

# 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, 2023. 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, 2023, by \$45.5 billion. Net position of governmental activities increased by \$2.8 billion and net position of business-type activities increased by \$318.5 million. Component units reported an increase in net position of \$3.0 billion from June 30, 2022.

### Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of \$22.2 billion, an increase of \$1.3 billion in comparison with the prior year. Of this total fund balance, \$438.7 million represents nonspendable fund balance, \$6.0 billion represents restricted fund balance, \$13.9 billion represents committed fund balance, and \$1.9 billion represents assigned fund balance. The Enterprise Funds reported net position at June 30, 2023, of \$3.4 billion, an increase of \$330.0 million during the year which is primarily attributable to increases for the Virginia College Savings Plan Fund (major) and the Unemployment Compensation Fund (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, and expenditures as well as lower revenues when compared to fiscal year 2022. See page 34 for additional information.

### Long-term Debt

The Commonwealth's total debt rose during the fiscal year to \$55.4 billion, an increase of \$1.7 billion, or 3.2 percent. During the fiscal year, the Commonwealth issued new debt in the amount of \$1.6 billion and \$3.1 billion for the primary government and component units. Debt balances for the primary government increased to \$17.6 billion. Debt balances for the component units increased to \$37.8 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 2023. 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 and 21 higher education component units 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 250 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 \$45.5 billion during the fiscal year. The net position of the governmental activities increased \$2.8 billion, or 7.1 percent, primarily due to increases in cash and investments in the General Fund (major) and increases in capital assets, which were offset by increases in long-term liabilities outstanding. 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 \$318.5 million, or 10.4 percent, primarily due to increases in the Virginia College Savings Plan (major) and the Unemployment Compensation Fund (major). See page 33 for additional information regarding the Virginia College Savings Plan and the Unemployment Compensation Fund. As discussed in Note 2, the government-wide beginning balance was restated for GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, and the correction of prior year errors to arrive at a restated beginning balance of \$42.4 billion.

**Figure 11**  
**Net Position as of June 30, 2023 and 2022**  
*(Dollars in Thousands)*

	Governmental Activities		Business-type Activities		Total	
	2022		2022		2022	
	2023	as restated	2023	2022	2023	as restated
Current and other assets	\$ 42,436,188	\$ 41,216,598	\$ 5,661,482	\$ 5,469,814	\$ 48,097,670	\$ 46,686,412
Capital assets	39,557,651	36,432,609	556,966	340,820	40,114,617	36,773,429
Total Assets	81,993,839	77,649,207	6,218,448	5,810,634	88,212,287	83,459,841
Deferred outflows of resources	1,807,397	1,478,016	55,910	48,745	1,863,307	1,526,761
Total assets and deferred outflows of resources	83,801,236	79,127,223	6,274,358	5,859,379	90,075,594	84,986,602
Long-term liabilities outstanding	15,469,399	15,419,923	2,172,620	2,061,395	17,642,019	17,481,318
Other liabilities	16,516,647	16,975,376	687,696	656,829	17,204,343	17,632,205
Total Liabilities	31,986,046	32,395,299	2,860,316	2,718,224	34,846,362	35,113,523
Deferred inflows of resources	9,697,517	7,388,896	43,561	89,152	9,741,078	7,478,048
Total liabilities and deferred inflows of resources	41,683,563	39,784,195	2,903,877	2,807,376	44,587,440	42,591,571
Net position:						
Net investment in capital assets	27,140,283	26,630,845	147,064	146,289	27,287,347	26,777,134
Restricted	5,314,619	5,093,065	1,503,800	1,416,339	6,818,419	6,509,404
Unrestricted	9,662,771	7,619,118	1,719,617	1,489,375	11,382,388	9,108,493
Total net position	\$ 42,117,673	\$ 39,343,028	\$ 3,370,481	\$ 3,052,003	\$ 45,488,154	\$ 42,395,031

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 and amortization 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 11**).

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 \$11.4 billion is unrestricted net position (**Figure 11**). The significant increase in restricted net position is primarily due to the required constitutional deposit to the Revenue Stabilization Fund discussed in Note 5.

Approximately 47.5 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 individual and family services and education. General revenues normally fund governmental activities. For fiscal year 2023, program and general revenues exceeded governmental expenses by \$1.7 billion. Program revenues exceeded expenses from business-type activities by \$1.4 billion. The following condensed financial information (**Figure 12**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net position (see page 42).

