



Annual Report

FISCAL YEAR 2020

Annual Report

FISCAL YEAR 2020

I	WHO WE ARE	7
II	OUR PARTNERS	11
III	LEADERSHIP MESSAGE	14
IV	IMPACT METRICS	16
V	FEATURES	23
01	Collaborative Leadership on COVID-19 Response and Economic Recovery	24
02	Creation of World-Class Virginia Talent Accelerator Program	26
03	Development of Virginia's First Comprehensive International Trade Plan	28
04	Strong Liftoff for Historic Tech Talent Investment Program	30
05	Completion of Novel, First-in-the-Country Site Characterization Initiative	32
06	Progress on Rural Development Opportunities	34
VI	PROJECT CASE STUDIES	36
01	Microsoft	36
02	Morgan Olson	38
03	Patton Logistics	40
VII	PROGRESS REPORTS	42
01	Strategic Plan	42
02	Operational Plan	47
03	Marketing Plan	48
VIII	ECONOMIC RECOVERY	50
IX	APPENDIX	51





Board of Directors

Ned W. Massee – Chair
Croatan Advisors

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

Carrie Hileman Chenery
Principal, Valley Pike Partners

C. Daniel Clemente
Chairman and Chief Executive Officer,
Clemente Development Company Inc.

Greg B. Fairchild
Associate Dean for Washington, D.C.
Area Initiatives at the University of
Virginia, Darden School of Business
University of Virginia, Darden School of
Business

Thomas “Tom” Farrell, II
Chairman, Growth & Opportunity Board

Deborah K. Flippo
Economic Development Program
Manager, Draper Aden Associates, Inc.

Richard “Rick” O. Harrell, III
President (retired), R.O. Harrell, Inc.

William “Bill” Hayter
President and CEO, The First Bank &
Trust Company

April Kees
Director, Virginia Senate Finance and
Appropriations Committee

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

Vincent J. Mastracco
Partner, Kaufman & Canoles PC

Anne Oman
Director, House Appropriations
Committee

Dan M. Pleasant
Chief Operating Officer, Dewberry

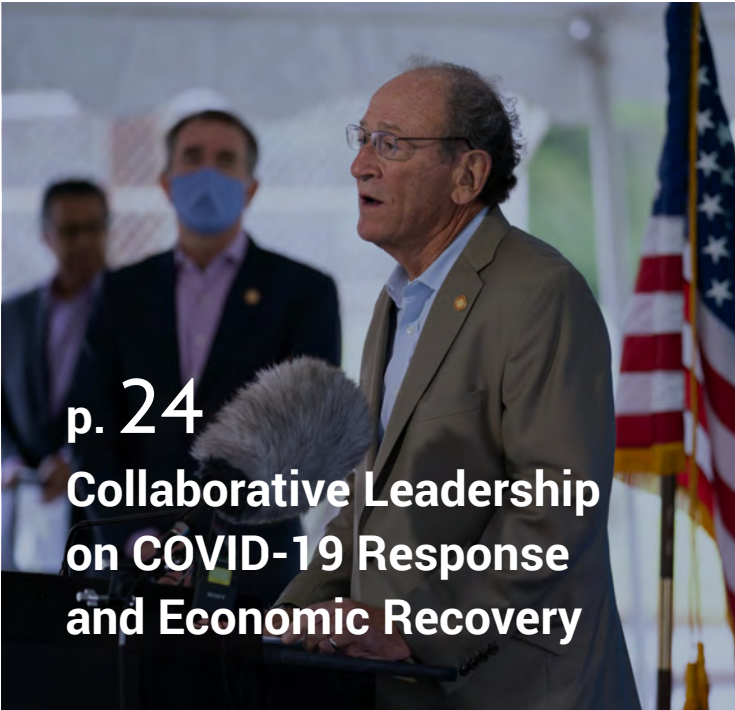
Marianne Radcliff
President, Kemper Consulting, Inc.

John F. Reinhart
CEO and Executive Director, The Port of
Virginia

Xavier R. Richardson
Executive Vice President, Corporate
Development & Community Benefit,
Mary Washington Healthcare
President, Mary Washington Hospital &
Stafford Hospital Foundations

Selected Accomplishments

Learn more on the following pages:



Pictured (left to right): Microsoft Corporation Rendering, Fairfax County; Governor Ralph Northam and Secretary Brian Ball; Morgan Olson, Danville; Virginia International Gateway, Portsmouth; Virginia Tech Innovation Campus Rendering, Alexandria; Southern Virginia Megasite at Berry Hill, Pittsylvania County; Radford University



WHO WE ARE

The Virginia Economic Development Partnership (VEDP) is the state economic development authority for the Commonwealth of Virginia. Created by the Virginia General Assembly in 1995, VEDP collaborates with local, regional, and state partners to encourage the expansion and diversification of Virginia's economy. VEDP works to accomplish these objectives through a variety of activities, including marketing and lead generation; business retention, expansion, and attraction; trade development; business intelligence; competitive benchmarking; site development; performance-based incentives; and talent solutions.

Working closely with partners, VEDP has adopted five transformational goals for Virginia and VEDP that represent the central focus of its work:

1. **Robust State Growth.** Position Virginia to achieve a growth rate in employment and median earned income among that of the top 5-10 states in the U.S.
2. **Every Region Wins.** Ensure that every region participates in the growth of the Commonwealth (i.e., all with positive growth in employment and median earned income).
3. **Best State for Business.** Restore Virginia to its previous position near the top of the national business climate rankings (i.e., average rank among the top 3-5 states).
4. **Top State EDO.** Reestablish and sustain VEDP as one of America's most effective state economic development organizations.
5. **Super Collaborator.** Exhibit collaboration and coordination as hallmarks of VEDP (i.e., place a central focus on the "P" in VEDP).

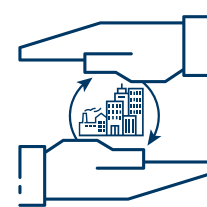
VEDP

DIVISIONS



MARKETING & COMMUNICATIONS

Markets the Commonwealth to raise awareness of Virginia's advantages for business and to cultivate new leads



BUSINESS INVESTMENT

Collaborates with partners to implement lead generation, project management, and business retention and expansion strategies



INTERNATIONAL TRADE

Provides export development programs, services, and grants to help Virginia companies grow their international sales



TALENT SOLUTIONS

Provides workforce programs that position Virginia to be competitive in securing new business investment projects



RESEARCH

Conducts in-depth analysis and creates tailored client materials that convey Virginia's competitive advantages



ECONOMIC COMPETITIVENESS

Develops strategies to improve the foundations for state, regional, and local economic growth



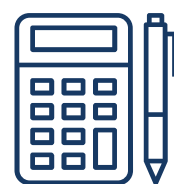
EXTERNAL AFFAIRS

Oversees the budget, legislative, and policy development process; encourages collaboration and coordination among partners



INCENTIVES

Reviews, vets, tracks, and coordinates VEDP's performance-based incentive programs, along with incentive structuring for major projects



FISCAL AND SUPPORT SERVICES

Provides a financial framework for VEDP to accomplish its mission through accounting, budgeting, and procurement



HUMAN RESOURCES

Seeks to hire, retain, and develop the best and the brightest to accomplish VEDP's mission and goals



INFORMATION TECHNOLOGY

Supports VEDP's technology platforms, including a variety of custom tech solutions

VEDP's Global Network



**FOREIGN DIRECT INVESTMENT OFFICES**

VEDP's international business investment offices implement lead generation strategies to identify and convert high-potential foreign direct investment leads and prospects into project opportunities for Virginia.



**TRADE REPRESENTATION**

VEDP's network of international research consultants covers more than 75 countries around the world. These experts provide in-country market research for Virginia exporters, specific to the needs and opportunities for each individual company.

Algeria • Argentina • Australia • Austria • Bahrain • Belgium • Botswana • Brazil • Bulgaria
Canada • Chile • China • Colombia • Costa Rica • Croatia • Czech Republic • Denmark • Estonia
Finland • France • Germany • Ghana • Hong Kong • Hungary • India • Indonesia • Ireland
Israel • Italy • Ivory Coast • Japan • Jordan • Kenya • Kuwait • Latvia • Lesotho • Lithuania
Madagascar • Malawi • Malaysia • Mauritania • Mauritius • Mexico • Morocco • Mozambique
Namibia • Netherlands • New Zealand • Norway • Oman • Peru • Philippines • Poland • Portugal
Qatar • Romania • Russia • Saudi Arabia • Senegal • Serbia • Seychelles • Singapore • Slovakia
Slovenia • South Africa • South Korea • Spain • Swaziland • Sweden • Switzerland • Tanzania
Thailand • Tunisia • Turkey • UAE • Ukraine • United Kingdom • Vietnam • Zambia • Zimbabwe

Our Partners

VEDP conducts its work in collaboration with hundreds of economic development partners in Virginia. Core VEDP partners include the Governor's Administration, Virginia General Assembly, other state agencies, 18 regional economic development organizations, over 100 local economic development partners, utilities, railroads, and trade associations.



Regional Economic Development Organizations



Innovation lives here.
NORTHERN VIRGINIA



■ Unaffiliated localities

Leadership Message

The last two fiscal years, FY19 and FY20, have represented one of the most productive time periods for VEDP since its formation a quarter century ago.

In FY19, VEDP arguably had the most successful year in its history, considering the mega wins of HQ2 and Micron, plus VEDP's designation by *Site Selection* as the most competitive state economic development organization in America.

Our momentum accelerated into FY20, as we assembled the best custom workforce team in the country to lead our new Virginia Talent Accelerator Program, as well as put the final touches on Virginia's historic Tech Talent Investment Program. However, much of our work and our focus abruptly (and appropriately) shifted in March, with the onset of the pandemic.

Despite the many challenges associated with COVID-19, VEDP completed many of the big goals we originally set for FY20, while postponing others in order to make contributions to Virginia's pandemic response and economic recovery efforts.

This annual report highlights some of VEDP's notable accomplishments in FY20, all of which were made possible in large part by the great work and support

of our local, regional, and state partners, including Governor Northam, Secretary of Commerce and Trade Brian Ball, Secretary of Finance Aubrey Layne, the Virginia General Assembly, members and staff of the Major Employment and Investment (MEI) Commission, The Port of Virginia, the Virginia Chamber of Commerce, the Virginia Economic Developers Association (VEDA), county and city government leaders, and hundreds of local and regional economic development partners, among others.

Through a combination of leadership, dedicated staff work, and active support from our partners, VEDP and Virginia have made substantial progress toward achieving each of our five transformational goals (see page 43). Indeed, we are farther along than any of us could have imagined when we completed our five-year Strategic Plan in FY18. Nevertheless, there is much left to do.

Over the next few years, VEDP's mission will be more important than ever as Virginia works to fully recover from the pandemic.

Thank you for your interest in VEDP, as well as your support of economic development in the Commonwealth of Virginia. Together we are positioning Virginia for a healthy economic future.



