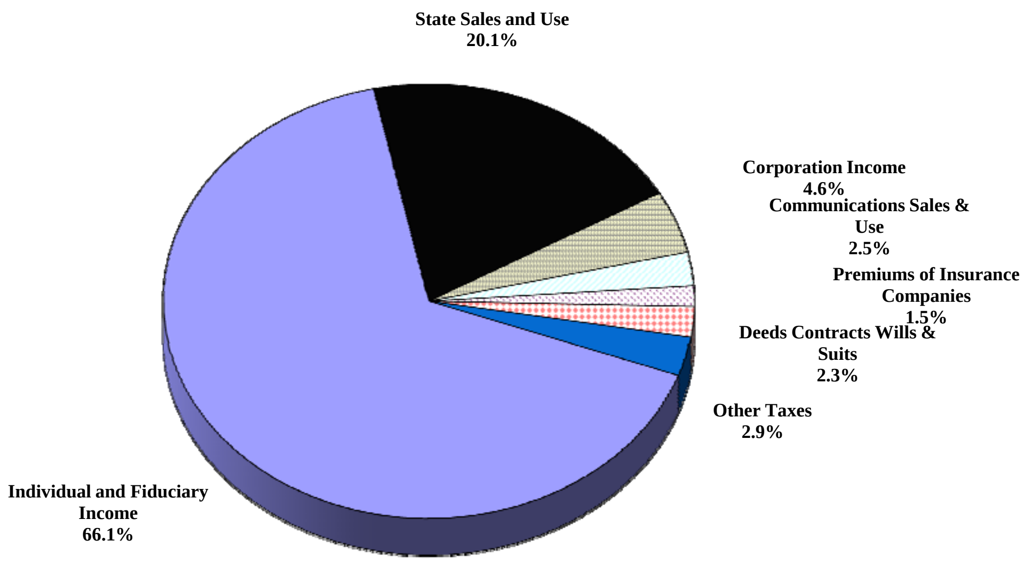
Communication Sales and Use Taxes: (2.5 percent of Total Taxes in fiscal year 2013) Effective for fiscal year 2010, statutory changes required that the Communication Sales and Use Tax Fund be included as part of the General Fund for reporting purposes. Since this fund was previously reported as an agency 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: (1.5 percent of Total Taxes in fiscal year 2013) 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: (2.3 percent of Total Taxes in fiscal year 2013) 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, 2013



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 2009 through 2013:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

Fiscal Year Ended June 30,	Amount
2009	$259,893,992
2010	351,827,736
2011	466,300,479
2012	489,381,022*
2013	543,912,785*

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 2013) 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: (29.9 percent of Total Expenditures in fiscal year 2013) 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: (13.6 percent of Total Expenditures in fiscal year 2013) 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.

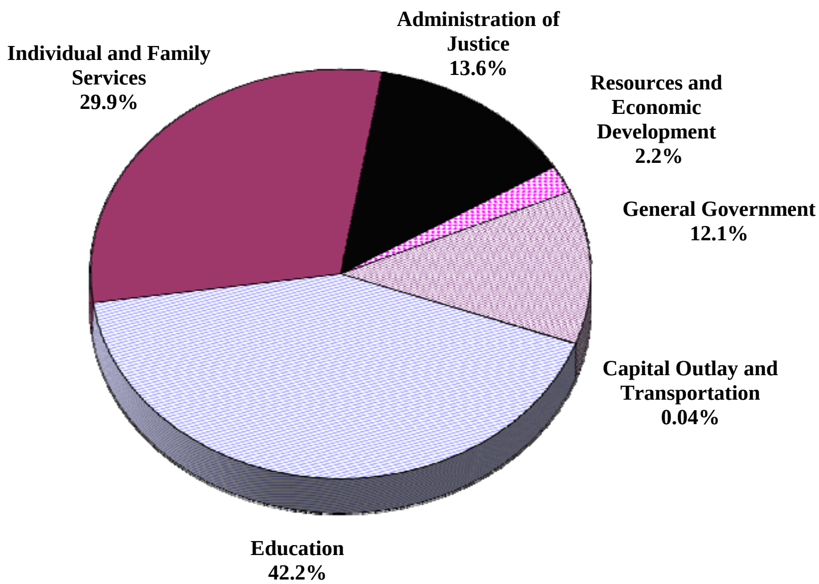
General Government: (12.1 percent of Total Expenditures in fiscal year 2013) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental 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: (2.2 percent of Total Expenditures in fiscal year 2013) 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: (0.04 percent of Total Expenditures in fiscal year 2013) 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, 2013



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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)

Fiscal Year	Cash Basis	Modified Accrual Basis
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	*	*
2013	*	*

Source: *Department of Accounts*.
*See 2011, 2012 and 2013 below for an explanation as to how GASB 54 has required a change in the unreserved General Fund balance classification.

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.

