APPENDIX B

COMMONWEALTH OF VIRGINIA FINANCIAL 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 forecasted 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, 2015, 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 2011 through 2015 and compares the final budget numbers to actual numbers.

The General Fund balance, as shown on page B-6, increased by $409.9 million in fiscal year 2015, an increase of 30.4 percent from fiscal year 2014. Overall tax revenues increased by 8.0 percent from fiscal year 2014 to fiscal year 2015. Individual and Fiduciary Income tax revenues increased by 9.6 percent. Corporation Income tax collections increased by 9.8 percent from fiscal year 2014 to fiscal year 2015. Other tax collections, which includes Deeds, Contracts, Wills and Suits; Alcoholic Beverage Sales; Tobacco Products; Estate and Other Taxes overall increased by 6.0 percent from fiscal year 2014 to fiscal year 2015. Tax revenue increases occurred in the form of a 0.4 percent increase in Public Service Corporation tax collections and a 5.5 percent increase in Sales and Uses tax collections. Tax revenue decreases occurred in the form of a 1.3 percent decrease in Communications Sales and Use tax collections and a 6.2 decrease in Premiums of Insurance Companies tax collections. Overall revenue increased by 7.4 percent and non-tax revenues decreased by 7.5 percent. Overall expenditures increased by 2.9 percent in fiscal year 2015, compared to a 2.5 percent increase in fiscal year 2014. Individual and family service expenditures increased by $239.3 million, or 4.3 percent, and education expenditures increased by $172.9 million, or 2.2 percent. General government expenditures increased $58.8 million or 2.7 percent.

Of the $1.76 billion fund balance as of June 30, 2015, $467.7 million was restricted as the Revenue Stabilization Fund (the "Fund"). During fiscal year 2015, a withdrawal of $467.7 million was made from the Fund and $4.7 million in interest was earned. Chapter 665, 2015 Acts of Assembly, authorizes an additional withdrawal estimated at $235.0 million from the fund during fiscal year 2016. 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 2013 revenue collections, a deposit of $243.2 million was made to the Fund during fiscal year 2015. In addition, a deposit of $605.6 million is required during fiscal year 2017 based on fiscal year 2015 revenue collections. The 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, 2015, the Constitutional maximum is $2.4 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 2015.

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

	2011	2012	2013	2014	2015
Revenues:					
Taxes					
Individual and Fiduciary Income	$9,944,370	$10,612,836	$11,339,966	$11,253,348	$12,328,675
State Sales and Use	3,216,406	3,335,601	3,441,195	3,400,486	3,587,849
Corporation Income	822,259	859,923	796,728	757,491	831,907
Communications Sales and Use	442,455	424,257	427,262	422,823	417,209
Deeds, Contracts, Wills and Suits	299,967	330,938	388,633	318,998	354,461
Premiums of Insurance Companies	281,563	252,895	262,242	320,421	300,641
Alcoholic Beverage Sales	178,937	186,377	195,192	199,225	207,802
Tobacco Products	173,731	192,453	187,874	180,626	178,996
Estate	2,713	298	-	196	98
Public Service Corporations	93,777	94,429	96,222	98,156	98,537
Other Taxes	21,808	20,442	18,036	28,760	30,251
Total Taxes	15,477,986	16,310,449	17,153,350	16,980,530	18,336,426
Rights and Privileges	73,283	72,817	76,931	79,085	78,654
Sales of Property and Commodities	28,005	30,146	25,477	30,682	28,930
Assessments and Receipts for Support of Special	2,777	2,570	858	931	1,582
Institutional Revenue	40,122	38,134	37,210	36,143	38,240
Interest, Dividends, Rents	90,905	83,055	72,958	78,333	54,626
Fines, Forfeitures, Court Fees, Penalties, and Escheats	222,256	216,032	216,788	211,512	216,698
Federal Grants and Contracts	-	-	6,354	9,454	6,416
Receipts from Cities, Counties, and Towns	16,340	16,209	15,813	16,318	16,533
Private Donations, Gifts and Contracts	4,595	680	439	438	775
Tobacco Master Settlement	48,185	49,136	74,010	48,693	48,207
Other	204,033	282,731	238,148	190,636	158,807
Total Revenues	16,208,487	17,101,959	17,918,336	17,682,755	18,985,894
Expenditures:					
General Government	2,149,242	2,096,588	2,173,327	2,215,179	2,273,965
Education	6,931,515	7,123,221	7,587,805	7,755,863	7,928,734
Transportation	516	462	172	773	836
Resources and Economic Development	306,970	353,567	389,221	406,052	413,053
Individual and Family Services	4,449,683	5,027,601	5,383,507	5,525,897	5,765,208
Administration of Justice	2,247,447	2,284,948	2,443,464	2,519,888	2,586,618
Capital Outlay	6,144	7,627	6,274	10,663	6,510
Total Expenditures	16,091,517	16,894,014	17,983,770	18,434,315	18,974,924
Revenues Over (Under) Expenditures	116,970	207,945	(65,434)	(751,560)	10,970
Other Financing Sources (Uses):					
Transfers In	693,750	799,070	712,400	770,542	866,913
Transfers Out	(487,991)	(621,163)	(509,749)	(490,310)	(468,029)
Total Other Financing Sources (Uses)	205,759	177,907	202,651	280,232	398,884
Revenues and Other Sources Over (Under) Expenditures and Other Uses	322,729	385,852	137,217	(471,328)	409,854
Fund Balance, July 1:					
Restricted	310,778	456,384	707,401	940,906	943,491
Committed	443,182	461,140	518,619	556,076	365,220
Assigned	220,871	380,036	457,392	323,647	40,590
Total Fund Balance, July 1, as restated	974,831**	1,297,560	1,683,412	1,820,629	1,349,301
Fund Balance, June 30:					
Restricted	456,384	707,401	940,906	943,491	1,082,618
Committed	461,140	518,619	556,076	365,220	328,791
Assigned	380,036	457,392	323,647	40,590	347,746
Total Fund Balance, June 30	$1,297,560	$1,683,412	$1,820,629	$1,349,301	$1,759,155

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

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,			
	2011		2012	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	$9,746,200	$198,170	$10,526,400	$86,436
State Sales and Use	3,186,200	30,206	3,282,100	53,501
Corporation Income	766,600	55,659	827,800	32,123
Communications Sales and Use	448,900	(6,445)	440,000	(15,743)
Public Service Corporations	96,400	(2,623)	93,900	529
Premiums of Insurance Companies	277,700	3,863	287,300	(34,405)
Other [1]	662,456	14,700	717,589	12,919
Total Taxes	$15,184,456	$293,530	$16,175,089	$135,360
Rights and Privileges	88,545	(15,262)	82,838	(10,021)
Institutional Revenue	38,912	1,210	40,511	(2,377)
Interest, Dividends, Rents and Other Investment Income	75,288	15,617	82,442	613
Tobacco Master Settlement	52,134	(3,949)	50,205	(1,069)
Other [2]	349,728	128,278	428,272	120,096
Total Revenues	$15,789,063	$419,424	$16,859,357	$242,602
Expenditures:				
General Government	2,224,688	75,446	2,196,546	99,958
Education	7,021,369	89,854	7,225,088	101,867
Transportation	585	69	462	-
Resources and Economic Development	416,856	109,886	415,708	62,141
Individual and Family Services	4,540,334	90,651	5,149,191	121,590
Administration of Justice	2,367,326	119,879	2,383,519	98,571
Capital Outlay	19,358	13,214	19,397	11,770
Total Expenditures	$16,590,516	$498,999	$17,389,911	$495,897
Revenues Over (Under) Expenditures	$(801,453)	$918,423	$(530,554)	$738,499
Other Financing Sources (Uses):				
Transfers In	645,516	48,234	748,237	50,833
Transfers Out	(467,055)	(20,936)	(602,512)	(18,651)
Total Other Financing Sources (Uses)	$178,461	$27,298	$145,725	$32,182
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(622,992)	945,721	(384,829)	770,681
Fund Balance, July 1	974,831 **	-	1,297,560	-
Fund Balance, June 30	$351,839	$945,721	$912,731	$770,681

[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," "Estate" and "Other"." 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," "Private Donations, Gifts, and Contracts" and "Other." The reason for this is consistency with the CAFR line items.

** As restated as required by GASB 54

Source: Department of Accounts.

