VEDP Virginia Economic Development Partnership


New Ravenna, Northampton County


Wise County

Ferguson Enterprises, Newport News


Thermo Fischer Scientific, Frederick County

Virginia Economic Development Partnership

Annual Report • Fiscal Year 2018

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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November 1, 2018

As Chairman of the Board of Directors for the Virginia Economic Development Partnership Authority (VEDP), I am pleased to present our Annual Report for the fiscal year ending June 30, 2018. This report is being submitted in accordance with the requirements of the Code of Virginia and the 2018 Appropriation Act.

Previous editions of VEDP's annual report typically went well beyond fulfilling the narrow statutory requirements for the annual report in order to provide a comprehensive report on VEDP's activities. Following the adoption of Code provisions in 2017 that call for several new VEDP planning documents and establish related reporting requirements, the 2018 edition of this report is more narrowly focused on the original legislative requirements and does not include certain appendices that had been previously published.[1]

Over the past year, VEDP has significantly improved the quantity and usefulness of information made available to the Governor, members of the General Assembly, and the public. In addition to enhancing transparency with stakeholders, these newly-developed plans articulate VEDP's goals and strategies for fostering greater economic prosperity throughout the Commonwealth. One of VEDP's most significant achievements for FY 2018 was the development of its new Strategic Plan for Economic Development of the Commonwealth. This Strategic Plan not only outlines multiple transformational goals for Virginia and VEDP, but also includes specific strategies and initiatives needed to realize this vision over the next five years. To advance the initiatives set forth in its Strategic Plan, VEDP also developed an Operational Plan in FY 2018, which outlines major initiatives and other activities across all VEDP divisions with deliverables and deadlines for the year. An Operational Plan tracker was implemented to help ensure adequate progress is made and owners are held accountable. Lastly, VEDP's Marketing Plan describes its marketing goals, the specific activities that will be undertaken to support each goal, and performance measures to track progress.

These new plans stem, in part, from Code provisions related to the recommendations made by the Joint Legislative Audit & Review Commission (JLARC) in their November 2016 report entitled "Management and Accountability of the Virginia Economic Development Partnership". One of VEDP's top priorities in FY 2018 focused on addressing the report's recommendations. By the end of FY 2018, VEDP had completed implementation of all 27 JLARC recommendations that called for action by VEDP and/or the VEDP Board of Directors (Appendix 4). In addition to addressing JLARC's recommendations, VEDP also completed implementation of new provisions in the Code of Virginia that were adopted in 2017 following publication of the JLARC report. Many of the new Code provisions reinforce or otherwise complement the recommendations made by JLARC.

VEDP's Audited Basic Financial Statements for the year ended June 30, 2018 include an unqualified audit opinion from the Auditor of Public Accounts (Appendix 1). This is the 23rd consecutive year that an unqualified opinion has been issued to VEDP. The Auditor also issued a

[1] These appendixes included data on sites and buildings, announcements, new jobs, and capital investment in Virginia.

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separate letter on VEDP's internal controls and compliance dated November 1, 2018, with no findings identified.

VEDP is positioning itself to be a leader in the economic development community and to fulfill its mission to enhance the quality of life and raise the standard of living for all Virginians. I am thankful for the talented and dedicated VEDP team that will make our goals a reality. As we continue to execute our ambitious strategic vision, I am also grateful for the support and guidance of the Governor and his Administration, members of the General Assembly, the VEDP Board of Directors, and our state, regional, and local partners. I look forward to our continued collaboration in the year to come.

Sincerely,

Vincent J. Mastracco, Jr.
Chairman, VEDP Board of Directors

Introduction

The FY 2018 Annual Report of the Virginia Economic Development Partnership Authority (VEDP) is submitted pursuant to

- § 2.2-2242 of the Code of Virginia, which directs the Authority to submit an annual report containing financial statements for the year ending June 30, 2018 (FY 2018) as audited by the Auditor of Public Accounts (Appendix 1);
- § 2.2-2238 B, which requires VEDP to prepare and report on a plan to market high unemployment areas of the state (Appendix 2); and
- Item 122 D.1. of the 2018 Appropriation Act, which requires VEDP to publish the number of visits conducted by VEDP staff with potential economic development prospects (Appendix 3).

To offer context, this Annual Report also includes an overview of the Authority, its performance, and the major accomplishments of its operating divisions during FY 2018. Several new requirements have motivated VEDP to narrow the scope of this year's Annual Report, which fulfills the Code sections outlined above and documents the agency's overall progress for FY 2018. These new requirements include new Code sections requiring publication of a Strategic Plan, Marketing Plan, and Operational Plan, along with related reporting requirements for each, as well as the agency's efforts to respond to the recommendations made by the Joint Legislative Audit & Review Commission (JLARC) in their 2016 report entitled "Management and Accountability of the Virginia Economic Development Partnership" (Appendix 4).

Development of Updated Strategic, Marketing, and Operational Plans

In December 2017, VEDP published a five-year Strategic Plan for Economic Development of the Commonwealth of Virginia for the first time in its history, pursuant to recommendations from JLARC, as well as to updated requirements to its enabling legislation in the Code of Virginia passed by the General Assembly in early 2017 (§ 2.2-2237.1).

In addition, VEDP prepared its first comprehensive Marketing Plan and updated its Operational Plan to align with more robust Code requirements. The updated versions of these plans, produced in July 2018, are built around the strategies and initiatives outlined in the Strategic Plan. Per Code requirements, all of these plans outline specific, actionable objectives and initiatives, along with performance metrics and measures for success.

Whereas the Annual Report previously served as VEDP's primary public progress update on its activities (in addition to the operational plan), VEDP is now required to provide annual reports on all three of these major plans to the Administration and General Assembly leadership. Modifications to this year's Annual Report reflect VEDP's efforts to streamline reporting requirements and to tailor this report to the specific items outlined in the Code sections which require its publication.

Response to November 2016 JLARC Report

Over the course of 2017, VEDP focused a great deal of effort on addressing the recommendations made by JLARC in their November 2016 report, as well as to implement the various new VEDP requirements in the Code of Virginia that were informed by JLARC's recommendations. The JLARC report made 35 recommendations altogether, including several items for consideration by the General Assembly; 27 of the recommendations called for actions by VEDP management and/or

Introduction

VEDP's Board of Directors. By the end of FY 2018, VEDP had completed implementation of all 27 JLARC recommendations that called for action by VEDP and/or the VEDP Board of Directors. In addition to addressing JLARC's recommendations, VEDP also completed implementation of new provisions in the Code of Virginia that were adopted in 2017 following publication of the JLARC report. Many of the new Code provisions reinforce or otherwise complement the recommendations made by JLARC.

VEDP's Board of Directors was extensively involved in this work over the course of FY 2018. For example, the Board met to discuss strategic planning as well as progress on implementation of JLARC recommendations and new Code requirements. This effort generated improvements in organizational management, marketing efficiency and effectiveness, improved incentives administration, protocols for improved coordination with partners, and extensive engagement with VEDP's Board of Directors. VEDP has made a strong, good-faith effort to respond to the recommendations of the JLARC report. Nevertheless, given the scope and magnitude of the recommendations and new Code requirements, there is undoubtedly room for improvement. As VEDP continues implementation, as well as seeks feedback from its partners, staff will work to identify additional ways to improve the efficiency and effectiveness of VEDP and continue monitoring maintenance of implementation on a regular basis. A final update letter providing greater detail on VEDP's implementation of the November 2016 JLARC recommendations was sent to JLARC on July 1, 2018 and is appended to this report (see Appendix 4).

Partnership Profile

Virginia Economic Development Partnership Authority

In 1995, the General Assembly created the Virginia Economic Development Partnership Authority (VEDP) to foster increased expansion of the Commonwealth's economy. As a state authority, the Partnership is currently governed by a 17-member Board. In accordance with reform legislation, which was enacted in the Spring of 2017, the current Board is comprised of:

- Six *ex officio* members: the Secretary of Commerce and Trade, the Secretary of Finance, the Chairman of the Virginia Growth and Opportunity Board, the Executive Director of the Virginia Port Authority, and the Staff Directors of the House Committee on Appropriations and the Senate Committee on Finance;
- Seven nonlegislative citizen members appointed by the Governor; and
- Four nonlegislative citizen members appointed by the Joint Rules Committee.

A listing of the current Board members is provided on the following pages.

The President and Chief Executive Officer of VEDP is employed by the Board to oversee the fulfillment of VEDP's mission.

Mission

To encourage, stimulate, and support the development and expansion of the economy of the Commonwealth.

Functions

VEDP is built around divisions encompassing the following aspects of economic development, including Business Investment, Workforce Solutions, International Trade, Research, Economic Competitiveness, Marketing and Communications, and Incentives. In addition, key executive and administrative staff, as well as internal support divisions, support the overall work and mission of the Authority.

Offices

The offices from which VEDP conducts its operations are listed below.

FY 2018 Performance Metrics

VEDP is committed to increasing the prosperity of all Virginians by providing new and better job opportunities and expanding the tax base through new investment. Mindful that public resources are used to help fulfill its mission, VEDP seeks to ensure this money is spent wisely and that the public receives a reasonable return on its investment. The following performance measures are an indication of VEDP's stewardship.

Partnership Profile

FY 2018 Performance Metrics and Goals			
Performance Metric	**FY 2018 Goals**	**FY 2018 Results**	**% of Measure**
VEDP-assisted project announcements: Capital Investment	$2.5 billion	$2.08 billion	83%
VEDP-assisted project announcements: Direct Jobs	14,500	13,280	92%
VEDP-generated leads: Number[2]	400	306[2]	77%
VEDP-generated leads: Number converted	100	174	174%
Virginia companies enrolled in International Trade programs	320	330	103%
Projected international sales from Virginia companies participating in International Trade programs	$768 million[3]	$595 million	77%
Projected trade-supported jobs from Virginia companies participating in International Trade programs	6,900	5,355	78%

VEDP Board of Directors[4]:

Vincent J. Mastracco, Jr., Chair Norfolk, Virginia Term Expired 6/30/18	Carrie H. Chenery Staunton, Virginia Term Expires 6/30/20
C. Daniel Clemente Vienna, Virginia Term Expired 6/30/18	Heather Engel Suffolk, Virginia Term Expires 6/30/20

[2] While VEDP's actual leads generated for FY 2018 (306) was below the goal of 400, it nevertheless represented a 44% increase over the 213 VEDP-generated leads produced in FY 2017.

[3] The $595 million attributed to sales from Virginia companies participating in International Trade programs is comprised of $375 million in existing international sales attributed to VEDP International Trade programs and $220 million in new or increased international sales attributed to VEDP International Trade programs. VEDP's International Trade annual survey was enhanced for FY 2018 to capture sales data attributed to VEDP support. Therefore, the FY 2018 sales data more accurately reflects VEDP's total impact on international sales than measures reported in previous years. It is important to note that the International Trade division's Fiscal Year 2018 goals were established prior to the development of the enhanced methodology for the annual survey which produced the FY 2018 results data.

[4] Several Board members have terms that expired June 30, 2018. These members will continue to serve until they are either reappointed or replaced.

Partnership Profile

Gregory B. Fairchild Charlottesville, Virginia Term Expired 6/30/18	William Hayter Abingdon, Virginia Term Expires 6/30/20
Ned W. Massee Midlothian, Virginia Term Expired 6/30/18	Dan M. Pleasant Danville, Virginia Term Expired 6/30/18
Xavier R. Richardson Fredericksburg, Virginia Term Expired 6/30/18	Carlos Tapias Dublin, Virginia Term Expired 6/30/18

Ex officio members:

The Honorable Brian Ball, Secretary of Commerce and Trade, Vice Chair

The Honorable Aubrey L. Layne, Jr., Secretary of Finance

John O. "Dubby" Wynne, Chairman, Virginia Growth and Opportunity Board

John F. Reinhart, Chief Executive Officer and Executive Director, Virginia Port Authority

April Kees, Staff Co-Director, Senate Committee on Finance

Jason Powell, Staff Co-Director, Senate Committee on Finance

Robert Vaughan, Staff Director, House Committee on Appropriations

The membership of the Board's new Advisory Committee on Business Development and Marketing and its new Advisory Committee on International Trade are given below.

Advisory Committee on Business Development and Marketing:

Beth Doughty Roanoke, Virginia Term Expires 6/30/3019	John Kilgore Gate City, Virginia Term Expires 6/30/20
Uconda Dunn Charlottesville, Virginia Term Expires 6/30/20	Curry Roberts Fredericksburg, Virginia Term Expires 6/30/21
Jane Ferrara Richmond, Virginia Term Expires 6/30/19	Jeff Reed Mecklenburg, Virginia Term Expires 6/30/20

Partnership Profile

Greg Hitchin Waynesboro, Virginia Term Expires 6/30/21	Christina Winn Arlington, Virginia Term Expires 6/30/18

Advisory Committee on International Trade:

The Honorable Bettina Ring Richmond, Virginia *Ex officio*	Ned W. Massee Midlothian, Virginia *Ex officio*
Hampton Dowling Potomac Falls, Virginia Term Expires 6/30/20	John G. Milliken Arlington, Virginia Term Expires 6/30/21
Bob Feeser Richmond, Virginia Term Expires 6/30/18	Arthur "Art" W. Moye, Jr. Norfolk, Virginia Term Expires 6/30/21
H. Michael "Mike" Ligon Richmond, Virginia Term Expires 6/30/21	James Xu Chesterfield, Virginia Term Expires 6/30/20
Stuart S. Malawer, JD, PhD Great Falls, Virginia Term Expires 6/30/19	

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Richmond Office – Headquarters
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Richmond, Virginia 23219
Telephone: (804) 545-5600

Virginia Offices
Eastern Region
101 West Main Street, Suite 600
Norfolk, Virginia 23510
Telephone: (757) 314-2129

Northern Region
8150 Leesburg Pike, Suite 710
Vienna, Virginia 22182
Telephone: (703) 506-9741

Northwest Region
491 Airport Road, Suite 100
Winchester, Virginia 22602
Telephone: (540) 490-1566

Partnership Profile

South Central Region
220 Roanoke Boulevard
Salem, Virginia 24153 Telephone:
(540) 387-2562

Southwest Region
16325 Taylor Place, Suite 300
Abingdon, Virginia 24211
Telephone: (276) 623-1536

International Offices
China - Trade
Room 3005, 3/F, Silver Court Tower
No. 85 Tao Yuan Road
Huangpu District, Shanghai
P.R. China 200021
Telephone: 86-21-6157-7331

Europe
Pacellistr. 6-8
80333 Munich
Germany
Telephone: 49-172-423-7646

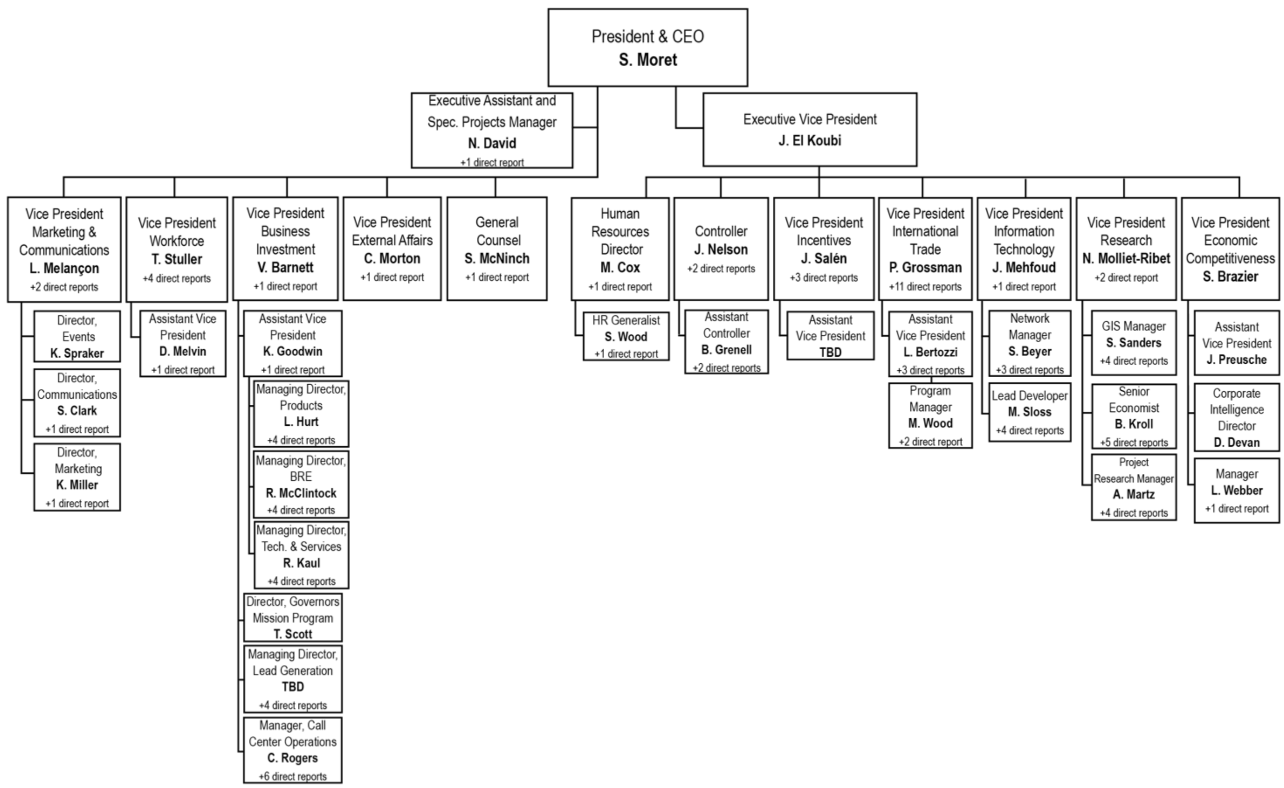
Republic of South Korea
13F, Seoul Square Building
416 Hangang-daero, Jung-gu Seoul
04637 Korea
Telephone: 82-10-4313-2070

Japan
Suite 3, 11F Aoyama Palacio Tower
3-6-7 Kita-Aoyama, Minato-ku
Tokyo 107-0061 Japan
Telephone: 81-3-5778-7568

Partnership Profile

Organization Chart

The following organizational chart reflects the structure of VEDP as of Fall 2018.