2013. General Fund revenues and other sources exceeded expenditures and other uses by $137.2 million in fiscal year 2013. Total revenues increased by 4.8 percent and total expenditures increased by 6.5 percent. Transfers to the General Fund decreased by 10.9 percent while transfers out decreased by 17.9 percent. Transfers to and from Component Units in fiscal year 2013 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, 2013 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,				
	2009	**2010**	**2011**	**2012**	**2013**
Total revenues	$3,461,872	$3,617,895	$3,849,149	$3,871,439	$4,306,638
Total expenditures	3,725,125	3,422,843	3,884,844	4,488,603	4,633,673
Revenues over (under) expenditures	(263,253)	195,052	(35,695)	(617,164)	(327,035)
Other sources (uses) net	(150,232)	384,440	461,147	929,228	1,508
Revenue and other sources (uses) over (under) expenditures	(413,485)	579,492	425,452	312,064	(325,527)
Beginning fund balance (adjusted)	1,843,596	1,430,111	2,009,078	2,434,530	2,739,308
Ending fund balance	$1,430,111	$2,009,603	$2,434,530	$2,746,594	$2,413,781

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, 2009-2013.

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The 2013 Appropriation Act

On December 17, 2012, Governor McDonnell presented his proposed amendments to Chapter 3 of the 2012 Acts of Assembly, Special Session I (House Bill 1500/Senate Bill 800) (the "2013 Budget Bill"), 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.

The 2013 Budget Bill was considered by the 2013 Session of the General Assembly which convened on January 9, 2013. The General Assembly adjourned on February 23, 2013 offering their recommendations on amendments to the 2013 Budget Bill.

On March 25, 2013, Governor McDonnell returned House Bill 1500 to the General Assembly offering 52 amendments to be adopted to address five overarching themes: 1) continued efforts to address judicial workload and fill vacant judgeships; 2) provide general fund appropriations for select items that were funded by earmarks against dedicated funding streams; 3) a small restoration of reductions; 4) needed language changes; and 5) funding for new issues that surfaced since the adjournment. The spending amendments offered totaled $14.1 million. The General Assembly reconvened on April 3, 2013 to consider these amendments. The General Assembly rejected seven of the Governor's amendments.

The 2013 Budget Bill, also known as Chapter 806, 2013 Virginia Acts of Assembly (the "2013 Appropriation Act") became effective May 3, 2013. The 2013 Appropriation Act continued investment in higher education and job creation, and eliminated across the board cuts to local governments.

Other highlights of the 2013 Virginia Acts of Assembly included: a two percent salary increase for teachers and support positions; a salary compression adjustment for qualifying state employees; reforms to the existing Medicaid program; increased higher education funding for financial aid; $2.0 million for Housing Trust Fund and other housing programs; $1.0 million for offshore wind energy; $95 million dedicated toward future required deposits to the revenue stabilization fund; and increasing the rainy day fund from $295 million to nearly $800 million.

The following table summarizes the 2013 Appropriation Act.

2013 Appropriation Act (Chapter 806, 2013 General Assembly)

	FY 2013	FY 2014	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2012	$976,011,000	-	$976,011,000
Additions to balance	(179,378,723)	$3,602,508	(175,776,215)
Official revenue estimate	16,420,995,305	17,056,958,606	33,477,953,911
Transfers	423,932,936	431,645,366	855,578,302
Total general fund resources available for appropriation	$17,641,560,518	$17,492,206,480	$35,133,766,998
Appropriations			
Legislative	$69,483,521	$72,052,144	$141,535,665
Judicial	423,087,296	424,174,190	847,261,486
Executive	16,623,269,228	17,488,672,074	34,111,941,302
Independent Agencies	200,000	1,200,000	1,400,000
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	17,116,040,045	17,986,098,408	35,102,138,453
Capital Outlay	20,050,000		20,050,000
Total appropriations	$17,136,090,045	$17,986,098,408	$35,122,188,453
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2012	$4,307,352,991	-	$4,307,352,991
Official revenue estimate	24,634,182,779	$24,676,667,248	49,310,850,027
Lottery Proceeds Fund	487,300,000	462,000,000	949,300,000
Bond proceeds	1,112,939,948	1,185,975,092	2,298,915,040
Total nongeneral fund revenue available for appropriation	$30,541,775,718	$26,324,642,340	$56,866,418,058
Appropriations			
Legislative	$3,506,435	$3,506,435	$7,012,870
Judicial	32,905,193	32,905,193	65,810,386
Executive Department	24,927,895,852	24,598,225,839	49,526,121,691
Independent Agencies	594,310,214	666,443,112	1,260,753,326
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	25,558,617,694	25,301,080,579	50,859,698,273
Capital Outlay	1,219,854,877	1,282,791,631	2,502,646,508
Total appropriations	$26,778,472,571	$26,583,872,210	$53,362,344,781

Source: Department of Planning and Budget.

The 2014 Amendments to the 2013 Appropriation Act

On December 16, 2013 Governor McDonnell presented 124 amendments to the 2013 Appropriation Act affecting general fund appropriations for the remainder of the 2012-2014 biennium (House Bill 29/Senate Bill 29). The proposed actions add and subtract to the overall spending plan, for a net spending decrease of $249.1 million for the remainder of fiscal year 2014.

The majority of the proposed amendments result in a general fund reduction to various programs. These reductions are in large part technical in nature and include items such as adjusting appropriation for the Health Care Fund by $90.3 million to reflect additional revenue; $73.6 million of technical adjustments to Medicaid utilization and inflation; updating Lottery proceeds for public education by $55.2 million; and adjusting sales tax revenues for public education by $16.7 million. Funding increases include $11.9 million for rising K-12 student enrollment counts; $4.5 million for per diem payments to local and regional jails; and $3.4 million for child welfare services.