Fiscal Year Ended June 30,					
2013		2014		2015	
Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
$11,092,600	$247,366	$11,669,100	$(415,752)	$11,816,300	$512,375
3,471,616	(30,421)	3,414,100	(13,614)	3,568,100	19,749
820,900	(24,172)	769,900	(12,409)	840,900	(8,993)
440,000	(12,738)	440,000	(17,177)	425,000	(7,791)
95,300	922	97,700	456	96,800	1,737
255,600	6,642	289,400	31,021	320,500	(19,859)
743,309	46,426	786,805	(59,000)	733,367	38,241
$16,919,325	$234,025	$17,467,005	$(486,475)	$17,800,967	535,459
79,663	(2,732)	89,910	(10,825)	87,192	(8,538)
41,668	(4,458)	41,485	(5,342)	41,796	(3,556)
68,064	4,894	50,572	27,761	62,629	(8,003)
52,733	21,277	49,727	(1,034)	51,086	(2,879)
413,991	89,886	437,459	22,512	411,136	18,605
$17,575,444	$342,892	$18,136,158	$(453,403)	$18,454,806	$531,088
2,360,523	187,196	2,272,147	56,968	2,334,088	60,123
7,670,879	83,074	7,823,406	67,543	7,977,968	49,234
172	-	1,312	539	2,367	1,531
512,266	123,045	460,327	54.275	465,224	52,171
5,488,489	104,982	5,655.699	129,802	5,827,264	62,056
2,477,411	33,947	2,531,750	11,862	2,608,951	22,333
36,297	30,023	32,047	21,384	31,380	24,870
$18,546,037	$562,267	$18,776,688	$342,373	$19,247,242	$272,318
$(970,593)	$905,159	$(640,530)	$(111,030)	$(792,436)	803,406
699,253	13,147	745,413	25,129	864,788	2,125
(493,024)	(16,725)	(473,579)	(16,731)	(431,678)	(36,351)
$206,229	$(3,578)	$271,834	$8,398	433,110	$(34,226)
(764,364)	901,581	(368,696)	(102,632)	(359,326)	769,180
1,683,412	-	1,820,629	-	1,349,301	-
$919,048	$901,581	$1,451,933	$(102,632)	$989,975	$769,180

General Fund Revenues

Of total fiscal year 2015 tax revenue, 97.2 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 Deeds, Contracts, Wills and Suits and Taxes on Premiums of Insurance Companies.

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: (67.2 percent of Total Taxes in fiscal year 2015) 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 2015:

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: (19.6 percent of Total Taxes in fiscal year 2015) A sales and use tax is imposed at the rate of 5.3 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, prescription medicines. One percent of the 5.3 percent sales tax and of the 2.5 percent sales tax on food for home consumption 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: (4.5 percent of Total Taxes in fiscal year 2015) 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.

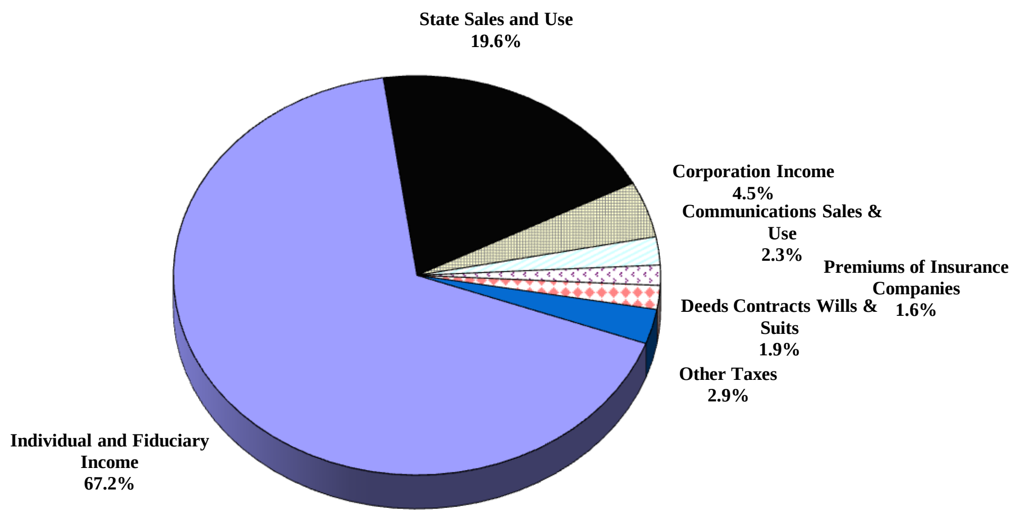
Communication Sales and Use Taxes: (2.3 percent of Total Taxes in fiscal year 2015) The Commonwealth collects communication sales and use taxes and disburses these amounts to localities.

Taxes on Deeds, Contracts, Wills and Suits: (1.9 percent of Total Taxes in fiscal year 2015) 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, whichever is greater ,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.

Taxes on Premiums of Insurance Companies: (1.6 percent of Total Taxes in fiscal year 2015) 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.

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, 2015



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 2011 through 2015:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

Fiscal Year Ended June 30,	Amount
2011	466,300,479
2012	489,381,022*
2013	543,912,785*
2014	552,666,423*
2015	574,351,971*

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 is 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: (41.8 percent of Total Expenditures in fiscal year 2015) 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: (30.4 percent of Total Expenditures in fiscal year 2015) 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 2015) 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.

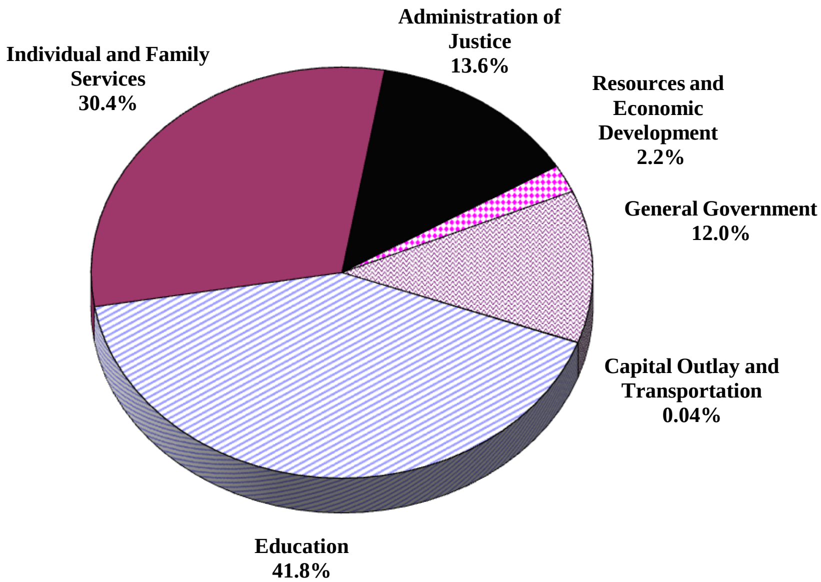
General Government: (12.0 percent of Total Expenditures in fiscal year 2015) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental 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 2015) 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 2015) 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, 2015



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
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	*	*
2014	*	*
2015	*	*

Source: Department of Accounts.

*See 2011, 2012, 2013, 2014 and 2015 below for an explanation as to how GASB 54 has required a change in the unreserved General Fund balance classification. Refer to Fund Balances Chart as set forth on page B-6.

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 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 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 classifications.

2014. General Fund revenues and other sources were less than expenditures and other uses by $471.3 million in fiscal year 2014. Total revenues decreased by 1.3 percent and total expenditures increased by 2.5 percent. Transfers to the General Fund increased by 8.2 percent while transfers out decreased by 3.8 percent. Transfers to and from Component Units in fiscal year 2014 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, 2014 in these classifications.

2015. General Fund revenues and other sources exceeded expenditures and other uses by $409.9 million in fiscal year 2015. Total revenues increased by 7.4 percent and total expenditures increased by 2.9 percent. Transfers to the General Fund increased by 12.5 percent while transfers out decreased by 4.5 percent. Transfers to and from Component Units in fiscal year 2015 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, 2015 in these 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.

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,				
	2011	**2012**	**2013**	**2014**	**2015**
Total revenues	$3,849,149	$3,871,439	$4,306,638	$4,988,575	$5,422,649
Total expenditures	3,884,844	4,488,603	4,633,673	5,154,523	5,438,605
Revenues over (under) expenditures	(35,695)	(617,164)	(327,035)	(165,948)	(15,956)
Other sources (uses) net	461,147	929,228	1,508	27,722	15,828
Revenue and other sources (uses) over (under) expenditures	425,452	312,064	(325,527)	(138,226)	(128)
Beginning fund balance (adjusted)	2,009,078	2,434,530	2,739,308	2,402,970	2,271.235
Ending fund balance	$2,434,530	$2,746,594	$2,413,781	$2,264,744	$2,271,107

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, 2011-2015

2015 Appropriation Act

On December 17, 2014, Governor McAuliffe presented his proposed amendments to Chapter 3 of the 2014 Acts of Assembly, Special Session I, affecting the remainder of the 2014-2016 biennium (House Bill 1400/Senate Bill 800) (the "2015 Budget Bill").