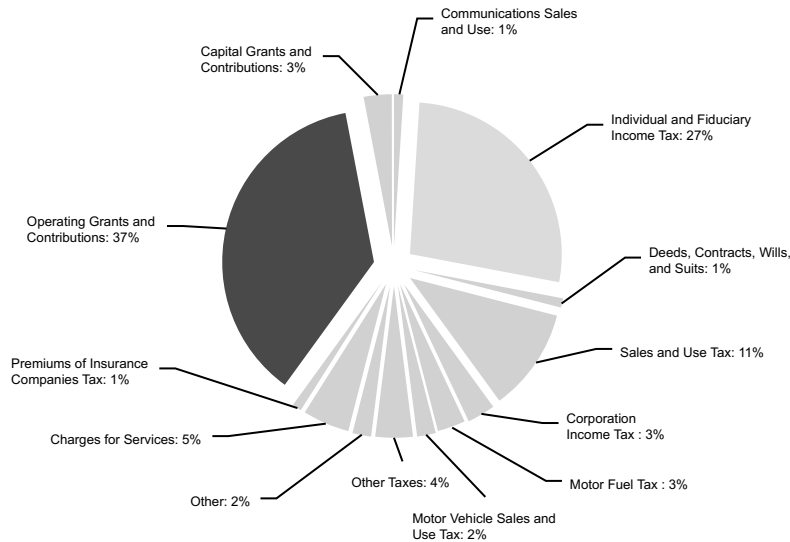
**Figure 12**  
**Changes in Net Position for the Fiscal Years Ended June 30, 2023 and 2022**  
*(Dollars in Thousands)*

	Governmental Activities		Business-type Activities		Total	
	2023	2022 as restated	2023	2022 as restated	2023	2022 as restated
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,303,121	\$ 3,434,889	\$ 7,294,570	\$ 5,947,931	\$ 10,597,691	\$ 9,382,820
Operating Grants and Contributions	24,071,390	25,387,334	6,329	1,054,362	24,077,719	26,441,696
Capital Grants and Contributions	1,976,822	1,584,666	—	3,713	1,976,822	1,588,379
General Revenues:						
Taxes:						
Individual and Fiduciary Income	17,846,206	19,564,418	—	—	17,846,206	19,564,418
Sales and Use	7,416,977	7,447,659	—	—	7,416,977	7,447,659
Corporation Income	2,071,744	1,999,923	—	—	2,071,744	1,999,923
Motor Fuel	1,883,633	1,772,518	—	—	1,883,633	1,772,518
Motor Vehicle Sales and Use	1,217,555	1,214,463	—	—	1,217,555	1,214,463
Communications Sales and Use	290,356	301,108	—	—	290,356	301,108
Deeds, Contracts, Wills, and Suits	526,020	802,583	—	—	526,020	802,583
Premiums of Insurance Companies	664,322	612,317	—	—	664,322	612,317
Alcoholic Beverage Sales	238,693	227,552	—	—	238,693	227,552
Tobacco Products	247,239	276,056	—	—	247,239	276,056
Estate	—	27	—	—	—	27
Public Service Corporations	121,361	119,039	—	—	121,361	119,039
Beer and Beverage Excise	38,645	41,302	—	—	38,645	41,302
Wine and Spirits/ABC Liter	32,070	33,121	—	—	32,070	33,121
Bank Stock	31,010	37,481	—	—	31,010	37,481
Other Taxes	1,731,292	1,352,900	9,142	9,142	1,740,434	1,362,042
Unrestricted Grants and Contributions	60,461	63,736	—	—	60,461	63,736
Investment Earnings	735,374	(538,448)	4,020	249	739,394	(538,199)
Miscellaneous	555,583	749,323	606	16,043	556,189	765,366
<b>Total Revenues</b>	<b>65,059,874</b>	<b>66,483,967</b>	<b>7,314,667</b>	<b>7,031,440</b>	<b>72,374,541</b>	<b>73,515,407</b>
Expenses:						
General Government	3,674,160	3,747,319	—	—	3,674,160	3,747,319
Education	16,864,567	14,981,955	—	—	16,864,567	14,981,955
Transportation	6,915,970	6,569,333	—	—	6,915,970	6,569,333
Resources and Economic Development	1,748,899	1,633,558	—	—	1,748,899	1,633,558
Individual and Family Services	30,182,322	29,496,374	—	—	30,182,322	29,496,374
Administration of Justice	3,711,500	3,221,895	—	—	3,711,500	3,221,895
Interest and Charges on Long-term Debt	309,967	288,246	—	—	309,967	288,246
Virginia Lottery	—	—	3,736,692	2,950,964	3,736,692	2,950,964
Virginia College Savings Plan	—	—	220,775	122,969	220,775	122,969
Unemployment Compensation	—	—	191,441	170,269	191,441	170,269
Alcoholic Beverage Control	—	—	1,021,781	927,850	1,021,781	927,850
Risk Management	—	—	5,869	12,472	5,869	12,472
Local Choice Health Care	—	—	524,575	477,953	524,575	477,953
Line of Duty	—	—	23,482	17,519	23,482	17,519
Advantage Vanpool Self Insurance Fund	—	—	183	98	183	98
Virginia Industries for the Blind	—	—	44,676	43,221	44,676	43,221
Consolidated Laboratory	—	—	13,791	13,763	13,791	13,763
eVA Procurement System	—	—	19,430	21,424	19,430	21,424
Department of Environmental Quality Title V	—	—	11,809	10,636	11,809	10,636
Wireless E-911	—	—	51,132	58,021	51,132	58,021
Museum and Library Gift Shops	—	—	8,125	7,390	8,125	7,390
Behavioral Health Canteen and Work Activity	—	—	272	271	272	271
<b>Total Expenses</b>	<b>63,407,385</b>	<b>59,938,680</b>	<b>5,874,033</b>	<b>4,834,820</b>	<b>69,281,418</b>	<b>64,773,500</b>
Excess before transfers	1,652,489	6,545,287	1,440,634	2,196,620	3,093,123	8,741,907
Transfers	1,122,156	1,076,426	(1,122,156)	(1,076,426)	—	—
Increase in net position	2,774,645	7,621,713	318,478	1,120,194	3,093,123	8,741,907
Net position, July 1, as restated	39,343,028	31,721,315	3,052,003	1,931,809	42,395,031	33,653,124
<b>Net position, June 30</b>	<b>\$ 42,117,673</b>	<b>\$ 39,343,028</b>	<b>\$ 3,370,481</b>	<b>\$ 3,052,003</b>	<b>\$ 45,488,154</b>	<b>\$ 42,395,031</b>