The 2014 Budget Bill

On December 16, 2013, Governor McDonnell presented the Budget Bill for the 2014-2016 biennium that begins July 1, 2014 (House Bill/Senate Bill 30) (the "2014 Budget Bill"). The 2014 Budget Bill focuses on the core functions of government, and was developed with the following objectives:

- Provide adequate funding for core services.
- Increase liquidity to guard against future economic uncertainty and the potential impact of federal spending reductions.
- Maintain commitment to fully fund requirements of the Virginia Retirement System.
- Increase support for instructional spending in public education and continue investments in higher education.
- Maintain and improve commitments to health and human services.
- Continue support for local constitutional officers and law enforcement.

The proposed 2014 Budget Bill appropriates $96.8 billion from all funding sources for total state government operations, and leaves an unappropriated general fund balance on June 30, 2016 of $50.9 million. The revised economic forecast projects general fund revenues to grow 4.2 percent in fiscal year 2015 and 3.9 percent in fiscal year 2016.

The 2014 Budget Bill provides an additional $243.2 million to the Revenue Stabilization Fund in fiscal year 2015 and $59.9 million in fiscal year 2016. With these deposits, the Revenue Stabilization Fund will reach an expected balance of over $1 billion by June 30, 2016.

Other proposed budget actions provide: $674 million in additional support for Medicaid programs; $582.6 million to increase support for instructional spending in public education; $315.3 million to maintain the commitment to increase support to the retirement system; $183.1 million for increased support for higher education and the goals of the "Top Jobs" legislation; $98.5 million to implement the requirements of the settlement agreement with the United States Department of Justice; $83.2 million for increased health insurance premium cost for state employees; and $36.2 million Mental Health crisis response improvements.

Amendments to the 2013 Appropriation Act and the proposed 2014 Budget Bill will be considered by the 2014 Session of the Virginia General Assembly, which convened on January 8, 2014, and is scheduled to conclude on March 8, 2014.

The table on the following pages summarizes the 2014 Budget Bill.

2014 Budget Bill
(As introduced in HB/SB 30)

	FY 2015	FY 2016	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2014	$536,534,680	-	$536,534,680
Additions to balance	94,500,000	(500,000)	94,000,000
Official revenue estimate	17,686,135,741	18,373,389,157	36,059,524,898
Transfers	537,498,006	535,432,006	1,072,930,012
Total general fund resources available for appropriation	$18,854,668,427	$18,908,321,163	$37,762,989,590
Appropriations			
Legislative	$75,612,532	$73,720,615	$149,333,147
Judicial	445,371,294	445,963,623	891,334,917
Executive	18,286,222,212	18,379,930,179	36,666,152,391
Independent Agencies	1,200,133	1,200,446	2,400,579
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	18,808,406,171	18,900,814,863	37,709,221,034
Capital Outlay	2,870,636	-	2,870,636
Total appropriations	$18,811,276,807	$18,900,814,863	$37,712,091,670
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2012	$4,708,335,881	-	$4,708,335,881
Official revenue estimate	25,638,912,057	26,378,135,428	52,017,047,485
Lottery Proceeds Fund	500,000,000	500,000,000	1,000,000,000
Internal Service Fund	1,595,861,216	1,612,651,825	3,208,513,041
Bond proceeds	547,509,500	81,500,000	629,009,500
Total nongeneral fund revenue available for appropriation	$32,990,618,654	$28,572,287,253	$61,562,905,907
Appropriations			
Legislative	$3,507,137	$3,007,990	$6,515,127
Judicial	34,167,869	34,258,099	68,425,968
Executive Department	27,948,836,115	28,605,605,936	56,554,442,051
Independent Agencies	726,394,289	830,460,251	1,556,854,540
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	28,712,905,410	29,473,332,276	58,186,237,686
Capital Outlay	716,789,356	215,733,222	932,522,578
Total appropriations	$29,429,694,766	$29,689,065,498	$59,118,760,264

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, 2013, the debt limits pursuant to Article X, Section 9 of the Constitution of Virginia are as follows:

COMPUTATION OF LEGAL DEBT LIMITS
(in thousands)

	Fiscal Year Ended June 30,		
Taxes	**2011**	**2012**	**2013**
Individual and Fiduciary Income [1]	$9,944,370	$10,612,836	$11,339,965
Corporation Income [2]	822,259	859,923	796,728
State Sales and Use [3]	3,190,452	3,314,677	3,419,489
Total	$13,957,081	$14,787,436	$15,556,182
Average tax revenues for the three fiscal years			$14,766,900
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 2013			$5,366,883
Less 9(a)(2) Bonds Outstanding at June 30, 2013:			0
Debt Margin for Section 9(a)(2) General Obligation Bonds			$5,366,883
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			$16,981,935
Less 9(b) Bonds Outstanding at June 30, 2013:			
Public Facilities Bonds [5]		752,493	
Bond Anticipation Notes		0	
Total 9(b) Bonds Outstanding at June 30, 2013			752,493
Debt Margin for Section 9(b) General Obligation Bonds			$16,229,442
Debt Authorization Limit:			
25% of 1.15 times average tax revenues for three fiscal years as calculated above			$4,245,484
Less 9(b) debt authorized during the three prior fiscal years			0
Maximum additional 9(b) debt that may be authorized by the General Assembly (subject to referendum):			$4,245,484
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			$16,981,935
Less 9(c) Bonds Outstanding at June 30, 2013:			
Parking Facilities [5]		17,538	
Transportation Facilities [5]		21,961	
Higher Educational Institutions [5]		877,866	
Bond Anticipation Notes		0	
Total 9(c) Bonds Outstanding at June 30, 2013			917,365
Debt Margin for Section 9(c) General Obligation Bonds			$16,064,570

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[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] Net of unamortized discounts, premiums and/or 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, 2013 includes the unamortized portion of (a) $752.5 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, 2013 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 2004 to 2013, 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, 2013, $2.5 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, 2013, $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, 2013, $229 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. As of June 30, 2013, $57.4 million had been issued under this 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, 2013. 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 $157.5 million as of June 30, 2013.