The Governor's budget amendments addressed general fund savings requirements included in Chapter 3 by either moving the savings to agency budgets for items such as Medicaid and higher education savings or by identifying within the existing reversion clearing account, the ultimate source of the savings to be captured from agency appropriations. In addition, some savings amounts were reflected in revenue, additions to balance, and nongeneral fund cash transfers to the general fund. Chapter 3 required approximately $882 million in savings and balances to be collected from agencies. The Governor's amendments increased the overall savings amount by $72.5 million to $954.7 million.

The Governor's spending amendments focused on six major themes; 1) Invest in opportunities to grow a new economy, 2) No reductions in public education and begin increasing support for core needs, 3) Protect investments in higher education with no new cuts and small increases in key areas, 4) Provide adequate funding for core Health and Human Resource services, 5) Support priority needs in public safety and for veterans, and 6) Protect transportation funding.

The 2015 Budget Bill was considered by the 2015 Session of the General Assembly which convened on January 14, 2015. The General Assembly adjourned on February 27, 2015 offering their recommendations on amendments to the 2015 Budget Bill.

On March 26, 2015, Governor McAuliffe signed House Bill 1400 with no amendments or vetoes. The 2015 Budget Bill, also known as Chapter 665, 2015 Virginia Acts of Assembly (the "2015Appropriation Act") became effective upon signing by the Governor on March 26, 2015.

The 2015 Appropriation Act included: compensation increases for state employees and state supported local employees to include teachers; general fund investments in capital outlay projects and maintenance reserve; continued commitment to funding the full board-approved Virginia Retirement System contribution rates; funding for a new behavioral health program in Medicaid for individuals with mental illness and other coverage changes; support for higher education operations, enrollment growth, financial aid, research, and faculty salary increases; investments in water quality and land conservation efforts; additional funding for the Commonwealth's Development Opportunity Fund to support employer recruitment and job growth; and an added $129.5 million dedicated toward required deposits to the revenue stabilization fund.

The 2015 Appropriation Act assumed a general fund balance at the end of the biennium of $5.1 million.

The table on the following page summarizes the 2015 Appropriation Act.

2015 Appropriation Act
(Chapter 665, 2015 Acts of Assembly)

	FY 2015	FY 2016	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2014	$405,810,000	$0	$405,810,000
Additions to balance	(219,394,360)	1,900,446	(217,493,914)
Official revenue estimate	17,186,022,255	17,720,628,857	34,906,651,112
Revenue Stabilization Fund	470,000,000	235,000,000	705,000,000
Transfers	644,994,561	564,512,975	1,209,507,536
Total general fund resources available for appropriation	$18,487,432,456	$18,522,042,278	$37,009,474,734
Appropriations			
Legislative	$76,040,249	$74,837,052	$150,877,301
Judicial	452,612,774	455,425,634	900,970,281
Executive	17,710,185,367	18,091,284,346	35,801,469,713
Independent Agencies	1,200,133	1,200,446	2,400,579
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	18,240,038,523	18,622,747,478	36,862,786,001
Capital Outlay	200,000	141,418,476	141,618,476
Total appropriations	$18,240,238,523	$18,764,165,954	$37,004,404,477
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2014	$4,945,503,350	$0	$4,945,503,350
Official revenue estimate	25,734,466,497	26,305,964,356	52,040,430,853
Lottery Proceeds Fund	557,555,450	531,667,925	1,089,223,375
Internal Service Fund	1,771,892,976	1,801,509,481	3,573,402,457
Bond proceeds	792,874,586	248,608,000	1,041,482,586
Total nongeneral fund revenue available for appropriation	$33,802,292,859	$28,887,749,762	$62,690,042,621
Appropriations			
Legislative	$3,771,599	$3,007,990	$6,779,589
Judicial	34,167,869	34,258,099	68,425,968
Executive Department	28,218,207,791	29,340,788,981	57,558,996,772
Independent Agencies	483,381,406	512,254,210	995,635,616
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	28,739,528,665	29,890,309,280	58,629,837,945
Capital Outlay	941,084,442	388,830,960	1,329,915,402
Total appropriations	$29,680,613,107	$30,279,140,240	$59,959,753,347

Source: Department of Planning and Budget.

2016 Amendments to the 2015 Appropriation Act

On December 17, 2015 Governor McAuliffe presented amendments to the 2015 Appropriation Act affecting appropriations for the remainder of the 2014-2016 biennium (House Bill 29/Senate Bill 29). 33 individual amendments increase general fund spending by $238.4 million and 14 individual amendments decrease spending by $69.1 for a net operating spending increase of $169.2 million for the remainder of fiscal year 2016. The Governor's amendments also included an additional $1.5 million in general fund capital outlay appropriation.

The amendments that result in general fund appropriation reductions are technical in nature and include items such as capturing savings from revised K12 student enrollment projections, updating Lottery proceeds for public education, and recognizing debt management savings.

Increases in general fund appropriation in the Governor's amendments are primarily a result of workload, caseload, or inflationary changes and include items such as Medicaid utilization and inflation, Children's Services Act expenditure and caseload growth, per diem payments to local and regional jails, rebasing intellectual disability training center budgets to reflect anticipated closures, and funding for required Social Services eligibility system operating cost.

The 2016 amendments to the 2015 Appropriation Act assume a general fund balance at the end of the biennium of $426 million.

The table on the following page summarizes House Bill 29/Senate Bill 29.

2016 Amendments to the 2015 Appropriation Act
(House Bill 29/Senate Bill 29)

	FY 2015	FY 2016	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2014	$835,153,067	$0	$835,153,067
Additions to balance	(219,394,360)	(428,442,862)	(647,837,221)
Official revenue estimate	17,186,022,255	18,308,867,069	35,494,889,324
Revenue Stabilization Fund	470,000,000	235,000,000	705,000,000
Transfers	644,994,561	568,916,613	1,213,911,174
Total general fund resources available for appropriation	$18,916,775,523	$18,684,340,820	$37,601,116,343
Appropriations			
Legislative	$76,040,249	$74,837,052	$150,877,301
Judicial	452,612,774	455,968,723	908,581,497
Executive	17,710,185,367	18,260,866,340	35,971,051,707
Independent Agencies	1,200,133	325,151	1,525,284
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	18,240,038,523	18,791,997,266	37,032,035,789
Capital Outlay	200,000	142,918,476	143,118,476
Total appropriations	$18,240,238,523	$18,934,915,742	$37,175,154,265
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2014	$4,945,503,350	0	$4,945,503,350
Official revenue estimate	25,734,466,497	26,466,290,694	52,200,757,191
Lottery Proceeds Fund	557,555,450	538,955,547	1,096,510,997
Internal Service Fund	1,771,892,976	1,908,509,481	3,680,402,457
Bond proceeds	792,874,586	248,608,000	1,041,482,586
Total nongeneral fund revenue available for appropriation	$33,802,292,859	$29,162,363,722	$62,964,656,581
Appropriations			
Legislative	$3,771,599	$3,007,990	$6,779,589
Judicial	34,167,869	34,326,827	68,494,696
Executive Department	28,218,207,791	30,029,982,189	58,248,189,980
Independent Agencies	483,381,406	517,734,510	1,001,115,916
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	28,739,528,665	30,585,051,516	59,324,580,181
Capital Outlay	941,084,442	388,830,960	1,329,915,402
Total appropriations	$29,680,613,107	$30,973,882,476	$60,654,495,583

Source: Department of Planning and Budget.

2016 Budget Bill

On December 17, 2016, Governor McAuliffe presented the Budget Bill for the 2016-2018 biennium that begins July 1, 2016 (House Bill/Senate Bill 30) (the "2016 Budget Bill"). The 2016 Budget Bill focuses on building the New Virginia Economy and was developed with the following core objectives:

- Investing in the Future
- Creating 21st Century Jobs
- Creating healthier communities
- Creating stronger, safer communities
- Maintaining prudent and sound government

The proposed 2016 Budget Bill appropriates over $109 billion from all fund sources for total state government operations, and leaves an unappropriated general fund balance on June 30, 2018 of $17.6 million.

