

Management's Discussion and Analysis (Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2022. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The primary government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2022, by \$42.2 billion. Net position of governmental activities increased by \$7.5 billion and net position of business-type activities increased by \$1.1 billion. Component units reported an increase in net position of \$753.5 million from June 30, 2021.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of \$20.9 billion, an increase of \$6.6 billion in comparison with the prior year. Of this total fund balance, \$472.7 million represents nonspendable fund balance, \$6.3 billion represents restricted fund balance, \$10.9 billion represents committed fund balance, and \$3.2 billion represents assigned fund balance. The Enterprise Funds reported net position at June 30, 2022, of \$3.0 billion, an increase of \$1.1 billion during the year which is primarily attributable to increases for the Unemployment Compensation Fund (major) offset by a decrease for the Virginia College Savings Plan (major). See page 33 for additional information regarding the Virginia College Savings Plan and Unemployment Compensation Fund.

The General Fund recognized higher total fund assets, total fund liabilities, revenues, and expenditures when compared to fiscal year 2021. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to \$53.7 billion, an increase of \$1.1 billion, or 2.1 percent. During the fiscal year, the Commonwealth issued new debt in the amount of \$2.7 billion and \$3.5 billion for the primary government and component units. However, for the primary government, the new issuances, coupled with debt retirements, decreased the total debt balance to \$17.4 billion. Debt balances for the component units increased to \$36.3 billion.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Commonwealth's basic financial statements, which include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains additional required supplementary information and other information.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commonwealth's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Commonwealth's financial position which helps readers determine whether the Commonwealth's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

The Statement of Net Position (pages 40 and 41) presents information on all of the Commonwealth's assets and deferred outflows of resources, and liabilities and deferred inflows of resources; net position represents the difference between all other elements in a statement of financial position and is displayed in three components – net investment in capital assets; restricted; and unrestricted. Over time, increases or decreases in net position may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 42 through 44) presents information showing how the Commonwealth's net position changed during fiscal year 2022. All changes in net position are reported as soon as the underlying event giving rise to the change occurs,

regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the Statement of Net Position and Statement of Activities report three separate activities. These activities are described as follows:

Governmental Activities – account for functions of the Commonwealth that are primarily supported by taxes and intergovernmental revenues. The majority of the Commonwealth’s basic services, such as education, individual and family services, transportation, resources and economic development, administration of justice, and general government, fall within this category.

Business-type Activities – account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major business-type activities of the Commonwealth include the Virginia Lottery, Virginia College Savings Plan, and Unemployment Compensation Fund.

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 26 non-higher education component units and 21 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 48 and 52) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Internal service funds are reported as governmental activities in the government-wide statements, but are reported as proprietary funds in the fund financial statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in the governmental fund statements, but not deferred in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statements, but are recorded as long-term liabilities in the government-wide financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Commonwealth’s funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 46 and provide detailed information about the major individual funds.

- **Governmental funds** – Most of the basic services provided by the Commonwealth are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The government-wide financial statements are reported using the full accrual basis of accounting, but the governmental fund financial statements are reported using the modified accrual basis of accounting. This allows the reader to focus on assets that can be readily converted to cash and determine whether there are adequate resources to meet the Commonwealth’s current needs.

Because the focus of governmental funds is more limited than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison can help readers better understand the long-term impact of the Commonwealth’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Commonwealth reports 15 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 11 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the required supplementary information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds: enterprise and internal service. These funds report activities that operate more like those of private-sector business and use the full accrual basis of accounting.

Enterprise funds report activities that charge fees for supplies or services to the general public like the Virginia Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements. The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the enterprise fund statements are due to internal service fund activity (see reconciliations on pages 54 and 56).

Internal service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

The Commonwealth reports 27 individual proprietary funds. Information is presented separately in the proprietary fund statements for the Virginia Lottery, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds is aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting in accordance with GASB Statement No. 84, *Fiduciary Activities*. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on page 64.