NED W. MASSEE
Board Chair



STEPHEN MORET
President and CEO



Rappahannock Oyster Co., Middlesex County

A Solid Year for Business Development – in Spite of the Pandemic

BUSINESS INVESTMENT

VEDP-assisted project announcements

94
PROJECTS

13,475
DIRECT JOBS

\$5.8B
CAPITAL INVESTMENT

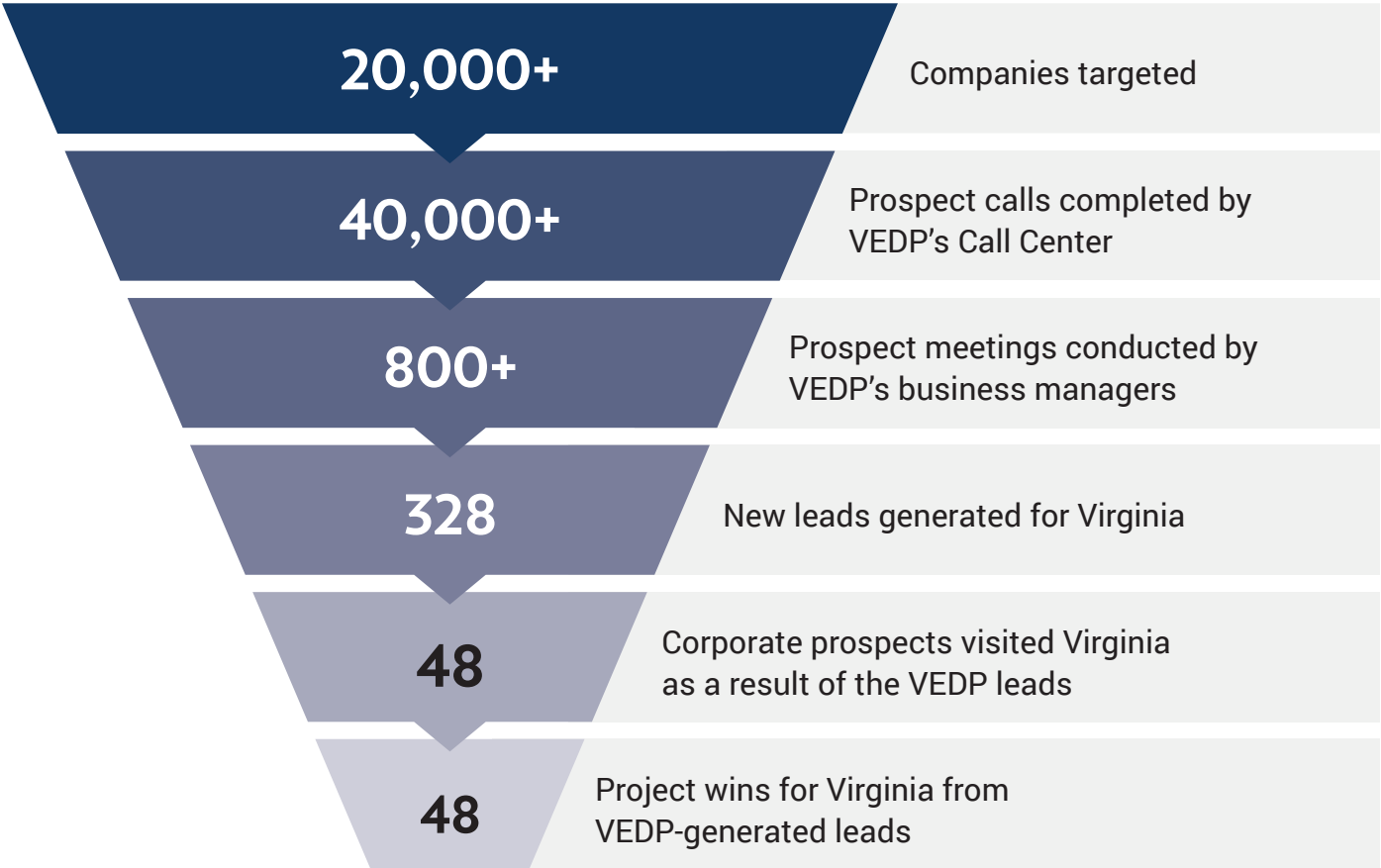
VEDP had a strong FY20, in spite of the pandemic. Working closely with local, regional, and state partners, VEDP substantially exceeded its capital investment goal and secured VEDP-assisted job-creation commitments in excess of its goal. While COVID-19 significantly impacted the FY20 lead generation program, canceling more than 30% of all planned activities, VEDP achieved 88% of its leads generated goal and 96% of its converted-leads goal.

VEDP-generated leads

328
LEADS

158
LEADS
CONVERTED

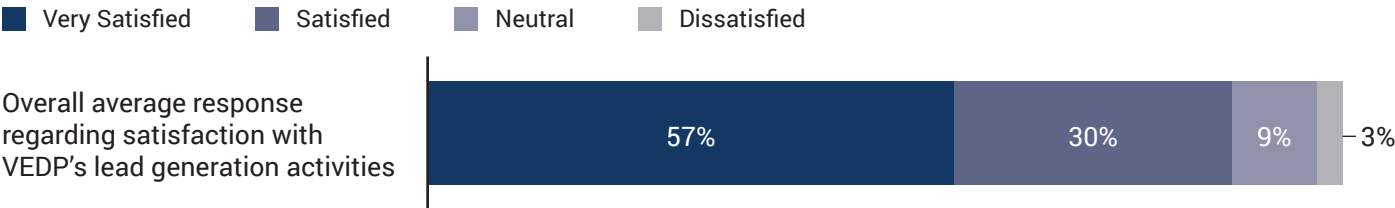
FY20 LEAD GENERATION PROGRAM BY THE NUMBERS



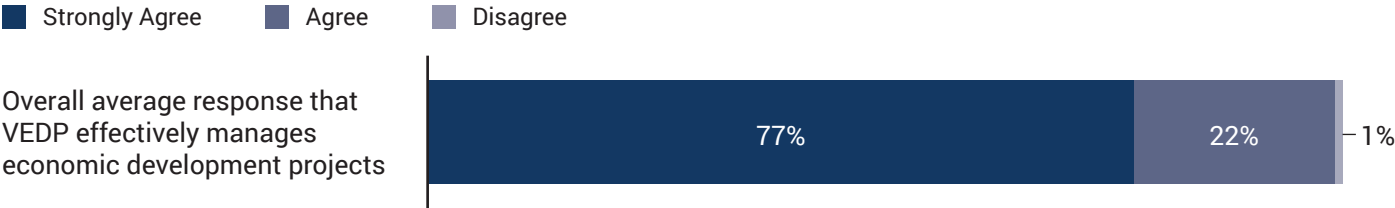
BUSINESS INVESTMENT: PARTNER AND CLIENT SATISFACTION

VEDP implements partner and client surveys to assist in evaluating lead generation program and project management effectiveness. Both programs received high approval in FY20.

Lead generation program



Project management



INTERNATIONAL TRADE

321 COMPANIES PARTICIPATED IN INTERNATIONAL TRADE PROGRAMS AND SERVICES

160

Market research provided by VEDP staff and a network of in-country consultants to help Virginia exporters access opportunities and market information in more than 75 countries.

95

State Trade Expansion Program (STEP) offers grant funding for international travel and global marketing activities.

76

Trade show program (TSP) provides resources for Virginia exporters exhibiting individually at international trade shows.

64

Trade missions and trade shows place Virginia exporters directly in front of potential international customers and include 10+ missions hosted by VEDP per year and participation in 4+ major international trade shows.

57

Virginia Leaders in Export Trade (VALET) program is a two-year export accelerator program assisting participating companies to develop and implement an international sales strategy utilizing the full range of VEDP's export development resources.

44

Regional Export Program (REP) gives exporters access to a range of VEDP International Trade services and ongoing counseling to reach specific export goals in just one year.

21

Global Defense Program (GDP) is designed to meet the specific needs of exporters in the defense industry and provides participants with access to VEDP's services to target one or two global markets over one year.

10

Global E-Commerce Program aims to boost participants' international e-commerce sales, exposing them to resources needed to reach international customers.

INTERNATIONAL TRADE CLIENT SATISFACTION

International Trade achieved exceptionally high scores for the quality of its programs and services.

100%

Companies that were "extremely likely" or "likely" to recommend VEDP's export assistance programs to other Virginia companies

99%

Companies that rated the quality of VEDP International Trade's export assistance as "excellent" or "above average"

98%

Companies that were "extremely likely" or "likely" to use VEDP International Trade for export assistance in the future

98%

Companies that say VEDP International Trade helped their company work toward achieving its strategic international goals



MARK FOSTER
International Sales Manager,
The Uttermost Company

Kollmorgen, Radford

PERFORMANCE METRICS

VEDP International Trade delivered a solid performance in FY20, despite the challenges presented this year. While international trade of goods and services slowed dramatically, over 320 Virginia companies utilized VEDP's export assistance programs to expand their international sales and meet new customers overseas. These companies reported strong international sales numbers, attributing over \$550 million in new or existing sales to their work with VEDP. In total, almost 5,000 jobs in the Commonwealth in FY20 can be attributed to the work of VEDP's International Trade Division.

Performance metric (FY20)	Description	Actual
Companies enrolled in programs	Number of companies enrolled in VEDP Trade programs	321
International sales	Existing international sales attributed to VEDP Trade programs	\$378M
	New or increased international sales attributed to VEDP Trade programs	\$175M
	Total international sales attributed to VEDP Trade programs	\$553M
Trade-supported jobs	Trade-supported jobs from companies enrolled in VEDP Trade programs	4,977

VIRGINIA JOBS INVESTMENT PROGRAM (VJIP)

290

Client projects supported with the VJIP incentive

78

Localities which had a VJIP-supported project

48%

Nearly half of VEDP-assisted project wins were supported by the VJIP incentive

28%

VJIP was the only VEDP discretionary incentive for 28% of project wins (26 projects representing 3,372 jobs and \$327M CapEx)

\$26

Average hourly wage for VJIP projects

22

VEDP-assisted project wins led by the Regional Talent Solutions team (projects representing 1,420 jobs and \$73M CapEx)





Amazon HQ2 Rendering, National Landing

FEATURES

- 01 Collaborative Leadership on COVID-19 Response and Economic Recovery
- 02 Creation of World-Class Virginia Talent Accelerator Program
- 03 Development of Virginia's First Comprehensive International Trade Plan
- 04 Strong Liftoff for Historic Tech Talent Investment Program
- 05 Completion of Novel, First-in-the-Country Site Characterization Initiative
- 06 Progress on Rural Development Opportunities

Collaborative Leadership on COVID-19 Response and Economic Recovery

After declaring a state of emergency in response to the COVID-19 pandemic, Governor Northam called together the Economic Crisis Strike Force, led by Secretary of Commerce and Trade Brian Ball. VEDP collaborated with many other state agencies to make important contributions, even as normal work continued without missing a beat. For example, VEDP provided economic impact analyses and forecasts to help the Administration and others to anticipate the likely effects of the pandemic.

When healthcare providers and first responders were running low on personal protective equipment (PPE), VEDP collaborated with other state agencies to proactively identify and reach out to more than 1,000 companies with the potential to donate/sell PPE and/or retool operations to produce PPE. VEDP also identified several PPE supply chain experts for the Commonwealth to consider engaging, as well as worked with Virginia’s selected consultant to support the development of a “Virginia Retooling Playbook” that included information useful for producing PPE (e.g., descriptions of PPE types, materials, regulations, and step-by-step manufacturing considerations).

Later, VEDP collaborated with other state agencies to develop and evaluate a variety of potential business stimulus measures that would help impacted businesses to reopen while accelerating economic recovery.