**Governmental Activities Revenues**

**Figure 13** is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues decreased by \$1.4 billion, or 2.1 percent. The net decrease is mainly attributable to decreases in the Commonwealth Transportation fund and Federal Trust Fund (see page 35), which were offset by large increases associated with long-term debt and capital assets, which is discussed on pages 35 and 36.

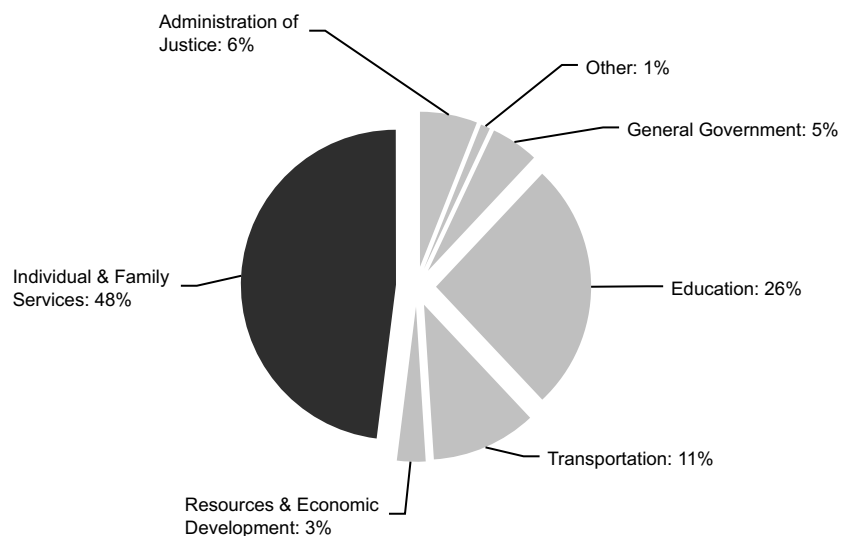
**Figure 13  
Revenues by Source – Governmental Activities  
Fiscal Year 2023**



**Governmental Activities Expenses**

**Figure 14** is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$3.5 billion, or 5.8 percent. While there were increases in multiple expense types, the largest increase was in Individual and Family Services. See pages 34 and 35 for additional information.