The Commonwealth's fiduciary funds are the:

- Private Purpose Trusts, which reports the activities for four separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
- Pension and Other Employee Benefit Trusts, which reports the activities of nine separate pension and other employment retirement plans for employees;
- Custodial Funds - External Investment Pool, which accounts for the activity of the external investment pool not meeting the GASB Statement No. 84 trust criteria; and,
- Custodial Funds - Other, which accounts for 10 separate funds similar to Private Purpose Trust Funds except they do not have a trust that meets GASB Statement No. 84 criteria.

Individual fund data for all fiduciary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Component Units** – The government-wide financial statements report information for all component units aggregated in a single column. Information is provided separately in the component unit fund statements for the Virginia Housing Development Authority, Virginia Public School Authority, Virginia Resources Authority, and Virginia College Building Authority, all of which are considered major component units. Data from the other component units is aggregated into a single column on the fund statements. Individual fund data for all nonmajor component units is provided in the combining financial statements immediately following the required supplementary information.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the component unit fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at June 30. It also includes information concerning net pension liability, other postemployment benefit liability plans, and employer contributions for pension and other postemployment benefit plans, as well as trend information for Commonwealth-managed risk pools.

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 240 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$42.2 billion during the fiscal year. The net position of the governmental activities increased \$7.5 billion, or 23.5 percent, primarily due to increases in cash and investments in the General Fund (major), increases in capital assets, and decreases in long-term liabilities outstanding offset by increases in deferred inflows of resources. The General Fund is discussed further on page 34. Capital assets are discussed further on page 35, and long-term liabilities are discussed further on page 36. Business-type activities had an increase of \$1.1 billion, or 58.0 percent, primarily due to increases in the Unemployment Compensation Fund (major) offset by a decrease for the Virginia College Savings Plan (major). See page 33 for additional information regarding the Virginia College Savings Plan and Unemployment Compensation Funds. As discussed in Note 2, the government-wide beginning balance was restated for GASB Statement No. 87, *Leases*, and the correction of prior year errors to arrive at a restated beginning balance of \$33.7 billion.

Figure 12
Net Position as of June 30, 2022 and 2021
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2021		2022	2021	2021	
	2022	as restated			2022	as restated
Current and other assets	\$ 41,205,639	\$ 32,379,235	\$ 5,469,814	\$ 4,489,084	\$ 46,675,453	\$ 36,868,319
Capital assets	36,364,626	35,016,806	340,530	151,529	36,705,156	35,168,335
Total Assets	77,570,265	67,396,041	5,810,344	4,640,613	83,380,609	72,036,654
Deferred outflows of resources	1,317,219	1,548,153	48,745	52,461	1,365,964	1,600,614
Total assets and deferred outflows of resources	78,887,484	68,944,194	5,859,089	4,693,074	84,746,573	73,637,268
Long-term liabilities outstanding	15,339,574	16,054,580	2,061,395	2,079,094	17,400,969	18,133,674
Other liabilities	16,975,376	15,581,996	656,829	660,714	17,632,205	16,242,710
Total Liabilities	32,314,950	31,636,576	2,718,224	2,739,808	35,033,174	34,376,384
Deferred inflows of resources	7,388,896	5,586,303	89,152	21,457	7,478,048	5,607,760
Total liabilities and deferred inflows of resources	39,703,846	37,222,879	2,807,376	2,761,265	42,511,222	39,984,144
Net position:						
Net investment in capital assets	26,643,211	26,254,889	145,999	150,758	26,789,210	26,405,647
Restricted	4,932,268	3,868,045	1,416,339	137,428	6,348,607	4,005,473
Unrestricted	7,608,159	1,598,381	1,489,375	1,643,623	9,097,534	3,242,004
Total net position	\$ 39,183,638	\$ 31,721,315	\$ 3,051,713	\$ 1,931,809	\$ 42,235,351	\$ 33,653,124

The largest portion of the primary government's net position reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, construction-in-progress, right-to-use intangible assets, and intangible assets including water rights, easements and software), less any related outstanding debt and deferred inflows of resources used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The primary government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the primary government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (**Figure 12**).

An additional portion of the primary government's net position represents restricted net position. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of \$9.1 billion is unrestricted net position (**Figure 12**). The significant increase in restricted net position is primarily due to the Unemployment Compensation Fund and the required constitutional deposit to the Revenue Stabilization Fund discussed in Note 5.