Throughout the pandemic, VEDP provided briefings in weekly calls with local, regional, and state partners organized by the Virginia Economic Developers Association (VEDA); coordinated a weekly call with Virginia’s regional economic development organization (REDO) leaders; and regularly provided customized economic impact briefings to a variety of chambers of commerce and other trade associations.

PARTICIPATING AGENCIES:



Creation of World-Class Virginia Talent Accelerator Program

Workforce considerations often represent the No. 1 decision factor for competitive economic development projects. Virginia’s top competitors, such as Georgia and North Carolina, have distinguished themselves by offering comprehensive, customized workforce solutions that give executives confidence they can quickly secure well-prepared, high-quality employees. Indeed, the nation’s top five states for workforce development programs (in 2019: Georgia, Louisiana, North Carolina, South Carolina, and Alabama), all have offered customized, service-based workforce incentives for many years. The availability of these programs has enabled these states to attract projects to smaller areas that otherwise would not have been competitive.

Prior to 2019, Virginia lacked a turnkey, custom workforce recruitment and training incentive program, even as it boasted some of the best higher education institutions in the country and the highest educational attainment in the South.

In FY20, with support from the Governor and General Assembly, and in collaboration with VCCS, VEDP launched the Virginia Talent Accelerator Program, a job-creation incentive that provides training and recruitment solutions customized to each company’s unique processes, equipment, and culture.

Building on the appointment of Mike Grundmann, a 20-year veteran of the highly acclaimed Georgia Quick Start program, to be SVP of Talent Solutions, VEDP assembled the best custom workforce team in America. The leadership team of the Virginia Talent Accelerator Program now includes eight spirited, collaborative, and highly experienced functional leaders with expertise in talent acquisition, video services, visualization services (e.g., graphics, animation), instructional design, learning technologies, manufacturing technologies, and organizational development. The full team now totals 20 talented professionals.



Morgan Olson, Danville-Pittsylvania County

SERVICES INCLUDE:

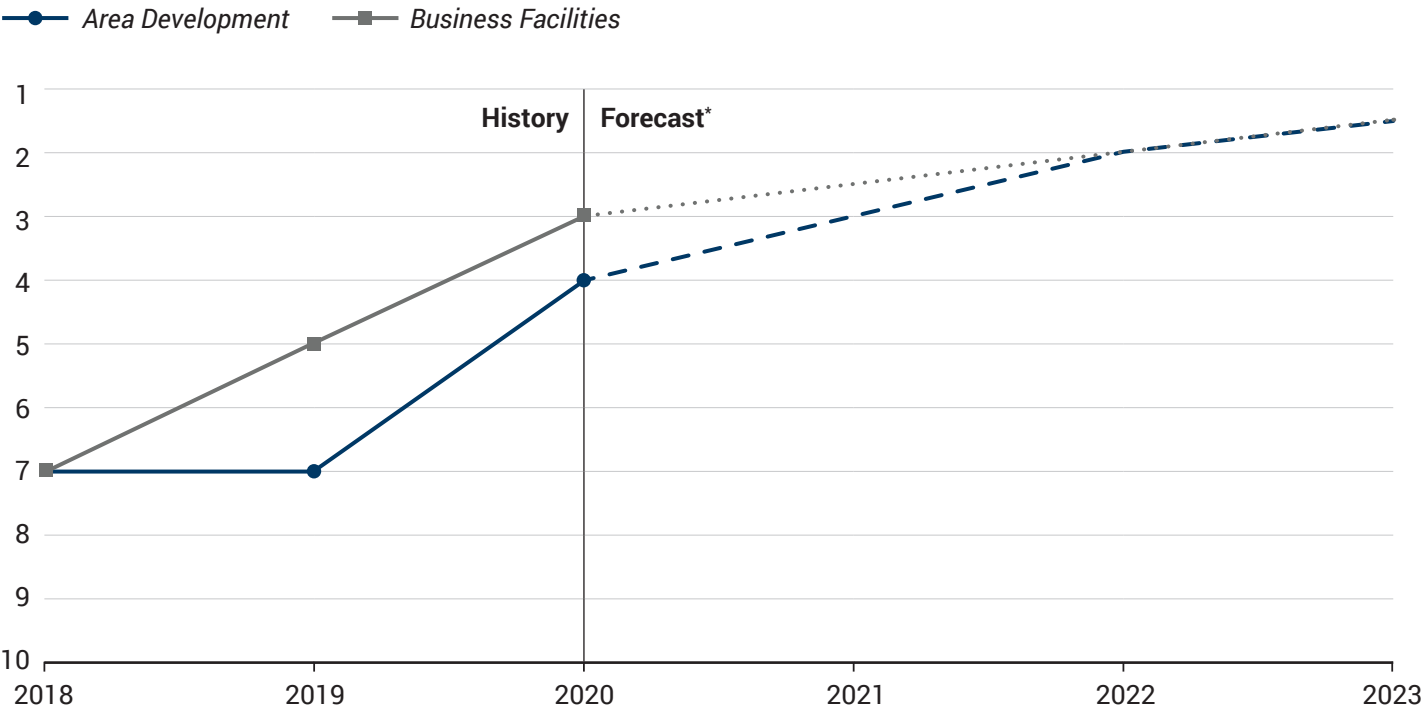
Recruiting:

- Ad design/production
- AI-enabled ad placements
- Website design
- Event coordination

Training:

- Hands-on training
- Simulations
- Classroom training
- E-learning
- 3D Illustrations
- Animations
- Broadcast-quality video

State workforce program rankings
2018–projected 2023



*Forecast assumes FY22 funding in biennium budget (\$4.7M) is re-allotted to enable program to meet growing demand
Source: *Area Development*; *Business Facilities*; VEDP forecast

The Virginia Talent Accelerator Program team’s work received rave reviews on their initial projects in FY20. For example, GSK’s head of R&D for the Americas said, “the [Virginia Talent Accelerator Program] team on the ground is absolutely top notch.” Morgan Olson executives were amazed by the comprehensiveness, quality, and speed of the team’s work, which helped them launch production faster and with much lower turnover than expected (see more in the case study on page 38).

VEDP is well on the way toward reaching its ultimate goal of having the best program in America by 2023. In just its first full year, the Virginia Talent Accelerator Program helped Virginia advance in both national rankings of top workforce development programs, moving from No. 7 to No. 4 in *Area Development* and from No. 7 to No. 3 in *Business Facilities*. With one of America’s best custom workforce programs, Virginia will be able to secure many more significant economic development wins—particularly in smaller metros and rural areas.



GSK, Richmond

Development of Virginia’s First Comprehensive International Trade Plan

In November 2019 Governor Northam unveiled the first ever comprehensive International Trade Plan (ITP) for Virginia, which lays out an ambitious long-term plan to help Virginia’s businesses become stronger, more resilient, and more competitive in the international marketplace. VEDP led the development of the plan as part of a multi-agency effort conducted by a working group of staff from the Virginia Department of Agriculture and Consumer Services (VDACS), the Port of Virginia, the Department of Forestry, and the Virginia Tourism Corporation. The effort was overseen by a Steering Committee led by Secretary of Commerce and Trade Brian Ball and Secretary of Agriculture and Forestry Bettina Ring and comprised of representatives of a wide range of private sector industries. VEDP’s Advisory Committee on International Trade also provided frequent and valuable feedback and insight during the process.

To develop the ITP, the interagency working group engaged a wide range of strategies to ensure the plan included input from a broad cross-section of Virginians. Collectively the working group engaged hundreds of companies, almost a dozen state and federal agencies, nearly as many trade associations, and many more state, regional, and local leaders across the public and private sectors, geographies, and industries.

The ITP lays out an aggressive goal to expand the Commonwealth’s exports by 50 percent over the next 15 years and is comprised of two distinct but complementary efforts. The first is to expand the reach and impact of current trade development programs, including those of VEDP’s International Trade Division, to existing businesses in Virginia to drive an increase in export activity, and the second is to attract new export-intensive companies to the Commonwealth. The initiatives identified in the ITP have the potential to add nearly \$18 billion in annual exports to Virginia’s current \$36 billion in exports and well over 150,000 good-paying, export-driven jobs.

Virginia has some of the most highly regarded trade development programs in the country. Collectively, Virginia’s two primary trade development divisions at VEDP and VDACS directly serve more than 400 Virginia firms, with other agencies touching thousands of firms and millions of international tourists each year. However, due to the state’s significant reliance on the federal government, Virginia still trails most other states in the country in international trade activity. The ITP’s combination of initiatives focused on expanding current programs, investing in new resources, and expanding efforts to attract trade intensive companies to the Commonwealth could drive Virginia past its peers in export activity, diversify Virginia’s economy, and contribute to better quality-of-life in communities across the Commonwealth.

Virginia International Gateway, Portsmouth

International Trade Strategic Plan Leadership

Steering Committee

- Brian Ball—Co-Chair**
Secretary of Commerce and Trade
- Bettina Ring—Co-Chair**
Secretary of Agriculture and Forestry
- David White**, Virginia Maritime Association
- John Reinhart**, Virginia Port Authority
- Nathan Bass**, WestRock (Virginia Chamber of Commerce)
- Nick Jiannas**, STIHL, Inc. (Virginia Manufacturers Association)
- Tom Taliaferro**, Montague Farms (Virginia Agribusiness Council)
- Garrett Hart**, Chesterfield County EDA (Virginia Economic Developers Association)
- Andy Karellas**, State International Development Organization
- Jim LeBlanc**, The Candy Group USA (Northern Virginia Technology Council)
- Marek Gootman**, Brookings Institution

VEDP’s Advisory Committee on International Trade

- Mike Ligon—Chair**
Universal Corporation
- Bob Feeser**, WestRock
- Tag Greason**, QTS Data Centers
- Nick Jiannas**, STIHL, Inc.
- Stuart Malawer**, George Mason University
- Ned Massee**, Croatan Advisors (VEDP Board liaison)
- John Milliken**, Virginia Port Authority
- Bettina Ring**, Secretary of Agriculture and Forestry
- David White**, Virginia Maritime Association
- James Xu**, AVAIL Vapor

PARTICIPATING AGENCIES:



Strong Liftoff for Historic Tech Talent Investment Program

When Amazon issued its RFP for HQ2 in late 2017, Virginia’s state/local HQ2 proposal team quickly realized the Commonwealth would not win a bidding war for the project. Instead, the team focused on strategic investments that would provide Amazon and other tech employers with a fertile environment for growth and innovation.

The centerpiece of Virginia’s HQ2 bid was a performance-based, \$1.1-billion Tech Talent Investment Program (TTIP) designed to produce more than 32,000 graduates in computer science and related fields – doubling current production levels.