**Figure 14  
Expenses by Type – Governmental Activities  
Fiscal Year 2023**



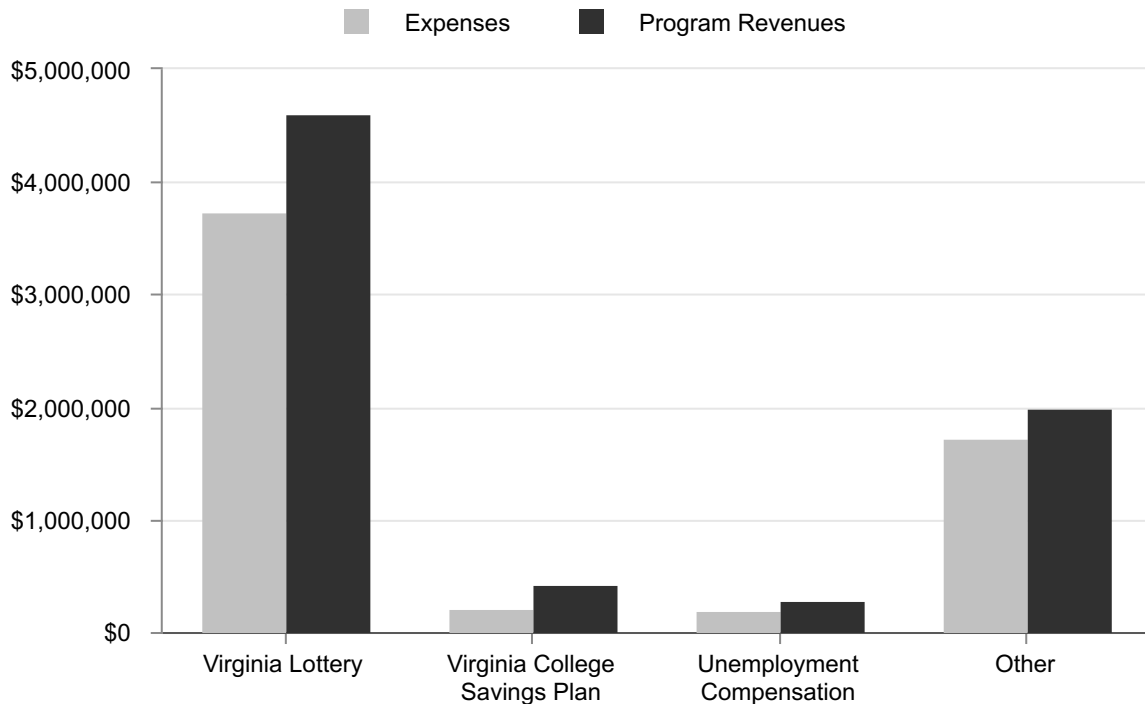
## Net Position of Business-type Activities

Net position of business-type activities increased by \$318.5 million during the fiscal year. As shown in **Figure 15**, highlights of the changes in net position for the major enterprise funds were as follows:

- Lottery sales were \$4.6 billion, an increase of \$859.4 million over the prior year. Income before transfers was \$882.6 million, an increase of \$80.6 million (10.0 percent) from fiscal year 2022. Sales of scratch games decreased by \$43.4 million (3.3 percent) and non-scratch game sales increased by \$902.8 million (37.2 percent). Total expenses also increased by \$783.0 million (26.5 percent), primarily attributable to the cost of prizes.
- Virginia College Savings Plan's net position increased by \$201.3 million (13.8 percent) during the fiscal year as a result of total revenues exceeding incurred expenses. While Prepaid529 is closed to new participants, existing customers are still being serviced. Additionally, the Tuition Track Portfolio activity grew during fiscal year 2023 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 increase is attributed to the long-term investment gains as compared to a significant decrease in the previous year.
- Unemployment Compensation Fund net position increased by \$86.6 million during fiscal year 2023, as a result of operating revenues exceeding benefits paid.

Over the one-year period from July 1, 2022, to June 30, 2023, the unemployment rate average was 2.9 percent. There were approximately 132,697 less initial unemployment claims filed than in the previous year but the average benefit duration increased from 7.1 weeks to 19.9 weeks. Additionally, there was an increase in the average weekly benefit amounts from approximately \$326.2 to \$341.4 in fiscal year 2023. These multiple influences led to an increase in the total benefit payments of \$21.2 million over the prior year.

**Figure 15**  
**Business-type Activities**  
**Program Revenues and Expenses**  
**Fiscal Year 2023**  
**(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 \$22.2 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 \$12.5 billion, an increase of \$838.1 million in comparison with the prior year. Of this total fund balance, \$163.0 million represents nonspendable fund balance, \$2.8 billion represents restricted fund balance, \$7.7 billion represents committed fund balance, and \$1.8 billion represents assigned fund balance.