Approximately 48.7 percent of the primary government's total revenue came from taxes. While the primary government's expenses cover many services, the largest expenses are for education and individual and family services. General revenues normally fund governmental activities. For fiscal year 2022, program and general revenues exceeded governmental expenses by \$6.4 billion. Program revenues exceeded expenses from business-type activities by \$2.2 billion. The following condensed financial information (**Figure 13**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net position (see page 42).

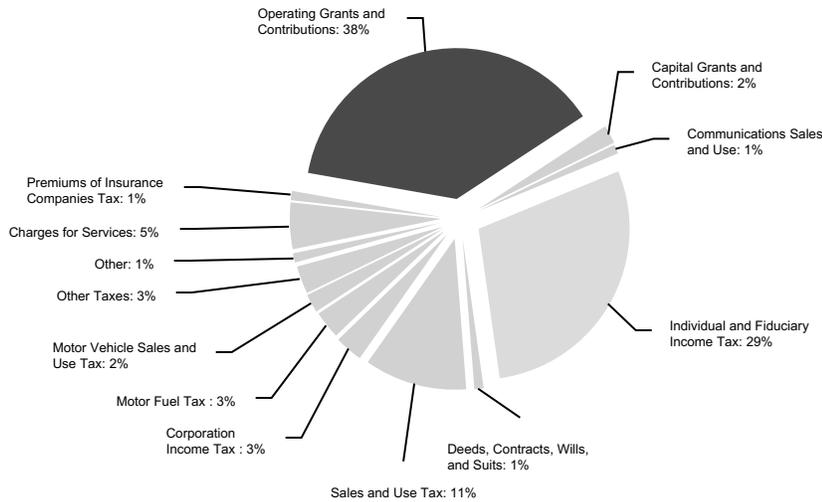
Figure 13
Changes in Net Position for the Fiscal Years Ended June 30, 2022 and 2021
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2022	2021 as restated	2022	2021	2022	2021 as restated
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,434,889	\$ 2,789,861	\$ 5,947,931	\$ 6,230,463	\$ 9,382,820	\$ 9,020,324
Operating Grants and Contributions	25,387,334	26,952,001	1,054,362	257,017	26,441,696	27,209,018
Capital Grants and Contributions	1,573,707	1,390,079	3,713	76,941	1,577,420	1,467,020
General Revenues:						
Taxes:						
Individual and Fiduciary Income	19,564,418	17,066,596	—	—	19,564,418	17,066,596
Sales and Use	7,447,659	6,527,477	—	—	7,447,659	6,527,477
Corporation Income	1,999,923	1,579,303	—	—	1,999,923	1,579,303
Motor Fuel	1,772,518	1,421,963	—	—	1,772,518	1,421,963
Motor Vehicle Sales and Use	1,214,463	1,118,962	—	—	1,214,463	1,118,962
Communications Sales and Use	301,108	312,477	—	—	301,108	312,477
Deeds, Contracts, Wills, and Suits	802,583	810,105	—	—	802,583	810,105
Premiums of Insurance Companies	612,317	551,005	—	—	612,317	551,005
Alcoholic Beverage Sales	227,552	220,078	—	—	227,552	220,078
Tobacco Products	276,056	287,856	—	—	276,056	287,856
Estate	27	810	—	—	27	810
Public Service Corporations	119,039	117,596	—	—	119,039	117,596
Beer and Beverage Excise	41,302	42,548	—	—	41,302	42,548
Wine and Spirits/ABC Liter	33,121	32,845	—	—	33,121	32,845
Bank Stock	37,481	26,788	—	—	37,481	26,788
Other Taxes	1,352,900	1,152,087	9,142	9,141	1,362,042	1,161,228
Unrestricted Grants and Contributions	63,736	102,053	—	—	63,736	102,053
Investment Earnings	(538,448)	36,840	249	715	(538,199)	37,555
Miscellaneous	749,323	380,659	16,043	2,389	765,366	383,048
Total Revenues	66,473,008	62,919,989	7,031,440	6,576,666	73,504,448	69,496,655
Expenses:						
General Government	3,881,074	5,127,160	—	—	3,881,074	5,127,160
Education	14,981,659	12,764,820	—	—	14,981,659	12,764,820
Transportation	6,580,186	6,115,306	—	—	6,580,186	6,115,306
Resources and Economic Development	1,633,056	1,435,203	—	—	1,633,056	1,435,203
Individual and Family Services	29,511,155	30,579,562	—	—	29,511,155	30,579,562
Administration of Justice	3,211,735	3,257,124	—	—	3,211,735	3,257,124
Interest and Charges on Long-term Debt	288,246	271,799	—	—	288,246	271,799
Virginia Lottery	—	—	2,950,964	2,483,875	2,950,964	2,483,875
Virginia College Savings Plan	—	—	123,259	124,169	123,259	124,169
Unemployment Compensation	—	—	170,269	1,199,074	170,269	1,199,074
Alcoholic Beverage Control	—	—	927,850	904,400	927,850	904,400
Risk Management	—	—	12,472	10,978	12,472	10,978
Local Choice Health Care	—	—	477,953	474,924	477,953	474,924
Line of Duty	—	—	17,519	19,681	17,519	19,681
Advantage Vanpool Self Insurance Fund	—	—	98	86	98	86
Virginia Industries for the Blind	—	—	43,221	65,204	43,221	65,204
Consolidated Laboratory	—	—	13,763	12,694	13,763	12,694
eVA Procurement System	—	—	21,424	22,223	21,424	22,223
Department of Environmental Quality Title V	—	—	10,636	11,738	10,636	11,738
Wireless E-911	—	—	58,021	49,178	58,021	49,178
Museum and Library Gift Shops	—	—	7,390	4,928	7,390	4,928
Behavioral Health Canteen and Work Activity	—	—	271	285	271	285
Total Expenses	60,087,111	59,550,974	4,835,110	5,383,437	64,922,221	64,934,411
Excess before transfers	6,385,897	3,369,015	2,196,330	1,193,229	8,582,227	4,562,244
Transfers	1,076,426	1,040,213	(1,076,426)	(1,040,213)	—	—
Increase in net position	7,462,323	4,409,228	1,119,904	153,016	8,582,227	4,562,244
Net position, July 1, as restated	31,721,315	27,312,087	1,931,809	1,778,793	33,653,124	29,090,880
Net position, June 30	\$ 39,183,638	\$ 31,721,315	\$ 3,051,713	\$ 1,931,809	\$ 42,235,351	\$ 33,653,124