Business Investment

The Business Investment division's mission is to aggressively promote Virginia to domestic and international companies to secure investment and job creation for new business facilities in Virginia, and to encourage the growth and expansion of existing Virginia businesses.

This division includes five teams:

- Lead Generation, focusing on business recruitment activities with international companies and managing VEDP's foreign offices in Europe, Korea and Japan;
- Products, focusing on opportunities within the manufacturing and supply chain sectors looking for a new business location or expanding existing operations;
- Technology and Services, focusing on opportunities in the technology and business services sectors looking for a new business location or expanding existing operations;
- Business Retention and Expansion, focusing on business retention issues targeting high value existing Virginia companies that represent the largest contributors to the state's economy; and
- The Call Center, supporting Business Investment lead generation activities by making direct early contact with companies that may wish to do business in Virginia, among other things. The call center performs telemarketing outreach to support lead generation efforts through appointment-setting services.

In addition, the support for the Governor's Marketing and Investment Missions is managed through the Business Investment division. VEDP enlists the Governor's participation in these missions as a strategic component of Virginia's aggressive and proactive approach to economic development.

FY 2018 Accomplishments

The Business Investment division planned and participated in more than 70 domestic and international lead generation activities targeting site selection consultants and senior corporate prospects. VEDP promoted Virginia's business location advantages at a variety of key industry-based trade shows, conferences and executive forums, including the following key events:

BUSINESS INVESTMENT HIGHLIGHTS*

- More than 70 marketing activities attended
- 115 Decisions for Virginia
- 13,280 new jobs announced
- $2.08 billion in new capital investment

*(Includes VJIP-only projects)

- **CoreNet Global Summit:** The largest gathering of Corporate Real Estate professionals. The event is also well attended by site consultants. Over 2,500 corporate real estate executives attend to learn new and creative CRE solutions and to network with colleagues from around the world.
- **IAMC:** The leading industrial and manufacturing real estate trade association, offering professional development, networking opportunities and resources for its members in the U.S. and abroad.
- **Plastics News Executive Forum:** The forum offers a comprehensive understanding of leadership in the plastics industry, focusing on how leadership skills can translate to business

Business Investment

success. The event offers access to executives of plastics processing companies in an intimate environment.
- **RILA's 2018 Retail Supply Chain Conference:** This event convenes about 1,500 supply chain professionals from all over the country, including executives from traditional retailers, e-commerce shops, service providers, and more. RILA draws top executives from the best U.S. retailers ready to do business. They are senior-level executives and key decision-makers who are looking to connect with current partners and develop new business relationships.
- **SelectUSA Summit:** The highest-profile event that promotes foreign direct investment (FDI) in the United States. It provides an unparalleled opportunity to bring together companies from all over the world, economic development organizations from every corner of the nation, others working to facilitate investment in the United States, and high-level government officials. Participants can find the practical tools, information, and connections they need to move investments forward.
- **RSA Conference:** The standout info/cyber security event of the year. VEDP participated in the 25th annual event at the Moscone Center in San Francisco, which brought together a record number of more than 40,000 attendees.

Through the Business Investment division, VEDP planned and executed 7 Governor-led marketing missions in FY 2018:

- New York City, July 19, 2017
- Canada, September 26, 2017
- San Francisco, October 1-3, 2017
- Japan, October 11-14, 2017
- Europe, Nov 8-12, 2017
- Collision Conference, New Orleans, LA, May 2-3, 2018
- IAMC Forum, Savannah, GA, May 7, 2018

The Business Investment division led 92 expansion projects for existing Virginia businesses, resulting in an expected capital investment of $699 million and 10,713 expected new jobs.

Through the Call Center Team, VEDP continued its lead generation program to support efforts to attract businesses with appointment-setting services. The primary objective of the call center's lead generation campaign is to arrange meetings between senior corporate executives and VEDP business managers via both in-person and phone meetings. The program engaged in lead generation campaigns as well as event support, special project outreach, and ongoing prospect database cleansing. During FY 2018, VEDP's call center made more than 58,000 calls, which yielded (1) 70 leads, or nearly one-quarter of all VEDP-generated leads; and (2) 500 client meetings where business investment managers had the opportunity to present Virginia's value proposition during call trips, trade shows, and events.

Business Investment

Projects Highlights

The following projects are illustrative of the successful economic development projects that the Business Investment division worked in FY 2018, reflecting small projects, large projects, new businesses to Virginia, expansions of Virginia businesses, and projects around the Commonwealth in a variety of industries:

Altec Industries: Altec Industries, a leading provider of customized bucket truck assemblies, derrick diggers, and crane assemblies, will expand operations at its existing manufacturing facility in in Botetourt County, Virginia. The expansion included a $30.2 million investment and 180 new jobs.

BISSELL Homecare, Inc.: BISSELL, a leading provider of floor care products, established a new distribution facility in Chesterfield County. The company announcement included a $25.1 million investment and 100 jobs.

Global Technical Systems (GTS): GTS produces the next generation technology for electro-mechanical battery storage. The company announced plans to expand its Virginia Beach facility by investing $54.7 million and adding more than 1,100 jobs.

Service Center Metals (SCM): SCM operates the company's headquarters and extruded metal fabrication products out of the Southpoint Business Park in Prince George County. The company announced it would reinvest in the existing facility through a $45.2 million investment and 58 jobs.

Interstate Group LLC: Interstate Group announced plans to establish a new manufacturing location in Giles County with a $4.1 million investment and 83 jobs. The new facility will manufacture the company's signature enclosed cargo trailers.

Koinonia LTD: Koinonia announced its first U.S. manufacturing facility in Pulaski County to produce foam and foam tapes for the automotive, refrigeration, marine, construction and heavy industry sectors. The announcement comes with a $4.9 million investment and 40 jobs.

New Ravenna: New Ravenna is a designer and manufacturer of tiles for custom residential and commercial installations. The company announced it will invest more than $900,000 to expand its manufacturing operation in Northampton County, and create 31 new jobs.

Humm Kombucha: Humm Kombucha announced plans to establish a new manufacturing facility in the City of Roanoke to produce fermented teas and juices. This company will invest $9.4 million and hire 46 jobs as part of this announcement.

Appian Corp.: Appian Corp. announced plans to consolidate and expand its corporate headquarters operation in Fairfax County. This expansion project resulted in an announced capital investment of $28.6 million and 600 new jobs.

WhiteWave/Danone: WhiteWave/Danone is an existing Virginia employer with a dairy manufacturing facility in Rockingham County. The company announced plans to expand the existing facility through a $60 million investment and 49 new jobs.

Business Investment

Facebook: Facebook announced plans to establish a new $1 billion data center that will include 100 new jobs. The new facility will operate out of Henrico County's White Oak Technology Park.

U.S. Foods: U.S. Foods announced plans to expand operations at its Prince William County distribution facility. This expansion project included a $42 million investment and 99 new jobs.

WPS Health Solutions: WPS Health Solutions is a leading not-for-profit health care provider primarily serving the U.S. government. The company announced plans to establish a customer care center in support of a new contract with the Veterans Administration resulting in a planned investment of $1.7 million and 540 jobs in the City of Hampton.

American Merchant, Inc.: a subsidiary of Merchant House International Ltd, a Hong Kong-based designer and manufacturer of home textiles, seasonal décor products, and leather shoes, announced it will invest $19.9 million to establish its first U.S. manufacturing operation in the City of Bristol. Virginia successfully competed against Arkansas, Florida, Mississippi, North Carolina, Rhode Island, and South Carolina for the project, which will create 405 new jobs.

Perrone Robotics: a developer of autonomous car software, announced it will invest $3.8 million to expand its research and development operation in Albemarle County to add to its test track and facilities. Virginia successfully competed against California, Michigan, and Pennsylvania for the project, which will create 127 new jobs.

Unison Ltd: a leading global tube bending machine specialist, will invest $5.2 million to establish its first U.S. manufacturing operation in the Cane Creek Centre Industrial Park, jointly owned by the City of Danville and Pittsylvania County. Virginia successfully competed against North Carolina and the United Kingdom for the project, which will create 35 new jobs.

International Trade

VEDP's International Trade programs and services are designed to increase the international sales of Virginia manufactured products and services.

VEDP offers Virginia companies numerous programs including Virginia Leaders in Export Trade (VALET), the Global Defense Program, Global Network and trade missions to increase their sales in the international marketplace.

INTERNATIONAL TRADE HIGHLIGHTS

- 26 Companies graduated from VALET.
- VEDP's GDP enrolled 52 defense companies in its fifth year.
- VEDP completed 300 market research projects for Virginia companies.
- VEDP led 11 Trade Missions with 69 companies participating.
- VEDP exhibited at 11 international trade shows with 64 companies participating.

FY 2018 Accomplishments

Program Participation

Virginia Leaders in Export Trade (VALET) Program:
The VALET program selects 25 Virginia companies annually into a two-year intensive international sales training program. VALET offers a unique combination of Commonwealth resources, private-sector expertise, and business planning to assist Virginia companies to become export-ready and to actively sell their products and services internationally. The VALET program has now entered its 16th year in operation, graduating 26 companies in FY 2018. Graduates of the program in FY 2018 experienced, on average, a 54% increase in export sales during their two-year participation.

Global Defense Program (GDP)
The purpose of this international program is to mitigate the negative impact of defense spending cuts on Virginia's economy. VEDP's GDP is the Commonwealth's only program that replaces U.S. Department of Defense revenue streams for Virginia's defense companies, which, in turn, preserves jobs and replaces declining state tax revenues. In its fifth year, the GDP enrolled 52 defense companies in pursuit of new international business.

One-on-One Export Counseling: VEDP's six International Trade Managers, located in six offices across Virginia, provide extensive international marketing assistance to Virginia businesses.

Trade Missions & Trade Shows: The International Trade division arranges trips for several companies to travel together to meet face-to-face with potential customers. These potential buyers or distributors are pre-qualified, based on information provided by the Virginia business, to meet their individual export market objectives. Language assistance, meeting facilitation, and networking receptions are other benefits. In FY 2018, Trade conducted 11 trade missions internationally to promote Virginia products and services, with 69 companies participating. International Trade also exhibited at 11 international trade shows with 64 companies participating.

Market Research: Trade's team of research experts performs a variety of market research services for Virginia companies. International Trade provides international research through a Global Network of in-country consultants covering 70+ countries. In FY 2018, the International Trade division completed 300 market research projects to help Virginia companies enter a market, find a local partner, and manage shipping, legal and payment issues.

International Trade

Virginia Conference on World Trade: Each fall, VEDP hosts the Virginia Conference on World Trade. In FY 2018, the conference highlighted business opportunities for Virginia companies abroad and attracted more than 270 attendees.

Economic Competitiveness

Over the course of Fiscal Year 2018, the Economic Competitiveness division has provided critical support across each of VEDP's key initiatives and major priorities. Broadly, the division is tasked with assessing and identifying key and initiatives that would strengthen the Commonwealth's overall competitiveness as a location for business investment and job creation. These programmatic initiatives will largely address the Commonwealth's challenges across what VEDP sees as the five components of economic competitiveness: human capital, physical and virtual infrastructure (including broadband access), regional competitiveness and cluster development, innovation and entrepreneurship, and business climate.

The division's work falls into three major categories:

- **Operational and strategic planning:** The division leads the organization's targeted, strategy-based planning efforts, updating the operational plan annually and the strategic plan biennially. In addition, the division fulfills core reporting and communications functions, disseminating to the Board, VEDP staff, and external stakeholders progress updates on items relevant to these planning efforts.
- **Development and execution of major initiatives:** As described above, the division leads VEDP's effort to address challenges to the five major components of the Commonwealth's overall economic competitiveness through the development and build-out of major initiatives.
- **Competitive analysis and/or project management support for select transformational projects:** The division contributes to VEDP's efforts to attract major, transformational economic development projects. In this capacity, Economic Competitiveness works with each of VEDP's client-facing teams, as well as its local and regional economic development partners to provide customized, quick-turn research, analytic, and project management support.

FY 2018 Accomplishments

The Economic Competitiveness division was responsible for executing major planning efforts, in addition to managing several key initiatives and programs, as outlined below.

- **RFI Responses for Transformational Economic Development Projects:** In Fiscal Year 2018, Economic Competitiveness worked closely with the Business Investment, Marketing and Communications, and Research divisions to support and occasionally lead VEDP's responses to highly-complex and customized RFIs for major economic development projects, leading the effort for one major project and providing key research and analytic support for several others.

- **Sharing key analytical insights on state and regional economic competitiveness with internal and external stakeholders:** The division led efforts to collect, analyze, synthesize, and share data on economic trends, challenges, and assets in Virginia's localities and regions. This information can go on to be leveraged in working future projects with economic development prospects or in informing and aiding in the development of VEDP's strategies and major initiatives.

Economic Competitiveness

- **Operational Plan:** The division managed the writing and editing of the FY 2019 Operational Plan, laying out in detail VEDP's major initiatives, the ongoing activities and tactics for each team, and the agency's overall performance goals for the year. The division is also responsible for the ongoing monitoring of progress against each activity outlined in the plan and for reporting on this progress to executive leadership and the Board of Directors.
- **Strategic Plan:** The division has helped in planning (largely through the development of the FY 2019 Operational Plan) for the first year of implementation of the agency's first comprehensive five-year strategic plan, including the development of targeted, actionable workplans aimed at implementing the strategies and initiatives laid out in the strategic plan. In addition, the division is responsible for developing and tracking performance against agency metrics. In keeping with commitments made in the plan, the division is also tasked with completing the functional assessment, as well as an assessment of how VEDP can add value relative to its statutory duties and powers.
- **National Rankings Initiative:** The division continued to track and analyze factors influencing Virginia's performance in major state business climate rankings, identifying initiatives that would improve Virginia's performance in each ranking. In collaboration with the Marketing and Communications division, Economic Competitiveness also created one-page reports on each of the major rankings to inform Virginia's economic development leaders and policymakers about estimated reasons for Virginia's improvements or decline in the rankings and key steps the Commonwealth can take to strengthen its performance. To date, since last year's Annual Report, Virginia's average ranking in four major business climate rankings[5] improved from 9 to 8.

[5] Chief Executive magazine, 2018 Best & Worst States for Business (May 2018); CNBC, America's Top States for Business 2018 (July 2018); Forbes magazine, Best & Worst States for Business 2017 (November 2017); and Site Selection magazine, Top U.S. Business Climates 2018 (November 2018).

Marketing and Communications

VEDP's Marketing and Communications division (M&C) manages all facets of VEDP's brand and builds awareness of the Commonwealth's economic development opportunities and achievements amongst c-level executives in target industries and site consultants. In FY 2018, M&C developed and launched a new brand identity and related collateral, as well as a new website highlighting the strategic advantages of the Commonwealth for business. M&C revamped its social media presence to better align with industry and regional priorities, showcasing economic development assets to target audiences outside the Commonwealth. In conjunction with Business Investment, M&C sponsored and hosted trade shows and industry events as well as began implementation of a site consultant outreach plan. Additionally, the M&C team managed and coordinated economic development press announcements throughout the Commonwealth.

FY 2018 Accomplishments

Brand Launch and Collateral Development: Based on perception research of c-level executives and site consultants, VEDP developed a new organizational brand. Components of the comprehensive brand launch included a new identity system, report templates, PowerPoint templates and hundreds of pre-populated slides, informational 1-pagers, email templates, and other collateral; including new materials for VEDP's International Trade Division.

Website Launch and Management: As part of the new brand launch, VEDP launched VEDP.org, a completely new website that showcases Virginia's assets for business and strategic advantages for target industries. The revised design includes all new content with simplified navigation and expanded sections that include key industries, case studies, incentives, and regional profiles. Major redesigns and improvements were made to VEDP's online tools, including the sites and buildings search and the state-by-state comparison tool. ExportVirginia.org was also refreshed to align with VEDP's new visual identity.

Additional tools for Virginia's economic development partners were launched which included a searchable marketing resources database and an expanded partners resources section on VEDP.org. The resources database includes thousands of assets such as photos, quotes, announcements, rankings, and maps searchable by region, industry, asset type and a number of other filters.

Event Management: VEDP continues to collaborate with its economic development partners at events and target industry tradeshows. The IAMC Fall Forum in Richmond, Collision 2018, and the SelectUSA Investment Summit all included a combined economic development effort, helping to tell the Virginia story to corporate decision makers. VEDP also partnered with regional economic development groups to host six inbound familiarization tours to allow site consultants to experience Virginia first-hand.

Social Media Highlights: M&C implemented a strategic social media marketing strategy to highlight key assets in Virginia to target audiences. New strategies for social feature more Virginia businesses, new graphics, additional regional content, rankings, quotes, and industry-specific themes. VEDP has continued to increase audience engagement across all platforms. Membership in VEDP's social media networks continued to show significant growth, increasing by 33% on Twitter and 22% on LinkedIn. M&C also coordinated social media training for VEDP staff.

Marketing and Communications

Public Relations and Communications: In FY 2018, M&C drafted and executed Governor's press releases and VEDP press releases for announcements related to VEDP and its projects; coordinated and advanced numerous Governor and/or Secretary of Commerce and Trade announcements, ground-breakings, or grand opening events; and drafted articles for publication in leading economic development and trade magazines.

Site Consultant Outreach: In FY 2018, VEDP launched and began implantation of a site consultant cultivation program. M&C managed the development and maintenance of the target consultant lists, participated in outreach visits, and coordinated special events for site consultants.

Participation in Special Initiatives

Together with other Divisions of VEDP, M&C has been actively engaged in the development and implementation of VEDP's Strategic Plan, Annual Marketing Plan, and Operational Plan.

Workforce Solutions

Toward the end of FY 2018, the Workforce Development division was renamed the Workforce Solutions division in anticipation of alignment and integration with the new custom workforce program which is anticipated to launch in FY 2019. Still key among the division's goals are to represent Virginia's workforce development capabilities to existing and new businesses to support economic development projects and to represent the needs of business to workforce system partners. These efforts help to enable the right talent pipeline for Virginia businesses. The division also markets and helps manage, in collaboration with the Incentives division, the Virginia Jobs Investment Program (VJIP). The VJIP incentive provides a cash grant to employers to offset recruitment and training costs associated with economic development projects. Workforce Business Managers are deployed regionally, aligning with workforce, higher education, and economic development partners serving each regional economy.