The 2016 Budget Bill provides an additional $605.6 million to the Revenue Stabilization Fund in fiscal year 2017. With this deposit, the Revenue Stabilization Fund will reach an expected balance of over $845 million. The top ten general fund spending changes included in the Governor's introduced budget are as follows:

• Medicaid utilization and inflation increase	$789.1 million
• Revenue Stabilization Fund deposit	$605.6 million
• Update costs of the K12 Standards of Quality (SOQ)	$398.1 million
• Add instructional positions in local schools	$139.1 million
• Increased funding for the state employee health insurance program	$137.3 million
• Provide debt service for projects and equipment	$107.8 million
• Update sales tax revenues for public education	$84.6 million
• Increase salaries for public school positions	$83.2 million
• Two percent salary increase for state employees and state supported local employees	$76.2 million
• Deposit funding to the Water Quality Improvement Fund and Virginia Natural Resources Commitment Fund (from the Fiscal Year 2015 surplus)	$61.7 million

The proposed amendments to the 2015 Appropriation Act and the proposed 2016 Budget Bill will be considered by the 2016 Session of the Virginia General Assembly, which convened on January 13, 2016, and is scheduled to conclude on March 12, 2016.

The table on the following page summarizes the 2016 Budget (House Bill 30/Senate Bill 30).

2016 Budget Bill
(House Bill 30/Senate Bill 30)

	FY 2017	FY 2018	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2014	425,962,078	0	425,962,078
Additions to balance	666,780,000	(500,000)	666,280,000
Official revenue estimate	18,860,331,274	19,551,431,954	38,411,763,228
Transfers	570,077,738	584,177,738	1,154,255,476
Total general fund resources available for appropriation	$20,523,151,090	$20,135,109,692	$40,658,260,782
Appropriations			
Legislative	$78,764,684	$78,768,294	$157,532,978
Judicial	480,401,002	480,044,797	960,445,799
Executive	19,732,365,761	19,638,531,884	39,370,897,645
Independent Agencies	233,841	251,292	485,133
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	20,291,765,288	20,197,596,267	40,489,361,555
Capital Outlay	52,900,000	98,400,000	151,300,000
Total appropriations	$20,344,665,288	$20,295,996,267	$40,640,661,555
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2014	$4,728,561,193	$0	$4,728,561,193
Official revenue estimate	27,689,148,337	29,728,697,761	57,417,846,098
Lottery Proceeds Fund	541,231,250	541,231,250	1,082,462,500
Internal Service Fund	2,026,622,884	2,124,095,360	4,150,718,244
Bond proceeds	2,436,696,000	50,000,000	2,486,696,000
Total nongeneral fund revenue available for appropriation	$37,422,259,664	$32,444,024,371	$69,866,284,035
Appropriations			
Legislative	$3,189,351	$3,189,532	$6,378,883
Judicial	33,152,496	33,155,404	66,307,900
Executive Department	31,414,200,805	33,175,690,609	64,589,891,414
Independent Agencies	564,443,656	594,950,578	1,159,394,234
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	32,014,986,308	33,806,986,123	65,821,972,431
Capital Outlay	2,666,595,700	101,246,000	2,767,841,700
Total appropriations	$34,681,582,008	$33,908,232,123	$68,589,814,131

Source: Department of Planning and Budget.

INDEBTEDNESS OF THE COMMONWEALTH

Section 9 of Article X of the Constitution of Virginia 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 ("9(c) Debt Limit"). 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.

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, 2015, the debt limits pursuant to Article X, Section 9 of the Constitution of Virginia are as follows:

COMPUTATION OF LEGAL DEBT LIMIT AND DEBT MARGIN *

(in thousands)

		Fiscal Year Ended June 30,	
Taxes	**2013**	**2014**	**2015**
Individual and Fiduciary Income [1]	$11,339,966	$11,253,348	$12,328,675
Corporation Income [2]	796,728	757,491	831,907
State Sales and Use [3]	3,419,489	3,399,223	3,587,849
Total	$15,556,183	$15,410,062	$16,748,431
Average tax revenues for the three fiscal years			$15,904,892
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 2015*			$5,778,209
Less 9(a)(2) Bonds Outstanding:			0
Debt Issuance Margin for Section 9(a)(2) General Obligation Bonds			$5,778,209
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			$18,290,626
Less 9(b) Bonds Outstanding at June 30, 2015*:			
Public Facilities Bonds [6]		$642,181	
Transportation Facilities Refunding Bonds [5][6]		0	
Bond Anticipation Notes		0	
Total 9(b) Bonds Outstanding at June 30, 2015*			642,181
Debt Issuance Margin for Section 9(b) General Obligation Bonds			$17,648,445
Debt Authorization Limit:			
25% of 1.15 times average tax revenues for three fiscal years as calculated above			$4,572,656
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):			4,572,656
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			$18,290,626
Less 9(c) Bonds Outstanding at June 30, 2015*:			
Parking Facilities [6]		$16,036	
Transportation Facilities [6]		17,154	
Higher Educational Institutions [6]		936,894	
Bond Anticipation Notes		0	
Total 9(c) Bonds Outstanding at June 30, 2015*			970,084
Debt Issuance Margin for Section 9(c) General Obligation Bonds			$17,320,542

Sources: Department of Accounts and Department of the Treasury.

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

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

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

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

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

[6] Net of unamortized discounts, premiums.

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, 2015 includes the unamortized portion of $642.2 million of general obligation bonds. In November 1992, $613.0 million in general obligation bonds were authorized and approved by the voters. In November 2002, $1.0 billion in general obligation bonds were authorized and approved by the voters. Various series of refunding bonds were issued to refund certain series of bonds. Outstanding Section 9(c) debt as of June 30, 2015 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 2005 to 2015, one series of Transportation Facilities Bonds issued in 2006, and two series of Parking Facilities Bonds (including refunding bonds) issued between 2009 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 to 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 or other non-general fund revenues.

The debt repayments of the Virginia Public Building Authority, the Virginia College Building Authority 21st Century College and Equipment Programs, the Virginia Biotechnology Research Partnership 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, 2015, $2.5 billion (unadjusted) in CTB Tax-Support 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, 2015, $2.0 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, 2015, $272.5 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. While $30 million of that amount was rescinded during 2011, an additional $66.8 million was authorized and issued in 2015.

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, 2015. 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 $135.4 million as of June 30, 2015.

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 $177.2 million as of June 30, 2015.

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.

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OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