Governmental Activities Revenues

Figure 14 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by \$3.6 billion, or 5.6 percent. The net increase is mainly attributable to increases in the General Fund, which are discussed on page 34.

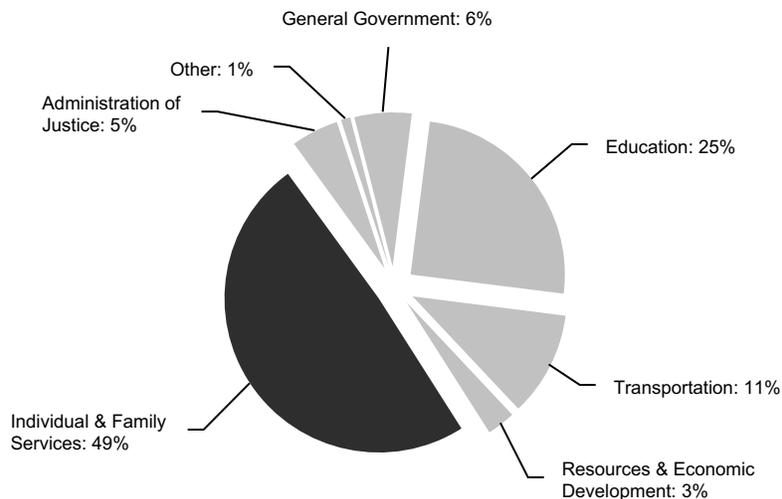
**Figure 14
Revenues by Source – Governmental Activities
Fiscal Year 2022**



Governmental Activities Expenses

Figure 15 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$536.1 million, or 0.9 percent. While there were increases in multiple expense types, the largest increase was in Education. See pages 34 and 35 for additional information.