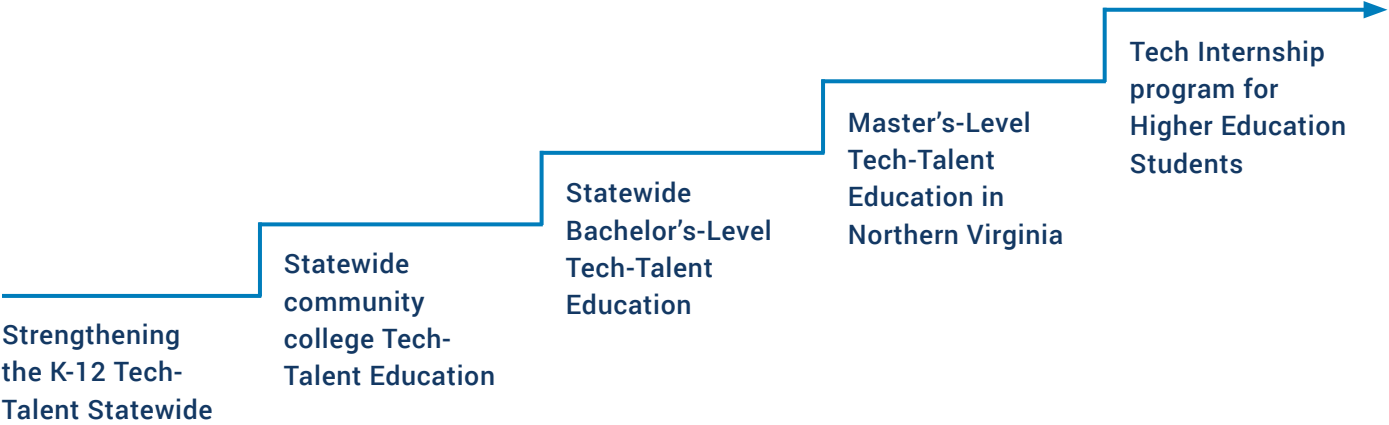
While the TTIP concept was the key factor that ensured Virginia’s selection for HQ2 in late 2018, much more work was required in FY19 and FY20 to actually bring the concept to life.

Working in close collaboration with the other Designated Reviewers (i.e., Secretary of Finance, Secretary of Education, Director of the Department of Planning and Budget, Director of the State Council of Higher Education for Virginia (SCHEV), and Staff Directors of the House Appropriations Committee and the Senate Finance & Appropriations Committee), as well as higher ed leaders, VEDP provided leadership, coordination, and modeling support that resulted in



a consensus allocation and MOU methodology, with support from university presidents statewide.

The result: performance-based MOUs executed with 14 universities and the Virginia Community College System (VCCS) in FY20 will ensure that the TTIP substantially exceeds its statutory degree production target (~32,000 additional degrees in computer science and related fields over baseline levels versus the initial goal of 25,000), and does so with a budget in line with what was presented to the MEI Commission as part of Virginia’s HQ2 bid in late 2017. Additionally, the TTIP is providing the funds necessary to enable Virginia Tech to launch a new Innovation Campus in Alexandria that will be a beacon for Virginia’s growing tech sector.



Completion of Novel, First-in-the-Country Site Characterization Initiative

Virginia is making major advances to increase the availability of development-ready sites, motivated by too many cases where the Commonwealth lost projects to other states offering prepared development sites and thus faster speed to market.

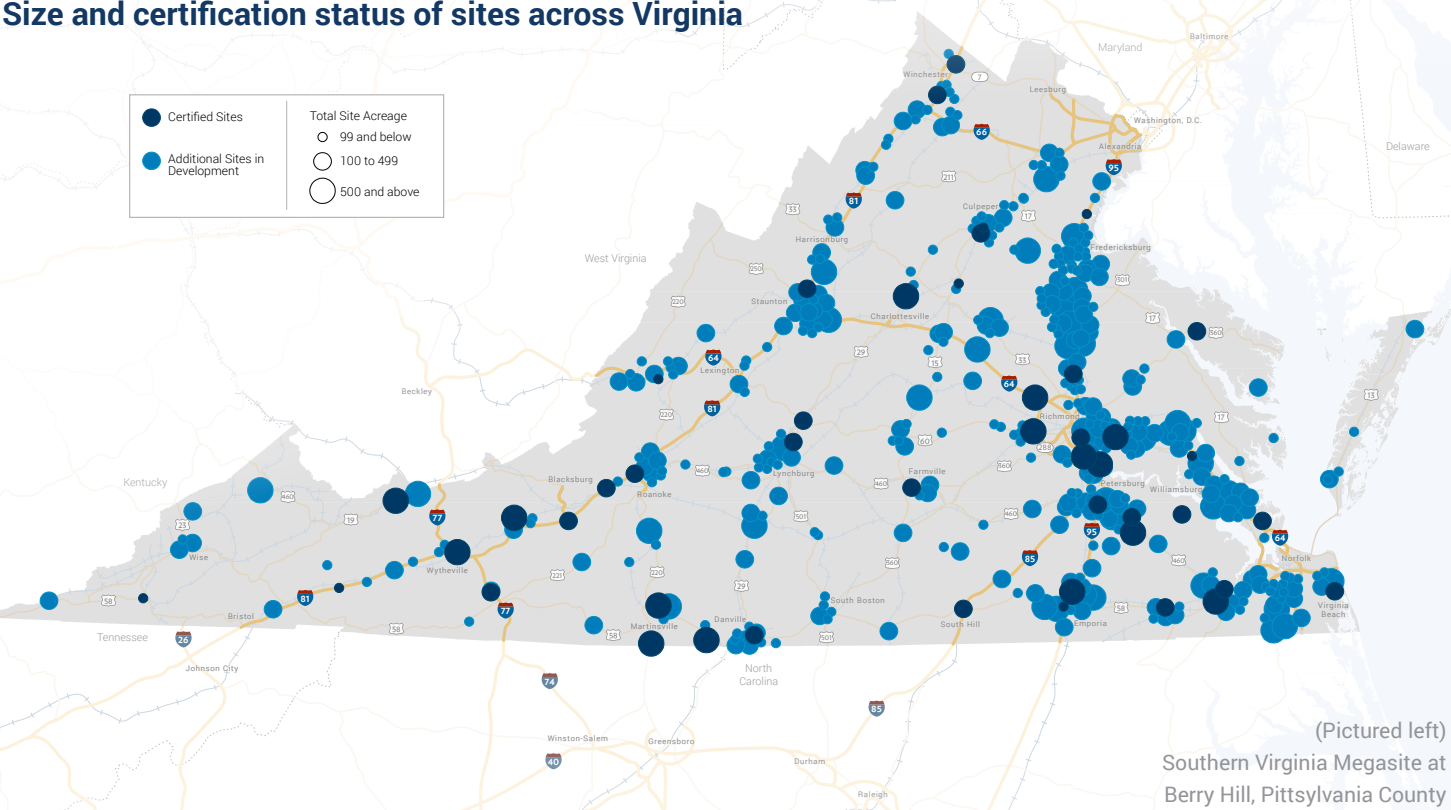
In FY20, leveraging an appropriation from the General Assembly and building off the initial successes of the Virginia Business Ready Sites Program (VBRSP), VEDP completed an extensive site characterization effort in collaboration with partners across the Commonwealth. This effort was unique among peer states in its breadth, depth, and ambition.

The initiative evaluated sites from two key perspectives: physical development and location competitiveness. Throughout the latter half of 2019, VEDP evaluated more than 460 sites of 25 acres or more in 103 localities, all with the support of third-party engineering firms and a leading site selection consulting firm.

The results of the assessment were clear: Virginia needs more project-ready sites to be competitive. Across the Commonwealth, 90% of the 466 sites evaluated were at very low levels of readiness with fewer than 40 sites deemed business-ready. The majority of the 103 localities that participated in the study did not have even one project-ready site.

Assessment is the first step in determining what's needed for each site to reach a project-ready status and how attractive the location surrounding the site may be for different types of projects. With over 70,000 data points collected through this effort with the help of more than 1,000 stakeholders and contributors, Virginia is now well positioned to make informed, strategic investments in site development. Additionally, the detailed technical information resulting from the site characterizations has enhanced VEDP's ability – and that of its local and regional partners – to market identified development sites.

Size and certification status of sites across Virginia



Virginia has made tremendous progress in site data collection efforts

466	TOTAL SITES
103	LOCALITIES
130,000+	ACRES EVALUATED
1,000+	PROJECT CONTRIBUTORS

Local and regional economic developers, property owners, utility providers, project engineers, and VEDP staff

Size Category	Number of Sites
25-50	103
50-100	114
100-250	121
250-500	65
500+	63

- TIER LEVEL 1**
Site appropriate for industrial/commercial development and use, but not zoned as such; minimal or no infrastructure; minimal or no due diligence.
- TIER LEVEL 2**
Site intended for industrial or commercial development and use, but not zoned as such; minimal or no infrastructure; little or no due diligence.
- TIER LEVEL 3**
Site zoned for industrial or commercial development and use; minimal or no infrastructure; due diligence completed; development costs quantified.
- TIER LEVEL 4**
All infrastructure in place or deliverable within 12 months; all permit issues identified and quantified.
- TIER LEVEL 5**
All permits in place and site ready for local site disturbance permit.



Mid-Atlantic Advanced Manufacturing Center, Greenville County



Commonwealth Crossing Business Centre, Henry County



Wildwood Commerce Park, Carroll County

Progress on Rural Development Opportunities

Rural regions and smaller metro areas across the U.S. face substantial economic headwinds, with most having poor growth prospects because many companies and individuals choose to locate in large metro areas. Indeed, roughly four out of five localities in the U.S. (and in Virginia) don't secure a single greenfield (i.e., new) economic development project each year. Such rural localities represent the bulk of Virginia's geography.

Considering the importance of Virginia's rural regions and smaller metro areas and the economic challenges they often face, as well as VEDP's transformational goal to position every region for growth, VEDP has prioritized initiatives that would enable growth in smaller regions. In particular, VEDP has collaborated with rural development leaders and stakeholders to identify, prioritize, and advance consensus initiatives that would spark more economic opportunity in rural regions and smaller metro areas.

With funding and other support from the Administration and General Assembly, substantial progress has been made on several of these initiatives:

- VEDP's marketing efforts focus special attention on rural communities and smaller metro areas. As marketing investments increase, our goal will be to brand rural Virginia as the most attractive most competitive location in the U.S. for manufacturing and other sectors open to rural locations (e.g., BPO, data centers, distribution).
- Virginia has dramatically increased funding to expand rural broadband access, which is essential for successful economic development in rural communities. Virginia is targeting near-ubiquitous broadband access within 7-8 years.
- Recognizing site preparedness is essential to attract manufacturing and supply chain projects, VEDP collaborated with locality partners to characterize 466 identified development sites across Virginia, most in rural localities (see page 32). Future work will focus on investing to prepare these sites for success via the Virginia Business Ready Sites Program and GO Virginia.
- In collaboration with VCCS, VEDP launched the Virginia Talent Accelerator Program, a world-class, custom workforce incentive program that is helping attract more projects to smaller parts of Virginia (see page 26).
- VEDP is continuing implementation of its rural and small metro tech center initiative, which seeks to attract significant tech projects to rural regions and smaller metros across Virginia, often leveraging a higher education institution.
- VEDP is collaborating with national experts, as well as local and regional economic development partners, to implement a Local and Regional Competitiveness Initiative (being rolled out in FY21), which will provide benchmarking and best practices to help Virginia's localities and regions to improve their economic competitiveness.

While substantial progress has occurred over the last couple years, more work remains to fully implement these initiatives, while other initiatives are still to come. Future focus areas will include partnerships to secure transformational economic development projects, targeted tax and/or incentive changes to make smaller regions more competitive for economic development projects, and work to build the next generation of civic leadership in rural Virginia. Some of these priority initiatives already have been funded but were placed on hold as the fiscal year ended due to fiscal challenges caused by the pandemic.