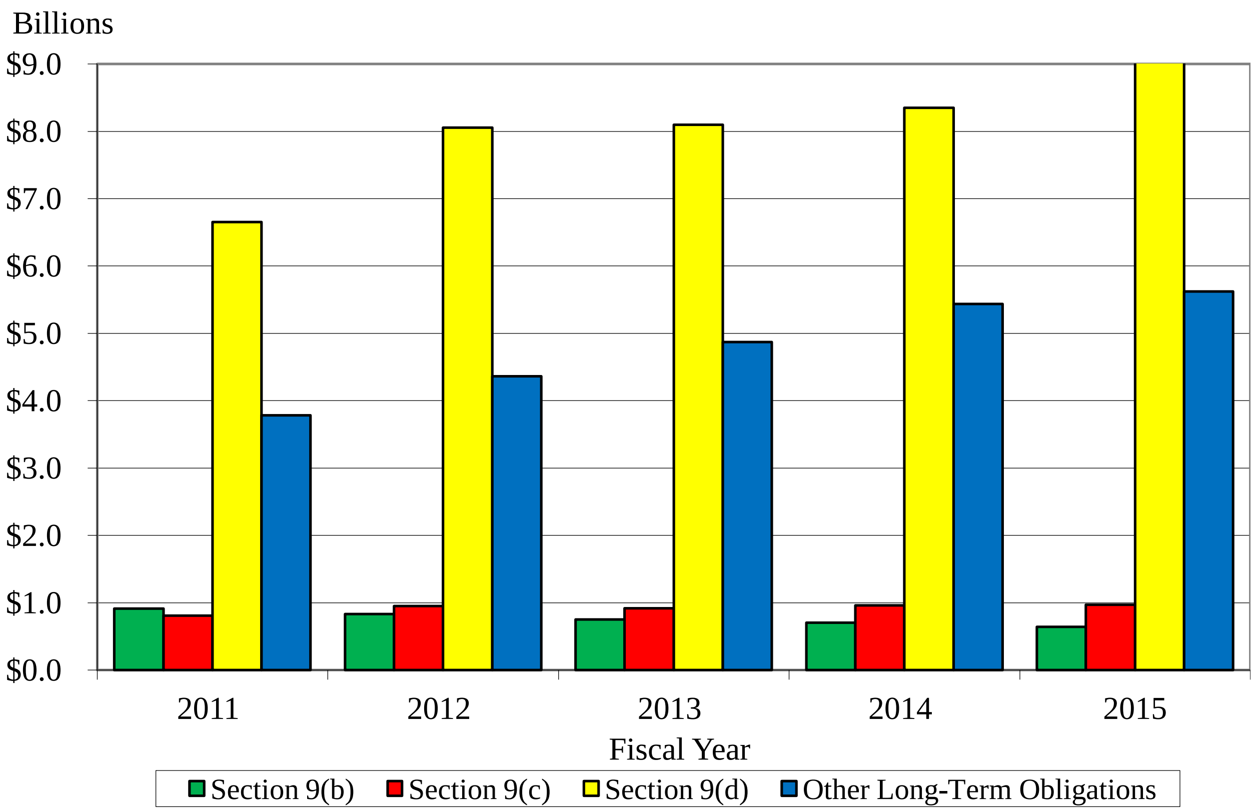
	2011	2012	2013	2014	2015
General Obligation Debt:					
Section 9(a)					
Section 9(b) [1]	$914,574	$831,148	$752,493	$706,192	$642,181
Section 9(c)					
Higher Educational Institutions [1]	$765,280	$906,474	$877,858	$925,086	$936,857
Transportation Facilities [1]	$26,355	$24,210	$21,961	$19,632	$17,154
Parking Facilities [1]	$19,445	$18,383	$17,538	$17,045	$16,036
Sub-Total 9(c)	$811,080	$949,067	$917,357	$961,763	$970,047
Total General Obligation Debt	$1,725,654	$1,780,215	$1,669,850	$1,667,955	$1,612,228
Section 9(d) Debt:					
Transportation [1]	2,008,601	2,655,481	2,495,312	2,373,382	2.552,123 [2]
Virginia Public Building Authority [1]	2,418,513	2,566,789	2,534,347	2,374,835	2,623,447
Virginia Port Authority [1]	186,011	237,321	228,619	222,044	288,446
Virginia College Building Authority 21st Century/Equipment [1]	1,909,586	2,470,589	2,725,259	3,286,119	3,520,214
Innovative Technology Authority	3,465	2,375	1,220	-	-
Virginia Biotechnology Research Partnership Authority [1]	39,955	37,162	35,284	34,355	30,619
Virginia Aviation Board	1,336	1,050	764	529	307
Fairfax County Economic Development Authority [1]	85,827	81,747	77,472	57,621	51,249
Total Section 9(d) Debt	6,653,294	8,052,514	8,098,277	8,348,885	9,066,405
Other Long-Term Obligations:					
Transportation Notes Payable	8,000	8,000	8,000	-	-
Capital Leases	206,738	168,566	157,466	143,105	135,404
Installment Purchase Obligations	219,291	215,120	192,682	190,462	177,185
Compensated Absences	559,672	569,021	582,774	601,757	599,726
Regional Jail Financing Program	4,617	2,748	837	-	-
Net Pension Liability	2,050,195	2,446,240	2,799,523	3,181,441	6,629,296
OPEB Liability	643,837	877,630	1,076,157	1,270,479	1,484,680
Other Liabilities and Notes Payable	90,039	73,457	53,419	49,818	45,109
Total Other Long-Term Obligations	3,782,389	4,360,782	4,870,858	5,437,062	9,071,400
Total Tax-Supported Debt [2]	12,161,337	$14,193,511	$14,638,985	$15,453,902	$19,750,033

Source: Department of the Treasury; Department of Accounts.

[1] Net of unamortized discounts/premiums and/or deferral on debt defeasance through June 30, 2013. In accordance with GASB 65, balances as of June 30, 2014 and 2015 are net of unamortized discounts/premiums.

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

OUTSTANDING TAX-SUPPORTED DEBT
As of June 30, 2011-2015



Outstanding Tax-Supported Debt Service

The following table summarizes annual debt service on outstanding tax-supported debt as of June 30, 2015. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

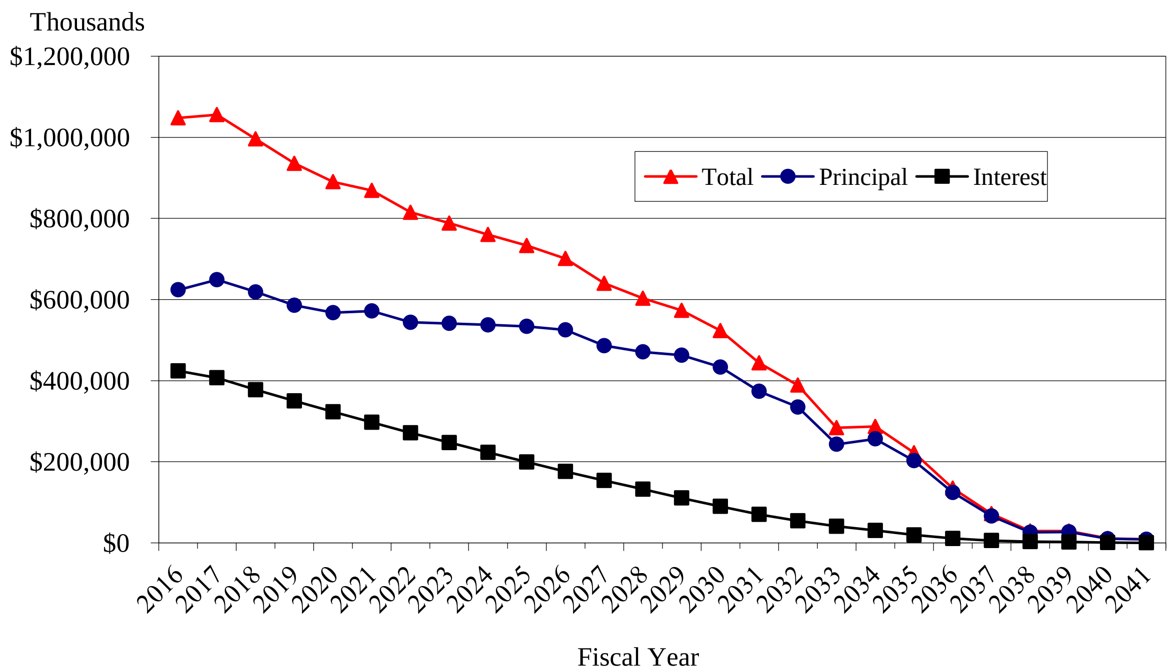
ANNUAL DEBT SERVICE REQUIREMENTS
Tax-Supported Debt Outstanding at June 30, 2015
($ in thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c)			Other Tax-Supported Debt Section 9(d) [1]			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	115,690	64,853	180,543	508,312	359,028	867,340	624,002	423,881	1,047,883
2017	108,735	59,583	168,318	540,059	347,443	887,502	648,794	407,026	1,055,820
2018	101,990	54,467	156,457	516,540	322,974	839,514	618,530	377,441	995,971
2019	101,445	49,855	151,300	484,296	300,014	784,310	585,740	349,869	935,610
2020	101,385	45,200	146,585	466,073	277,792	743,865	567,458	322,992	890,450
2021	103,520	40,590	144,110	468,211	256,633	724,844	571,731	297,223	868,954
2022	98,740	35,804	134,544	444,940	234,445	680,385	543,680	271,249	814,929
2023	99,145	31,295	130,440	441,995	215,830	657,826	541,140	247,125	788,266
2024	98,770	26,819	125,589	438,516	196,200	634,716	537,286	223,019	760,305
2025	90,545	22,366	112,911	443,164	176,884	620,048	553,709	199,250	732,959
2026	85,160	18,460	103,620	439,919	157,550	597,469	525,079	176,010	701,089
2027	76,825	14,777	91,602	409,206	138,990	548,196	486,031	153,767	639,798
2028	61,410	11,316	72,726	409,420	120,853	530,273	470,830	132,169	602,999
2029	47,000	8,569	55,569	415,550	102,052	517,602	462,550	110,620	573,171
2030	37,290	6,567	43,857	395,985	83,394	479,379	433,275	89,961	523,236
2031	32,890	5,029	37,919	340,715	65,076	405,791	373,605	70,105	443,710
2032	22,855	3,699	26,554	311,845	50,556	362,401	334,700	54,255	388,955
2033	22,440	2,794	25,234	220,655	37,960	258,615	243,095	40,754	283,849
2034	20,080	1,896	21,976	236,310	28,498	264,808	256,390	30,394	286,784
2035	12,805	1,061	13,866	189,835	18,264	208,099	202,640	19,325	221,965
2036	5,210	545	5,755	118,925	10,120	129,045	124,135	10,665	134,800
2037	1,895	328	2,223	64,180	5,402	69,582	66,075	5,730	71,805
2038	1,675	244	1,919	24,270	2,789	27,059	25,945	3,033	28,978
2039	1,730	165	1,895	25,315	1,734	27,049	27,045	1,899	28,994
2040	1,785	84	1,869	8,180	634	8,814	9,965	718	10,683
2041	0	0	0	8,590	215	8, 805	8,590	215	8,805
Subtotal	1,451,015	506,366	1,957,381	8,371,006	3,512,330	11,883,337	9,822,022	4,018,696	13,840,718
Add Unamortized Premium & Accretion on Capital Appreciation				23,139		23,139	23,139		23,139
Bonds	161,213	-	161,213	672,354	-	672,354	833,567	-	833,567
Less Unamortized Discount	-	-	-	(96)	-	-(96)-	(96)	-	(96)
TOTAL	$1,612,228	$506,366	$594	$9,066,404	3,512,330	$12,578,734	$10,678,632	$4,018,696	$14,697,328

Source: Department of the Treasury; Department of Accounts.