**Figure 15
Expenses by Type – Governmental Activities
Fiscal Year 2022**



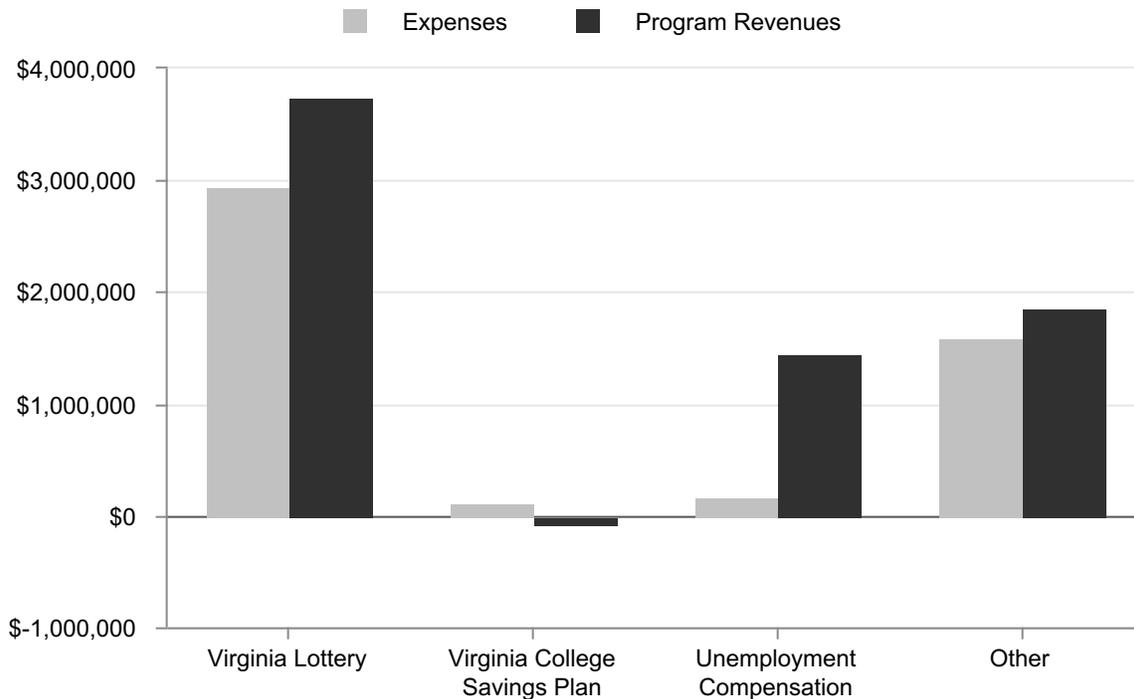
Net Position of Business-type Activities

Net position of business-type activities increased by \$1.1 billion during the fiscal year. As shown in **Figure 16**, highlights of the changes in net position for the major enterprise funds were as follows:

- Lottery sales were \$3.8 billion, an increase of \$493.4 million over the prior year. Income before transfers was \$802.0 million, an increase of \$24.9 million (3.2 percent) from fiscal year 2021. Sales of scratch games increased by \$23.0 million (1.8 percent) and non-scratch game sales increased by \$470.5 million (24.0 percent). Total expenses also increased by \$468.2 million (18.9 percent), primarily attributable to the cost of prizes.
- Virginia College Savings Plan's net position decreased by \$194.8 million (11.8 percent) during the fiscal year as a result of total expenses incurred exceeding revenues. While Prepaid529 is closed to new participants, existing customers are still being serviced. Additionally, the Tuition Track Portfolio activity grew during fiscal year 2022 and is expected to continue growing in future years. However, the current year change was not significant to the total fund change. During the fiscal year, the majority of the net position decrease is attributed to investment losses.
- Unemployment Compensation Fund net position increased by \$1.3 billion during fiscal year 2022, as a result of operating revenues exceeding benefits paid by \$235.9 million and COVID-19 related additional funding of \$1.1 billion.