FY 2018 Accomplishments

Workforce Business Managers interact directly with Virginia companies, serving as a key resource for clients. In FY 2018, working collaboratively with local partners and VEDP colleagues, Workforce Business Managers led 62 new projects projecting the creation of 5,462 new jobs, 3,701 retrained jobs, and $168MM in new capital investment. Workforce Business Managers participated in numerous other client projects as well. In total, in FY 2018, the division worked on 436 active, potential, or now-completed VJIP projects, representing the projected creation or retraining of 66,890 jobs and over $6 billion in investment. Over 59% of these VJIP projects were with small businesses. The VJIP provided grant funding in excess of $7MM to support new job creation or the retraining of 8,919 Virginians. VJIP-served companies were in a range of industry sectors in 90 localities across the Commonwealth. Workforce Business Managers conducted 360 visits with clients and partners and gave 195 presentations to business clients.

The division responded to inquiries by the Joint Legislative Audit and Review Commission (JLARC) as part of its study of Virginia's Workforce and Small Business Incentives. The JLARC study resulted in four recommendations, which the division is in the process of considering and/or implementing.

Funding was granted by the General Assembly to establish a new, customized, turnkey workforce recruitment and training incentive program in Virginia. An experienced director is being recruited to launch the new program. Meanwhile, funding for VJIP in FY 2020 was reduced by 53%. The division has been working with leadership to consider changes to the VJIP guidelines to address the JLARC recommendations as well as the impact of the FY 2020 budget cuts to continue to meet business needs described above.

The division completed a substantial technology project to design and integrate VJIP program management into VEDP's Salesforce.com system. This key, transformational project will yield enhanced data integration across VEDP and result in over $20,000 in annual savings.

Workforce Solutions

Participation in Ongoing Special Initiatives

The Workforce Solutions division supported the major strategic initiatives and ongoing initiatives of the FY 2018 VEDP Operational Plan, as well as several organization-wide activities which include:

- Launching a plan for a new, world-class, turnkey, customized workforce recruitment and training incentive program
- Collaborating with Economic Competitiveness on statewide initiatives, including:
    - Communication with stakeholders on analysis of talent supply and demand for high demand fields
    - Engagement with the State Council of Higher Education for Virginia (SCHEV) and the University-Based Economic Development Officers (UBED) group to foster enhanced collaboration between economic development and higher education
    - Development of a new workforce development dashboard by the Virginia Employment Commission, to enhance its capability to supply Virginia citizens with improved labor market information

The division will continue to support these and other initiatives throughout the next year.

Incentives

In response to new Code requirements (§ 2.2-2237.3) adopted in 2017, one of VEDP's major focus areas in FY 2018 was establishing a new, dedicated division of Incentives with appropriate staffing, policies, and procedural guidelines. The division is responsible for optimizing the efficiency and effectiveness of incentives administration throughout the lifecycle of VEDP-administered incentive programs. To that end, the Division has established policies and procedures for key elements of incentives administration including due diligence on projects under consideration for incentives, verification of company performance, extension requests, and clawback enforcement.

VEDP also helps coordinate economic development incentives administered by other state agencies and localities, including cases where other incentive programs are being used in conjunction with VEDP-administered incentives. Staff work with other agencies to verify project parameters, determine eligibility for programs, and estimate incentive amounts in order to accurately present incentive packages to companies. VEDP calculates a state-level ROI for each project by incorporating all discretionary grants, including those administered by other agencies. In addition, VEDP provides ROI models to partner agencies such as VDACS and the Virginia Tourism Corporation to model discretionary incentives administered by those agencies.

A key part of the division's responsibility is overseeing the Project Review and Credit Committee (PRACC), which was originally put into place in 2016. The division works closely with other VEDP divisions to review and consider approval of incentives under PRACC's approval authority.

Incentive Philosophy

The Incentives division considers these factors, among others, when determining whether to recommend discretionary incentives:

- Proportion of company revenues derived from outside Virginia, including international exports (i.e., per the determination of company executives)
- Employment multiplier
- Wages compared to local average wage
- Alignment with strategic sectors and state/local strategies
- Solution to a competitive need
- Establishment of a competitive advantage
- Ability to leverage other state and local resources
- Advancement of the quality of life

Project Review and Credit Committee (PRACC)

When a complete application package is received for an economic development incentive, research is undertaken on the company by the division of Incentives, including a financial analysis and a risk assessment. The due diligence required for the risk assessment is completed prior to an incentive offer being made to a project company. The Incentives division will work with the Research division to calculate a return on investment for the project and the Business Manager will prepare a project summary for review by PRACC.

Incentives

The purpose of PRACC is to formalize the review process as a part of VEDP's due diligence for consideration of incentive offers. The PRACC members discuss and make determinations as to (1) whether the project is a good use of the grant funds, (2) the amount of the grant to be awarded, (3) the length of the performance period based on company/locality projections, (4) milestones for scheduled incentive payments, and (5) other pertinent aspects of the project. PRACC members review the elements of the project, consider strategic, competitive, and financial implications to the locality and the company, and evaluate the risk assessment and ROI analysis. All projects considered for the following discretionary incentives from VEDP are reviewed by PRACC, regardless of size, name recognition, or locality:

- Commonwealth's Opportunity Fund (COF)
- Virginia Investment Performance Grant (VIP)
- Virginia Economic Development Incentive Gant (VEDIG)
- Major Eligible Employer Grant (MEE)
- Custom Performance Grants

Monitoring and Verification of Performance

The Incentives division actively monitors companies receiving grants, typically on an annual basis, to determine each company's level of achievement of its performance metrics. The performance metrics often include a certain level of capital investment and the creation and maintenance of a certain number of new jobs at a certain wage rate. The Incentives division verifies capital investment with local taxing authorities and new jobs and wages with the Virginia Employment Commission.

Virginia Economic Development Partnership
Audited Basic Financial Statements
Fiscal Year 2018

Virginia Economic Development Partnership
Audited Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS
As of June 30, 2018

Board of Directors

Vincent J. Mastracco, Chair
The Honorable Brian Ball, Ex-Officio, Vice Chair

Carrie Hileman Chenery
C. Daniel Clemente
Heather Engel
Greg B. Fairchild
William "Bill" Hayter
Ned W. Massee
Dan M. Pleasant
Xavier R. Richardson
Carlos Tapias

The Honorable Aubrey L. Lane, Jr., Ex-Officio
April Kees, Ex-Officio
Jason Powell, Ex-Officio
John F. Reinhart, Ex-Officio
Robert P. Vaughn, Ex-Officio
John O. "Dubby" Wynne, Ex-Officio

President and Chief Executive Officer

Stephen M. Moret

FINANCIAL SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AS OF JUNE 30, 2018

The Virginia Economic Development Partnership (the Partnership) management offers the readers of the Partnership's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2018. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Partnership in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the Partnership's assets and liabilities, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Partnership is improving or deteriorating.

The Statement of Activities presents information showing how the Partnership's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the 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. For example, expenses that are accrued for the net pension liability in the current period are expected to be paid with future funding appropriations from the Commonwealth of Virginia (COV).

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 Partnership, like other political subdivisions of the COV, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial activities of the Partnership are reported in *governmental funds.*

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Partnership's near-term financing requirements.

Reconciliations between Government-Wide and Fund Financial Statements

There are two reconciliations between the government-wide and the fund financial statements. The first is found on the Balance Sheet and explains the difference between the *fund balance* on the Balance Sheet and *net position* on the Statement of Net Position. The second is found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, which reconciles the difference between the *net change in fund balances* on the fund-based statement and the *change in net position* on the government-wide based statement. Both statements describe in sufficient detail the amounts and the reasons for those differences.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. At the close of the fiscal year ended June 30, 2018, the Partnership had a net position of ($9,004,302) compared to a net position of ($6,600,085) as of June 30, 2017. Following is an analysis of the changes in the net position of the Partnership.

Net Position

	2018	2017	Increase (Decrease)
Current and other assets	$ 5,687,632	$ 7,444,118	$ (1,756,486)
Capital assets, net of depreciation	1,250,911	1,351,312	(100,401)
Total assets	6,938,543	8,795,430	(1,856,887)
Deferred outflows of resources	1,924,945	2,242,793	(317,848)
Total assets and deferred outflows	8,863,488	11,038,223	(2,174,735)
Non-current liabilities	15,801,150	16,172,742	(371,592)
Other liabilities	491,592	634,566	(142,974)
Total liabilities	16,292,742	16,807,308	(514,566)
Deferred inflows of resources	1,575,048	831,000	744,048
Total liabilities and deferred inflows	17,867,790	17,638,308	229,482
Net position:			
Net investment in capital assets	1,250,911	1,351,312	(100,401)
Restricted	412,000	-	412,000
Unrestricted	(10,667,213)	(7,951,397)	(2,715,816)
Total net position	$ (9,004,302)	$ (6,600,085)	$ (2,404,217)

Total assets decreased this fiscal year by $1,856,887 when compared to last year, primarily due to a decrease of $2,105,936 in the Current asset, cash. The two major components of the cash decrease were a $1,500,000 payment for the Target Industry Economic Development Strategy and Action Plan used in the Partnership's strategic planning process, as well as an $840,368 pass-through payment to the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund that was included in the FY2017 budget and paid in FY2018. This decrease was offset by an increase of $412,000 in the Restricted net other postemployment asset recorded in compliance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), related to the Partnership's participation in the Virginia Retirement System Disability Insurance Program. The remaining decrease in *Total assets* is due to a decrease of $197,145 in the Current asset, operating grants receivable as a result of reductions in two International Trade federal grant programs in FY2018, as well as a decrease of $100,401 in Capital assets, net of depreciation, offset by an increase in the Current asset, prepaid expenses and Other assets of $134,595.

Deferred outflows of resources decreased by $317,848. This decrease includes $855,000 primarily related to the net difference between projected and actual earnings on pension plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions, offset by an increase of $171,993 in FY2018 employer pension contributions over the prior year. These amounts have been recorded in compliance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68). In addition, the Partnership recorded $365,159 of deferred outflows of resources related to postemployment benefit plans in compliance with GASB 75.

Total liabilities decreased by $514,566 due to a decrease in the Non-current liabilities of the Partnership's net pension liability of $1,420,000, offset by increases in net other postemployment benefits liabilities of $855,825, compensated absences of $73,050, and capital lease obligations of $119,533. Other liabilities decreased by $142,974 due to a decrease in other current liabilities of $159,717 related to the timing of accounts payable transactions, offset by a $16,743 increase in unearned revenue due to the timing of participation fees collected for events in the subsequent fiscal year.

Deferred inflows of resources increased by $744,048. This increase includes $205,000 primarily related to the net difference between projected and actual earnings on pension plan investments, offset by a decrease in changes in proportion and differences between employer contributions and proportionate share of contributions recorded in compliance with GASB 68. In addition, the Partnership recorded $539,048 of deferred inflows of resources related to postemployment benefit plans in compliance with GASB 75.

Net investment in capital assets consists primarily of leasehold improvements, furniture, computers and peripheral technology equipment used to deliver program services to clients. The Partnership considers technology a vital asset in its efforts to market Virginia and will continue to invest in technology to ensure that its equipment and software are updated to take advantage of the latest data handling capabilities and increased processing speeds.

Restricted Net position represents the portion of fund balance related to the Restricted net other postemployment asset recorded in compliance with GASB 75 due to the Partnership's participation in the Virginia Retirement System Disability Insurance Program. The remaining *Net position* balance of ($10,667,213) is classified as *unrestricted*. The Partnership has recorded $14,696,480 of net pension liability and net other postemployment benefits liabilities that are expected to be paid with future appropriations from the COV. The Partnership's Current and other assets exceed its Other liabilities by $5,196,040.

Changes in Net Position

	2018	2017	Increase (Decrease)
Revenues:			
Program revenues:			
Charges for services	$ 1,756,477	$ 505,234	$ 1,251,243
Operating grants	302,061	1,207,205	(905,144)
General revenues:			
General Fund appropriations	28,495,883	26,096,170	2,399,713
Other	240,879	509,130	(268,251)
Total revenues	30,795,300	28,317,739	2,477,561
Expenses:			
Workforce Development	1,050,713	1,057,726	(7,013)
Business Investment	5,097,254	4,534,424	562,830
International Trade	6,778,849	7,277,765	(498,916)
Research	2,141,567	2,121,754	19,813
Marketing and Communications	2,156,250	1,849,818	306,432
Economic Competitiveness	783,191	927,751	(144,560)
Information Technology	1,518,117	1,657,676	(139,559)
Administration	7,969,813	3,458,213	4,511,600
Pass-Through Payments	5,105,731	2,257,399	2,848,332
Total expenses	32,601,485	25,142,526	7,458,959
Increase (Decrease) in net position	(1,806,185)	3,175,213	(4,981,398)
Beginning net position	(7,198,117)	(9,775,298)	2,577,181
Ending net position	$ (9,004,302)	$ (6,600,085)	$ (2,404,217)

Net position for the Partnership decreased by $2,404,217 during the current fiscal year. The total revenues increase of $2,477,561 is due primarily to an increase in general fund appropriations provided by the COV related to corporate headquarters recruitment efforts, trade missions and a pass-through payment to the Commonwealth Center for Advanced Manufacturing. In addition, program revenues increased due to payments from various localities and other economic development organizations in support of corporate headquarters recruitment efforts. Operating grants revenue decreased due to reductions in two International Trade federal grant programs in FY2018.

Total expenses for the Partnership increased by $7,458,959. This increase was primarily in Business Investment, Administration and Pass-Through Payments. Business Investment expenses increased due to the formation of the new Business Retention and Expansion group, as well as the transfer of Governor's mission and call center lead generation staff from Marketing and Communications to Business Investment. Administration increased as a result of expenses related to the Target Industry Economic Development Strategy and Action Plan, corporate headquarters recruitment efforts, and the Incentives and Internal Audit functions started in FY2018. Pass-Through Payments increase is due to additional funding for the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund and the Commonwealth Center for Advanced Manufacturing.

General and Special Revenue Fund Budgetary Highlights

The *Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis* is presented to provide information on the budget as originally prepared and the final budget on which the Partnership operated for the fiscal year. Also, the final budget is compared to the cash basis actual results by revenue source and expenditure activity. The Partnership's budget, as originally prepared, included revenue provided by the COV of approximately $26.0 million. This amount was adjusted by $1.0 million for corporate headquarters recruitment efforts, $.5 million for marketing and trade missions, $.5 million for an additional pass-through payment to the Commonwealth Center for Advanced Manufacturing, and other increases of $.7 million, offset by other reductions of $.2 million. Participation fees exceeded budget due to increases in the number of trade shows and trade missions in FY2018, as well as the number of participating companies. Actual expenditures were below the final budget by approximately $3.2 million for the fiscal year. This underspending was primarily in the Business Investment division related to lead generation and business retention and expansion efforts, the International Trade VALET and Defense programs, and Pass-Through Payments for the Virginia Business Ready Sites Program included in the FY2018 budget that will be paid in FY2019.

FY2019 Outlook

The Partnership received FY2019 COV funding for some of its key initiatives. This includes $2.5 million for a Custom Workforce Solutions group that will launch a customized, turnkey workforce recruitment and training incentive program to secure high-quality economic development projects, as well as $2.2 million for marketing and business-ready site development activities. The Partnership will continue to seek funding for other important initiatives critical to the success of its new five year Strategic Plan to be implemented beginning in FY2019.

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 describe the nature of the Partnership's reporting entity and the relationship to the COV as a whole, the basis on which the financial statements were prepared, and the methods used for presentation. Further, the notes provide explanations of specific accounts with significant balances.

Requests for Information

This financial report is designed to provide a general overview of the Partnership's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President and Chief Executive Officer, Virginia Economic Development Partnership, P.O. Box 798, Richmond, Virginia, 23218-0798.