[1] Net of unamortized discounts/premiums and/or deferral on debt defeasance through June 30, 2013. In accordance with GASB 65 balances as of June 30, 2014 and 2015 are net of unamortized discounts/premiums.
[2] Numbers may not add to totals due to rounding.

ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2015
(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
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	8,186,628	396,005,223	14,193,511	1,733.74	3.6%
2013	8,260,405	402,881,000	14,638,985	1,722.19	3.6%
2014	8,326,289	419,184,911	15,453,902	1,856.04	3.8%

Source: [1] U.S. Census Bureau. 2015 population and personal income data is not yet available.
[2] U.S. Department of Commerce, Bureau of Economic Analysis.
[3] 2013 and 2014 personal income and population data are revised estimates as of September2015.

Authorized and Unissued Tax-Supported Debt

As of June 30, 2015, the following tax-supported debt had been authorized by the General Assembly and remained unissued:

(in thousands)

Section 9(b) Debt:		
Higher Educational Institutions Bonds	$	-
Park and Recreational Facilities Bonds		-
Subtotal 9(b) Debt:	$	-
Section 9(c) Debt:		
Higher Educational Institutions Bonds	$	667,562
Parking Facility Bonds		226
Subtotal 9(c) Debt:	$	667,788
Section 9(d) Debt:		
Transportation Capital Projects Revenue Bonds	$	1,187,335
Northern Virginia Transportation District Program		24,700
U.S. Route 58 Corridor Development Program		595,700
Virginia Public Building Authority -- Projects		688,763
Virginia Public Building Authority -- Jails		84,299
Virginia College Building Authority -- 21st Century Projects		1,005,656
Virginia College Building Authority -- 21st Century Equipment		138,436
Virginia Port Authority		-
Subtotal 9(d) Debt:	$	3,724,889
Total	$	4,392,677

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. 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,				
	2011	2012	2013	2014	2015
Virginia Resources Authority [1]	$684,005	$801,384	$836,656	$831,165	$877,875
Total	$684,005	$801,384	$836,656	$831,165	$877,875

[1] Net of unamortized discounts and premiums 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,				
	2011	2012	2013	2014	2015
Institutions of Higher Education [1]	$1,450,714	$1,541,802	$1,538,395	$1,826,602	$2,038,579
Virginia College Building Authority Public Higher Education Financing Program	1,633,910	1,715,515	1,773,190	1,759,970	1,729,375
Virginia College Building Authority Private College Program	634,395	639,597	675,510	660,169	701,572
Virginia Housing Development Authority [1]	6,438,200	5,945,174	5,742,689	4,931,982	4,498,847
Virginia Public School Authority [1]	3,215,448	3,378,084	3,483,366	3,523,633	3,551,741
Virginia Port Authority	284,558	281,978	276,816	272,831	256,656
Commonwealth Transportation Board					
Federal Highway Reimbursement Anticipation Notes [1]	274,650	182,450	89,836	60,905	30,624
Grant Anticipation Notes (GARVEES) [1]	--	298,728	473,733	746,812	705,574
Hampton Roads Sanitation District	560,996	639,286	790,503	766,353	748,397
Total	$14,492,871	$14,622,614	$14,844,038	$14,549,257	$14,261,365

Source: Department of the Treasury.

[1] Net of unamortized discounts and premium costs.

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 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 329,393 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2015, as compared with 11,183 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 43,865 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 RETIREMENT PLANS

	Fiscal Year Ended June 30	
	2014	**2015**
State Employees (VRS)	78,882	78,204
Teachers (VRS)	145,421	145,758
Employees of Political Subdivisions (VRS)	105,374	105,431
State Police Officers (SPORS)	2,020	2,000
Virginia Law Officers (VaLORS)	9,415	8,779
Judges (JRS)	387	404

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, 2010 and before January 1, 2014 are in Plan 2. Vested members on January 1, 2013 with service before July 1, 2010 are in Plan 1. Non-vested members on January 1, 2013 with service before July 1, 2010 are in Plan 2. The different provisions for the retirement plans are set forth in the following table:

Retirement Benefit Plan Provisions

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

All full-time, salaried permanent (professional) employees of state agencies, public school divisions and employees of participating employers are automatically covered by a pension plan upon employment. Members qualify for retirement when they become vested and meet the age and service requirements for their plan, as shown in the following table.

The System administers three different benefit structures for government employees: Plan 1, Plan 2 and the Hybrid Retirement Plan. Each of these is called a plan in statute and each has different provisions with a specific eligibility and benefit structure. These different benefit structures are set out in the following table:

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014, are in this plan, as well as Plan 1 and Plan 2 members who were eligible to opt into the plan during a special election window (see "Eligible Members"). • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty-covered	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election**	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • School division employees • Political subdivision employees*

Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	• Judges appointed or elected to an original term on or after January 1, 2014, regardless if vested to VRS Plan 1 or VRS Plan 2. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials, judges in Plan 1 or Plan 2 and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages. Mandatory member contributions and the employer match on the mandatory and voluntary member contributions are recorded in a 401(a) account, along with the accrued net investment income. The voluntary member contributions and accrued net investment income are recorded in a 457(b) account.

		Members are responsible for investing their accounts using the various investment options that are available.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine eligibility for retirement and to calculate the retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** *Defined Benefit Component:* Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine eligibility for retirement and to calculate the retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. *Defined Contribution Component:* Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** *Defined Benefit Component:* Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. *Defined Contribution Component:* Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

		Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** *Defined Benefit Component:* See definition under Plan 1. *Defined Contribution Component:* The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS and JRS Plan 1: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. SPORS, sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00%. Members hired before July 1,	**Service Retirement Multiplier** VRS and JRS Plan 2: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. SPORS, sheriffs and regional jail superintendents: Same as Plan 1. VaLORS: The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** *Defined Benefit Component:* VRS and JRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. SPORS, sheriffs and regional jail superintendents: Not applicable.

2001, have a 1.70% multiplier and are eligible for a hazardous duty supplement. They also had the option to elect the 2.00% multiplier and no supplement. Members hired on or after July 1, 2001, have a 2.00% multiplier and no supplement.	Political subdivision hazardous duty employees: Same as Plan 1.	VaLORS: Not applicable. Political subdivision hazardous duty employees: Not applicable. *Defined Contribution Component:* Not applicable.
Normal Retirement Age VRS: Age 65. SPORS, VaLORS, and political subdivision hazardous duty employees: Age 60. JRS: Age 65.	**Normal Retirement Age** VRS: Normal Social Security retirement age. SPORS, VaLORS, and political subdivision hazardous duty employees: Same as Plan 1. JRS: Same as Plan 1.	**Normal Retirement Age** *Defined Benefit Component:* VRS: Same as Plan 2. SPORS, VaLORS, and political subdivision hazardous duty employees: Not applicable. JRS: Same as Plan 1. *Defined Contribution Component:* Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. SPORS, VaLORS, and political subdivision hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service. JRS: Age 65 with at least five years of creditable service or at age 60 with at least 30 years of creditable service. Service earned under JRS is weighted. The weighting factors under Plan 1 are: • 3.5 for JRS members appointed or elected before January 1, 1995. • 2.5 for JRS members appointed or elected on or after January 1, 1995.	**Earliest Unreduced Retirement Eligibility** VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. SPORS, VaLORS, and political subdivision hazardous duty employees: Same as Plan 1. JRS: Same as Plan 1. Service earned under JRS is weighted. The weighting factors under Plan 2 are: • 1.5 for JRS members appointed or elected before age 45. • 2.0 for JRS members appointed or elected between ages 45 and 54. • 2.5 for JRS members appointed or elected at age 55 or older.	**Earliest Unreduced Retirement Eligibility** *Defined Benefit Component:* VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. SPORS, VaLORS, and political subdivision hazardous duty employees: Not applicable. JRS: Same as Plan 2. Service earned under JRS is weighted. The weighting factors under Plan 2 are: • 1.5 for JRS members appointed or elected before age 45. • 2.0 for JRS members appointed or elected between ages 45 and 54. • 2.5 for JRS members appointed or elected at age 55 or older. *Defined Contribution Component:* Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. SPORS, VaLORS, and political subdivision hazardous duty employees: Age 50 with at least five years of creditable service. JRS: Age 55 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** VRS: Age 60 with at least five years (60 months) of creditable service. SPORS, VaLORS, and political subdivision hazardous duty employees: Same as Plan 1. JRS: Same as Plan 1.	**Earliest Reduced Retirement Eligibility** *Defined Benefit Component:* VRS: Age 60 with at least five years (60 months) of creditable service. SPORS, VaLORS, and political subdivision hazardous duty employees: Not applicable. JRS: Same as Plan 1. *Defined Contribution Component:* Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. *Eligibility:* For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have fewer than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. *Exceptions to COLA Effective Dates:* The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member is involuntarily separated from employment for	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. *Eligibility:* Same as Plan 1. *Exceptions to COLA Effective Dates:* Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** *Defined Benefit Component:* Same as Plan 2. *Defined Contribution Component:* Not applicable. *Eligibility:* Same as Plan 1 and Plan 2.

causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.	**Disability Coverage** For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.	**Disability Coverage** Employees of political subdivisions and school divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** *Defined Benefit Component:* Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. *Defined Contribution Component:* Not applicable.