Over the one-year period from July 1, 2021, to June 30, 2022, the unemployment rate dropped from 4.3 percent to 2.8 percent. Additionally, there were approximately 499,348 less initial unemployment claims filed than in the previous year, as well as the average benefit duration decreasing from 13.6 weeks to 7.1 weeks. These decreases were offset by an increase in the average weekly benefit amounts from approximately \$279.74 to \$326.17 in fiscal year 2022. These multiple influences led to a decrease in the total benefit payments of \$1.0 billion over the prior year.

Figure 16
Business-type Activities
Program Revenues and Expenses
Fiscal Year 2022
(Dollars in Thousands)



Fund Statements Financial Analysis

As of the end of the fiscal year, the primary government's governmental funds reported combined ending fund balances of \$20.9 billion. The fund balance includes nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending.

General Fund Highlights

At the end of the fiscal year, the General Fund reported a combined ending fund balance of \$11.7 billion, an increase of \$4.6 billion in comparison with the prior year. Of this total fund balance, \$187.8 million represents nonspendable fund balance, \$2.7 billion represents restricted fund balance, \$5.7 billion represents committed fund balance, and \$3.1 billion represents assigned fund balance.

Fiscal year 2022 General Fund revenues were 11.9 percent, or \$3.1 billion, higher than fiscal year 2021 revenues. This revenue change results from increases of \$3.7 billion primarily attributable to individual and fiduciary income taxes (\$2.4 billion), which was reduced by the Individual Income Tax Rebate of \$1.0 billion, sales and use taxes (\$629.7 million), corporation income taxes (\$408.3 million), other revenue predominantly related to prior year expenditures refunded in the current fiscal year (\$138.7 million), and premiums of insurance companies taxes (\$56.7 million). This was offset by decreases of \$614.6 million primarily attributable to interest, dividends, and rents (\$512.9 million), tobacco master settlement (\$37.7 million), deeds, contracts, wills, and suits taxes (\$29.2 million), tobacco product taxes (\$11.5 million), and communications sales and use taxes (\$11.3 million).

Fiscal year 2022 expenditures increased by 9.4 percent, or \$2.2 billion, when compared to fiscal year 2021. While all expenditures categories increased during fiscal year 2022, the largest increases were primarily attributable to education, general government and individual and family services expenditures of \$1.3 billion, \$333.9 million and \$234.0 million, respectively. Net other financing sources and uses decreased by \$124.1 million, which is primarily due to higher transfers out to nongeneral funds offset by increases in transfers in from nongeneral funds and long-term leases issued.

Budget Highlights

The General Fund began the year with an original revenue budget that was \$559.7 million, or 2.4 percent, higher than the final fiscal year 2021 revenue budget. Additionally, the final revenue budget was higher (\$4.3 billion or 17.7 percent) than the original budget. The change between the original and final budget was primarily attributable to increases in the final budget for individual and fiduciary income taxes (\$2.6 billion), corporation income taxes (\$738.0 million), sales and use taxes (\$522.3 million), and deeds, contracts, wills, and suits taxes (\$190.7 million). This was offset by decreases in the final budget for communications sales and use taxes (\$13.0 million). Total actual General Fund revenues were higher than final budgeted revenues by \$2.0 billion primarily due to individual and fiduciary income taxes (\$1.8 billion) and sales and use taxes (\$132.3 million) which were offset by decreases in communications sales and use taxes (\$33.6 million) and corporation income taxes (\$30.9 million).

Total final budget expenditures were higher than original budget expenditures by \$857.4 million, or 3.3 percent. This change between the original and final budget was primarily attributable to increases of budgeted expenditures for education of \$899.4 million, transportation of \$171.9 million and administration of justice of \$150.8 million. This was offset by decreases for individual and family services of \$673.6 million.

The Commonwealth spent less than planned so actual expenditures were \$1.6 billion, or 6.1 percent, lower than final budget expenditures. This was primarily attributable to education (\$325.7 million), general government (\$287.6 million), resources and economic development (\$267.0 million) and individual and family services (\$253.5 million).