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 $192.7 million as of June 30, 2013.

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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.

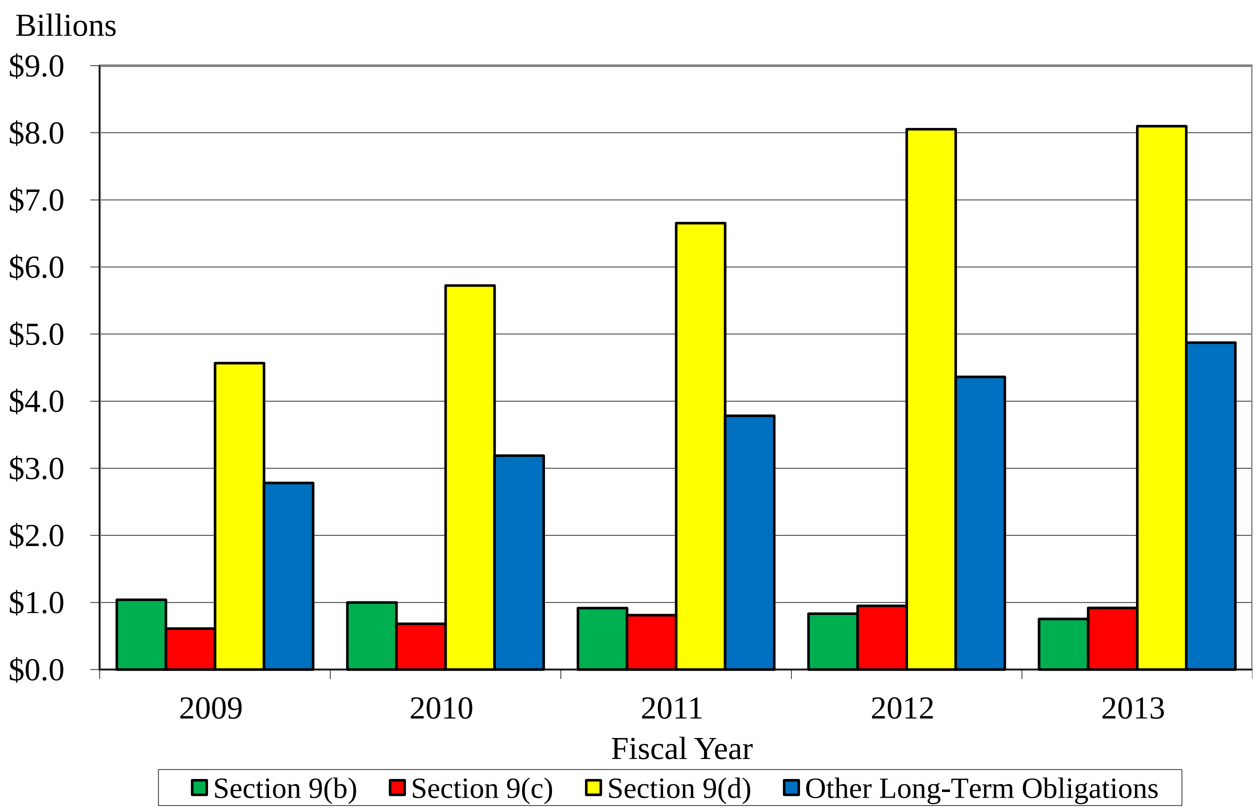
OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013
General Obligation Debt:					
Section 9(a)	-	-	-	-	-
Section 9(b) [1]	$1,040,636	$999,841	$914,574	$831,148	$752,493
Section 9(c)					
Higher Educational Institutions [1]	573,550	631,275	765,280	906,474	877,858
Transportation Facilities [1]	30,358	28,394	26,355	24,210	21,961
Parking Facilities [1]	6,526	21,151	19,445	18,383	17,538
Sub-Total Section 9(c)	610,434	680,820	811,080	949,067	917,357
Total General Obligation Debt	1,651,070	1,680,661	1,725,654	1,780,215	1,669,850
Section 9(d) Debt:					
Transportation [1]	908,601	1,428,918	2,008,601	2,655,481	2,495,312
Virginia Public Building Authority [1]	2,092,662	2,276,819	2,418,513	2,566,789	2,534,347
Virginia Port Authority [1]	200,886	194,287	186,011	237,321	228,619
Virginia College Building Authority 21st Century/Equipment [1]	1,203,701	1,677,617	1,909,586	2,470,589	2,725,259
Innovation and Entrepreneurship Investment Authority	5,415	4,480	3,465	2,375	1,220
Newport News Industrial Development Authority	10,025	5,150	-	-	-
Virginia Biotechnology Research Partnership Authority [1]	45,409	42,650	39,955	37,162	35,284
Virginia Public Broadcasting Board	5,830	2,990	-	-	-
Virginia Aviation Board	1,909	1,623	1,336	1,050	764
Fairfax County Economic Development Authority	93,442	89,722	85,827	81,747	77,472
Total Section 9(d) Debt	4,567,880	5,724,256	6,653,294	8,052,514	8,098,277
Other Long-Term Obligations:					
Transportation Notes Payable	8,000	8,000	8,000	8,000	8,000
Capital Leases	216,600	201,501	206,738	168,566	157,466
Installment Purchase Obligations	218,202	214,976	219,291	215,120	192,682
Compensated Absences	573,904	559,828	559,672	569,021	582,774
Regional Jail Financing Program	8,231	6,445	4,617	2,748	837
Pension Liability	1,410,513	1,653,718	2,050,195	2,446,240	2,799,523
Other Liabilities and Notes Payable	106,052	111,338	90,039	73,457	53,419
OPEB Liability	239,340	433,688	643,837	877,630	1,076,157
Total Other Long-Term Obligations	2,780,842	3,189,494	3,782,389	4,360,782	4,870,858
Total Tax-Supported Debt [2]	$8,999,792	$10,594,411	$12,161,337	$14,193,511	$14,638,985