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 Years Ended June 30,					
	2011	**2012**	**2013**	**2014**	**2015**	
Additions:						
Member Contributions	$ 27,623	$ 230,967	$ 595,339	$ 725,970	$ 781,755	
Employer Contributions	1,520,403	1,585,817	2,003,248	1,970,998	2,467,860	*
Net Investment Income (net of investment expenses)	1,030,658	1,052,001	910,677	983,847	911,279	
Other	1,420	3,892	1,574	460	1,723	
Total Additions	2,580,104	2,872,677	3,510,838	3,681,275	4,162,617	
Deductions:						
Benefits	3,263,895	3,401,775	3,672,541	3,878,071	4,114,239	
Refunds	100,544	88,923	81,538	103,399	106,115	
Administrative Expenses	25,857	26,227	31,866	40,916	41,026	
Other	6,675	721	4,743	6,994	2,410	
Total Deductions	3,396,971	3,517,646	3,790,688	4,029,380	4,263,790	
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	(816,867)	(644,969)	(279,850)	(348,105)	(101,173)	
Net appreciation (depreciation) in fair value of investments	7,680,954	(414,764)	5,167,659	7,891,213	2,009,958	
Net Position - Restricted for Benefits at the End of the Year	$ 53,151,088	$ 52,091,355	$ 56,979,164	$ 64,522,272	$ 66,431,057	

Note: Effective July 1, 2011, state employees, except state elected officials, judges, and optional retirement plan participants, were required to contribute the full 5.00% member contribution that had been previously paid by the employer. Effective July 1, 2012, teachers and political subdivision employers were required to begin requiring members to pay the 5.00% member contribution that was previously paid by the employer.

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 rates for the 2015 and 2016 fiscal years were determined in accordance with the actuarial valuation as of June 30, 2013. In calculating the Commonwealth's contribution rates for the 2015 fiscal year, the actuary assumed a 7.00 percent net investment yield compounded annually, a 2.50 percent inflation allowance in the salary scale, a 30-year amortization period for the June 30, 2013 Unfunded Actuarial Accrued Liability (UAAL), an 8-year amortization for deferred contributions as defined under the 2011 Appropriations Act, Item 469(I)(6), and valued the assets using a modified market basis.

The General Assembly, in accordance with Section 51.1-145(K1) of the Code of Virginia, funded the employer retirement contribution rates for teachers and state employees in Fiscal Year 2015 at less than the rate determined by the actuary and certified by the VRS Board of Trustees. The percentage of the certified rate being funded for Fiscal Year 2015 was be 79.69% for teachers, 78.02% for state employees, 83.90% for SPORS, 83.88% for VaLORS, and 89.32% for JRS. As a result, the Fiscal Year 2015 employer retirement contribution rate for teachers was reduced from 18.20% to 14.50% and for state employees from 15.80% to 12.33%. Additionally, the employer retirement contribution rates for SPORS, VaLORS and JRS were reduced from 30.78%, 21.06% and 57.84% to 25.82%, 17.67% and 51.66%, respectively. There were no adjustments to the employer contribution rates for political subdivision employers or to the member contribution rate of 5.00%.

For Fiscal Year 2016, several changes impacted the contribution rates being paid. The teacher plan received an additional contribution of $192.9 million from the Commonwealth's Literary Fund. This transfer reduced the teacher actuarial contribution rate from 18.20% to 17.64% and the contributed rate from 14.50% to 14.06%. The judges plan had an increase in the mandatory retirement age from age 70 to age 73. This reduced the actuarial rate from 57.84% to 55.74%. In addition, the Commonwealth elected to move to funding 90% of the actuarial rate effective August 10, 2015. As a result, the contribution rates paid for state, SPORS, VaLORS and Judges were 12.33%, 25.82%, 17.67%, and 49.62%, respectively for the month of July 2015; 13.28%, 26.83%, 18.34%, and 49.82%, respectively for the month of August 2015; and 14.22%, 27.83%, 19.00%, and 50.02%, respectively for the month of September 2015 and the remainder of Fiscal Year 2016.

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 2016 fiscal year) (1)

		State Employees	School Teachers	State Police	Virginia Law Officers (2)	Judges
Normal contribution rate:						
	1997-1998	2.73	3.51	9.39	-	15.12
	1998-1999	3.56	4.54	8.72	-	17.34
	1999-2000	4.18	5.09	10.52	4.18	18.74
	2000-2001	4.24	5.83	8.92	8.92	27.85
	2001-2002	4.00	6.03	7.45	7.91	26.11
	2002-2003	4.00	6.03	7.99	8.51	22.27
	2003-2004	4.00	6.03	7.99	8.51	22.27
	2004-2005	4.00	6.03	7.99	8.51	22.19
	2005-2006	4.00	6.03	7.99	8.51	22.19
	2006-2007	2.80	4.45	7.47	8.06	24.49
	2007-2008	2.80	4.45	8.35	8.06	24.49
	2008-2009	2.93	4.71	8.84	8.24	25.13

	2009-2010		2.93	4.71	8.84	8.24	25.13
	2010-2011		2.67	4.68	8.81	5.81	30.15
	2011-2012		2.67	4.68	8.81	5.81	30.15
	2012-2013		3.55	5.93	10.49	6.80	33.69
	2013-2014		3.55	5.93	10.49	6.80	33.69
	2014-2015		4.28	5.77	10.72	7.70	34.31
	2015-2016		4.28	5.77	10.72	7.70	34.31
Accrued liability rate:							
	1997-1998		2.08	3.77	3.99	-	13.98
	1998-1999		2.28	3.95	8.12	-	14.34
	1999-2000		1.85	3.95	8.68	1.85	15.51
	2000-2001		0.98	1.71	16.08	7.23	17.15
	2001-2002		0.24	(1.79)	17.55	17.09	18.89
	2002-2003		0.24	(1.79)	17.01	16.49	22.73
	2003-2004		0.24	(1.79)	17.01	16.49	22.73
	2004-2005		(0.11)	2.07	17.01	16.49	22.81
	2005-2006		(0.11)	2.07	17.01	16.49	22.81
	2006-2007		4.53	6.73	12.35	9.33	15.59
	2007-2008		4.53	6.73	14.34	9.33	15.59
	2008-2009		5.09	7.13	15.25	8.54	12.91
	2009-2010		5.09	7.13	15.25	8.54	12.91
	2010-2011		5.79	8.23	16.75	10.12	16.64
	2011-2012		5.79	8.23	16.75	10.12	16.64
	2012-2013		9.52	10.84	22.13	12.72	20.42
	2013-2014		9.52	10.84	22.13	12.72	20.42
	2014-2015		11.52	12.43	20.06	13.36	23.53
	2015-2016		11.52	11.87	20.06	13.36	21.43
Total contribution rate:							
	1997-1998		4.81	7.28	13.38	-	29.10
	1998-1999		5.84	8.49	16.84	-	31.68
	1999-2000		6.03	9.04	19.20	6.03	34.25
	2000-2001		5.22	7.54	25.00	16.15	45.00
	2001-2002	(3)	4.24	4.24	25.00	25.00	45.00
	2002-2003	(4)	4.24	4.24	25.00	25.00	45.00
	2003-2004	(5)	4.24	4.24	25.00	25.00	45.00
	2004-2005	(6)	3.89	8.10	25.00	25.00	45.00
	2005-2006	(7)	3.89	8.10	25.00	25.00	45.00
	2006-2007	(8)	7.33	11.18	19.82	17.39	40.08
	2007-2008	(9)	7.33	11.18	22.69	17.39	40.08
	2008-2009	(10)	8.02	11.84	24.09	16.78	38.04
	2009-2010	(11)	8.02	11.84	24.09	16.78	38.04
	2010-2011	(12)	8.46	12.91	25.56	15.93	46.79
	2011-2012	(13)	8.46	12.91	25.56	15.93	46.79
	2012-2013	(14)	13.07	16.77	32.62	19.52	54.11
	2013-2014	(14)	13.07	16.77	32.62	19.52	54.11
	2014-2015	(15)	15.80	18.20	30.78	21.06	57.84
	2015-2016	(16)	15.80	17.64	30.78	21.06	55.74

(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 and 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. In addition, these contributions were suspended for state employes 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 are 6.33% for School Teachers and 2.08%, 7.73%, 5.07% and 28.65% for State, School Teachers. 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.