BASIC FINANCIAL STATEMENTS

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF NET POSITION
As of June 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	$ 4,355,533
Travel advances	7,615
Operating grants receivable	36,002
Prepaid expenses	857,735
Lease deposits (Note 6)	18,747
Restricted net other postemployment asset (Note 14)	412,000
Capital assets, net of accumulated depreciation (Note 7)	
Leasehold improvements, furniture, and equipment	1,250,911
Total assets	6,938,543
Deferred outflows of resources (Notes 11, 12, 13, 14, and 15)	1,924,945
Total assets and deferred outflows of resources	8,863,488
Liabilities	
Accounts payable	144,939
Accrued payroll	231,325
Unearned revenue	115,328
Long-term liabilities due within one year	
Compensated absences (Note 10)	648,392
Long-term liabilities due in more than one year	
Compensated absences (Note 10)	336,745
Capital lease obligation (Note 8)	119,533
Net pension liability (Note 11)	11,385,000
Net other postemployment liability (Notes 12, 13, and 14)	3,311,480
Total liabilities	16,292,742
Deferred inflows of resources (Notes 11, 12, 13, 14, and 15)	1,575,048
Total liabilities and deferred inflows of resources	17,867,790
Net position	
Net investment in capital assets	1,250,911
Restricted for net other postemployment asset (Note 14)	412,000
Unrestricted	(10,667,213)
Total net position	$ (9,004,302)

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental Activities				
Workforce Development	$ 1,050,713	$ -	$ -	$ (1,050,713)
Business Investment	5,097,254	148,822		(4,948,432)
International Trade	6,778,849	399,905	302,061	(6,076,883)
Research	2,141,567			(2,141,567)
Marketing and Communications	2,156,250	24,000		(2,132,250)
Economic Competitiveness	783,191			(783,191)
Information Technology	1,518,117			(1,518,117)
Administration	7,969,813	1,183,750		(6,786,063)
Pass-through Payments	5,105,731			(5,105,731)
Total governmental activities	32,601,485	1,756,477	302,061	(30,542,947)
General Revenues				
Revenue provided by the General Fund of the Commonwealth (Note 5)				28,495,883
Interest revenue				91,180
Loss on disposal of capital assets				(4,490)
Other revenue				154,189
Total general revenues				28,736,762
Decrease in net position				(1,806,185)
Net position, July 1, 2017 as restated (Note 2)				(7,198,117)
Net position, June 30, 2018				$ (9,004,302)

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 3)	$ 4,355,533	$	$ 4,355,533
Travel advances	7,615		7,615
Due from the special revenue funds	36,002		
Operating grants receivable		36,002	36,002
Prepaid expenses	857,735		857,735
Lease deposits (Note 6)	18,747		18,747
Total assets	$ 5,275,632	$ 36,002	$ 5,275,632
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 144,939		$ 144,939
Accrued payroll	231,325		231,325
Due to the general fund		36,002	
Unearned revenue	115,328		115,328
Total liabilities	491,592	36,002	491,592
Fund Balances:			
Nonspendable	876,482	-	876,482
Committed	-	-	-
Unassigned fund balance	3,907,558	0	3,907,558
Total fund balances	4,784,040	0	4,784,040
Total liabilities and fund balances	$ 5,275,632	$ 36,002	$ 5,275,632

Amounts reported for governmental activities in the statement of net position are different because:

Fund balances, Governmental Funds	$ 4,784,040
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,250,911
Restricted net other postemployment asset is not a financial resource and, therefore, is not reported in the funds.	412,000
Noncurrent liabilities (compensated absences, capital lease obligation, net pension liability and net other postemployment obligation) are not due and payable with current financial resources and, therefore, are not reported in the funds.	(15,451,253)
Total net position of governmental activities	$ (9,004,302)

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 5)	$ 28,495,883	$	$ 28,495,883
Participation fees	535,447		535,447
Sponsorship fees	24,000		24,000
Operating grants	-	302,061	302,061
Interest revenue	91,180		91,180
Other revenue	1,351,219		1,351,219
Total revenues	30,497,729	302,061	30,799,790
Expenditures			
Workforce Development	1,097,032		1,097,032
Business Investment	5,111,314		5,111,314
International Trade	6,504,280	302,061	6,806,341
Research	2,216,279		2,216,279
Marketing and Communications	2,227,156		2,227,156
Economic Competitiveness	836,251		836,251
Information Technology	1,494,355		1,494,355
Administration	7,927,452		7,927,452
Pass-through Payments	5,105,731		5,105,731
Total expenditures	32,519,850	302,061	32,821,911
Revenues over expenditures	(2,022,121)	-	(2,022,121)
Other Financing Sources			
Proceeds from sale of capital assets	3,000		3,000
Total other financing sources	3,000	-	3,000
Total Increase in Fund Balance	(2,019,121)	-	(2,019,121)
Fund balance, July 1, 2017	6,803,161	-	6,803,161
Fund balance, June 30, 2018	$ 4,784,040	$ -	$ 4,784,040

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net increase (decrease) in fund balance of the governmental funds	$	(2,019,121)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and proceeds from sale of capital assets exceeded capital outlays in the current period.		(100,401)
Some expenses reported in the statement of activities (compensated absences, net pension liability and net other post employment asset and obligation) do not require the use of current financial resources and, therefore, are not reported as		313,337
Increase in net position of governmental activities	$	(1,806,185)

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
GENERAL AND SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		General Fund	Special Revenue Fund	Variances with Final Budget- Positive
	Original	Final	Actual	Actual	(Negative)
Revenues					
Revenue provided by the General Fund of the Commonwealth (Note 5)	$ 26,035,046	$ 28,495,883	$ 28,495,883	$ -	$ -
Participation fees	263,000	263,000	535,447		272,447
Sponsorship fees	-	-	24,000		24,000
Operating grants	-	492,429		499,206	6,777
Interest revenue	25,000	25,000	91,180		66,180
Other revenue	144,800	1,294,800	1,351,219		56,419
Total revenues	26,467,846	30,571,112	30,497,729	499,206	425,823
Expenditures					
Workforce Development	1,330,427	1,245,078	1,100,773		144,305
Business Investment	5,426,960	6,033,080	5,222,039		811,041
International Trade	7,018,200	7,435,600	6,599,219	302,061	534,320
Research	2,304,554	2,289,830	2,231,864		57,966
Marketing and Communications	2,970,016	2,684,557	2,263,867		420,690
Economic Competitiveness	1,219,623	892,170	848,865		43,305
Information Technology	1,544,005	1,562,253	1,535,096		27,157
Administration	5,798,753	8,466,867	7,938,424		528,443
Pass-through Payments	5,246,985	5,746,985	5,105,731		641,254
Total expenditures	32,859,523	36,356,420	32,845,878	302,061	3,208,481
Revenues over (under) expenditures	(6,391,677)	(5,785,308)	(2,348,149)	197,145	3,634,304
Other Financing Sources					
Proceeds from sale of fixed assets			3,000		3,000
Total other financing sources			3,000		3,000
Total Increase in Fund Balance			(2,345,149)	197,145	(2,148,004)
Fund balance, July 1, 2017	6,391,677	5,785,308	5,939,633	484,202	638,527
Fund balance, June 30, 2018 (Note 4)	$ -	$ -	$ 3,594,484	$ 681,347	$ 4,275,831

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Economic Development Partnership (the Partnership) was established on July 1, 1996, by Chapter 638 of the 1995 Acts of Assembly and operates as an authority in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia. The Partnership's major activities are to encourage, stimulate, and support the development and expansion of the economy of the Commonwealth.

The Partnership is a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Partnership is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, the Partnership's financial statements are included in the financial statements of the Commonwealth as a discretely presented component unit.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The Statement of Net Position and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Interfund activity and balances between the General Fund and Special Revenue Fund have been eliminated in the government-wide financial statements. The Statement of Activities shows the extent that direct expenses of governmental functions are offset by program revenues. In cases where certain indirect costs have been allocated to the various divisions by headcount, program expenses will include both direct and indirect costs. Program revenues include charges for services and operating grants. Charges for services are comprised primarily of participation fees, shared mission reimbursements, and payments to support corporate headquarters recruitment efforts. Operating grants are grants awarded to the Partnership from the federal government.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Partnership considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due. The Partnership reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all financial transactions not accounted for in the special revenue funds. The special revenue funds are used to account for federal grant revenues and related expenditures for operating grants awarded to the Partnership by the federal government. Both the General Fund and Special Revenue Fund are reported as major governmental funds.

Fund balances for the Partnership's governmental funds financial statements are classified in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Fund balances are classified as restricted, committed or assigned if the related resources reported in governmental funds have either externally or internally imposed restrictions on their usage. Nonspendable fund balances represent assets such as prepaid expenses and lease deposits that are unavailable to be spent on future operations. The unassigned fund balances represents the remainder of the fund balances funds.

C. Operating Grants Receivable

Operating grants receivable represents the amount due from the federal government for grants that are funded based on reimbursement of expenses paid by the Partnership.

D. Prepaid Expenses

The Partnership's prepaid expenses include amounts paid for promotional activities, other services and portions of insurance premiums for which the economic benefits had not been received as of June 30, 2018.

E. Capital Assets

Capital assets are defined by the Partnership as those assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of five to ten years.

F. Unearned Revenue

Unearned revenue includes amounts received for sponsorship and participation fees at June 30, 2018, for various events to be held in the next fiscal period.

G. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2018. Compensated absences were calculated in accordance with GASB Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

H. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan is a single employer pension plan that is treated like a cost-sharing plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the VRS State Employee Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value.

I. State Employee Health Insurance Credit Program

The VRS State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the VRS State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Group Life Insurance Program

The VRS Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance OPEB expense, information about the fiduciary net position of the VRS Group Life Insurance Program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Disability Insurance Program

The VRS Disability Insurance Program (Virginia Sickness and Disability Program) is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The Disability Insurance Program was established pursuant to §51.1-1100 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Disability Insurance Program is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for state employees. For purposes of measuring the net Disability Insurance Program OPEB asset, deferred outflows of resources and deferred inflows of resources related to the Disability Insurance Program OPEB, and Disability Insurance Program OPEB expense, information about the fiduciary net position of the VRS Disability Insurance Program OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. Pre-Medicare Retiree Healthcare

The Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees (Pre-Medicare Retiree Healthcare Plan) is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. The Pre-Medicare Retiree Healthcare Plan was established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no assets accumulated in a trust to pay benefits.

M. Deferred Inflows and Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position similar to assets.

Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position similar to liabilities.

N. Budgets and Budgetary Accounting

The Partnership's budget was primarily established by the Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2018, which is the second year of the biennium ended June 30, 2018. No payments were made to the Partnership out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Partnership bank accounts in accordance with the provisions of Chapter 22 of Title 2.2 of the *Code of Virginia* and expended for purposes as stated in those provisions. The budget is prepared on the cash basis. The budget is prepared collectively to include both the General Fund and Special Revenue Fund.

2. CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:

Net Position as previously reported at June 30, 2017	$ (6,600,085)
Net Position restatement:	
Net Other Postemployment Liability – July 1, 2016	(3,618,040)
Restricted Other Postemployment Asset – July 1, 2016	331,000
Less: Deferred Outflows – fiscal year 2017 contributions	233,353
Less: Net Other Postemployment Obligation reported at June 30, 2017	2,455,655
Total Net Position restatement	(598,032)
Net Position as restated – July 1, 2017	$ (7,198,117)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. As of June 30, 2018, the Partnership's deposits with the LGIP were $4,270,103 and the Partnership's deposits not with the Treasurer of Virginia were $85,430. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and carry no significant risk. Cash on deposit includes deposits in Chinese RMB and European Union Euros used to pay the Partnership's international vendors and is valued in U.S. dollars at cost. As of June 30, 2018, the Partnership's holdings in Chinese RMB and European Union Euros were valued at $6,495 and $30,955, respectively. The LGIP funds are held in pooled accounts, are considered cash equivalents and, accordingly, also carry no significant risk as defined by Statement 40 of the Governmental Accounting Standards Board. The LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is managed in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 79. The LGIP is in compliance with all of the standards of GASB Statement No. 79 and elects to report its investments for financial reporting at amortized cost. Participants in the LGIP should also report their investments in the LGIP at amortized cost. The LGIP is rated AAAm by Standard & Poor's rating service. The Partnership deposits are secured in accordance with the provisions of the Virginia Security for Public Deposit Act § 2.2-4400 of the Code of Virginia.

4. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis – General and Special Revenue Funds presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	Total all Funds
Fund balance, cash basis, June 30, 2018	$ 4,275,831
Add: Prepaid expenses and other accrued receivables	893,737
Less: Accrued expenses and unearned revenues	(385,528)
Fund balance, GAAP basis, June 30, 2018	$ 4,784,040

5. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation, Chapter 836	$ 26,035,046
Add: Corporate Headquarters Recruitment	1,000,000
Marketing and Trade Mission Funding	500,000
Commonwealth Center for Advanced Manufacturing Funding	500,000
3% Raise and Central Appropriations Adjustments	463,094
FY2018 Other Budget Increases	189,229
Less: Marketing and Communications Paid Media Reduction	(100,000)
FY2018 Other Budget Reductions	(91,486)
Revenue provided by the General Fund of the Commonwealth	$ 28,495,883

6. LEASE DEPOSITS

The Partnership maintains offices in Munich, Germany, Seoul, South Korea, Shanghai, China, and Tokyo, Japan. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Munich lease deposit is held in a noninterest-bearing account in the amount of 5,117 European Union Euros and was valued at $6,321 at June 30, 2018. The Seoul lease deposit is held in a noninterest-bearing account in the amount of 1,324,400 South Korean Won and was valued at $1,178 at June 30, 2018. The Shanghai lease deposit is held in a noninterest-bearing account in the amount of 26,223 Chinese RMB and was valued at $4,181 at June 30, 2018. The Tokyo lease deposit is held in a noninterest-bearing account in the amount of 930,000 Japanese Yen and was valued at $7,067 at June 30, 2018.

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

Capital Assets Being Depreciated	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Leasehold improvements, furniture and equipment	$ 2,169,643	$ 170,523	$ (132,986)	$ 2,207,180
Less: accumulated depreciation	818,331	263,433	(125,495)	956,269
Leasehold improvements, furniture and equipment, net of accumulated depreciation	$ 1,351,312	$ (92,910)	$ (7,491)	$ 1,250,911

8. COMMITMENTS

The Partnership is committed under various operating leases and office use agreements for office facilities and equipment through May 2027. Expense under these agreements for the fiscal year ended June 30, 2018, amounted to $1,376,916. A summary of minimum future obligations under these agreements as of June 30, 2018, follows:

Year Ending June 30	Obligations
2019	$ 1,415,518
2020	1,445,541
2021	1,449,168
2022	1,504,954
2023	1,545,032
2024-2028	6,451,701
Total future minimum rental payments	$ 13,811,914

9. CAPITAL LEASE OBLIGATION

The Partnership has entered into an equipment lease agreement that is accounted for as a capital lease. The term of the lease is five years and ownership of the assets will pass to the Partnership at the end of the lease term. Gross minimum lease payments, as well as the present value of the net minimum lease payments as of June 30, 2018, are as follows:

Year Ending June 30	Lease Payments
2020	$ 28,072
2021	25,124
2022	25,124
2023	25,124
2024	25,123
Total gross minimum lease payments	128,567
Less: amount representing interest	(9,034)
Present value of minimum lease payments	$ 119,533

At June 30, 2018, assets purchased under the capital lease agreement were included in depreciable capital assets as follows:

Gross capital assets	$ 119,533
Less: accumulated depreciation	(6,599)
Net book value	$ 112,934

10. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
	$ 912,087	$ 687,564	$ 614,514	$ 985,137
Due Within One Year				(648,392)
Due in More Than One Year				$ 336,745

11. PENSION PLAN

General Information about the Pension Plan

Plan Description

All Partnership full-time, salaried permanent employees are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
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.	**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.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • 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, and they have not taken a refund.	**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.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		Eligible Members • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. 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.
Hybrid Opt-In Election VRS non-hazardous duty covered 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.	**Hybrid Opt-In Election** 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	

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election 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.	**Hybrid Opt-In Election** 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 have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.	**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.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service 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 their eligibility for retirement and to calculate their 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** **<u>Defined Benefit Component:</u>** 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 their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **<u>Defined Contribution Component:</u>** 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.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** 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.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting Members are always 100% vested in the contributions that they make.		**Vesting** **<u>Defined Contribution Component:</u>** 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.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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 is 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 their 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 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%	**Service Retirement Multiplier** 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.	**Service Retirement Multiplier** **Defined Benefit Component:** 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. **Defined Contribution Component:** Not applicable.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** Age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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 less 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.	**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. **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>Cost-of-Living Adjustment (COLA) in Retirement

<u>Exceptions to COLA Effective Dates:</u>
The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
The member is involuntarily separated from employment for 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.</td><td></td><td></td></tr>
<tr><td>Disability Coverage
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</td><td>Disability Coverage
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.</td><td>Disability Coverage
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.</td></tr>
</table>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
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. 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 exception: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to the Partnership by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the Partnership. Beginning July 1, 2012 Partnership employees were required to pay the 5.00% member contribution and the Partnership was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Partnership's contractually required contribution rate for the year ended June 30, 2018 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan.

This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Partnership to the VRS State Employee Retirement Plan were $1,242,786 and $1,070,793 for the years ended June 30, 2018 and June 30, 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Partnership reported a liability of $11,385,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Partnership's proportion of the Net Pension Liability was based on the Partnership's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017 the Partnership's proportion of the VRS State Employee Retirement Plan was 0.19536% as compared to 0.19429% at June 30, 2016.

For the year ended June 30, 2018, the Partnership recognized pension expense of $686,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018 the Partnership reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 24,000	$ 345,000
Net difference between projected and actual earnings on pension plan investments	-	486,000
Change in assumptions	111,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	182,000	205,000
Employer contributions subsequent to the measurement date	1,242,786	-
Total	$ 1,559,786	$ 1,036,000

$1,242,786 reported as deferred outflows of resources related to pensions resulting from the Partnership's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30

2019	$ (408,000)
2020	$ (4,000)
2021	$ 19,000
2022	$ (326,000)
2023	$ -

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan
Total Pension Liability	$ 23,617,412
Plan Fiduciary Net Position	17,789,888
Employers' Net Pension Liability (Asset)	$ 5,827,524
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately proved a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the Partnership for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Partnership's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Partnership's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the Partnership's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Partnership's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$ 16,817,000	$ 11,385,000	$ 6,823,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at: https://www.varetire.org/pdf/publications/2017-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

12. STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM

General Information about the State Employee Health Insurance Credit Program

Plan Description

All Partnership full-time, salaried permanent employees are automatically covered by the VRS State Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which the Partnership pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the State Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
Eligible Employees
The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS.
Benefit Amounts
The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees: • **<u>At Retirement</u>** – For state employees who retire, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount. • **<u>Disability Retirement</u>** – For state employees who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher.
Health Insurance Credit Program Notes: • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to the Partnership by the Virginia General Assembly. The Partnership's contractually required employer contribution rate for the year ended June 30, 2018 was 1.18% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Partnership to the VRS State Employee Health Insurance Credit Program were $109,645 and $93,665 for the years ended June 30, 2018 and June 30, 2017, respectively.

State Employee Health Insurance Credit Program OPEB Liabilities, State Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to State Employee Health Insurance Credit Program OPEB

At June 30, 2018, the Partnership reported a liability of $1,120,000 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS State Employee Health Insurance Credit Program OPEB Liability used to calculate the Net VRS State Employee

Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The Partnership's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Partnership's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Partnership's proportion of the VRS State Employee Health Insurance Credit Program was 0.12298% as compared to 0.12216% at June 30, 2016.

For the year ended June 30, 2018, the Partnership recognized VRS State Employee Health Insurance Credit Program OPEB expense of $98,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Partnership reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on State HIC OPEB plan investments	-	3,000
Change in assumptions	-	12,000
Changes in proportionate share	7,000	-
Employer contributions subsequent to the measurement date	109,645	-
Total	$ 116,645	$ 15,000

$109,645 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Partnership's contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30

FY 2019	$ (2,000)
FY 2020	$ (2,000)
FY 2021	$ (2,000)
FY 2022	$ (2,000)
FY 2023	$ -
Thereafter	$ -

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS State employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

	State Employee HIC OPEB Plan
Total State Employee HIC OPEB Liability	$ 990,028
Plan Fiduciary Net Position	79,516
State Employee net HIC OPEB Liability (Asset)	$ 910,512
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability	8.03%

The total State Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net State Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class (Strategy)	**Target Allocation**	**Arithmetic Long-Term Expected Rate of Return**	**Weighted Average Long-Term Expected Rate of Return**
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately proved a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the Partnership for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on these assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

Sensitivity of the Partnership's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the Partnership's proportionate share of the VRS State Employee Health Insurance Credit Program net NIC OPEB liability using the discount rate of 7.00%, as well as what the Partnership's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Partnership's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	$ 1,238,000	$ 1,120,000	$ 1,018,000

State Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at: https://www.varetire.org/pdf/publications/2017-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

13. GROUP LIFE INSURANCE PROGRAM

General Information about the Group Life Insurance Program

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for the Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees
The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.
Benefit Amounts
The benefits payable under the Group Life Insurance Program have several components. • **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.

- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
    - Accidental dismemberment benefit
    - Safety belt benefit
    - Repatriation benefit
    - Felonious assault benefit
    - Accelerated death benefit option

Reduction in Benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia,* as amended, but may be impacted as a result of funding provided to the Partnership by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. The Partnership's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Partnership to the Group Life Insurance Program were $48,850 and $41,332 for the years ended June 30, 2018 and June 30, 2017, respectively.

Group Life Insurance Program OPEB Liabilities, Group Life Insurance Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the Partnership reported a liability of $649,000 for its proportionate share of the Net Group Life Insurance Program OPEB Liability. The Net Group Life Insurance Program Liability was measured as of June 30, 2017 and the total Group Life Insurance Program Liability was determined by an actuarial valuation as of that date. The Partnership's proportion of the Net Group Life Insurance Program OPEB Liability was based on the Partnership's actuarially determined employer contributions to the Group Life

Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Partnership's proportion of the Group Life Insurance Program was 0.04314% as compared to 0.04283% at June 30, 2016.

For the year ended June 30, 2018, the Partnership recognized Group Life Insurance Program OPEB expense of $8,000. Since there was a change in proportionate share between measurement dates, a portion of the Group Life Insurance Program OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Partnership reported deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 15,000
Net difference between projected and actual earnings on Group Life Insurance OPEB program investments	-	24,000
Change in assumptions	-	33,000
Changes in proportion	4,000	-
Employer contributions subsequent to the measurement date	48,850	-
Total	$ 52,856	$ 72,000

$48,850 reported as deferred outflows of resources related to the Group Life Insurance Program OPEB resulting from the Partnership's contributions subsequent to the measurement date will be recognized as a reduction of the Net Group Life Insurance OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance OPEB will be recognized in the Group Life Insurance Program OPEB expense in future reporting periods as follows:

Year Ended June 30

FY 2019	$ (14,000)
FY 2020	$ (14,000)
FY 2021	$ (14,000)
FY 2022	$ (14,000)
FY 2023	$ (9,000)
Thereafter	$ (3,000)

Actuarial Assumptions

The total Group Life Insurance Program OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	3.5 percent – 5.35 percent
Teachers	3.5 percent – 5.95 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
JRS employees	4.5 percent
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:
RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:
RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality rates – Largest Ten Locality Employers – General Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality rates – Non-Largest Ten Locality Employers – General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 45%

Net Group Life Insurance Program OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total Group Life Insurance Program OPEB Liability	$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net Group Life Insurance OPEB Liability (Asset)	$ 1,504,840
Plan Fiduciary Net Position as a Percentage of the Total Group Life Insurance OPEB Liability	48.86%

The total Group Life Insurance Program OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Group Life Insurance Program OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class (Strategy)	**Target Allocation**	**Arithmetic Long-Term Expected Rate of Return**	**Weighted Average Long-Term Expected Rate of Return**
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately proved a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Group Life Insurance Program OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the Partnership for the Group Life Insurance Program OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Group Life Insurance Program OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Group Life Insurance Program liability.

Sensitivity of the Partnership's Proportionate Share of the Net Group Life Insurance Program OPEB Liability to Changes in the Discount Rate

The following presents the Partnership's proportionate share of the net Group Life Insurance Program OPEB liability using the discount rate of 7.00%, as well as what the Partnership's proportionate share of the net Group Life Insurance Program OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Partnership's proportionate share of the Group Life Insurance Program Net OPEB Liability	$ 840,000	$ 649,000	$ 495,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at: https://www.varetire.org/pdf/publications/2017-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

14. DISABILITY INSURANCE PROGRAM

General Information about the VRS Disability Insurance Program

Plan Description

All Partnership full-time and part-time permanent salaried employees who are covered under the Virginia Retirement System (VRS) hired on or after January 1, 1999 are automatically covered by the Disability Insurance Program (VSDP) upon employment. The Disability Insurance Program also covers state employees hired before January 1, 1999 who elected to transfer to VSDP rather than retain eligibility to be considered for disability retirement. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

The specific information for the State Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
Eligible Employees
The Virginia Sickness and Disability Program, also known as the Disability Insurance Trust Fund was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS. • State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement. • Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.
Benefit Amounts
The Virginia Sickness and Disability Program provides the following benefits for eligible employees: • **Leave** – Sick, family and personal leave. Eligible leave benefits are paid by the employer. • **Short-Term Disability** – The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period for the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer.

DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS

- **<u>Long-Term Disability</u>** – The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provide he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- **<u>Income Replacement Adjustment</u>** – The program provides for an income replacement adjustment to 80% for catastrophic conditions.
- **<u>VSDP Long-Term Care Plan</u>** – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

Disability Insurance Program Plan Notes:

- Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels.
- A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up to five years of VSDP benefits.
- Employees on work-related short-term disability receiving only a workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

Cost-of-Living Adjustment (COLA)

- During periods an employee receives long-term disability (LTD) benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
  - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CIP-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%).
  - Plan 1 employees non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%).
- For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State Plan, with a maximum COLA of 4.00%.
- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State Plan, with a maximum COLA of 4.00%.

Contributions

The contribution requirements for the Disability Insurance Program are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to the Partnership by the Virginia General Assembly. The Partnership's contractually required employer contribution rate for the Disability Insurance Program for the year ended June 30, 2018 was 0.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions from the Partnership to the Disability Insurance Program were $58,685 and $49,907 for the years ended June 30, 2018 and June 30, 2017, respectively.

Disability Insurance Program (VSDP) OPEB Assets, VSDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the VSDP OPEB

At June 30, 2018, the Partnership reported an asset of $412,000 for its proportionate share of the Net VSDP OPEB Asset. The Net VSDP OPEB Asset was measured as of June 30, 2017 and the total VSDP OPEB Liability used to calculate the Net VRS VSDP OPEB Asset was determined by an actuarial valuation as of that date. The Partnership's proportion of the Net VSDP OPEB Asset was based on the Partnership's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Partnership's proportion was 0.20066% as compared to 0.19851% at June 30, 2016.

For the year ended June 30, 2018, the Partnership recognized VSDP OPEB expense of $31,000. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the Partnership reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	32,000
Change in assumptions	-	31,000
Changes in proportionate share	-	-
Employer contributions subsequent to the measurement date	58,685	-
Total	$ 58,685	$ 63,000

$58,685 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Partnership's contributions subsequent to the measurement date will be recognized as a reduction of the Net VSDP OPEB Asset in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

Year Ended June 30

FY 2019	$ (12,000)
FY 2020	$ (12,000)
FY 2021	$ (12,000)
FY 2022	$ (12,000)
FY 2023	$ (4,000)
Thereafter	$ (11,000)

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Net VSDP OPEB Asset

The net OPEB asset (NOA) for the VSDP represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOA amounts for the VSDP are as follows (amounts expressed in thousands):

	Disability Insurance Program
Total VSDP OPEB Liability	$ 237,013
Plan Fiduciary Net Position	442,334
Employers' Net OPEB Liability (Asset)	($205,321)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	186.63%

The total VSDP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net OPEB asset is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately proved a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the Partnership to the VSDP OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on these assumptions, the VSDP OPEB Program's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VSDP OPEB liability.

Sensitivity of the Partnership's Proportionate Share of the Net VSDP OPEB Asset to Changes in the Discount Rate

The following presents the Partnership's proportionate share of the net VSDP OPEB asset using the discount rate of 7.00%, as well as what the Partnership's proportionate share of the net VSDP OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Partnership's proportionate share of the total VSDP Net OPEB Asset	$ 393,000	$ 412,000	$ 447,000

VSDP OPEB Fiduciary Net Position

Detailed information about the VSDP Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at: https://www.varetire.org/pdf/publications/2017-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500

15. PRE-MEDICARE RETIREE HEALTHCARE

General Information about the Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees

Plan Description

The Commonwealth provides a healthcare plan (the Plan) established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 5,600 retirees and 91,000 active employees in the program in fiscal year 2017. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the Partnership reported a liability of $1,542,480 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of $1.3 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2017. The Partnership's proportion of the Pre-Medicare Retiree Healthcare OPEB was based on the Partnership's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2017, the Partnership's proportion was 0.11875% as compared to 0.11149% at June 30, 2016. For the year ended June 30, 2018, the Partnership recognized Pre-Medicare Retiree Healthcare OPEB expense of $140,767.

At June 30, 2018, the Partnership reported deferred outflows of resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 62,041
Change in assumptions	-	327,007
Changes in proportion	96,074	-
Amounts associated with transactions subsequent to the measurement date	40,905	-
Total	$ 136,979	$ 389,048

$40,905 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year Ended June 30

FY 2019	$ (53,955)
FY 2020	$ (53,955)
FY 2021	$ (53,955)
FY 2022	$ (53,955)
FY 2023	$ (53,955)
Thereafter	$ (23,199)

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2017. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.62 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2017 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.43 years
Discount Rate	3.58%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 8.62% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025

Mortality rates vary by participant status:

Pre-
Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-
Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-
Disablement:
RP-2014 Disability Life Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2017.

Changes of Assumptions

The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

Sensitivity of the Partnership's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the Partnership's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.58%, as well as what the Partnership's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1.00% Decrease (2.58%)	Current Discount Rate (3.58%)	1.00% Increase (4.58%)
Partnership's proportionate share of the OPEB Liability	$ 1,652,348	$ 1,542,480	$ 1,437,215

Sensitivity of the Partnership's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trends Rates

The following presents the Partnership's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using a healthcare cost trend of 8.62% decreasing to 5.00%, as well as what the Partnership's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.62% decreasing to 4.00%) or one percentage point higher (9.62% decreasing to 6.00%) than the current rate.

	1.00% Decrease (7.62% decreasing to 4.00%)	Trend Rate (8.62% decreasing to 5.00%)	1.00% Increase (9.62% decreasing to 6.00%)
Partnership's proportionate share of the OPEB Liability	$ 1,372,416	$ 1,542,480	$ 1,741,846

16. DEFERRED COMPENSATION PLAN

Employees of the Partnership may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Partnership matching up to $20 per pay period. The dollar amount of the match can change depending on the funding available in the Partnership's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were $32,920 for the fiscal year 2018.

17. RISK MANAGEMENT

The Partnership is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Partnership is insured for these risks through commercial insurance policies. Further, the Partnership is insured for workers compensation and for loss from employee actions by an insurance policy issued by the Chubb Group and the Great Northern Insurance Company. Policy coverage for loss from employee actions is $50,000 per year with a $1,000 deductible for each loss.

The Partnership participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by DHRM. The Partnership pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Years Ended June 30, 2018, 2017, 2016 and 2015*

	2018	2017	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.19536%	0.19429%	0.20111%	0.19015%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$11,385,000	$12,805,000	$12,313,000	$10,646,000
Employer's Covered Payroll	$7,937,681	$7,675,614	$ 7,745,983	$7,349,371
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	143.43%	166.83%	158.96%	144.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, there are only four years available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Required Supplementary Information

Schedule of Employer Contributions
VRS State Employee Retirement Plan
For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	$1,242,786	$1,242,786	$ -	$9,212,635	13.49%
2017	$1,070,793	$1,070,793	$ -	$7,937,681	13.49%
2016	$1,073,588	$1,073,588	$ -	$7,675,614	13.99%
2015	$955,080	$955,080	$ -	$7,745,983	12.33%
2014	$643,805	$643,805	$ -	$7,349,371	8.76%
2013	$653,491	$653,491	$ -	$7,459,946	8.76%
2012	$482,844	$482,844	$ -	$7,338,059	6.58%
2011	$444,254	$444,254	$ -	$6,751,577	6.58%
2010	$349,116	$349,116	$ -	$7,005,326	4.98%
2009	$456,191	$456,191	$ -	$7,322,483	6.23%

VRS State Employee Retirement Plan

Notes to Required Supplementary Information for the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Required Supplementary Information

Schedule of Employer's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018*

	2018
Employer’s Proportion of the Net HIC OPEB Liability (Asset)	0.12298%
Employer’s Proportionate Share of the Net HIC OPEB Liability (Asset)	$1,120,000
Employer’s Covered Payroll	$7,937,681
Employer’s Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	14.11%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	8.03%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions
Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	$109,645	$109,645	$ -	$9,291,985	1.18%
2017	$93,665	$93,665	$ -	$7,937,681	1.18%
2016	$80,594	$80,594	$ -	$7,675,614	1.05%
2015	$81,333	$81,333	$ -	$7,745,983	1.05%
2014	$73,494	$73,494	$ -	$7,349,371	1.00%
2013	$74,599	$74,599	$ -	$7,459,946	1.00%
2012	$72,647	$72,647	$ -	$7,338,059	0.99%
2011	$66,841	$66,841	$ -	$6,751,577	0.99%
2010	$55,769	$55,769	$ -	$7,005,326	0.80%
2009	$86,405	$86,405	$ -	$7,322,484	1.18%

Health Insurance Credit Program (HIC)

Notes to Required Supplementary Information for the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Required Supplementary Information

Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018*

	2018
Employer's Proportion of the Net Group Life Insurance Program OPEB Liability (Asset)	0.04314%
Employer's Proportionate Share of the Net Group Life Insurance Program OPEB Liability (Asset)	$649,000
Employer's Covered Payroll	$7,948,514
Employer's Proportionate Share of the Net Group Life Insurance OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.17%
Plan Fiduciary Net Position as a Percentage of the Total Group Life Insurance OPEB Liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	$48,850	$48,850	$ -	$9,394,198	0.52%
2017	$41,332	$41,332	$ -	$7,948,514	0.52%
2016	$36,876	$36,876	$ -	$7,682,448	0.48%
2015	$37,181	$37,181	$ -	$7,745,983	0.48%
2014	$35,277	$35,277	$ -	$7,349,371	0.48%
2013	$35,839	$35,839	$ -	$7,466,428	0.48%
2012	$30,447	$30,447	$ -	$7,426,087	0.41%
2011	$28,346	$28,346	$ -	$6,913,712	0.41%
2010	$16,872	$16,872	$ -	$7,030,061	0.24%
2009	$24,315	$24,315	$ -	$7,368,271	0.33%

Group Life Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Group Life Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2018

SPORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 50% to 35%

JRS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Group Life Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2018

Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

<u>Group Life Insurance Program</u>

<u>Notes to Required Supplementary Information for the Year Ended June 30, 2018</u>

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 45%

Required Supplementary Information

Schedule of Employer's Share of Net OPEB Liability
Disability Insurance Program
For the Year Ended June 30, 2018*

	2018
Employer's Proportion of the Net Disability Insurance Program OPEB Liability (Asset)	0.20066%
Employer's Proportionate Share of the Net Disability Insurance Program OPEB Liability (Asset)	($412,000)
Employer's Covered Payroll	$7,561,543
Employer's Proportionate Share of the Net Disability Insurance Program OPEB Liability (Asset) as a Percentage of its Covered Payroll	5.45%
Plan Fiduciary Net Position as a Percentage of the Total Disability Insurance Program OPEB Liability	186.63%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Required Supplementary Information

Schedule of Employer Contributions
Disability Insurance Program
For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	$58,685	$58,685	$ -	$8,891,622	0.66%
2017	$49,907	$49,907	$ -	$7,561,543	0.66%
2016	$48,365	$48,365	$ -	$7,327,940	0.66%
2015	$48,911	$48,911	$ -	$7,410,796	0.66%
2014	$32,971	$32,971	$ -	$7,015,051	0.47%
2013	$33,930	$33,930	$ -	$7,219,081	0.47%
2012	$48,686	$48,686	$ -	$7,376,631	0.66%
2011	$44,745	$44,745	$ -	$6,779,490	0.66%
2010	$55,889	$55,889	$ -	$7,022,198	0.80%
2009	$131,530	$131,530	$ -	$7,344,367	1.79%

Disability Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Required Supplementary Information

Schedule of Employer's Share of Total OPEB Liability
Pre-Medicare Retiree Healthcare Program
For the Year Ended June 30, 2018*

	2018
Employer’s Proportion of the collective total OPEB liability	0.11875%
Employer’s Proportionate Share of the collective total OPEB liability	$1,542,480
Employer’s Covered-Employee Payroll	$7,945,015
Employer’s Proportionate Share of the collective total OPEB liability as a Percentage of its Covered-Employee Payroll	19.41%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Pre-Medicare Retiree Healthcare Program

Notes to Required Supplementary Information for the Year Ended June 30, 2018

There are no assets accumulated in a trust to pay related benefits.

Changes of benefit terms – There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index and spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 1, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Virginia Economic Development Partnership as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Virginia Economic Development Partnership's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Virginia Economic Development Partnership as of June 30, 2018, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and Special Revenue Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 2 of the accompanying financial statements, the Virginia Economic Development Partnership implemented Governmental Accounting Standards Board (GASB) Statement No. 75, related to Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages three through seven; the Schedule of Employer's Share of Net Pension Liability – VRS State Employee Retirement Plan, the Schedule of Employer Contributions – VRS State Employee Retirement Plan, and the Notes to the Required Supplementary Information on pages 67 through 69; the Schedule of Employer's Share of Net OPEB Liability, the Schedule of Employer Contributions, and the

Notes to the Required Supplementary Information for the Health Insurance Credit Program, the Group Life Insurance Program, and the Disability Insurance Program on pages 70 through 81; the Schedule of Employer's Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare Program on pages 82 through 83. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2018, on our consideration of the Virginia Economic Development Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Virginia Economic Development Partnership's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

MSM/clj

Appendix 2: High Unemployment Areas Report and Marketing Plan

VEDP'S EFFORTS TO MARKET HIGH-UNEMPLOYMENT AREAS OF VIRGINIA

As part of its annual report, VEDP is charged with presenting both a report on efforts conducted the previous year to market high unemployment areas of Virginia, as well as a forward-looking plan for marketing these high-unemployment areas in the coming year. This section, Appendix 2, addresses this charge and additional concepts for marketing Virginia's high-unemployment and/ or most economically challenged regions. VEDP has dedicated significant resources to implement its rural strategy. Because a significant share of areas that experience high unemployment in Virginia are also rural, VEDP's rural initiatives are expected to positively impact high-unemployment overall. Progress on rural initiatives is therefore discussed in this document.