Fiscal year 2023 General Fund revenues were 2.7 percent, or \$799.9 million, lower than fiscal year 2022 revenues. This revenue change was due primarily to an overall decrease in taxes collected of \$1.9 billion, which was primarily attributable to the dramatic decrease of realizations of capital gains reported within individual and fiduciary income taxes. This was offset by an increase in interest, dividends, and rents of \$1.0 billion which was due to overall market interest rates.

Fiscal year 2023 expenditures increased by 12.4 percent, or \$3.1 billion, when compared to fiscal year 2022. While all expenditures categories increased during fiscal year 2023, the largest increases were primarily attributable to education and individual and family services expenditures of \$1.3 billion and \$1.1 billion, respectively. Net other financing sources and uses increased by \$200.4 million, which is primarily due to higher transfers in from other funds and decreased transfers to other funds coupled with issuances of long-term subscription-based information technology arrangements (SBITAs) issued.

### Budget Highlights

The General Fund began the year with an original revenue budget that was \$2.1 billion, or 7.4 percent, lower than the final fiscal year 2022 revenue budget. Additionally, the final revenue budget was higher (\$3.8 million) than the original budget. The change between the original and final budget was primarily attributable to increases in the final budget for sales of property and commodities (\$4.0 million). Total actual General Fund revenues were higher than final budgeted revenues by \$3.2 billion primarily due to individual and fiduciary income taxes (\$2.3 billion), interest, dividends, and rents (\$340.3 million), corporation income (\$294.1 million) and sales and use taxes (\$286.8 million) which were offset by decreases in deeds, contracts, wills, and suits (\$171.6 million).

Total final budget expenditures were higher than original budget expenditures by \$2.3 billion, or 7.8 percent. This change between the original and final budget was primarily attributable to increases of budgeted expenditures for education of \$751.6 million, capital outlay of \$725.9 million, individual and family services of \$326.0 million and administration of justice of \$226.6 million. This was offset by decreases for general government of \$91.1 million.

The Commonwealth spent less than planned so actual expenditures were \$3.6 billion, or 11.1 percent, lower than final budget expenditures. This was primarily attributable to education (\$1.0 billion), capital outlay (\$705.4 million), resources and economic development (\$626.5 million), individual and family services (\$386.7 million), and general government (\$366.9 million).

### Budget Outlook

For the second straight year, Virginia experienced economic growth in its recovery from the effects of the COVID-19 pandemic. The rise in interest rates aided in lowering inflation. Employment rates continued to rise, and real person income increased during the fiscal year. The state's unemployment rate showed a slight decline due to a surge of workers returning to the labor market. Some state economic activity measures, such as real taxable sales and residential building permits, declined, however. The climb in mortgage interest rates hampered Virginia home sales and building permit issuance, but resulted in continued home price appreciation, as homeowners showed reluctance to move into new homes with less affordable mortgages. During fiscal year 2023, the two General Fund revenue sources most closely tied to current economic activity - individual income taxes and retail sales taxes - experienced net decreases when compared to 2022. Individual income taxes decreased by \$1.4 billion, which was offset by Retail sales taxes, increasing by \$176.5 million. The individual income tax collections were more than the estimated revenue by \$2.3 billion (13.5 percent), and the retail sales taxes were more than the estimated revenue by \$236.7 million (5.3 percent).

The fiscal year 2023 revenue collections exceeded the fiscal year 2023 collections estimate and decreased from the fiscal year 2022 collections. Based on the most recent General Fund revenue estimate, the fiscal year 2024 revenue is projected to decrease by 5.5 percent when compared to the fiscal year 2023 revenue collections. This projected planned decrease is primarily a result of the economic uncertainty arising from the expected shallow recession. The Governor will release his amendments to the 2023-2024 biennial budget on December 20, 2023.



## Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of \$5.3 billion. Approximately \$5.7 billion is contractually committed for various highways, public transportation, and rail preservation projects; \$951.6 million 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 22). Additionally, revenues increased \$267.4 million, or 3.2 percent, and expenditures increased \$89.9 million, or 1.2 percent. The revenue increase was primarily due to increases in federal income of \$218.7 million, or 18.3 percent, interest income of \$114.7 million, or 575.2 percent, and tax collections of \$82.1 million, or 1.5 percent, offset by a decrease in receipts from localities of \$200.8 million, or 29.7 percent. Expenditures increased mainly for highway maintenance, acquisition, and construction for \$35.9 million and general government for \$21.2 million.