(15) Contributions actually paid in FY 2015 were 12.33%, 14.50%,25.82%, 17.67% and 51.66% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

(16) Contributions actually paid in July 2015 were 12.33%, 14.06%, 25.82%,17.67% and 49.62% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Contributions actually paid in August 2015 were 13.28%, 14.06%, 26.83%,18.34% and 49.82% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Contributions actually paid in September 2015 through June 2016 were 14.22%, 14.06%, 27.83%,19.00% and 50.02% 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 latest valuations of the pension plans were performed by Cavanaugh Macdonald Consulting, LLC under the provisions of the new Government Accounting Standards Board (GASB) Statement No. 67. Using June 30, 2014 data, rolled forward to June 30, 2015, the plan fiduciary net position as a percentage of the total pension liability was 72.81% for the VRS state plan, 70.68% for the VRS teacher plan, 86.70% for the aggregate total of the VRS political subdivision plans, 68.89% for SPORS, 62.64% for VaLORS and 72.15% for JRS. The calculations reflect an assumed rate of return on investments of 7.00%. For further discussion of the funding of the pension programs, see " Retirement and Pension Systems" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2015.

Virginia Retirement System Finance Division Supporting Schedule for RSI Schedule of Funding Progress from the Actuarial Valuation at June 30, 2015

(in thousands)

Employer Type	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
State	15,881,597	22,291,558	6,409,961	71.2%	3,872,724	165.5%
Teacher	29,441,485	42,564,178	13,122,693	69.2%	7,488,507	175.2%
Local Government/Political Subdivision*	16,760,519	19,855,406	3,094,887	84.4%	4,540,149	68.2%
Total VRS	62,083,601	84,711,142	22,627,541	73.3%	15,901,380	142.3%
State Police	710,864	1,050,701	339,837	67.7%	110,543	307.4%
VaLORS	1,155,767	1,906,721	750,954	60.6%	330,397	227.3%
Judges	442,250	600,388	158,138	73.7%	61,881	255.6%
Totals	64,392,482	88,268,952	23,876,470	73.0%	16,404,201	145.6%

Political subdivision data is from the consolidated report provided by Cavanaugh Macdonald Consulting, Inc.

** Includes inactive employers with no active members.*

Source: Virginia Retirement System.

For the June 30, 2015 actuarial valuation, the total pension liability was determined based on the actuarial valuation as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement date and rolled forward to the measurement date of June 30, 2014. This was compared to the Plan's Net Fiduciary Position as of June 30, 2014 to determine the Employers' Net Pension Liability at that date.

SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY BY SYSTEM AND PLAN

AS OF JUNE 30, 2015
(DOLLARS IN THOUSANDS)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Employers' Net Position Liability/(Asset) (a-b)	Plan Fiduciary Net position as a % of the Total Pension Liability (b/a)	Covered Employee Payroll (c)	Net Pension Liability/(Asset) as a % of the Covered Employee Payroll (a-b)/(c)
Virginia Retirement System:						
State	$ 22,521,130	$ 16,398,575	$ 6,122,555	72.81%	$ 3,878,632	157.85%
Teacher	42,930,422	30,344,072	12,586,350	70.68%	7,434,932	169.29%
Political Subdivision	19,935,054	17,283,021	2,652,033	86.70%	4,513,335	58.76%
Total Virginia Retirement System	85,386,606	64,025,668	21,360,938		15,826,899	
State Police Officers' Retirement System	1,064,450	733,352	331,098	68.89%	110,059	300.84%
Virginia Law Officers' Retirement System	1,902,051	1,191,353	710,698	62.64%	338,562	209.92%
Judicial Retirement System	632,381	456,258	176,123	72.15%	61,092	288.29%
Grand Total	$ 88,985,488	$ 66,406,631	$ 22,578,857		$ 16,336,612	

REQUIRED SUPPLEMENTAL SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY

(DOLLARS IN THOUSANDS)

Change in the Net Pension Liability	VRS State 2015	VRS State 2014	VRS Teacher 2015	VRS Teacher 2014	VRS Political Subdivisions 2015	VRS Political Subdivisions 2014
Total pension liability:						
Service cost	$ 375,149	$ 369,120	$ 828,901	$ 831,501	$ 530,945	$ 524,758
Interest	1,482,951	1,436,064	2,834,138	2,722,788	1,309,484	1,243,386
Benefit changes	-	-	-	-	1,135	-
Difference between actual and expected experience	59,923	-	(212,089)	-	(185,419)	-
Assumption changes	-	-	-	-	-	-
Benefit payments	(1,136,102)	(1,081,866)	(1,980,353)	(1,874,636)	(819,201)	(754,706)
Refunds of contributions	(27,724)	(25,036)	(36,058)	(36,103)	(36,898)	(36,876)
Net change in total pension liability	754,197	698,282	1,434,539	1,643,550	800,046	976,562
Total pension liability – beginning	21,766,933	21,068,651	41,495,883	39,852,333	19,135,008	18,158,446
Total pension liability – ending (a)	$ 22,521,130	$ 21,766,933	$ 42,930,422	$ 41,495,883	$ 19,935,054	$ 19,135,008
Plan fiduciary net position:						
Contributions – employer	$ 480,657	$ 343,259	$ 1,267,250	$ 853,634	$ 533,877	$ 539,366
Contributions – member	195,582	198,035	373,525	371,241	227,060	225,555
Net investment income	728,083	2,243,999	1,327,047	4,042,441	761,164	2,272,284
Benefit payments	(1,136,102)	(1,081,866)	(1,980,353)	(1,874,636)	(819,201)	(754,706)
Refunds of contributions	(27,724)	(25,036)	(36,058)	(36,103)	(36,898)	(36,876)
Administrative expense	(10,302)	(12,341)	(18,238)	(22,036)	(10,358)	(12,153)
Other	(154)	123	(284)	217	(162)	120
Net change in plan fiduciary net position	230,040	1,666,173	932,889	3,334,758	655,482	2,233,590
Plan fiduciary net position – beginning	16,168,535	14,502,362	29,411,183	26,076,425	16,627,539	14,393,949
Plan fiduciary net position – ending (b)	$ 16,398,575	$ 16,168,535	$ 30,344,072	$ 29,411,183	$ 17,283,021	$ 16,627,539
Net pension liability – ending (a-b)	$ 6,122,555	$ 5,598,398	$ 12,586,350	$ 12,084,700	$ 2,652,033	$ 2,507,469
Plan fiduciary net position as a percentage of the total pension liability (b/a)	72.81%	74.28%	70.68%	70.88%	86.70%	86.90%
Covered employee payroll (c)	$ 3,878,632	$ 3,861,712	$ 7,434,932	$ 7,313,025	$ 4,513,335	$ 4,434,764
Net pension liability as a percentage of covered employee payroll ((a-b)/c)	157.85%	144.97%	169.29%	165.25%	58.76%	56.54%

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, 2015, this plan had 326 accounts and total assets of approximately $11,661,647.

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, 2015, $769.4 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, 2015, the estimated liability related to normal operations totaled $657.0 million. Of this amount, $327.2 million is reflected in the General Fund and $329.8 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, 2015.

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, 2015, the Commonwealth's estimated annual required OPEB contribution was $394.6 million and the estimated unfunded actuarial liabilities were $5.3 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 was 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. According to a June 2014 Report of the Joint Legislative Audit and Review Commission (JLARC) entitled *Size and Impact of Federal Spending in Virginia*, cuts in federal spending will have larger adverse impacts in Virginia than other states, in part because the state relies more on military spending. Sequestration will cause many areas of discretionary federal spending such as military procurement to decline or grow more slowly through 2021. Military contracts in Virginia have already declined from $44 to $35 billion or about 20 percent between 2011 and 2013. The JLARC report predicts that federal spending cuts will also adversely affect Virginia state tax revenue because 18 to 30 percent of general fund revenue is estimated to come from federal spending. Virginia is currently experiencing slower job and economic growth than the national average. The reduction in defense spending will be felt primarily in Northern Virginia and the Hampton roads area.