For purposes of this report, "high-unemployment area" is defined as an area with an unemployment rate 0.5 percentage points or more above the average unemployment rate for the state. This definition is consistent with the one used in Section 58.1-439 of the Code of Virginia for the Major Business Facility Job Tax Credit, which defines "economically distressed" as an unemployment rate at least 0.5 percent higher than the statewide average. Because the average unemployment rate for Virginia was 3.8 percent in 2017, any area with an unemployment rate of 4.3 percent or higher is considered a "high-unemployment" area in this document. To align with VEDP's strategic partnership model, "areas" are identified in the context of Economic Development Organization (EDO) regions.

There are five EDO regions that meet the criteria for high unemployment: Southwest Virginia's e-Region, encompassing Lee, Scott, Wise, Dickenson, Buchanan, Russell, and Tazewell Counties and the City of Norton; Virginia's Industrial Advancement Alliance, including Smyth, Bland, Grayson, Wythe, and Carroll Counties and the City of Galax; Southern Virginia Regional Alliance including Halifax, Patrick, and Pittsylvania Counties and the City of Danville; Virginia's Growth Alliance which includes the Counties of Buckingham, Cumberland, Charlotte, Amelia, Prince Edward, Nottoway, Lunenburg, Mecklenburg, Brunswick, Greensville, and the City of Emporia; and Lynchburg Regional Business Alliance which includes the Counties of Bedford, Campbell, Amherst, and Appomattox, as well as the City of Lynchburg.

REPORT ON EFFORTS TO MARKET HIGH-UNEMPLOYMENT AREAS OF VIRGINIA IN FY 2018

Assistance offered to emerging communities from VEDP resources or in combination with other public and private organizations includes the following:

Board of Directors Rural Virginia Action Committee: During FY 2018, the Rural Virginia Action Committee of the VEDP Board of Directors met to review initiatives impacting rural Virginia. Committee members were very supportive of VEDP's legislative and budgetary initiatives and of the work of the rural think tank group. The committee continues to focus on exploring the challenges and opportunities of attracting jobs and capital investment to underserved and distressed communities in the Commonwealth, and on providing guidance to VEDP and other stakeholders on policies and practices to enhance economic development opportunities in underserved and distressed communities in the Commonwealth.

Decisions for Virginia/High Unemployment or High Poverty Communities: In FY 2018, VEDP supported 34 projects (30% of total projects) in communities with an unemployment rate of 4.3% or higher. These projects are expected to create 4,531 jobs (34% of total) and bring in $195.99 million (9% of total) in capital investment.

Of the 115 VEDP-assisted projects in FY 2018, 57 chose a locality with higher than average unemployment or higher than average poverty. These projects are expected to create nearly 5,500 new jobs and provide over $280 million in new capital investment. Examples of expansion projects in high-unemployment areas include: Oran Safety Glass in Greensville County (55 new jobs, $4.45 million investment); Panaceutics in Pittsylvania County (70 new jobs, $5.82 million investment); and Hapco Pole Products in Washington County (28 new jobs, $6.75 million investment). Examples of new business locations in high-unemployment areas in the Commonwealth in FY 2018 include: CloudFit in the City of Lynchburg (139 new jobs, $0.49 million investment); England Furniture Company in Lee County (79 jobs, $1.3 million investment); and Merchant House International in the City of Bristol (405 jobs, $19.9 million investment). Overall, approximately half of VEDP-assisted projects, 41% of new job creation and 14 % of new capital investment are expected to occur in distressed communities.

VEDP played various roles in these decisions, from generating some of the leads to providing support to the communities with development of the financial incentive packages, often including partnerships with the Virginia Tobacco Region Revitalization Commission, the Virginia Community College System, the Virginia Department of Agriculture and Consumer Services, the Virginia Port Authority, the Virginia Small Business Financing Authority, the Virginia Department of Housing & Community Development, and the Virginia Tourism Corporation. These companies represent a broad variety of business sectors, and represent the opportunities presented by strong existing business retention and growth strategies. The common element in all these decisions for Virginia is prepared communities. These communities leveraged their assets – workforce, prepared sites and buildings, and excellent transportation – to successfully create a business case that made sense to the companies involved.

Distressed Communities Visits: In FY 2018, VEDP showed 54 projects to 60 localities, for a total of 139 distinct prospect visits (Appendix 3). Of the 60 total localities shown projects, 40 (66.7%) are considered distressed localities. Of the 139 visits, 79 (56.8%) were in distressed communities. Of the 54 individual projects, 36 (66.7%) were shown in distressed communities.

Marketing and Communications: In Virginia's e-Region, the co-partnership resulted in the development of several initiatives including a mini familiarization tour and the AUVSI XPONENTIAL 2018 trade show and call trip. In Virginia's Industrial Advancement Alliance, the partnership participated in the Natural Products Expo and Call Trip and a mini familiarization tour. VEDP's co-marketing partnership with the Southern Virginia Regional Alliance included a mini familiarization tour. In Virginia's Growth Alliance, the region participated in the Association of Woodworking and Furnishings Suppliers Fair 2017 and call trip and a mini familiarization tour. The Lynchburg Regional Alliance co-marketing partnership with VEDP resulted in the planning and development of participation in the Global Business Shared Services Conference and call trip, and a mini familiarization tour.

VEDP also planned, in conjunction with regional economic development partners, one-day inbound site consultant familiarization tours in the Virginia Industrial Alliance region and the Southern Virginia Regional Alliance region in FY18. These tours allowed site consultants to experience these regions of Virginia first-hand. Additional tours of the Lynchburg and e-Region areas are planned for FY19.

Technical Support and Financial Assistance for High-Unemployment Areas: Through the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund (VBAF), which is administered jointly by VEDP, the Virginia Department of Environmental Quality and the Virginia Resources Authority, grants are provided to localities and other political subdivisions to assist with the costs associated addressing the environmental condition of properties that could be made available for economic development. In FY 2018, 22 grants were approved, totaling approximately $3.2 million. Of those 22 grants, 19 were made to communities in which the unemployment rate for calendar year 2017 was higher than the statewide average unemployment rate.

The successful Virginia Business Ready Sites Program (VBRSP) started in FY 2017 with the goal of developing a pool of sites and buildings that are well-prepared and positioned for selection by economic development prospects. Grants are available to assist with the costs of identifying and assessing a potential site to quantify its existing level of development and implementing the additional development required to bring such site to a level for successful marketing. In FY 2018, 8 grants were approved, totaling approximately $18,000. Of those 8 grants, 2 were made to communities in which the unemployment rate for calendar year 2017 was higher than the statewide average unemployment rate.

PLAN TO MARKET HIGH-UNEMPLOYMENT AREAS OF VIRGINIA IN FY 2019

Specific lead generation plans for each high unemployment area:

VEDP has developed a specific focus on high-unemployment areas, not at the exclusion of any other region, but in an effort to address some of the unique challenges these communities face and plans to continue executing against the strategy developed around its focus on these regions of the Commonwealth. Through partnerships with these regions, VEDP is identifying unique individual marketing opportunities for each region, including tailored lead generation activities, familiarization tours, and other marketing activities. New for FY 2018, VEDP is piloting a regional co-marketing partnership initiative. Each year, VEDP works with Virginia's regional economic development organizations to pre-determine a select number of lead generation activities that support both VEDP and regional marketing priorities. The co-marketing events include industry shows, in-market call trips, targeted product marketing blitzes, and a "mini consultant familiarization tour" concept. As in FY 2018, VEDP will continue to co-partner with economic development stakeholders to develop and execute similar initiatives.

VEDP brand launch and supporting materials:

As part of its new brand launch, VEDP introduced a new website and tools for partner use and continues to work to enhance this collateral and related assets. VEDP.org features all new content which includes enhanced regional profiles and a marketing resources database with searchable marketing content for local and regional partner use. Enhanced regional profiles and industry content include rural content and feature many rural assets in the Commonwealth. Major redesigns and improvements were made to VEDP's online tools, including the sites and buildings search and certified sites content.

<u>Specific rural initiatives including rural think tank group and rural technology centers initiative:</u>

In 2018, VEDP continued to work with the rural think tank group to move forward on initiatives to increase economic growth in all regions of the Commonwealth. When formed in 2017, the rural think tank group identified nine initiatives that would have a significant impact on rural communities. The rural think tank's initiatives are listed here in order of priority as selected by the group (the first two are tied):

1) Launch marketing program focused on branding rural Virginia as the most attractive and competitive location in the U. S. for manufacturing and other sectors including data centers, distribution, etc.;
2) Achieve ubiquitous broadband coverage for all Virginians;
3) Dramatically expand site inventory, ranging from mega sites to business parks depending on the regional strategy and target sectors;
4) Create a world-class, turnkey, customized workforce development incentive for competitive expansion or attraction projects;
5) Partner with other rural funding sources to target and attract high-impact projects through capital investment partnership opportunities;
6) Explore tax/incentive changes to address Virginia's highly uncompetitive state/local tax environment for new, capital-intensive manufacturing projects;
7) Create a community competitiveness/readiness index for communities;
8) Rebuild civic leadership with the next generation in rural Virginia; and
9) Address top transportation infrastructure deficiencies in rural Virginia.

VEDP is pursuing a rural technology centers initiative to support growth in rural areas through high-wage, technology-sector jobs. VEDP is focusing first on onshore delivery center opportunities. Specific technology subsectors are being identified as targets for this initiative, because they are expected to benefit the most from locating in rural regions. This initiative requires collaboration between technology companies, higher education institutions, and other key stakeholders to create a hub for information technology and computer science companies, with the talent pipeline they need to succeed. VEDP will market target regions to attract technology companies for rural Virginia. The first project of this kind in Virginia was approved in 2017 through the Major Employment and Investment Project Approval Commission, although the company ultimately selected another state.

The Economic Competitiveness division will move forward with VEDP's initiative to develop a community competitiveness index or other designation/mechanism to assess the economic competitiveness of each Virginia locality. Plans for this initiative were first previewed with the rural think tank group in FY 2018 and implementation will begin in FY 2019. VEDP will begin work on this initiative by securing input from key partners and stakeholders to assess interest in developing an index or other mechanism to use in assessing local economic competitiveness. Ultimately, local and regional economic developers can use this information to educate their boards and local governments on the importance of investing in economic development efforts and organizations and in initiatives aimed at improving their overall economic competitiveness (e.g., talent pipeline, transportation infrastructure, site development efforts). These efforts will ultimately be useful to high unemployment areas as they seek to capitalize on their assets and spur broader economic growth to benefit their citizens through targeted economic development measures.

Embedded staff in Business Investment, Workforce Solutions, and International Trade are focused on high-unemployment areas:

Through recent reorganizations, there are three divisions within VEDP that have designated staff living and working in the high-unemployment areas. These include the Business Investment Division's BRE team, the Workforce Solutions Division, and the International Trade Division. These staff managers focused on business investment and expansion strategies, ally communication strategies, higher education partnership strategies, international trade opportunities, and Virginia Jobs Investment Program services.

Marketing proposals for rural Virginia:

VEDP received funding to implement a limited integrated marketing program in FY 2019. As part of this program, VEDP will highlight rural advantages and assets as a component of its overall marketing communications, which include social media, e-newsletters, and a new quarterly publication that will launch in 2019.

PLAN FOR HIGH-UNEMPLOYMENT MARKETING SHOULD VEDP RECEIVE BUDGET SUPPORT TO EXPAND ITS MARKETING PROGRAM

Economic developers throughout Virginia report that Virginia is not well known to business leaders outside of the Commonwealth. Through work with these and other stakeholders, VEDP has developed a plan to market Virginia to business executives and site consultants across the country and the globe and has begun to implement a limited integrated marketing plan in FY 2019. As part of this program, VEDP will highlight rural advantages and assets as a component of its overall marketing communications, which include social media, e-newsletters, and a new quarterly publication which will launch in 2019. With a fully-funded marketing program, a significant part of this strategy going forward will be to brand and market rural regions in Virginia as a top destination for certain target industries because of their business climate, assets, and workforce potential.

Overall, the marketing program would focus on making Virginia and its rural regions top of mind for our target audience, placing a national spotlight on rural Virginia as a highly attractive location for business investment. The initiative would raise awareness and perceptions of rural Virginia's advantages as a premier destination for business investment and would ensure that decision makers and their consultants for each of our target industries are aware of Virginia's compelling advantages.

Appendix 3: Prospect Visit Data for FY 2018

PDC #	Planning District Commission	Visits	Projects
1	Lenowisco	2	2
2	Cumberland Plateau	1	1
3	Mount Rogers	5	3
4	New River Valley	3	2
5	Roanoke Valley-Alleghany Regional Commission	6	5
6	Central Shenandoah	2	2
7	Northern Shenandoah Valley Regional Commission	4	4
8	Northern Virginia Regional Commission	19	12
9	Rappahannock-Rapidan Regional Commission	2	2
10	Thomas Jefferson	2	1
11	Region 2000 Regional Commission	2	2
12	West Piedmont	3	2
13	Southside	5	4
14	Commonwealth Regional Council	9	3
15	Richmond Regional	26	11
16	George Washington Regional Commission	2	2
17	Northern Neck	1	1
18	Middle Peninsula	1	1
19	Crater	22	13
22	Accomack-Northampton	2	2
23	Hampton Roads	28	13
	Total	**139**	**54**
	# of Localities Visited	**60**	

Note: Prospect companies often visit sites in multiple localities. Additionally, some localities fall into two planning district commission areas. This report represents individual visits to localities by distinct projects. Because one project can visit more than one locality, the total number of projects (54) is not equal to the summed total of projects by PDC (88). Each planning district commission total is reflective of all visits by all companies to that area.

In FY 2018, 139 visits were made to show 54 distinct projects to 60 Virginia localities. Some projects visited more than one locality.

Of the 60 total localities shown projects, 40 (66.7%) are considered distressed localities. Of the 139 visits, 79 (56.8%) were in distressed communities. Of the 54 individual projects, 36 (66.7%) were shown in distressed communities.

For the purposes of this report, distressed communities are those that experience a higher than average unemployment rate and/or higher than average poverty rate.

VEDP | Virginia Economic Development Partnership

July 1, 2018

The Honorable Thomas K. Norment, Jr., Chairman
Joint Legislative Audit & Review Commission
919 East Main Street, Suite 2101
Richmond, VA 23219

RE: Final Implementation Update on November 2016 JLARC Recommendations

Dear Senator Norment:

In December 2017, VEDP provided a comprehensive progress report to the Joint Legislative Audit & Review Commission (JLARC) detailing the results of our efforts to address the recommendations of JLARC's report, "Management and Accountability of the Virginia Economic Development Partnership," as well as to implement the various new VEDP requirements in the Code of Virginia that were informed by JLARC's recommendations.

At that time, VEDP had substantially completed implementation of 25 of the 27 JLARC recommendations that called for action by VEDP and/or the VEDP Board of Directors. In several cases (nos. 6, 19, 21, 22, 24, and 25), the substantially completed items still required additional review, refinement, and final approval (including incentives-related policies and procedures that had been implemented in "working draft" form). Two recommendations (nos. 2 and 13) required significant additional work by VEDP before they could be considered complete. These two recommendations related to the development and implementation of training programs for VEDP staff. For recommendations where implementation was not already complete at the end of last year, we indicated that we expected to substantially complete implementation in the first half of 2018.

I'm pleased to report that we have now completed implementation of all 27 JLARC recommendations that called for action by VEDP and/or the VEDP Board of Directors. In addition to addressing JLARC's recommendations, VEDP has also completed implementation of new provisions in the Code of Virginia that were adopted in 2017 following publication of the JLARC report. Many of the new Code provisions reinforce or otherwise complement the recommendations made by JLARC.

VEDP has made a strong, good-faith effort to respond to the recommendations of the JLARC report. Nevertheless, given the scope and magnitude of the recommendations and new Code requirements, there undoubtedly is still room for improvement. As we continue implementation, as well as seek feedback from our partners, we will identify additional ways to improve the efficiency and effectiveness of VEDP.

The table on the following page summarizes VEDP's progress toward implementing each of the 27 JLARC recommendations under VEDP's control.