[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, 2009-2013



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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, 2013. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

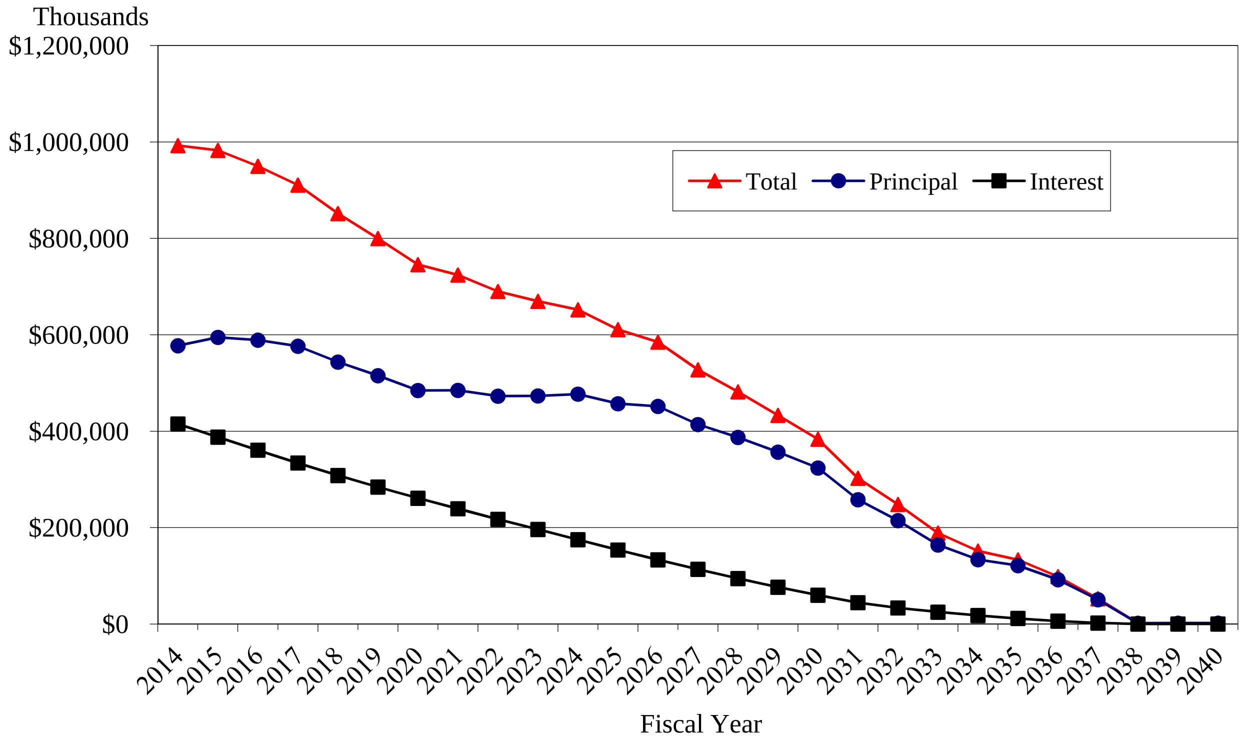
ANNUAL DEBT SERVICE REQUIREMENTS
Tax-Supported Debt Outstanding at June 30, 2013
($ in thousands)