Rural Think Tank Members

Carrie Chenery

Principal, Valley Pike Partners

Tad Deriso

President & Chief Operating Officer, Mid-Atlantic Broadband Communities Corporation

Evan Feinman

Executive Director, Tobacco Region Revitalization Commission

Katie Frazier

Chief External Affairs Officer, Farm Credit of the Virginias

David Hudgins

Manager, Economic Development, Old Dominion Electric Cooperative

Erik Johnston

Director, Virginia Department of Housing & Community Development

Jay Langston

Executive Director, Shenandoah Valley Partnership

Ned Massee

Partner, Croatan Advisors

Stephen Moret

President & CEO, VEDP

Christy Morton

Vice President External Affairs, VEDP

Liz Povar

Principal Officer, Riverlink LLC

Kristie Proctor

Executive Director, Center for Rural Virginia

Cass Rasnick

Deputy Secretary, Office of the Secretary of Commerce and Trade



“

As demand for cloud and online services continues to grow, Microsoft is investing in Virginia as a strategic location to help us deliver for our customers. Mecklenburg County has been a good home for Microsoft, and we're committed to supporting the community through local partnerships to help deliver economic, social, and environmental benefits such as expanding access to high-speed broadband services and supporting skills training for positions in the information technology industry.

NOELLE WALSH
Corporate Vice President, Cloud Operations + Innovation, Microsoft Corporation

Microsoft's Cloud Computing Hub in Virginia

The Search for the Location for a New Software Development and R&D Hub

Nearly 20 years after Microsoft first invested in the Commonwealth and with thriving operations in both Northern and Southern Virginia, Microsoft continues to evolve its technology to meet customer needs. As a publicly held corporation with revenues surpassing \$125 billion and nearly 156,000 employees worldwide, Microsoft is actively answering the call for increased cloud services, with a new software development and R&D hub with strategic access to its customer base and a reliable pool of tech talent.

The Virginia Solution

When Microsoft began searching for the location of its new software development and R&D hub, the company focused on talent recruitment and retention, and access to its customer base. This new facility would be a world-class, client-facing "high-touch" workplace focusing on client interaction and experience. And with a mission to empower every person and every organization on the planet to achieve more, the company was drawn toward the talent base in Northern Virginia.

Microsoft required a location that provided access to a significant pool of highly skilled, technical cloud computing and AI talent. With the largest tech industry workforce in the country, Northern Virginia delivered. The Commonwealth's recent investments in tech talent development, including the Virginia Tech Talent Pipeline initiative, Virginia Tech's Innovation Campus, and a new joint bachelor degree program in cloud computing from George Mason University and Northern Virginia Community College (NOVA), ensures a robust pipeline to meet future needs of Microsoft and Virginia's other tech employers.

KEY PARTNERS

Administration of Governor Ralph S. Northam • Fairfax County Economic Development Authority
Virginia General Assembly and MEI Commission

“

One of Microsoft's core principles is actively listening to our customers, so we can build and improve our technology based on their feedback. Being close to our customer base is extremely important to our ongoing collaborations. We've had a presence in Reston for many years now, and this expansion will allow Microsoft to deliver even more solutions from a region known for its innovation and passion for technology.

TERRELL COX
General Manager, Microsoft Corporation

Microsoft's Virginia Presence Grows

The company again looked to Virginia: In May 2020, Microsoft committed to investing \$64 million to establish a state-of-the-art software development and R&D regional hub in Fairfax County. Plans also include a new retail space for engaging directly with customers. This transformational project, announced during the global pandemic, will create 1,500 new jobs. The company will occupy 400,000 square feet in the Reston Town Center for its new location, and is anticipated to be ready for employees in summer 2021.

The newest operation in Northern Virginia marks another major milestone in the long-term corporate partnership between Microsoft and the Commonwealth. The company's expanding footprint is a powerful testament to Virginia's leading position in the tech industry and the unparalleled infrastructure and talent prevalent in diverse regions of the state.

Morgan Olson, LLC Steps into Southern Virginia

A Transformational Investment

In partnership with Michigan-based Morgan Olson, North America’s leading manufacturer of all-aluminum walk-in step vans, the Virginia Talent Accelerator Program began its first speed test in FY20: comprehensive recruiting and training for the company’s new 700-plus job facility outside Danville in Southern Virginia.

“The process has been great, and the resources to get us established in a new area have been phenomenal,” said Morgan Olson Vice President of Human Resources Brent Butler. “The Virginia Talent Accelerator Program has been an extremely valuable resource.”

Innovative Workforce Solutions

When IKEA announced in July 2019 it would shut down its 925,000-sq.-ft. facility in Southern Virginia, eliminating 300 jobs, the facility wasn’t on Morgan Olson’s radar. But it set the stage for a frenzied few months during which VEDP and its partners proposed the IKEA facility plus a world-class, fully customized workforce recruitment and training solution from the new Virginia Talent Accelerator Program.

After the announcement, Virginia Talent Accelerator Program staff and representatives from Danville Community College (DCC) traveled to Morgan Olson’s plant in Loudon, Tenn., to gain a complete understanding of the company’s plans, requirements, and vision for its new facility. Development of custom materials to support Morgan Olson’s pre-hire screening, job-specific training and leadership development progressed for the next three months to get ready for instruction.

Training began at the nearby Institute for Advanced Learning and Research. There, eight Virginia Talent Accelerator Program trainers began their instruction aided by simulations, broadcast-quality videos, and 3D animations illustrating Morgan Olson’s production processes.

Training for assemblers and fabricators included an introduction to tools and equipment, safety procedures, and skills such as riveting and quality inspection. The technical training culminated with trainees building the cab of a step van. Soft skills, including communication skills and Lean principles, were equally important components of the production training.

Meanwhile, team leads, supervisors, and managers were immersed in a 160-hour Leadership Academy to equip them with skills that enable Morgan Olson’s collaborative culture, tackling topics including emotional intelligence, managing conflict, and managing across generations.

Steven Parker, general manager at the Danville-Pittsylvania facility, was Morgan Olson’s boots on the ground from the start, working closely with the Virginia Talent Accelerator Program team. “I’ve worked with workforce development programs in four different states throughout the Southeast” Parker said. “[The] Virginia Talent Accelerator has been the most engaged that I’ve worked with. They have such a talented and diverse team that covers all the needs for a company new to the area. They’re proficient with training, recruitment, applicant screening, Lean principles, leadership development, and standardized work.”

Six months into the hiring process, Morgan Olson CEO Mike Ownbey noted, “Normally, we have about a 50% [attrition] rate from employees coming in the door. ...Here, we only have a 10% failure rate, which is amazing. I credit it all to the [Virginia Talent] Accelerator Program.”

A New Legacy

With Morgan Olson on the fast track, the halo effect of the Virginia Talent Accelerator Program is already being felt in Southern Virginia. Regional leaders are starting to hear from companies in the Morgan Olson supply chain that are interested in making the move as well.

“

One of the most attractive aspects of locating in Danville-Pittsylvania County is that we will be able to take advantage of the new Virginia Talent Accelerator Program, which will help us quickly attract and train the high-quality workforce we need to deliver for our customers.

MIKE OWNBEY
President and CEO, Morgan Olson



Morgan Olson, Danville-Pittsylvania County

KEY PARTNERS:

Administration of Governor Ralph S. Northam • Danville Community College • Danville Economic Development • IALR
Pittsylvania County Economic Development • Southern Virginia Regional Alliance • VEC • Virginia Career Works
Virginia General Assembly and MEI Commission

Patton Logistics Grows in Rural Virginia

The Search to Establish a New Warehousing, Logistics, and Freight Services Hub

Watsonstown Trucking Company is a family owned motor carrier that provides interstate transportation and freight services throughout the U.S. and Canada. Headquartered in Milton, Pennsylvania, the company operates eight regional distribution facilities and oversees a growing fleet of over 400 trucks and 1,200 trailers.

Watsonstown Trucking founded the Patton Logistics Group to expand their portfolio of services to include warehousing brokerage and third-party logistics. Patton Logistics expanded their network of warehouses to Roanoke, Virginia in 2019. The company experienced immediate success at the Roanoke facility and within three months of operating, began investigating opportunities to create a new logistics and warehousing operation, looking in southwest Virginia, North Carolina, South Carolina, and Tennessee.

The Virginia Solution

Patton Logistics required access to a robust transportation network and speed to market. The company identified potential sites by analyzing transportation logistics and accessibility to target markets along I-81 and I-77. The company narrowed its search to Virginia based on the ease of starting operations, and how quickly they would be able to construct and staff a 250,000 square foot warehouse.

The unparalleled transportation logistics of the New River Valley Commerce Park would allow Patton Logistics to provide daily service to customers throughout the East Coast. The New River Community College also reassured the company that there was a superior workforce to support both warehousing operations and transportation services.

To encourage Patton to locate in the New River Valley Commerce Park, Virginia's First Regional Industrial Facility Authority (VFRIFA) provided a 20-acre graded pad, which afforded the company a significant savings of both time and money.

Patton Logistics Selects Pulaski County

Patton Logistics selected Pulaski County for the new logistics and warehousing operation, which was announced in January 2020. Working with Onward New River Valley and Pulaski County, Patton Logistics found a prime location in the New River Valley Commerce Park in Dublin, Virginia. The company announced plans to invest \$12 million in capital investment and create 33 new jobs.

KEY PARTNERS:

Onward New River Valley • Pulaski County Department of Economic Development



“

We chose to further expand in Dublin, Virginia, for several reasons: first, this location provides access to a superior workforce that is dedicated to help us develop a reliable logistics system for our clients. Also, the close proximity to the interstate highway system gives us the ability to provide daily service to population centers in North Carolina, Pennsylvania, Maryland, and Tennessee. Finally, Southwest Virginia is home to two of our largest clients and having a location near them will only enhance our ability to serve their logistics needs in the future.

STEVE PATTON
President, Watsonstown Trucking Company and Patton Warehousing and Logistics, LLC

Progress Reports

This section offers an update on the progress made by the Virginia Economic Development Partnership Authority (VEDP) in FY20 relative to VEDP’s Strategic, Operational, and Marketing Plans. These plans were previously submitted in accordance with Code and other requirements. Because most elements of these plans are treated with confidentiality and are exempted from mandatory disclosure provisions (Code of Virginia §2.2-3705.7. 33.), this progress report references specific elements of the plans without revealing information that is protected by the Code for competitive purposes.

Strategic Plan

The Strategic Plan for Economic Development of the Commonwealth of Virginia adopted by the VEDP Board in FY18 is a five-year plan (FY19-FY23) for which implementation began on July 1, 2018. VEDP is currently in the process of refreshing this plan, as provided by Code.