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VEDP.org

Summary of implementation status of JLARC recommendations*			
	VEDP Fully or Substantially Agrees with JLARC Recommendation		
	VEDP Partially Agrees with JLARC Recommendation		
No.	JLARC Recommendation* Brief Description	Percent Complete (Dec. '17)	Percent Complete (June '18)
1	Create a robust strategic plan for VEDP, with stakeholder engagement	100%	100%
2	**Create onboarding program; regularly assess staff training needs**	60%	100%
3	Develop and implement written policies/procedures for marketing staff	100%	100%
4	Ensure supervisors provide timely staff expectations; report % to Board	100%	100%
5	Revise VEDP performance metrics to reflect activities, quality, impact	100%	100%
6	**Clarify CRM data fields and provide training to ensure data integrity**	90%	100%
7	Ensure that staff conform to VEDP policies on working hours	**	**
8	Track staff time/allocation; use data to improve efficiency/effectiveness	**	**
9	Request IEDC review of staff performance metrics; report results to Board	100%	100%
10	Include adherence to policies in staff reviews, with penalties for variances	100%	100%
11	Survey partners to ID improved coordination opportunities; report to Board	100%	100%
12	Create and adhere to a detailed annual marketing plan with metrics	100%	100%
13	**Annually deliver training to marketing staff to ensure alignment**	50%	100%
14	Regularly evaluate effectiveness of marketing efforts; quarterly report to Board	100%	100%
15	Update sites/bldgs. database based on IEDC standards; report to Board	**	**
16	Improve transparency of project-related reporting to Board	100%	100%
17	Clarify mechanisms/success measures of FDI and Trade coordination	100%	100%
18	Expand data collection on companies utilizing trade programs; report to Board	100%	100%
19	**Develop written policies/procedures to evaluate incentive projects**	90%	100%
20	Require annual report to Board on % of firms meeting reporting requirements	100%	100%
21	**Work with TAX and VEC to verify company performance**	90%	100%
22	**Ensure (via Board) implementation of formal verification procedures**	90%	100%
24	**Ensure (via Board) standards for enforcing/reporting clawbacks**	90%	100%
25	**Ensure (via Board) extensions are justified, documented, reported**	90%	100%
26	Create dedicated incentives admin. division w/ at least 3 employees	100%	100%
27	Develop a website to report status/performance of incentives recipients	100%	100%
34	Create an internal audit division reporting directly to VEDP Board	100%	100%

* Excludes JLARC recommendations associated with items for General Assembly consideration (e.g., creating a board of economic development); items that have been completed since the December 2017 progress report appear in **bold font**

** VEDP has completed implementation of this item using an approach that differed from JLARC's specific recommendation but nevertheless attempted to address the fundamental issues that motivated the recommendation

Relative to the comprehensive progress report we shared in December 2017, the most notable advances towards completing implementation were in the following areas:

- **Staff onboarding and training (Recommendation no. 2)**: VEDP has completed initial development of and deployed its onboarding program for new staff. The onboarding program's centerpiece is team-specific training in which new employees learn the subject matter, practices, and tools required to perform their specific roles. VEDP's onboarding program also includes components delivered by other divisions (e.g., Human Resources) that are designed to educate new employees about administrative (e.g., benefits, technology) and VEDP-wide (e.g., organizational structure, performance policies) matters. To assess training needs on an ongoing basis, VEDP is collecting information from annual performance reviews and mid-year "career conversations" to catalogue suggested training opportunities and share across applicable teams and divisions. Using ongoing employee feedback on training delivered, VEDP will evaluate and refine training opportunities to identify the most effective options as part of a broader talent management initiative, pending available funding, that will build upon the actions already taken and described here. (Given the substantial additional progress in implementing JLARC Recommendation no. 2 since the end of last calendar year, we have enclosed a more detailed progress update on this item.)

- **Data integrity improvements (Recommendation no. 6)**: VEDP staff updated the VEDP Board in April 2018 on efforts to review and revise core functions in its customer relationship management database (Salesforce), including a redesign of data collected for Accounts and Contacts, Project Opportunity records (Project Management), and Campaigns (Lead Generation/Marketing Events). In addition, VEDP has incorporated training and frequent reviews of Salesforce changes into its onboarding process and ongoing training sessions, including staff meetings, individual meetings, and formal training sessions. Through the work of its Salesforce Governance Committee, VEDP will continue to focus on the effective and efficient use of its customer relationship management database, as well as to implement a control plan to monitor and track exceptions to data integrity.

- **Annual training for marketing staff (Recommendation no. 13)**: VEDP's Business Investment Division has developed and launched an enhanced training model to provide a foundation for career progression and expertise in its core marketing competencies. Leveraging a new, comprehensive resource guide for VEDP's marketing staff and a new business brand and core messaging for VEDP's marketing efforts, VEDP provided training in June 2018 to its marketing and lead generation staff to acquaint them with the new brand and key messages for both the Commonwealth of Virginia and VEDP. Training also included protocols for requesting and obtaining marketing materials to support lead generation efforts. VEDP also required marketing and lead generation managers, as well as members from supporting teams, to attend a 1.5-day interactive training session that addressed consultative sales strategies and successfully communicating VEDP's standard value proposition for Virginia. Going forward, staff will receive annual training and will be evaluated on the degree to which they participated in this training, as well as whether they have complied with the approval process for marketing materials. (Given the substantial additional progress in implementing JLARC Recommendation no. 13 since the end of last calendar year, we have enclosed a more detailed progress update on this item.)

- **Formal approval of incentive-related policies and procedural guidelines (Recommendation nos. 19, 21, 22, 24, and 25)**: VEDP's Board of Directors formally adopted a comprehensive set of incentive-related policies and procedural guidelines that had previously been implemented in working draft form. These policies and procedural guidelines address all of the items specifically called for by JLARC's related recommendations, including processes for due diligence evaluation of projects under consideration for economic development incentives (no. 19), verification of company performance against incentive agreement targets (nos. 21 and 22), enforcement of clawbacks for the Commonwealth's Development Opportunity Fund (no. 24), and consideration of extensions of performance dates for incentive agreements (no. 25). The policies and procedural guidelines approved by VEDP's Board also address the management of individual VEDP-administered incentive programs including the Commonwealth's Development Opportunity Fund (COF), Major Eligible Employer Grant Program (MEE), Virginia Economic Development Incentive Grant Program (VEDIG), Virginia Investment Performance Grant Program (VIP), and Virginia Jobs Investment

Program (VJIP). VEDP's incentive-related policies and procedural guidelines will be refined over time based on best practices and reviewed annually.

Maintaining implementation of JLARC's recommendations as well as the various new VEDP requirements in the Code of Virginia continues to be a top priority for VEDP.

VEDP's Board of Directors has been extensively involved in this work since June 2017. For example, the Board met monthly through most of 2017 to discuss strategic planning as well as progress on implementation of JLARC recommendations and new Code requirements. In particular, the Finance and Audit Committee met several times and for many hours to review and discuss drafts of policies and procedures, as well as interim progress reports on the implementation of the various JLARC recommendations.

In implementing JLARC recommendations and new Code provisions that involve a material allocation of financial resources, VEDP used one-time funds to initiate implementation in FY18. The General Assembly recently adopted a budget that will provide new funding starting in FY19 for VEDP's new, dedicated VEDP Incentives Division (JLARC Recommendation no. 26 and Code § 2.2-2237.3.A.) However, launching VEDP's new internal audit function (JLARC Recommendation no. 34 and Code § 2.2-2236.1.) required VEDP to reduce funding for existing economic development programs that would otherwise advance the economy of the Commonwealth. Similarly, current funding constraints limit implementation of more robust VEDP training programs (JLARC Recommendation nos. 2 and 13) and influence the degree to which VEDP can improve upon its initial implementation of a user-friendly website for incentives reporting (JLARC Recommendation no. 27), particularly efforts to implement more sophisticated technology solutions that would provide a more interactive user interface with more powerful functions for searching and sorting the data.

We have taken JLARC's findings and recommendations very seriously. Indeed, our response to the recommendations, along with related new Code items, has been a central focus of VEDP's work over the past year and a half. That work has generated improvements in organizational management, marketing efficiency and effectiveness, improved incentives administration, protocols for improved coordination with partners, and extensive engagement with VEDP's Board of Directors.

To ensure continued implementation of the JLARC recommendations over time, VEDP has developed a "maintenance plan" (enclosed herein) to facilitate accountability and planning for all 27 JLARC recommendations that call for action by the VEDP staff and/or Board. The maintenance plan includes next steps and ongoing actions for implementing each of the 27 recommendations, along with an indication of primary owner(s) of each item. The maintenance plan will be reviewed quarterly with VEDP's Executive Staff and semiannually with VEDP's Board of Directors. Similarly, VEDP's FY19 Operational Plan includes an appendix that enumerates each of the 27 JLARC recommendations with specific references to the areas of the Operational Plan where continued implementation of each recommendation is addressed.

Our efforts to address the findings and recommendations of the JLARC report, along with related operational and strategic planning initiatives, have created a more intentional, focused, accountable, efficient, and effective culture among VEDP's management and staff. As such, we are now better positioned to pursue the strategies and initiatives in VEDP's recently adopted five-year Strategic Plan (itself a JLARC recommendation). Full implementation of that plan by VEDP and its partners across the Commonwealth, including the General Assembly, would result in the achievement of multiple transformational goals, including positioning Virginia to achieve a growth rate (measured by employment and median earned income of workers) among that of the top 5-10 states while ensuring that every region participates in the growth of the Commonwealth (i.e., no regions experience negative growth).

We would like to walk through the progress report with JLARC staff to seek feedback on what we have done and identify any remaining actions JLARC might recommend that we take to fulfill the letter and spirit of the recommendations in JLARC's 2016 report.

While the implementation work has represented a very difficult process for VEDP to go through, the organization has benefited greatly from the JLARC report. We are grateful for JLARC's comprehensive, thoughtful recommendations.

If you have questions or would like further information, please do not hesitate to contact me.

Sincerely,

Stephen Moret
President and CEO

Attachments

cc: Mr. Hal Greer, Director
The Honorable R. Steven Landes, Vice-chairman
The Honorable Terry Austin
The Honorable Betsy Carr
The Honorable M. Kirkland Cox
The Honorable Charniele L. Herring
The Honorable S. Chris Jones
The Honorable Kenneth R. Plum
The Honorable Christopher P. Stolle
The Honorable Emmett W. Hanger, Jr.
The Honorable Janet D. Howell
The Honorable Ryan T. McDougle
The Honorable Frank M. Ruff, Jr.
Ms. Martha S. Mavredes, Auditor of Public Accounts

JLARC Recommendation No. 2: Create staff onboarding program and annual training programs

"The Virginia Economic Development Partnership (VEDP) should ensure that all staff receive formal onboarding training within 30 days of their start date. VEDP should collect feedback through annual staff evaluations on the types of skills training that staff need, and provide such skills training annually."

JLARC found that VEDP staff received insufficient onboarding and ongoing skills training. To address these deficiencies, JLARC recommended that VEDP 1) ensure all staff go through formal onboarding training within 30 days of their start date, 2) collect feedback through annual staff evaluations to determine the types of skills training the staff requires, and 3) provide training opportunities annually.

VEDP Perspective and Response

VEDP management fully agrees with this recommendation. In response, VEDP assembled an internal team to begin planning a broader talent management initiative that includes onboarding and training initiatives, among other talent management efforts. The first phase of this initiative, which was implemented in FY18, includes processes to onboard new employees, collect feedback on staff training needs, and create more effective training opportunities on at least an annual basis to support the development of VEDP staff.

Details of VEDP Response

VEDP has completed initial development of and fully deployed its onboarding program. The onboarding program's centerpiece is team-specific training in which new employees learn the subject matter, practices, and tools required to perform their specific roles. This component of VEDP's onboarding program will vary according to each team's particular subject matter, focus, practices, tools, and performance policies, and will typically be implemented by the new employee's supervisor.

The Research Division's onboarding program, for example, trains new employees on software (e.g., Salesforce), data used by Research staff (e.g., VEC data), and VEDP's Return on Investment models, among other topics. In addition, new Research employees meet with team leaders across other VEDP divisions as well as external partners working with Research staff (e.g., the Department of Environmental Quality), and staff review VEDP's incentive programs and marketing functions and processes.

VEDP's onboarding program also includes components delivered by other divisions (e.g., Human Resources) that are designed to educate new employees about administrative (e.g., benefits, technology) and VEDP-wide (e.g., organizational structure, performance policies) matters. All new employees are informed of existing organizational performance policies. (VEDP's efforts to ensure adherence to the organization's performance policies are detailed in the separate response to Recommendation no. 10.)

As part of these efforts to improve its onboarding training program, VEDP engaged a human resources management consultancy to assess the organization's onboarding process and provide suggestions for improvement. Feedback from the consultancy indicated that VEDP's program was well designed overall. VEDP revised its onboarding program based on the consultancy's feedback, including creating an onboarding checklist for each new hire, changing the voice in which the information is written to active voice, and getting feedback from new employees at the end of 90 days regarding the onboarding process.

To collect feedback on training needs and provide training opportunities, VEDP has included within each annual performance review a specific section on training opportunities for each employee. This section will be completed by both the employee and their supervisor to address the individual's career objectives and the division's needs. In addition, all VEDP supervisors are required to have mid-year "career conversations" with each of their employees. A career conversation is a discussion that supports the employee in developing career goals and a plan for achieving these goals. This conversation will not always result in a specific decision or plan right away, but will set the stage for an employee and/or supervisor to later clarify goals and set plans. As employees set career goals, certain training options may be identified that will provide the skills needed to achieve these goals. The Human Resources Division will collect information from both the annual performance review and career conversations to catalogue suggested training opportunities and share across applicable teams and divisions. Using ongoing employee feedback on training delivered, VEDP will evaluate and refine training opportunities to identify the most effective options. VEDP will provide these training opportunities at least annually.

Status and Next Steps

VEDP has completed implementation of this recommendation. VEDP recognizes that formal onboarding and training of employees is fundamental to the overall success of the organization. VEDP has developed team-specific onboarding programs across the entire organization and has completed initial implementation and will continue to make improvements to its onboarding programs over time as part of a broader talent management initiative. In addition, VEDP will continue to identify training opportunities through annual performance reviews and career conversations and provide these training opportunities at least annually.

VEDP's Strategic Plan includes a major initiative for talent management that will build upon the actions already taken and described here. Several foundational steps, such as employee competency assessments, are required to provide the organization with moorings around which short-term and long-term employee training plans can be developed. With first steps taken, VEDP will begin to further expand its talent management efforts to improve recruiting, training, and development of staff.

JLARC Recommendation No. 13: Annually deliver training to marketing staff to ensure consistent alignment

"The Virginia Economic Development Partnership (VEDP) should establish and require marketing staff to attend an annual training that provides instruction on VEDP's marketing message, how staff should communicate this message to customers, and the process for getting marketing materials approved. VEDP should include a measure of whether staff have complied with training requirements and the approval process in their performance evaluations."

JLARC determined that VEDP has not adequately controlled the messages being delivered to prospective businesses and site selection consultants, which compromises its ability to effectively convey Virginia's competitive advantages to potential customers. To address this concern, JLARC recommended VEDP establish and require marketing staff to attend annual training that provides instruction on VEDP's marketing message, how staff should communicate this message to customers, and the process for getting marketing materials approved.

VEDP Perspective and Response

VEDP management fully agrees with this recommendation. To deliver an effective and consistent marketing message to potential clients, VEDP presented a resource guide to the marketing staff. In addition to information related VEDP's divisions, the resource guide provides information and documentation related to:

- Virginia's value proposition
- Project investment and incentives (including the project lifecycle, the Project Review and Credit Committee (PRACC), and a variety of incentive documents)
- Marketing and lead generation (including the FY18 marketing calendar, a marketing event form, ally communication template, and marketing event sheet and checklist)

VEDP engaged a marketing firm to help develop a new business brand, core marketing messaging, and new marketing materials. The new brand and messaging were launched in June 2018 and the Business Investment (BI) team and other client-facing staff received training from the marketing and communications team on the new brand and marketing message, as well as the new tools available to support marketing efforts. VEDP also required marketing and lead generation managers, as well as members from supporting teams, to attend a 1.5-day training session on consultative sales strategies and successfully communicating VEDP's value proposition in a responsive, customized way.

BI management monitored the performance of BI staff throughout the year and will evaluate the degree to which they complied with training requirements and the marketing materials approval process during performance reviews.

Details of VEDP Response

To ensure that its marketing and lead generation staff deliver a consistent and effective marketing message, VEDP's BI team prepared and reviewed a resource guide that provides VEDP's new brand messaging, documents for effective project management and incentive discussions, VEDP divisional overviews, the outline of a project life cycle, and sample documents used to communicate with internal and external partners.

VEDP engaged a marketing firm to develop a new business brand and core messaging for its marketing efforts. Prior to the public release of the brand project in June 2018, VEDP provided training to its marketing and lead generation staff to acquaint them with the new brand and key messages for both the Commonwealth of Virginia and VEDP. Training also included protocols for requesting and obtaining marketing materials to support lead generation efforts. Going forward, staff will receive annual training and will be evaluated on the degree to which they participated in this training, and whether they have complied with the approval process for marketing materials.

VEDP also required marketing and lead generation managers, as well as members from supporting teams, to attend a 1.5-day training session entitled Building Competitive Advantage to Win, which addressed consultative sales strategies and successfully communicating VEDP's value proposition in a responsive, customized way. Altogether more than 40 VEDP staff participated. This interactive training session included role playing and a case study workshop, and focused on the following instructional areas: requirements of economic development today, questioning to uncover prospect needs, presenting to differentiate your advantage, and closing to gain commitment at every step.

As part of VEDP's Talent Management Initiative, the BI Division developed an enhanced training model to provide a foundation for career progression and expertise in its core competencies beyond the recommendations noted by JLARC (see the separate response to Recommendation no. 2 for additional information on VEDP's talent management efforts). The initial areas of training are reflected in the following Table.

Training matrix for Business Investment staff

Topics	Training Organizer	Associate Manager	Business Manager	Sr. Business Manager	Director	Managing Director
Onboarding with Cross-Divisional Introductions	Human Resources and Business Investment	X	X	X	X	X
VEDP's Marketing Message	Marketing and Communications	X	X	X	X	X
Virginia's Business Incentives	Incentives and Research	X	X	X	X	X
Salesforce	Information Technology and Business Investment	X	X	X	X	X
Basic Economic Development Course	Business Investment	X	X	X	X	X
Consultative Sales (Continuous Dialog)	Business Investment	X	X	X	X	X
Project Management	Business Investment	X	X	X	X	X
IEDC Certified Economic Developer Program	Business Investment			X	X	X
Commonwealth Management Institute	Business Investment				X	X

* **Associate Manager** – Entry-level with limited economic development experience; **Business Manager** – Associate Managers are typically promoted to Business Manager after 1-2 years; **Sr. Business Manager** – Eligible for promotion to Sr. Business Manager after 4 years; **Director** – Eligible for promotion to Director after 7 years; **Managing Director** – Directors take on Managing Director role, managing 4-6 member teams, when opportunities arise.

Status and Next Steps

VEDP has successfully completed implementation of this recommendation. VEDP completed its new brand project, core messaging, and marketing materials in June 2018. The new marketing brand included VEDP's standard value proposition for Virginia, target sector marketing materials, and presentation templates for use in all marketing efforts. BI supervisors provided formal training for the BI team members and other client-facing staff, to consistently and effectively deliver Virginia's marketing messages to site selection consultants and prospective businesses. BI management will continue to monitor throughout the year—and document during year-end performance reviews—whether staff have completed training and complied with policies for getting marketing materials approved during its performance evaluation process.