Fiscal Year	General Obligation Debt Sections 9(a), 9(b) and 9(c)			Other Tax-Supported Debt Section 9(d) [1]			Total		
Ending June 30	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	$114,605	$71,646	$186,251	$462,824	$343,546	$806,3703	$557,429	$415,192	$992,621
2015	120,415	66,342	186,757	474,397	321,529	795,926	594,812	387,871	982,683
2016	112,745	60,709	173,454	476,247	300,099	776,346	588,992	360,808	949,800
2017	104,885	55,493	160,378	471,514	278,781	750,295	576,399	334,274	910,673
2018	98,780	50,553	149,333	444,675	257,634	702,309	543,455	308,187	851,642
2019	97,985	46,185	144,170	417,280	238,222	655,502	515,265	284,407	799,672
2020	97,770	41,682	139,452	386,823	219,406	606,229	484,593	261,088	745,681
2021	99,755	37,214	136,969	385,101	202,150	587,251	484,856	239,364	724,220
2022	94,730	32,678	127,408	378,040	184,626	562,666	472,770	217,304	690,074
2023	94,890	28,418	123,308	378,435	167,799	546,234	473,325	196,217	669,542
2024	94,255	24,205	118,460	382,751	150,792	533,543	477,006	174,997	652,003
2025	85,755	20,027	105,782	371,354	133,661	505,015	457,109	153,688	610,797
2026	80,120	16,367	96,487	371,464	117,057	488,521	451,584	133,424	585,008
2027	71,475	12,995	84,470	342,476	100,643	443,119	413,951	113,638	527,589
2028	55,755	9,833	65,588	331,530	84,587	416,117	387,285	94,420	481,705
2029	40,320	7,351	47,671	316,380	69,052	385,432	356,700	76,403	433,103
2030	30,360	5,600	35,960	293,360	54,252	347,612	323,720	59,852	383,572
2031	25,815	4,220	30,035	232,140	40,294	272,434	257,955	44,514	302,469
2032	15,650	3,017	18,667	198,965	30,545	229,510	214,615	33,562	248,177
2033	15,025	2,310	17,335	149,045	22,447	171,492	164,070	24,757	188,827
2034	12,455	1,633	14,088	121,165	16,271	137,436	133,620	17,904	151,524
2035	9,930	1,060	10,990	111,460	10,765	122,225	121,390	11,825	133,215
2036	5,835	616	6,451	86,345	5,534	91,879	92,180	6,150	98,330
2037	2,560	365	2,925	47,980	1,780	49,760	50,540	2,145	52,685
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	1,587,060	601,012	2,188,072	7,631,751	3.351,472	10,983,223	9,218,811	3,952,484	13,171,295
Add Unamortized Premium & Accretion on Capital Appreciation Bonds	138,136	-	138,136	543,168	-	543,168	681,304	-	681,304
Less Unamortized Discount & Deferral on Debt Defeasance	(55,346)	-	(55,346)	(48,326)	-	(48,326)	(103,672)	-	(103,672)
TOTAL	$1,669,850	$601,012	$2,270,862	$8,126,593	$3,351,472	$11,478,065	$9,796,443	$3,952,484	$13,748,927

[1] Includes Virginia Biotechnology Research Park Authority, Fairfax County Economic Development Authority (Va. Dept. of Transportation Camp 30 Project), Innovation Technology Authority and Virginia Aviation Board. Does not include other capital leases, installment purchase obligations.

Source: Department of the Treasury; Department of Accounts.

ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2013
(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
2009	7,882,590	340,255,644	8,999,792	1,141.73	2.6%
2010	8,001,024	354,127,225	10,594,411	1,324.13	3.0%
2011	8,096,604	373,311,727	12,161,337	1,502.03	3.3%
2012	8,186,625	396,005,223	14,193,511	1,733.74	3.6%
2013	8,260,405	404,754,000	14,638,985	1,722.19	3.6%

Sources: [1] U.S. Census Bureau. 2013 population data is provisional.
[2] U.S. Department of Commerce, Bureau of Economic Analysis.
[3] 2013 personal income data is provisional.

Authorized and Unissued Tax-Supported Debt

As of June 30, 2013, 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:	$0
Section 9(c) Debt:	
Higher Educational Institutions Bonds	$480,623,151
Parking Facility Bonds	225,918
Subtotal 9(c) Debt:	$480,849,069
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	485,318,659
Virginia Public Building Authority -- Jails	128,497,781
Virginia Public Building Authority -- Juvenile Detention Facilities	0
Virginia College Building Authority -- 21st Century Projects	1,832,653,919
Virginia College Building Authority -- 21st Century Equipment	126,436,308
Virginia Port Authority	64,998,665
Capital Lease Revenue Financings	0
Subtotal 9(d) Debt:	$4,149,940,333
Total	$4,630,789,402

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,				
	2009	**2010**	**2011**	**2012**	**2013**
Virginia Housing Development Authority [1]	$ --	$ --	$ --	$ --	$ --
Virginia Resources Authority [1]	726,416	669,839	684,005	801,384	836,656
Total	$726,416	$669,839	$684,005	$801,384	$836,656

[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,				
	2009	**2010**	**2011**	**2012**	**2013**
Institutions of Higher Education [1]	$1,356,659	$1,333,083	$1,450,714	$1,541,802	$1,538,395
Virginia College Building Authority Public Higher Education Financing Program	1,289,525	1,476,645	1,633,910	1,715,515	1,773,190
Virginia College Building Authority Private College Program	532,530	524,645	634,395	639,597	675,510
Virginia Housing Development Authority [1]	6,754,384	6,739,603	6,438,200	5,945,174	5,742,689
Virginia Public School Authority [1]	3,258,258	3,235,947	3,215,448	3,378,084	3,483,366
Virginia Port Authority	223,541	288,764	284,558	281,978	276,816
Commonwealth Transportation Board					
Federal Highway Reimbursement Anticipation Notes [1]	548,695	414,319	274,650	182,450	89,836
Grant Anticipation Notes (GARVEES) [1]	--	--	--	298,728	473,733
Hampton Roads Sanitation District	360,136	547,318	560,996	639,286	790,503
Total	$14,323,728	$14,560,324	$14,492,871	$14,622,614	$14,844,038