Budget Outlook

Virginia's economy continued to recover in fiscal year 2022 from the negative effects of the COVID-19 pandemic. State economic activity such as Gross Domestic Product, employment, and taxable sales showed significant improvement. Unemployment dropped to rates closely resembling pre-pandemic levels. The housing market showed a decline in home sales and home permit issuance. Home sales declined and home permit growth slowed, although housing inventory remained limited, contributing to a rise in home appreciation. The Federal Reserve's efforts to keep inflation from rising is expected to substantially slow economic growth and produce a shallow recession. The Russian-Ukrainian conflict and a slowdown in China's growth could also continue to negatively affect Virginia's economy. During fiscal year 2022, the two General Fund revenue sources most closely tied to current economic activity - individual income taxes and retail sales taxes - experienced increases when compared to the 2021 collections by \$3.1 billion (18.0 percent) and \$391.9 million (9.4 percent), respectively. The individual income tax collections were more than the estimated revenue by \$1.8 billion (9.8 percent) and the retail sales taxes were more than the estimated revenue by \$120.5 million (2.7 percent).

The fiscal year 2022 revenue collections exceeded fiscal year 2021 and the fiscal year 2022 collections estimate. Based on the July 2022 General Fund revenue estimate, the fiscal year 2023 revenue is projected to decrease by 14.0 percent when compared to the fiscal year 2022 revenue collections. This projected planned decrease is primarily a result of the economic uncertainty arising from the expected shallow recession and Russian-Ukrainian conflict. The Governor will release his amendments to the 2023-2024 biennial budget on December 15, 2022.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of \$4.5 billion. Approximately \$4.9 billion is contractually committed for various highways, public transportation, and rail preservation projects; \$1.5 billion for individual contracts awarded with a contract value of \$1.0 million or more for operational and tolling services, facilities, and other non-highway construction-type contracts (see Note 21). Additionally, revenues increased \$798.2 million, or 10.6 percent, and expenditures increased \$564.1 million, or 8.2 percent. The revenue increase was primarily due to increases in tax collections of \$810.5 million, or 16.9 percent and federal income of \$280.6 million, or 30.8 percent, offset by a decrease in receipts from localities of \$280.9 million, or 29.3 percent. Expenditures increased mainly for highway maintenance, acquisition, and construction.

The Federal Trust Fund balance decreased by \$136.9 million, or 27.8 percent during the current year. The change is primarily due to a decrease in Federal Grants and Contracts revenue of approximately \$1.5 billion, or 5.6 percent, offset by a decrease of \$1.1 billion, or 4.2 percent in expenditures. This change in the Federal Grants and Contracts revenue was mainly attributed to decreases in funding received from the federal government for COVID-19 (\$4.2 billion) to assist the Commonwealth in navigating the economic difficulties caused by the pandemic and Unemployment funding (\$1.4 billion) this was offset by an increase in Medicaid funding (\$1.8 billion). The remaining difference is distributed over many other federal programs. Expenditures decreased primarily due to Unemployment spending, which was offset by increased Medicaid spending. Net other financing sources and uses experienced an increase of \$7.8 million, or 3,251.5 percent, primarily attributable to lower transfers out to other funds.

The Literary Fund ending balance increased by \$192.7 million, or 388.2 percent. The increase is primarily due to an increase of transfers from unclaimed property and lottery for \$142.1 million, or 149.2 percent. Expenditures exceeded net receipts by only \$44.7 million in fiscal year 2022, which is \$141.1 million less than fiscal year 2021. Additionally, loans of \$188.4 million owed to the Virginia Public School Authority (major component unit) increased by \$2.9 million, or 1.6 percent.

Capital Asset and Long-term Debt

Capital Assets. The primary government's investment in capital assets for its governmental and business-type activities as of June 30, 2022, amounts to \$36.7 billion (net of accumulated depreciation and amortization totaling \$18.2 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements, and software, as well as intangible right-to-use assets. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. The increase in the primary government's net investment in capital assets was primarily attributable to the addition of right-to-use intangible assets of \$657.0 million resulting from the implementation of GASB Statement No. 87, *Leases*. The primary government reports equipment with a value of \$50,000 or greater and an expected useful life of two or more years. The primary government capitalizes all land, buildings, infrastructure, and non right-to-use intangible assets that have a cost or value greater than \$100,000 and an expected useful life of two or more years. In addition, the primary government reports right-to-use intangible assets of equipment, land, and buildings with a present value of \$50,000 or greater and an expected useful life of greater than one year. Additional information on the primary government's capital assets can be found in Note 13, Capital Assets.