VEDP "Maintenance Plan" for implementation of 2016 JLARC recommendations
NOTE: To be reviewed quarterly with VEDP Executive Staff and semiannually with VEDP Board of Directors

JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
1. The General Assembly may wish to consider amending the Code of Virginia to **require the Virginia Economic Development Partnership (VEDP) board of directors to develop and regularly update a strategic plan for VEDP**. At a minimum, the process to develop and revise VEDP's strategic plan should occur every three years and should include a systematic assessment of how VEDP can best add value through each of its statutory responsibilities. The strategic planning process should include VEDP's key economic development partners, including state, regional, and local organizations with economic development programs. The strategic plan should include specific goals, objectives, and strategies, and quantifiable metrics for each goal and objective. VEDP should report on its progress toward meeting its goals and objectives annually through its operating plan, as required by Item 125 B of the Appropriation Act.	Per Code § 2.2-2237.1.B., VEDP shall report annually on its strategic plan, any modifications to the strategic plan, and its progress toward meeting the goals and objectives to JLARC's special subcommittee on economic development and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance. (Implementation of Strategic Plan begins in FY19; next report scheduled for July or August of 2019.) The Board and CEO shall update the strategic plan biennially per Code § 2.2-2237.1.A. (Next plan update due by December 1, 2019.)	CEO/EC
2. The Virginia Economic Development Partnership (VEDP) should ensure that all staff receive formal onboarding training within 30 days of their start date. VEDP should collect feedback through annual staff evaluations on the types of skills training that staff need, and provide such skills training annually.	VEDP will continue to refine team-specific onboarding programs across the entire organization. On an ongoing basis, VEDP will identify training opportunities through annual performance reviews (at the end of each fiscal year) and provide these training opportunities at least annually.	HR
3. The Virginia Economic Development Partnership (VEDP) should develop and implement formal, written policies and procedures that outline (i) what services staff are expected to provide, (ii) the steps staff should take to provide them, and (iii) under what circumstances staff should coordinate with other VEDP staff or external entities.	VEDP will continue to update its written policies and procedures to reflect any changes to Business Investment's services, steps to carry out these services, and coordination with internal and external partners. In particular, VEDP will further develop its Business Investment Handbook to include processes for all protocols.	BI

VEDP "Maintenance Plan" for implementation of 2016 JLARC recommendations
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JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
4. The Virginia Economic Development Partnership (VEDP) should incorporate an expectation into supervisors' annual evaluations that they (i) provide new staff with their job expectations within 30 days of their start date and (ii) provide existing staff with their job expectations by October 1st of each fiscal year. **VEDP should report annually to its board the percentage of staff that receive their job expectations within the established deadlines.**	On an ongoing basis, VEDP's HR team will ensure that recruitment for open or new positions does not begin without a complete job description and that all existing employees receive updated job descriptions by October 1st of each fiscal year. VEDP leadership will evaluate supervisors on their adherence to these policies at their annual performance review. The HR team will include this information in the mandatory supervisor training sessions held annually. By the last Board meeting of each calendar year, VEDP will report the percentage of existing employees who have received updated job descriptions by October 1st of that year, as well as the percentage of new hires who have received their complete job descriptions within 30 days of their start date.	HR
5. The Virginia Economic Development Partnership (VEDP), **in collaboration with its board**, should **establish new, more accurate agency-wide performance metrics** that better reflect VEDP's economic development activities, service quality, and impact.	VEDP will track performance metrics on an annual basis (VEDP Outputs metrics also will be tracked on a quarterly basis). Baseline and target values will be developed as part of VEDP's annual operational planning process. VEDP will explore additional ways to measure the actual economic impact of its activities, including consideration of a backwards-looking analysis to estimate the number of new jobs and amount of capital investment that were actually generated as a result of projects that received VEDP-administered incentive grants in prior years. VEDP will include these metrics in its operational plan each year, as well as in official annual reports and periodic updates.	EC

VEDP "Maintenance Plan" for implementation of 2016 JLARC recommendations
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JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
	All metrics will be reported to the Board (Next annual update in July 2018, focusing on FY18 performance metrics).	
6. The Virginia Economic Development Partnership (VEDP) should develop standard definitions for all data fields in its system and implement mechanisms to restrict incorrect data entry. VEDP should ensure that staff receive data entry training at onboarding and at least once every two years.	Staff will receive data entry training every two years at a minimum, with new hires receiving this training as part of the onboarding process. Through the work of the Salesforce Governance Committee, VEDP will continue to focus on the effective and efficient use of its customer relationship management database, as well as establish a control plan to monitor and track exceptions to data integrity.	IT
7. The Virginia Economic Development Partnership should track when staff arrive and depart every day and establish a warning system and penalties for staff who do not report to work on time or do not work the hours prescribed in agency policy	On an ongoing basis, VEDP will include information related to time/work issues with employees in the mandatory supervisor training program so that managers will continue to appropriately enforce VEDP policies. All employees will continue to be required to establish standard office hours as well as make their calendars visible to their supervisor.	HR
8. The Virginia Economic Development Partnership should (i) use the time allocation system that is managed by the Department of Human Resource Management; (ii) require staff to use the system to report their time worked and activities performed each day; and (iii) use the data collected to assess the allocation of staff resources and redirect as appropriate to efficiently and effectively meet agency objectives.	On an ongoing basis, VEDP will ensure use of shared calendars to report time worked and activities performed. All new employees will receive information regarding the use of shared calendars through the IT portion of the onboarding process.	HR/IT
9. The Virginia Economic Development Partnership (VEDP) should request a review by the International Economic Development Council of staff performance metrics to ensure they are measurable and appropriate to hold staff accountable. VEDP staff should report the	For FY19 and beyond, VEDP will incorporate IEDC's recommendation to include both output and outcome measures in the BI Division's performance metrics.	BI

JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
results of the review, and any changes made, to the VEDP board of directors for their review.		
10. The Virginia Economic Development Partnership (VEDP) should revise its performance evaluation process to include an assessment of staff adherence to agency policies and statutory requirements. VEDP should establish and enforce penalties for staff who do not follow agency policies or statutory requirements.	On an ongoing basis, VEDP's HR team will alert staff of any policy and/or Code changes as they occur. In addition, VEDP will provide annual mandatory training for all supervisors to review Human Resources' policies, including employee evaluation management and progressive disciplinary processes.	HR
11. The Virginia Economic Development Partnership **(VEDP) board of directors should require staff to systematically collect and assess the perspectives of VEDP's economic development partners** on how VEDP could more effectively coordinate its services with other organizations and encourage coordination within the broader economic development system. The survey should be conducted at least once every two years. **VEDP should report the results of all surveys to its board** and use the results to tailor its future services and program offerings.	The Virginia Economic Development Partner Protocols require a survey of the organization's partners on an annual basis (next survey is scheduled for mid-2018). The results of this survey will be shared with VEDP's Board (likely in July 2018 or October 2018) and used to improve coordination with economic development partners.	EC/BI
12. The Virginia Economic Development Partnership (VEDP) should develop and adhere to a written annual marketing plan that includes, at a minimum, (i) an identification of VEDP's specific and measurable marketing goals; (ii) specific activities and timetables to achieve the goals; (iii) the resources and staff allocated to the marketing activities; and (iv) how VEDP will evaluate the effectiveness of its marketing activities. The plan should concentrate goals and activities on marketing to industries that align with the statewide economic development strategy, the state's available economic development assets, and the priorities of other state, regional, and local economic development entities. The plan should include strategies for how VEDP will accomplish its goals in	Per Code § 2.2-2237.1.D.1., VEDP shall report annually on its marketing plan, any modifications to the marketing plan, and its progress toward meeting the goals and objectives to JLARC's special subcommittee on economic development and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance. (Next report scheduled for July or August 2018) The Board and CEO shall update the marketing plan biennially per Code § 2.2-2237.1.D.1.	BI

VEDP "Maintenance Plan" for implementation of 2016 JLARC recommendations
NOTE: To be reviewed quarterly with VEDP Executive Staff and semiannually with VEDP Board of Directors

JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
coordination with state, regional, and local marketing organizations.		
13. The Virginia Economic Development Partnership (VEDP) should establish and require marketing staff to attend an annual training that provides instruction on VEDP's marketing message, how staff should communicate this message to customers, and the process for getting marketing materials approved. VEDP should include a measure of whether staff have complied with training requirements and the approval process in their performance evaluations.	VEDP completed its new brand project, core messaging, and marketing materials in June 2018 and provided formal training for BI team members to consistently and effectively deliver Virginia's marketing messages to site selection consultants and prospective businesses. Additionally, annual training opportunities are being implemented to assist the team with other core functions such as consultative sales, project management, and economic development certification. BI management will monitor throughout the year—and document during year-end performance reviews—whether staff have completed training and complied with policies for getting marketing materials approved during its performance evaluation process.	BI
14. The Virginia Economic Development Partnership (VEDP) should develop and implement a formal process to regularly and systematically evaluate the effectiveness of its marketing initiatives, and use this information to redirect resources away from ineffective activities as appropriate. **VEDP should provide its board of directors with a report on the effectiveness of its marketing initiatives at least once per quarter.**	VEDP will provide annual Salesforce training on marketing campaign management and develop Salesforce dashboards and reports to assist the BI team with monitoring lead generation activities and key metrics. With input from the Board of Directors and its new Committee on Business Development and Marketing, VEDP will provide quarterly Board reports to identify patterns, trends, and other information to optimize use of resources (next quarterly report scheduled for July 2018 Board meeting).	BI/IT
15. The Virginia Economic Development Partnership should update its site and buildings database to ensure that it meets the site selection data standards established by the International Economic Development Council and **include**	On an ongoing basis, VEDP staff will monitor trends in best practices and every 2-3 years provide the VEDP Board with a recommendation for when the next generation of VirginiaScan is warranted.	Research

VEDP "Maintenance Plan" for implementation of 2016 JLARC recommendations
NOTE: To be reviewed quarterly with VEDP Executive Staff and semiannually with VEDP Board of Directors

JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
details on the percentage of the data standards met in its annual reports to its board of directors.		
16. The Virginia Economic Development Partnership (VEDP) should **improve the transparency of its marketing performance measures that are reported to its board of directors** by showing, at a minimum, (i) the percentage of announced projects that were initially identified by VEDP through its own marketing efforts versus those that were brought to VEDP by another entity, and (ii) the nature and degree of VEDP's involvement in projects reported having received VEDP assistance.	On a quarterly basis, VEDP will report to the Board for fiscal year-to-date the percentage of announced projects that were initially identified by VEDP through its own marketing efforts (versus those that were brought to VEDP by another entity), as well as the activities/value VEDP provided (next quarterly report scheduled for July 2018 Board meeting).	BI
17. The Virginia Economic Development Partnership (VEDP) should develop formal mechanisms to support ongoing coordination and communication between its marketing and export promotion services and measure the success of these mechanisms. **VEDP should report these measures of success at least annually to its board of directors.**	On a quarterly basis, the VPs overseeing international FDI marketing and International Trade will meet to review leads that overseas representatives might generate for both programs. The BI and Trade Divisions will evaluate the results obtained from the sharing of international trade show calendars, as well as from sharing leads for the export of Virginia products and services and FDI, and share these results with the Board on an annual basis (next annual report scheduled for July or October 2018).	Trade/BI
18. The Virginia Economic Development Partnership (VEDP) should collect and use more detailed information about the characteristics of companies accessing export promotion services and use this information to ensure that the types of business receiving export-promotion services reflect the diversity of Virginia's export-capable industries. At minimum, this information should include company-level information on industry sector, number of employees, product types, and average export sales. VEDP should also maintain comparable export growth data for each of its export promotion programs, including both projected and actual	On an ongoing basis, the International Trade Division will collect information about industry sector, number of employees, and product types for companies enrolled in trade development programs and will assess this data on an annual basis beginning July 1, 2018 to identify and collect any missing information. Additionally, VEDP will conduct an annual survey each July to collect total projected international sales from companies enrolled in trade development programs (as well as the percentage of export sales that the companies attribute to VEDP's assistance) and will report that information to the Board	Trade

VEDP "Maintenance Plan" for implementation of 2016 JLARC recommendations
NOTE: To be reviewed quarterly with VEDP Executive Staff and semiannually with VEDP Board of Directors

JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
export growth. **VEDP should report this information to its board at least once per year.**	on an annual basis (next annual report scheduled for July or October 2018).	
19. The Virginia Economic Development Partnership **(VEDP) board of directors should work with VEDP staff to develop written policies and procedures to standardize VEDP's process for evaluating projects that are considered for incentives**. The new policies and procedures should ensure that VEDP is appropriately and consistently prioritizing the use of incentives toward projects that create quality jobs and have the greatest economic benefit for Virginia's regions. The policies and procedures should clearly describe the criteria and methods to be used to assess projects for incentives funding. Criteria should include an assessment of each project's expected level of increased exports from the state, employment multiplier, and wages compared to regional industry averages.	VEDP will continue refining its policies and procedures for evaluating projects that are considered for incentives with support from the Finance and Audit Committee.	Incentives
20. The Virginia Economic Development Partnership **(VEDP) board of directors should require VEDP to report to them annually on the percentage of companies that fulfilled their contractual requirement to report their progress towards meeting performance requirements**.	On an annual basis, VEDP will report to the Board the percentage of companies fulfilling the contractual requirement to submit annual COF progress reports (annual report for FY18 activity scheduled for July 2018).	Incentives
21. The Virginia Economic Development Partnership (VEDP), with the assistance of staff at the Virginia Department of Taxation and Virginia Employment Commission, should develop and consistently follow policies and procedures to verify job creation and wage claims of companies receiving incentive grants administered by VEDP. These policies and procedures should require VEDP staff to conduct periodic audits of company performance to verify project performance data and be sufficiently detailed to enable staff to verify	VEDP will continue refining its policies and procedures for verification of employment and wage levels with support from the Board's Subcommittee on Employment and Wage Verification and Finance and Audit Committee. Note: VEDP will also explore with the Board the potential benefits and challenges of implementing a new, hybrid performance standard that is based primarily on a company's total increase in payroll associated with an economic development project, along with other existing	Incentives

VEDP "Maintenance Plan" for implementation of 2016 JLARC recommendations
NOTE: To be reviewed quarterly with VEDP Executive Staff and semiannually with VEDP Board of Directors

JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
company claims consistently and effectively while limiting staff discretion where appropriate.	performance components related to new jobs and average wages.	
22. The Virginia Economic Development Partnership **(VEDP) board of directors should ensure that VEDP develops and implements formally documented performance verification procedures for staff to follow to ensure that grant recipients are meeting their expected performance requirements in accordance with established performance agreements.**	*See Recommendation No. 21*	Incentives
24. The Virginia Economic Development Partnership **(VEDP) board of directors should require VEDP to develop and use standard policies and procedures that clearly explain when and how staff should enforce clawback provisions**. Enforcement should be consistent and effective for all companies that do not meet their contractual obligations, including wage requirements. **The board should require VEDP staff to report regularly to the full board on each project that is subject to a clawback and the repayment status for each project** that is subject to a clawback.	VEDP will continue refining its policies and procedures for clawbacks with support from the Finance and Audit Committee. In addition, VEDP will provide at least semiannual reports to the Board on each project subject to a clawback (next semiannual reports scheduled for July 2018 and January 2019).	Incentives
25. The Virginia Economic Development Partnership **(VEDP) board of directors should require VEDP to develop and implement policies and procedures to ensure that all performance extensions, whether granted by VEDP or localities, are consistent with statute** (§ 2.2-115 of the Code of Virginia) and that **justifications for the performance extensions are documented**. **The board should require VEDP staff to report all extensions granted to the full board for review.**	VEDP will continue refining its policies and procedures for extensions with support from the Finance and Audit Committee. Any extension request recommended for approval will be submitted to the Board (plus MEI Commission for additional extensions) for consideration on an ongoing basis, in accordance with Code § 2.2-2237.3.D. (which supplements § 2.2-115).	Incentives
26. The Virginia Economic Development Partnership (VEDP) should create a separate division in VEDP that is solely responsible for incentives administration and assign at least three staff to administer incentives. VEDP should ensure all	No further action needed. Note: the incentives administration process is likely to undergo multiple refinements as recommendations for	Incentives

VEDP "Maintenance Plan" for implementation of 2016 JLARC recommendations
NOTE: To be reviewed quarterly with VEDP Executive Staff and semiannually with VEDP Board of Directors

JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
staff employed in this function have the qualifications and training necessary to perform the work assigned to them.	improvement are made and implemented. VEDP's aspirational goal is to have Virginia ranked among the top 5-10 most transparent states for incentive monitoring and reporting, with VEDP's Incentives Division recognized as one of the top performers in America.	
27. The Virginia Economic Development Partnership (VEDP) should increase the transparency of its incentive grant programs by developing a user-friendly website to more transparently report the status and performance of grant programs and of each project that has received an incentive grant through VEDP. The website should include, at a minimum, information on expected versus actual performance, the performance period, all extensions granted, and all repayments required of and made by grant recipients. Information should be provided for each project and also be aggregated and reported for each program administered by VEDP.	On an ongoing basis, VEDP will update the status and performance reports for each incentive grant program on its website on a semiannual basis (to report activity as of December 31 and June 30 of each year). Additionally, VEDP will explore technology solutions that enable more frequent updates (ideally in real time), as well as a more interactive user interface with more powerful functions for searching and sorting the data.	Incentives
34. The Virginia Economic Development Partnership **(VEDP) board should create an internal audit division that reports directly to the board**. The board should control the staffing, funding, and activities of the new internal audit division. Responsibilities for the division should include, at a minimum, (i) verifying information presented to the board is valid and comprehensive, (ii) identifying opportunities to improve the efficiency and effectiveness of agency operations, (iii) ensuring policies and procedures are being followed by staff, (iv) monitoring and reporting on the status of the implementation of recommendations in this report, and (v) carrying out other periodic and routine board-directed audit activities. Funding and spending related to the internal audit	FY18 audit activities focused on VEDP's Information Technology and Research functions. The FY19 internal audit plan will focus on the International Trade and Economic Competitiveness Divisions. As internal audit execution is completed, a copy of audit reports will be submitted to JLARC's special subcommittee for economic development after they have been reviewed by the VEDP Board in accordance with Code § 2.2-2236.1.	DHG (w/ support of Fiscal)

JLARC recommendation (Board-related items in **BOLD**)	**Next steps / ongoing actions**	**Primary owner(s)**
division should be included as a separate line item in VEDP's budget and expense reports.		