Key highlights of strategic plan implementation for FY20:

With the support of the administration, the General Assembly, and hundreds of partners, much progress has been made implementing many of the initiatives detailed in the Strategic Plan. Following are just a few examples (not comprehensive):

- With state funding support, we launched a world-class, custom workforce recruitment and training program, the Virginia Talent Accelerator Program, which is being implemented in collaboration with VCCS and other higher education partners. Within two years, we expect this program will be viewed as one of the very best in America.
- With state funding support, Virginia is implementing the most ambitious expansion of computer science education in the country with its Tech Talent Investment Program, which includes substantial new investments in nearly every public university in Virginia and VCCS, as well as the development of tech/innovation campuses in Northern Virginia by George Mason University and Virginia Tech.
- With state funding support, we have characterized several hundred identified development sites and are poised to dramatically increase state matching funds to support the development of those sites.
- With dramatically increased state funding for rural broadband, Virginia is now on track to achieve near-ubiquitous broadband access in less than a decade.
- Thanks to increased funding for marketing, implementation of a site consultant cultivation program, and a variety of expanded and/or improved lead generation activities, VEDP lead generation increased more than 100% compared to pre-Strategic Plan levels.
- With new state support to partially fund a comprehensive marketing program, VEDP has been able to implement a basic marketing program to expand awareness of Virginia’s assets for business among corporate execs and site consultants.
- Working with a variety of in-state and national partners, VEDP helped to craft Virginia’s first comprehensive international trade strategic plan, with a goal to increase exports by 50 percent.
- VEDP has dramatically improved communication, transparency, and collaboration with partners, including the creation of a Quarterly Partner Report, prospect protocols, and post-project partner surveys, among other initiatives.

Despite the strong progress that has been made on several fronts, many initiatives detailed in the Strategic Plan have not yet been implemented. Accordingly, while substantial progress has been made with respect to all five of the following transformational goals, Virginia has not yet fully achieved them.

Five Transformational Goals

The Strategic Plan includes five transformational goals, the achievement of which would require the implementation of dozens of new initiatives over a period of years (multiple biennium budgets). The five transformational goals are outlined below, as well as a progress indicator, rating the Commonwealth’s status in achieving each of these goals:

Transformational Goal	Description	Outlook
1. Robust state job growth	Position Virginia to achieve a growth rate in employment and median earned income among that of the top 5-10 states in the U.S.	✓
2. Every region wins	Ensure that every region participates in the growth of the Commonwealth (i.e., all with positive growth in employment and median earned income).	✓
3. Best states for business	Restore Virginia to its previous position near the top of the national business climate rankings (i.e., average rank among the top 3-5 states).	✓
4. Top state EDO	Reestablish and sustain VEDP as one of America’s most effective state economic development organizations	✓
5. Super collaborator	Exhibit collaboration and coordination as hallmarks of VEDP (i.e., place a central focus on the "P" in VEDP).	✓

- On track to achieve long-term goal
- Substantial progress has occurred, but not yet on track to fully achieve goal
- Not on track to achieve goal
- Not started, or strategy shift under consideration

Some of the initiatives in the Strategic Plan require new funding to implement and, therefore, the achievement of the five transformational goals will depend on resourcing levels.

Progress Report: FY19-23 Strategic Plan Initiatives

Status update on 40 detailed initiatives

The Strategic Plan provides for 40 detailed initiatives for phased implementation over a period of years (multiple biennium budgets). Some of the initiatives scheduled for implementation in FY20 were not funded, slowing progress towards achieving the transformational goals outlined in the Strategic Plan.

Cultivate target industry clusters		Enhance VA's economic competitiveness		Enhance VEDP's capabilities	
SP1	Attract firms in the Cybersecurity 500 index	SP10	Create a turnkey, customized workforce recruitment and training incentive program*	SP27	Implement protocols for alignment and coordination
SP2	Commit state financial support for expanded, 21 st -century technology campus(es)**	SP11	Expand supply of high-need baccalaureate degrees in critical fields**	SP28	Establish structured quarterly communications program with economic development partners
		SP12	Expand supply of high-need sub-baccalaureate degrees and other credentials in critical fields**	SP29	Implement a training and professional development program for VEDP staff
SP3	Collaborate with The Port of Virginia to enhance its economic development efforts	SP13	Upgrade VA's labor market data infrastructure to empower data-driven decision-making	SP30	Implement a robust marketing, branding, and site consultant cultivation program for Virginia
SP4	Embrace regulatory experimentation to develop the next-gen of transportation and logistics technology	SP14	Build excitement for 21 st -century technology education and careers in K-12**	SP31	Upgrade VEDP's lead generation capabilities
		SP15	Provide targeted incentives to produce and retain talent with high-demand skills and experience	SP32	Implement a strategic site consultant cultivation program
SP5	Enhance the toolkits, strategies, and assets on hand to attract targeted firms (manufacturing)	SP16	Integrate employer partnerships more deeply into the workforce and education ecosystem**	SP33	Expand VEDP's Business Retention and Expansion (BRE) program
		SP17	Strategically enhance Virginia's portfolio of development-ready sites and buildings	SP34	Build deep, dedicated cluster expertise within VEDP's Business Investment division
SP6	Develop clusters built around IT-focused Big Push efforts	SP18	Develop a public-private partnership to launch and manage a Site Improvement Fund*	SP35	Expand VEDP's well-regarded and oversubscribed International Trade development programs*
		SP19	Build a best-in-class Economic Competitiveness team within VEDP	SP36	Strengthen VEDP's approach to project management to communicate Virginia's total value proposition
SP7	Enhance existing technology transfer efforts at universities and federal labs	SP20	Pursue a national rankings initiative to develop strategies and plans for marked improvement	SP37	Launch a Project Development and Special Opportunities Fund (note: partially implemented in FY18 and FY20)
		SP21	Launch an Economic Development Innovation and Research Fund	SP38	Build a dedicated division of incentives
SP8	Expand the startup ecosystem through dedicated resourcing and support	SP22	Proactively address key elements of regional economic competitiveness	SP39	Develop best-in-class incentives reporting functions
		SP23	Develop a framework for assessing local economic competitiveness	SP40	Position Virginia to secure transformational economic development projects
SP9	Create an InnoVAte team to enhance Virginia's innovation ecosystem and branding	SP24	Assess VA's state/local tax burdens and propose targeted solutions to improve tax competitiveness		
		SP25	Pursue a focused economic development strategy sufficient to position rural VA for growth		
		SP26	Marshal the Commonwealth's full support behind expanding broadband access		

On track to achieve long-term goal

Substantial progress has occurred, but not yet on track to fully achieve goal

Not on track to achieve goal

Not started, or strategy shift under consideration

* Includes recent budget proposals announced in governor's biennium budget proposals

** Part of Amazon HQ2 investment package



Progress Report: Operational Plan

VEDP’s annual Operational Plan is the primary tool for operationalizing the strategies and initiatives identified in the Strategic Plan, and ultimately achieving VEDP’s transformational goals. VEDP’s FY20 Operational Plan covered activities that were planned between July 1, 2019 and June 30, 2020. The Plan contained 11 major initiatives that, along with the workplans for ongoing activities for each of VEDP’s divisions, guided the initial implementation of the detailed initiatives identified in the Strategic Plan.

Major Initiatives

VEDP prioritized 11 Major Initiatives in its FY20 Operational Plan, as summarized below. Although many of those initiatives were completed as planned during the fiscal year, some will not be completed until FY21 due to a Board-approved realignment of FY20 priorities enabling VEDP to focus much of its attention on pandemic response from mid-March through June.

Major initiative	Status
Embed continuously-refined value proposition in VEDP messaging, materials, and industry strategies*	✓
Modernize and redeploy Salesforce to mirror business processes and support decision making	✓
Create a turnkey, customized workforce recruitment and training incentives pro-gram in collaboration with VCCS	✓
Develop a strategy to enhance Virginia's portfolio of development ready sites*	✓
Identify opportunities to address talent shortages in high-demand occupations*	✓
Develop and execute an outreach strategy to assess local & regional competitiveness*	✓
Develop rural and small metro tech centers across Virginia	✓
Launch Team Virginia, an executive-to- executive 501(c)(3) marketing organization*	✓
Develop a high-impact biennium budget package	✓
Implement a comprehensive talent management program	✓
Refresh strategic plan per Virginia code*	✓

■ Goal achieved as planned ■ Partially completed ■ Did not achieve goal

*Impacted by Board-approved realignment of FY20 priorities to focus on pandemic response

Progress Report: Marketing Plan

VEDP executes a variety of marketing initiatives each year to build awareness among executives and site consultants of Virginia's attractive business climate and many assets for businesses. Because business site-selection processes rely on both quantitative assessments as well as qualitative perceptions of regions and states, strategic marketing efforts can make a substantial impact on a state's ability to attract investment. VEDP focuses its marketing efforts on seven key industry sectors and several related subsectors.

FY20 Marketing Highlights:

- Implemented a targeted site selection consultant cultivation effort to raise awareness and improve perceptions of Virginia as a premier business destination among this highly valued influencer group.
- Published four issues of *Virginia Economic Review*, an award-winning quarterly publication featuring Virginia's assets and advantages for business, including rural Virginia, as well as interviews with national and in-state thought leaders.
- Launched a C-level testimonial campaign featuring companies located in Virginia.
- Oversaw implementation of VEDP's trade show and event marketing program.
- Conducted inbound industry media FAM tours.
- Placed multiple, limited ad campaigns to raise awareness and improve perceptions of Virginia as a business destination.

To further promote Virginia as a top destination for business, the Business Investment division attended many trade shows and conducted marketing missions in conjunction with regional and local economic development partners. These efforts were supported by lead generation calling campaigns and activities conducted by representatives in VEDP's foreign offices.

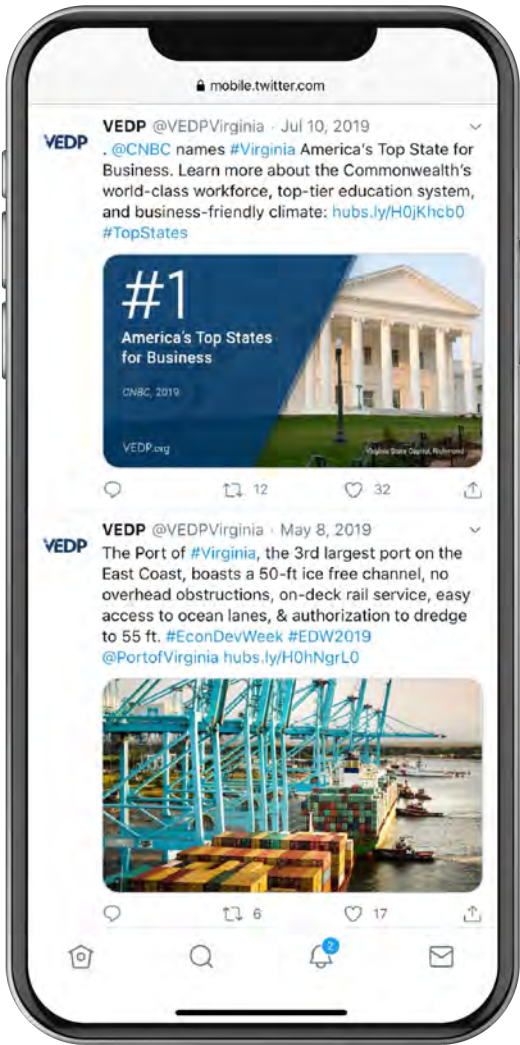
Note: To shield strategic initiatives from competitors, the update provided in this document is purposely high level. Additional details about VEDP's marketing and lead generation activities can be provided to in-state partners through in-person briefings.

“

I get a lot of mail including promo pieces and don't spend much time on most of it, but I've always found something useful in the VER, which offers a good balance of promoting Virginia, the goal after all, and providing broader content. The interviews, in particular, are interesting and insightful.