The Federal Trust Fund balance decreased by \$146.3 million, or 41.2 percent during the current year. The change is primarily due to a decrease in non-reimbursement based grants relating to low-income home energy assistance, child care and development as well as emergency rental assistance. This is offset by an increase in the temporary assistance for needy families grant. The remaining difference is distributed over many other federal grant programs. In addition, the Federal Grants and Contracts revenue decreased by \$1.7 billion, or 6.9 percent due to non-reimbursement based grants as discussed previously and Medicaid funding. Expenditures decreased by \$1.5 billion, or 5.9 percent primarily due to Unemployment spending, which was offset by increased Medicaid spending. Net other financing sources and uses experienced an increase of \$17.6 million, or 233.1 percent, primarily attributable to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which was offset by higher transfers out to other funds.

The Literary Fund ending balance increased by \$187.5 million, or 131.1 percent. The change is primarily due to transfers from unclaimed property and lottery for \$251.0 million, which were offset by transfers out to the general fund of \$50.0 million for the construction, expansion or renovation of public school buildings in the local school divisions. Expenditures exceeded net receipts by only \$13.5 million in fiscal year 2023, which is \$31.1 million less than fiscal year 2022. Additionally, loans of \$191.8 million owed to the Virginia Public School Authority (major component unit) increased by \$3.3 million, or 1.8 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, 2023, amounts to \$40.1 billion (net of accumulated depreciation and amortization totaling \$19.6 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 infrastructure of \$3.2 billion. 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, subscription-based information technology arrangements with a present value of \$5,000 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 14, Capital Assets.

**Figure 16**  
**Capital Assets as of June 30, 2023**  
**(Net of Depreciation and Amortization)**  
*(Dollars in Thousands)*

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 3,984,551	\$ 11,033	\$ 3,995,584
Buildings	2,657,090	57,888	2,714,978
Equipment	545,979	40,460	586,439
Water Rights/Easements	122,458	—	122,458
Infrastructure	26,824,246	—	26,824,246
Intangible Assets	511,464	22,124	533,588
Right-to-Use Intangible Assets	591,184	407,286	998,470
Construction-in-Progress	4,320,679	18,175	4,338,854
Total	<u>\$ 39,557,651</u>	<u>\$ 556,966</u>	<u>\$ 40,114,617</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 \$55.4 billion, including total tax-supported debt of \$22.6 billion and total debt not supported by taxes of \$32.8 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 \$906.8 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 2023, the Commonwealth issued \$4.7 billion of new debt for various projects. Of this new debt, \$1.6 billion was for the primary government and \$3.1 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. 96, *Subscription-Based Information Technology Arrangements*. Additional information on the Commonwealth's outstanding debt can be found in Note 28, Long-Term Liabilities, as well as in the Debt Schedules beginning on page 316. 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 2023. 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 2021, 2022, and 2023. 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 2021, 2022, and 2023. 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 17**  
**Debt Issuance Margin and Outstanding Debt as of June 30, 2023**  
**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)	\$ 9,437,421	\$ —	\$ —	\$ —	\$ —
9(b)	29,428,041	173,122	—	173,122	—
9(c)	28,655,668	4,646	—	4,646	940,849
<b>Total</b>		<b>\$ 177,768</b>	<b>\$ —</b>	<b>\$ 177,768</b>	<b>\$ 940,849</b>

## **Economic Factors and Review**

Virginia's economy continued its path of employment growth in fiscal year 2023, although the rate of increase at 2.7 percent represented a slowing from the 3.3 percent the year before. Real personal incomes increased by 0.8 percent, due in large part to the role of the increase in real wages and salaries. Other economic metrics were not as favorable. Real taxable sales decreased by 0.5 percent, likely a result of spending adjustments made by consumers to make up for the results of the pandemic. Virginia housing market activity reflected the effects of rising mortgage interest rates. Existing home sales plunged, and residential building permit issuance decreased. Although housing price appreciation slowed, prices were still higher because of limited housing inventories caused by many homeowners' reluctance to put their homes up for sale when prospects for finding affordable homes elsewhere were bleak. By the end of fiscal year 2023, the nation's economy had largely met or exceeded pre-pandemic levels on many economic indicators. Economic activity is expected to slow further or even decrease in the next fiscal year as the Federal Reserve possibly raises rates further and/or extends the duration of higher rates to bring inflation under control.

## **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](http://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.