[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.trs.virginia.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 329,042 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2013, as compared with 11,709 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 39,984 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	
	2012	**2013**
State Employees (VRS)	79,030	78,534
Teachers (VRS)	146,690	145,945
Employees of Political Subdivisions (VRS)	104,427	104,563
State Police Officers (SPORS)	1,886	2,003
Virginia Law Officers (VaLORS)	9,413	9,324
Judges (JRS)	380	382

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 retirement plan (Hybrid Retirement Plan) for all new members hired on or after January 1, 2014 who are not in SPORS, VaLORS or VRS as a hazardous duty employee of a political subdivision. All new members hired on or after July 1, 2012 and before January 1, 2014 are in Plan 2. Members with service before July 1, 2010 are in Plan 1. The different provisions for the retirement plans are set forth in the table below:

Retirement 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** ***Hired Before July 1, 2010***	**PLAN 2** ***Hired On or After July 1, 2010***	**HYBRID RETIREMENT PLAN** ***Hired On or After January 1, 2014***
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.	Average of the member's 60 consecutive months of highest compensation as a covered employee. It is used in the retirement formula in the defined benefit component of the plan.
Member Contributions	State employees, excluding state elected officials, judges and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may pay all or a portion of this amount as elected by the employer until July 1, 2016.	State employees contribute 5% of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may pay all or a portion of this amount as elected by the employer until July 1, 2016.	A member contributes a mandatory 4% of his or her creditable compensation each month to a member contribution account under the defined benefit component and a mandatory 1% of creditable compensation each month to the Hybrid 401(a) Cash Match Plan under the defined contribution component. The employer contributes a mandatory 1% of the member's creditable compensation as well as any matching contributions on voluntary contributions to the member's hybrid 401(a) plan. A member can make voluntary contributions of up to 4% of his or her creditable compensation through the Hybrid 457 Deferred Compensation Plan.

			All member contributions are made on a pre-tax salary reduction basis. The member pays taxes only when he or she receives the money from his or her accounts as part of a retirement benefit, a refund or a distribution.
Vesting and Refunds	Members become vested when they have at least five years (60 months) of creditable service. 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. *Exception:* 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.	Members are vested to the defined benefit component when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opt into the Hybrid Retirement Plan will stay vested in the defined benefit component. Members are 100% vested in the contributions they make to the defined contribution component. Upon retirement or leaving covered employment, the member is eligible to withdraw a percentage of employer contributions. • After two years, the member is 50% vested and may withdraw 50% of employer contributions. • After three years, the member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, the member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Normal Retirement Age	VRS: Age 65.	Normal Social Security retirement age.	Normal Social Security retirement age for the purpose of the defined benefit component. For the defined contribution component, a member is eligible to receive distributions upon leaving

			employment, subject to restrictions. Distribution is not required by law until age 70½.
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
	JRS: Age 65.	Same as VRS Plan 1.	Normal Social Security retirement age for the purpose of the defined benefit component. For the defined contribution component, a member is eligible to receive distributions upon leaving employment, subject to restrictions. Distribution is not required by law until age 70½. Mandatory retirement age for judges is age 70.
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. *Example:* Age 60 with 30 years of service credit.	Under the defined benefit component, normal Social Security retirement age with at least five years (60 months) of creditable service, or when age and service equal 90. *Example:* Age 60 with 30 years of creditable service. For the defined contribution component, may be eligible for distributions upon leaving employment, subject to restrictions.
	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 VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
	JRS: Age 65 with at least five years of service credit or age 60 with at least 30 years of service credit.	Same as VRS Plan 1.	Same as VRS Plan 2 for the defined benefit component. For the defined contribution component, may be eligible for distributions upon leaving employment, subject to restrictions.
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.	Under the defined benefit component of the plan, age 60 with at least five years (60 months) of creditable service.

			For the defined contribution component, may be eligible to receive distributions upon leaving employment, subject to restrictions.
	SPORS, VaLORS and political subdivision employees: Age 50 with at least five years of service credit.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
	JRS: Age 55 with at least five years of service credit.	Same as VRS Plan 1.	Under the defined benefit component of the plan, age 60 with at least five years (60 months) of creditable service. For the defined contribution component, may be eligible to receive distributions upon leaving employment, subject to restrictions.
Retirement Multipliers	VRS and JRS: 1.7%.	VRS: 1.65% on creditable service earned, purchased or granted on or after January 1, 2013, and 1.7% on creditable service earned, purchased or granted before January 1, 2013. JRS: Same as Plan 1.	For the defined benefit component, the service retirement multiplier is 1%. If a member opts into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit under those plans.
	SPORS, sheriffs and regional jail superintendents: 1.85%.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
	VaLORS: 1.7% or 2%.	2%.	Not eligible for the Hybrid Retirement Plan.
	Political subdivision hazardous duty employees: 1.7% or 1.85% as elected by the employer.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
Cost-of-Living Adjustment (COLA) *During years of deflation or no inflation, the COLA is 0%.* *Note: Beginning January 1, 2013, members who retire with an unreduced or a reduced benefit with at least*	Matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half any additional increase (up to 4%), up to a maximum COLA of 5%.	Matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	Same as VRS Plan 2 for the defined benefit component. The COLA is not applicable to the defined contribution component.