—

TOP SITE SELECTION CONSULTANT
Spring 2020



The Third Quarter 2019 issue of Virginia Economic Review (pictured right) explored the various dimensions of America's rural growth challenge and how Virginia is seeking to leverage its distinctive strengths to buck national trends.

Focus on Regions in Proximity to High-Unemployment Areas:

VEDP balances its marketing efforts by highlighting all regions of Virginia (including rural areas and assets) through social media, *Virginia Economic Review*, site consultant and media familiarization tours, and inclusion of regional and local partners in lead generation events.



More than 20 of the 38 partners from across the Commonwealth that participated in marketing Virginia with VEDP at its roughly 100 lead generation events were from a rural locality or region.



Most (55%) of the partner mentions in FY20 on VEDP's Twitter account were of a rural locality or region.

Pictured right (from top to bottom):
Virginia Economic Review; Issues Q3 2019, Q4 2019, Q1 2020, and Q2 2020



Opportunities for Economic Recovery

While Virginia has not been immune from the damaging economic effects of the pandemic, the Commonwealth will be well positioned for healthy growth in post-pandemic America. Indeed, Virginia already is a leader in many of the technologies and industry sectors whose prospects are being lifted by the pandemic, such as cloud computing, data centers, autonomous systems, e-commerce, food-and-beverage processing, commercial trucks, delivery vehicles, and logistics. Further, Virginia recently has been making historic investments in broadband access, which the pandemic has shown to be more important than ever. Looking toward the future, VEDP has identified four key focus areas that could drive economic recovery and growth in the wake of the pandemic.



Capture manufacturing reshoring and new supply chain opportunities

- Industry analysis and surveys indicate a significant share of manufacturers will likely bring production and sourcing back to the United States in response to the COVID-19 pandemic
- Additionally, as businesses around the world reconfigure their global supply chains and increase resiliency, many new opportunities will emerge for Virginia exporters
- Virginia can capture these job-creation opportunities by investing in targeted business investment, international trade, and related support activities



Accelerate Digital Virginia (cloud computing, software, data centers)

- The COVID-19 pandemic has accelerated the transition towards a digital economy for businesses and consumers around the world
- As an established U.S. tech leader, Virginia is well positioned to capitalize on these opportunities in software development, cloud computing, data centers, and other technologies
- Virginia can capture a larger share of this post-COVID tech wave by complementing existing efforts (e.g., TTIP) with targeted enhancements in incentive programs, tax policy, and broadband infrastructure



Seize telework transition opportunities, with special focus on rural and small metro regions

- With the widespread shift to telework during the pandemic, industry experts and business leaders are signaling that telework will become the (permanent) new normal for a much larger share of workers
- Virginia can capture these talented professionals (and the tax revenue they generate) by deploying creative incentive and marketing approaches that focus on both businesses and individuals that telework



Retool and reskill Virginia's (unemployed) workforce for post-COVID career opportunities

- Low-skill workers, women, and racial minorities were disproportionately impacted by the economic shock resulting from COVID-19, and likely will make up a significant share of the long-term unemployed in the absence of targeted efforts
- In addition to new job creation opportunities for the Commonwealth, there is an opportunity to connect displaced workers with higher-wage employment opportunities through workforce initiatives such as "Get Skilled, Get a Job, Give Back" (G3), Virginia Talent Accelerator Program, Virginia Jobs Investment Program (VJIP), and targeted investments in sub-baccalaureate fields

APPENDIX

Audited Financial Statements

01 Introductory Section

02 Financial Section

Virginia Economic Development Partnership
Audited Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

- TABLE OF CONTENTS -

**Virginia Economic Development Partnership
Audited Basic Financial Statements
Fiscal Year 2020**

	<u>Pages</u>
INTRODUCTORY SECTION	
Appointed Officials	2
FINANCIAL SECTION	
Management’s Discussion and Analysis	3-8
Basic Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Balance Sheet-Governmental Funds	11
Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual-Cash Basis-General and Special Revenue Funds	14
Notes to Financial Statements	15-71
Required Supplementary Information	72-90
Independent Auditor’s Report on Financial Statements	91-93

INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS
As of June 30, 2020

Board of Directors

Ned W. Massee, Chair
The Honorable Brian Ball, Ex-Officio, Vice Chair

Carrie Hileman Chenery	William “Bill” Hayter
C. Daniel Clemente	Vincent J. Mastracco
Greg B. Fairchild	Dan M. Pleasant
Thomas “Tom” Farrell, II	Marianne Radcliff
Deborah K. Flippo	Xavier R. Richardson
Richard “Rick” O. Harrell, III	

The Honorable Aubrey L. Lane, Jr., Ex-Officio
April Kees, Ex-Officio
Anne Oman, Ex-Officio
John F. Reinhart, 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, 2020

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, 2020. 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, 2020, the Partnership had a net position of (\$2,206,616) compared to a net position of (\$4,552,396) as of June 30, 2019. Following is an analysis of the changes in the net position of the Partnership.

	Net Position		
	2020	2019	Increase (Decrease)
Current and other assets	\$12,012,907	\$10,994,876	\$ 1,018,031
Capital assets, net of depreciation	1,763,402	1,043,091	720,311
Total assets	13,776,309	12,037,967	1,738,342
Deferred outflows of resources	4,356,909	3,023,129	1,333,780
Total assets and deferred outflows	18,133,218	15,061,096	3,072,122
Current and other liabilities	1,263,447	2,388,105	(1,124,658)
Non-current liabilities	17,098,347	15,147,785	1,950,562
Total liabilities	18,361,794	17,535,890	825,904
Deferred inflows of resources	1,978,040	2,077,602	(99,562)
Total liabilities and deferred inflows	20,339,834	19,613,492	726,342
Net position:			
Net investment in capital assets	1,668,750	923,558	745,192
Restricted	439,713	508,000	(68,287)
Unrestricted	(4,315,079)	(5,983,954)	1,668,875
Total net position	\$ (2,206,616)	\$ (4,552,396)	\$ 2,345,780

Total assets increased this fiscal year by \$1,738,342 when compared to last year, primarily due to an increase of \$1,283,182 in the Current asset, cash. This increase was due to funding received in FY20 for the Talent Solutions – Talent Accelerator Program carried forward to the next fiscal year, along with underspending related to staff vacancies and the impact of COVID-19 travel restrictions. Capital assets, net of depreciation, increased \$720,311 mainly due to leasehold improvements at the James Center headquarters location for the Talent Solutions – Talent Accelerator Program. These increases were offset by a decrease of \$196,864 in Prepaid expenses and other current assets, along with a decrease of \$68,287 in the Restricted net other postemployment asset recorded in compliance with GASB 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.

Deferred outflows of resources increased by \$1,333,780. This increase is due primarily to changes in assumptions and differences between expected and actual experience related to the Partnership’s participation in the Virginia Retirement System pension and other postemployment benefit plans, recorded in compliance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and GASB 75.

Total liabilities increased by \$825,904 due to an increase in the Partnership’s net pension liability of \$2,022,158, along with an increase of \$139,809 in Compensated absences. These increases were offset by a decrease of \$957,019 in Accounts payable due to the timing of year-end payments and a decrease of \$379,044 in Current and other liabilities and Non-current liabilities, primarily Net other postemployment liability.

Deferred inflows of resources decreased by \$99,562. This decrease is due mainly to differences between expected and actual experience related to the Partnership’s participation in the Virginia Retirement System pension and other postemployment benefit plans, recorded in compliance with GASB 68 and 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, net of capital lease obligations. 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 (\$4,315,079) is classified as *unrestricted*. The Partnership has recorded \$16,576,004 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 Current and other liabilities by \$10,749,460.

	<u>Changes in Net Position</u>		
	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$ 380,555	\$ 490,332	\$ (109,777)
Operating grants	203,088	178,755	24,333
General revenues:			
General Fund appropriations	38,490,591	33,945,246	4,545,345
Other	896,028	356,319	539,709
Total revenues	39,970,262	34,970,652	4,999,610
Expenses:			
Talent Solutions - VJIP	956,054	837,571	118,483
Talent Solutions - TAP	2,831,663	141,144	2,690,519
Business Investment	5,667,445	5,210,905	456,540
International Trade	6,527,156	7,086,272	(559,116)
Research	2,629,865	2,207,695	422,170
Marketing and Communications	3,833,000	2,596,029	1,236,971
Economic Competitiveness	946,271	843,216	103,055
Information Technology	1,383,433	1,599,111	(215,678)
Incentives	588,109	591,364	(3,255)
Administration	4,517,116	5,873,761	(1,356,645)
Pass-Through Payments	7,744,370	3,531,678	4,212,692
Total expenses	37,624,482	30,518,746	7,105,736
Increase (Decrease) in net position	2,345,780	4,451,906	(2,106,126)
Beginning net position	(4,552,396)	(9,004,302)	4,451,906
Ending net position	\$ (2,206,616)	\$ (4,552,396)	\$ 2,345,780

Net position for the Partnership increased by \$2,345,780 during the current fiscal year. The total revenues increase of \$4,999,610 is due primarily to a \$4.5 million increase in general fund appropriations provided by the COV for the Talent Solutions – Talent Accelerator Program and additional pass-through payments funding for the Commonwealth Center for Advanced Manufacturing.

Total expenses for the Partnership increased by \$7,105,736. This increase was primarily due to expansion of the Talent Solutions – Talent Accelerator Program and additional pass-through payments to the Commonwealth Center for Advanced Manufacturing for operations and grant programs. Marketing and Communications spending increased related to new marketing initiatives, while Administration spending decreased from the prior year due to Business Ready Sites Characterization Program expenses incurred in the last quarter of FY2019.

Governmental Funds Analysis

The Partnership records all its financial activities in the General Fund, with the exception of International Trade federal grant programs that are recorded in the Special Revenue Fund. The financial position of the Partnership improved by \$1,973,999 in FY2020 primarily due to the increase in Cash and the decrease in Accounts payable as noted in the Government-Wide Financial Analysis, resulting in a fund balance of \$10,967,779 as of June 30, 2020. \$1,123,220 of the fund balance consists of Prepaid expenses and Lease deposits and is nonspendable, with the remaining balance of \$9,844,559 unassigned. The Special Revenue fund records revenues and expenditures in equal amounts and has no fund balance. Activity for the Special Revenue fund increased from \$178,755 in FY2019 to \$203,088 in FY2020 due to the timing of payments for two International Trade federal grant programs.

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 \$38.3 million. This amount was adjusted by \$.2 million for Economic Development Opportunity funding. Participation fees were below budget due to travel restrictions and event cancellations related to COVID-19. Operating grants were above budget due to the timing of payments from the federal government, and Interest revenue exceeded budget due to the increase in the Partnership’s cash balance.

Actual expenditures were below the final budget by approximately \$8.9 million for the fiscal year. This underspending was primarily in the Talent Solutions – Talent Accelerator Program and Pass-through Payments for Business Ready Sites and the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund. All divisions have some amount of underspending due to staff vacancies and COVID-19 travel restrictions.

FY2021 Outlook

The COVID-19 pandemic initially resulted in policy changes necessary to protect public health causing a substantial economic downturn. The Partnership made the decision to implement teleworking in March 2020 to protect the health and safety of its staff, with limited office access following CDC guidelines. The Partnership continues to execute its mission across all divisions with most activities continuing virtually. The economic effects of COVID-19 are expected to continue into the next fiscal year and may impact FY2021 performance metrics.