Figure 17
Capital Assets as of June 30, 2022
(Net of Depreciation and Amortization)
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	\$ 3,736,330	\$ 11,033	\$ 3,747,363
Buildings	2,702,842	60,036	2,762,878
Equipment	536,228	45,187	581,415
Water Rights/Easements	121,743	—	121,743
Infrastructure	23,597,326	—	23,597,326
Intangible Assets	496,639	28,556	525,195
Right-to-Use Intangible Assets	467,464	189,493	656,957
Construction-in-Progress	4,706,054	6,225	4,712,279
Total	<u>\$ 36,364,626</u>	<u>\$ 340,530</u>	<u>\$ 36,705,156</u>

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of \$53.7 billion, including total tax-supported debt of \$21.2 billion and total debt not supported by taxes of \$32.5 billion. Bonds backed by the full faith and credit of the government and tax-supported total \$1.1 billion. Debt is considered tax-supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional \$929.9 million is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2022, the Commonwealth issued \$6.2 billion of new debt for various projects. Of this new debt, \$2.7 billion was for the primary government and \$3.5 billion for the component units. In addition, long-term liability balances for primary government and component units increased due to the implementation of GASB Statement No. 87, *Leases*. Additional information on the Commonwealth's outstanding debt can be found in Note 27, Long-Term Liabilities, as well as in the Debt Schedules beginning on page 306. The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service, S & P Global Ratings, and Fitch Ratings.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which may be issued to fund the defense of the Commonwealth, to meet casual deficits in revenue or in anticipation of the collection of revenues, or to redeem previous debt obligations, are limited to 30.0 percent of 1.15 times the annual tax revenues for fiscal year 2022. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2020, 2021, and 2022. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2020, 2021, and 2022. The current debt limitation for the Commonwealth is shown below for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt.

Figure 18
Debt Issuance Margin and Outstanding Debt as of June 30, 2022
General Obligation Bonds
(Dollars in Thousands)

	Debt Issuance Margin	Outstanding Debt			Component Units
		Primary Government			
		Governmental Activities	Business-type Activities	Total	
General obligation bonds					
9(a)	\$ 9,115,200	\$ —	\$ —	\$ —	\$ —
9(b)	26,738,717	225,600	—	225,600	—
9(c)	26,045,836	5,664	—	5,664	912,817
Total		\$ 231,264	\$ —	\$ 231,264	\$ 912,817

Economic Factors and Review

The Commonwealth's economy showed continued improvement during fiscal year 2022. The Gross Domestic Product grew by 3.7 percent, which was an improvement over the 2.2 percent during the prior year. State personal income growth dropped 2.7 percent, which closely matched the -2.8 percent national rate. Both drops were due in part to a decrease in personal current transfer receipts resulting from the expiration of COVID-19 relief programs that supported payments to individuals such as expanded unemployment benefits and multiple rounds of stimulus checks. The average state unemployment rate for fiscal year 2022 dropped to 3.1 percent, almost reaching the pre-pandemic levels of 2.8 in 2019. Total taxable sales increased by 4.6 percent during fiscal year 2022 from 3.4 percent in the prior year, representing the largest increase in taxable sales in 15 years. The Virginia housing market was mixed, with a decrease in sales of existing single-family homes and issuance of home building permits. Single-family homes, townhomes and condos decreased by 6.6 percent, compared to an increase of 27.1 percent in fiscal year 2021. Virginia's economy is expected to slow or decrease in the next fiscal year as interest rates continue to climb and consumer spending levels off due to inflation. The global climate is also expected to affect Virginia's economy, with the Russian-Ukrainian conflict and China's economic decline because of its housing market crisis and Zero-Covid policy.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Comptroller's Office, Commonwealth of Virginia, P. O. Box 1971, Richmond, Virginia 23218. This report is also available for download at www.doa.virginia.gov.

The Commonwealth's component units issue their own separate financial statements. Contact information regarding each component unit is provided in Note 1.B.