20 years of creditable service, the COLA goes into effect July 1 after one full calendar year from the retirement date. Members who retire with a reduced benefit with less than 20 years of service, the COLA goes into effect on July 1, after one calendar year following the unreduced retirement eligibility date. Members within five years of qualifying for an unreduced benefit as of January 1, 2013 were grandfathered.			
Note: The information contained in this document is governed by Title 51.1 of the *Code of Virginia*. This information is intended to be general. It cannot be complete in all details and cannot supersede or restrict the authority granted by the *Code of Virginia*, which may be amended from time to time.			

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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,				
	2009	**2010**	**2011**	**2012**	**2013**
Additions:					
Member Contributions	$20,543	$26,498	$27,623	$230,967	$595,339
Employer Contributions	2,076,860	1,834,686	1,520,403	1,585,817	2,003,248
Net Investment Income (net of expenses)	752,986	774,306	1,030,658	1,052,001	910,677
Other	9,324	1,187	1,420	3,892	1,574
Total Additions	2,859,713	2,636,677	2,580,104	2,872,677	3,510,838
Deductions:					
Benefits	2,733,223	3,035,274	3,263,895	3,401,775	3,672,541
Refunds	91,348	93,086	100,544	88,923	81,538
Administrative Expenses	31,701	24,501	25,857	26,227	31,866
Other	668	4,050	6,675	721	4,743
Total Deductions	2,856,940	3,156,911	3,396,971	3,517,646	3,790,688
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	2,773	(520,234)	(816,867)	(644,969)	(279,850)
Net appreciation (depreciation) in fair value of investments	(12,253,992)	5,458,822	7,680,954	(414,764)	5,167,659
Net Assets Held in Trust at the End of the Year	$41,348,413	$46,287,001	$53,151,088	$52,091,355	$56,979,164

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. Effective July 1, 2012, teacher and political subdivision employers were required to begin requiring their members to pay the 5% member contribution that was previously paid by the employer. The phase-in required the shift of a minimum of 1% each year with full implementation of the shift to member-paid for all employers by July 1, 2016.

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 2013 fiscal year was determined in accordance with the actuarial valuation as of June 30, 2011. In calculating the Commonwealth's contribution rate for the 2013 fiscal year, the actuary assumed a 7 percent net investment yield compounded annually, a 2.5 percent inflation allowance in the salary scale, a 30-year amortization period for the Unfunded Actuarial Accrued Liability (UAAL) and valued the assets using a modified market basis.

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%.

For fiscal year 2013, pension contributions due and required were based on the June 30, 2011 actuarial valuations, which used a 10-year funding period for the deferred contributions from FY 2011 and FY 2012 and a 30-year funding period for the balance of the UAAL. The General Assembly again funded less than the rate determined by the actuary by increasing the investment return assumption from 7.00% to 8.00%. As a result, the FY 2013 employer rate for teachers was reduced from 16.77% to 11.66% and for state employees from 13.07% to 8.76%. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 32.62%, 19.52% and 54.11% to 24.74%, 14.80% and 45.44%, respectively. 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 2013 fiscal year) [1]

	State Employees	School Teachers	State Police	Virginia Law Officers' [2]	Judges
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
2012-13	3.55	5.93	10.49	6.80	33.69
2013-14	3.55	5.93	10.49	6.80	33.69
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
2012-13	9.52	10.84	22.13	12.72	20.42
2013-14	9.52	10.84	22.13	12.72	20.42
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
2012-13 [14]	13.07	16.77	32.62	19.52	54.11
2013-14 [14]	13.07	16.77	32.62	19.52	54.11

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.

[14] Contributions actually paid in FY 2013 and FY 2014 were 8.76%, 11.66%, 24.74%, 14.80% and 45.44% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

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, 2012. 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, 2013.

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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							
2012		$51,212	$77,859	$26,647	65.8%	$14,880	179.1%
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
State Police Officers Retirement System (SPORS)							
2012		$587	$1,013	$426	57.9%	$104	409.0%
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
Virginia Law Officer's Retirement System (VaLORS)							
2012		$909	$1,753	$844	51.9%	$345	244.8%
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
Judicial Retirement System (JRS)							
2012		$361	$582	$221	62.0%	$57	388.6%
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

[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, 2013, this plan had 292 accounts and total assets of approximately $9,402,327.

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, 2013, $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, 2013, the estimated liability related to normal operations totaled $685.7 million. Of this amount, $341.2 million is reflected in the General Fund and $344.5 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, 2013.

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, 2013, 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.

EFFECTS OF FEDERAL SEQUESTRATION ON VIRGINIA

The Federal budget reductions commonly referred to as "Sequestration" are expected to negatively impact Virginia disproportionately compared to other states. The steep reduction in federal military and domestic programs is expected to acutely impact Virginia because of Virginia's robust community of defense contractors and other federal contractors. From 2001 to 2011, economists observed that Virginia's economy grew more dependent on federal government spending, with about $58.9 billion being spent in Virginia in 2011. This was more than any other state and was the equivalent of 13.7 percent of Virginia's total economic output. The Center for Regional Analysis based at George Mason University estimates that federal spending drives 37 percent of the Northern Virginia economy, largely spending on defense contractors. The Hampton Roads economy is likewise heavily dependent on federal contracts. The White House had indicated that the Department of Defense would furlough approximately 90,000 civilian employees based in Virginia, which may have reduced their salaries by approximately 20 percent. Economists predict that Virginia will continue to see net employment growth but at a pace slower than the national average because of Sequestration.