The Partnership received FY2021 COV funding for some of its key initiatives, including expansion of the Talent Solutions – Talent Accelerator customized, turnkey workforce recruitment and training incentive program, and expansion of the Virginia Business Ready Sites Program. These funds were unallotted as a result of actions taken by the Virginia General Assembly due to revenue concerns related to the COVID-19 pandemic. The Partnership will continue to seek the reinstatement of this funding as well as other important initiatives critical to its success, including funding for International Trade.

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, 2020

	Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	\$ 10,417,426
Travel advances	1,200
Operating grants receivable	31,348
Prepaid expenses	1,099,348
Lease deposits (Note 5)	23,872
Restricted net other postemployment asset (Note 13)	439,713
Capital assets, net of accumulated depreciation (Note 6)	
Leasehold improvements, furniture, and equipment	1,763,402
Total assets	13,776,309
Deferred outflows of resources (Notes 10, 11, 12, 13, and 14)	4,356,909
Total assets and deferred outflows of resources	18,133,218
Liabilities	
Accounts payable	253,893
Accrued payroll	246,997
Unearned revenue	79,475
Long-term liabilities due within one year	
Capital lease obligation (Note 8)	22,815
Compensated absences (Note 9)	624,806
Net other postemployment liability (Notes 11, 12, and 14)	35,461
Long-term liabilities due in more than one year	
Compensated absences (Note 9)	485,967
Capital lease obligation (Note 8)	71,837
Net pension liability (Note 10)	13,665,158
Net other postemployment liability (Notes 11, 12, and 14)	2,875,385
Total liabilities	18,361,794
Deferred inflows of resources (Notes 10, 11, 12, 13, and 14)	1,978,040
Total liabilities and deferred inflows of resources	20,339,834
Net position	
Net investment in capital assets	1,668,750
Restricted for net other postemployment asset (Note 13)	439,713
Unrestricted	(4,315,079)
Total net position	\$ (2,206,616)

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, 2020

	Expenses	Program Revenues Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental Activities				
Talent Solutions - VJIP	\$ 956,054	\$ -	\$ -	\$ (956,054)
Talent Solutions - TAP	2,831,663	-		(2,831,663)
Business Investment	5,667,445	-		(5,667,445)
International Trade	6,527,156	239,830	203,088	(6,084,238)
Research	2,629,865			(2,629,865)
Marketing and Communications	3,833,000	94,000		(3,739,000)
Economic Competitiveness	946,271			(946,271)
Information Technology	1,383,433			(1,383,433)
Incentives	588,109	45,000		(543,109)
Administration	4,517,116	1,725		(4,515,391)
Pass-through Payments	7,744,370			(7,744,370)
Total governmental activities	37,624,482	380,555	203,088	(37,040,839)
General Revenues				
Revenue provided by the General Fund of the Commonwealth (Note 4)				38,490,591
Interest revenue				196,988
Gain on disposal of capital assets				3,000
Other revenue				696,040
Total general revenues				39,386,619
Increase in net position				2,345,780
Net position, July 1, 2019				(4,552,396)
Net position, June 30, 2020				\$ (2,206,616)

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2020

	General Fund	Special Revenue Fund	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 2)	\$ 10,417,426	\$	\$ 10,417,426
Travel advances	1,200		1,200
Due from the special revenue funds	31,348		
Operating grants receivable		31,348	31,348
Prepaid expenses	1,099,348		1,099,348
Lease deposits (Note 5)	23,872		23,872
Total assets	<u>\$ 11,573,194</u>	<u>\$ 31,348</u>	<u>\$ 11,573,194</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 253,893		\$ 253,893
Accrued payroll	246,997		246,997
Compensated absences	25,050		25,050
Due to the general fund		31,348	
Unearned revenue	79,475		79,475
Total liabilities	<u>605,415</u>	<u>31,348</u>	<u>605,415</u>
Fund Balances:			
Nonspendable	1,123,220	-	1,123,220
Committed	-	-	-
Unassigned fund balance	9,844,559	-	9,844,559
Total fund balances	<u>10,967,779</u>	<u>-</u>	<u>10,967,779</u>
Total liabilities and fund balances	<u>\$ 11,573,194</u>	<u>\$ 31,348</u>	<u>\$ 11,573,194</u>

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

Fund balances, Governmental Funds	\$ 10,967,779
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,763,402
Restricted net other postemployment asset is not a financial resource and, therefore, is not reported in the funds.	439,713
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.	(15,377,510)
Total net position of governmental activities	<u>\$ (2,206,616)</u>

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, 2020

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 38,490,591	\$	\$ 38,490,591
Participation fees	245,580		245,580
Sponsorship fees	88,250		88,250
Operating grants	-	203,088	203,088
Interest revenue	196,988		196,988
Other revenue	742,765		742,765
Total revenues	<u>39,764,174</u>	<u>203,088</u>	<u>39,967,262</u>
Expenditures			
Talent Solutions - VJIP	918,312		918,312
Talent Solutions - TAP	3,811,804		3,811,804
Business Investment	5,562,118		5,562,118
International Trade	6,241,439	203,088	6,444,527
Research	2,562,625		2,562,625
Marketing and Communications	3,817,139		3,817,139
Economic Competitiveness	905,916		905,916
Information Technology	1,299,235		1,299,235
Incentives	556,616		556,616
Administration	4,373,601		4,373,601
Pass-through Payments	7,744,370		7,744,370
Total expenditures	<u>37,793,175</u>	<u>203,088</u>	<u>37,996,263</u>
Revenues over expenditures	<u>1,970,999</u>	<u>-</u>	<u>1,970,999</u>
Other Financing Sources			
Proceeds from sale of capital assets	3,000		3,000
Total other financing sources	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total Increase in Fund Balance	<u>1,973,999</u>	<u>-</u>	<u>1,973,999</u>
Fund balance, July 1, 2019	<u>8,993,780</u>	<u>-</u>	<u>8,993,780</u>
Fund balance, June 30, 2020	<u>\$ 10,967,779</u>	<u>\$ -</u>	<u>\$ 10,967,779</u>

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

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, 2020

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

Net increase (decrease) in fund balance of the governmental funds	\$	1,973,999
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 capital outlays exceeded depreciation expense in the current period.		720,311
Some expenses reported in the statement of activities (compensated absences, capital lease obligation, 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 expenditures in governmental funds.		(348,530)
Increase in net position of governmental activities	\$	<u>2,345,780</u>

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, 2020

	Budgeted Amounts		General Fund	Special Revenue Fund	Variances with Final Budget-Positive (Negative)
	Original	Final	Actual	Actual	
Revenues					
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 38,306,009	\$ 38,490,591	\$ 38,490,591	\$ -	\$ -
Participation fees	475,000	475,000	245,580		(229,420)
Sponsorship fees	-	-	88,250		88,250
Operating grants	180,000	180,000		220,678	40,678
Interest revenue	150,000	150,000	196,988		46,988
Other revenue	163,100	163,100	742,765		579,665
Total revenues	39,274,109	39,458,691	39,764,174	220,678	526,161
Expenditures					
Talent Solutions - VJIP	1,064,820	1,064,820	922,051		142,769
Talent Solutions - TAP	7,339,157	7,429,053	3,768,764		3,660,289
Business Investment	5,887,073	5,765,832	5,625,358		140,474
International Trade	7,029,596	7,099,814	6,207,840	203,088	688,886
Research	2,695,098	2,731,121	2,575,913		155,208
Marketing and Communications	4,410,817	4,410,817	3,627,894		782,923
Economic Competitiveness	1,001,597	1,001,597	928,122		73,475
Information Technology	1,505,237	1,505,237	1,327,652		177,585
Incentives	631,996	631,996	560,265		71,731
Administration	4,982,213	5,714,907	5,261,457		453,450
Pass-through Payments	10,250,463	10,262,027	7,691,422		2,570,605
Total expenditures	46,798,067	47,617,221	38,496,738	203,088	8,917,395
Revenues over (under) expenditures	(7,523,958)	(8,158,530)	1,267,436	17,590	9,443,556
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			1,270,436	17,590	1,288,026
Fund balance, July 1, 2019	7,523,958	8,158,530	8,406,586	668,411	916,467
Fund balance, June 30, 2020 (Note 3)	\$ -	\$ -	\$ 9,677,022	\$ 686,001	\$ 10,363,023

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2020

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, sponsorship fees, and shared mission reimbursements. Operating grants are grants awarded to the Partnership from the federal government. Net investment in capital assets consists primarily of leasehold improvements, furniture, computers and peripheral technology equipment used to deliver program services to clients, net of capital lease obligations. 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 is classified as unrestricted.

The Balance Sheet and the Statement of Revenues, 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 fund is 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, 2020.

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, 2020, 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, 2020. 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 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 Plan

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. This program was established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management. After retirement, the Partnership no longer subsidizes the retiree’s premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

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, 2020, which is the second year of the biennium ended June 30, 2020. 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. 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, 2020, the Partnership’s deposits with the LGIP were \$10,500,937 and the Partnership’s deposits not with the Treasurer of Virginia were \$(83,511). This negative cash balance is due to the timing of cash payments on June 30, 2020 and has been offset against the Partnership’s deposits with the LGIP in the financial statements. 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, 2020, the Partnership’s holdings in Chinese RMB and European Union Euros were valued at \$182 and \$20,811, 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.

3. 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:

	<u>Total all Funds</u>
Fund balance, cash basis, June 30, 2020	\$ 10,363,023
Add: Prepaid expenses and other accrued receivables	1,130,696
Less: Accrued expenses and unearned revenues	<u>(525,940)</u>
Fund balance, GAAP basis, June 30, 2020	<u>\$ 10,967,779</u>

4. 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 854	\$ 37,807,392
Add: Economic Development Opportunity Funding	187,000
Central Appropriations Adjustment	498,617
Less: FY2020 Other Budget Reductions	<u>(2,418)</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 38,490,591</u>

5. LEASE DEPOSITS

The Partnership maintains offices in Fredericksburg, Virginia, Virginia Beach, Virginia, 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 Fredericksburg lease deposit is held in U.S. dollars in a noninterest-bearing account and is valued at \$1,664. The Virginia Beach lease deposit is held in U.S. dollars in a noninterest-bearing account and is valued at \$400. The Munich lease deposit is held in a noninterest-bearing account in the amount of 7,587 European Union Euros and was valued at \$8,989 at June 30, 2020. The Seoul lease deposit is held in a noninterest-bearing account in the amount of 1,760,000 South Korean Won and was valued at \$1,571 at June 30, 2020. 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, 2020. 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, 2020.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

Capital Assets Being Depreciated	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Leasehold improvements, furniture and equipment	\$ 2,180,056	\$ 976,831	\$ (29,880)	\$ 3,127,007
Less: accumulated depreciation	<u>1,136,965</u>	<u>256,520</u>	<u>(29,880)</u>	<u>1,363,605</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 1,043,091</u>	<u>\$ 720,311</u>	<u>\$ -</u>	<u>\$ 1,763,402</u>

7. COMMITMENTS

The Partnership is committed under various operating leases and office use agreements for office facilities and equipment through October 2030. Expense under these agreements for the fiscal year ended June 30, 2020, amounted to \$1,663,514. A summary of minimum future obligations under these agreements as of June 30, 2020, follows:

Year Ending June 30	Obligations
2021	\$ 1,786,659
2022	2,133,381
2023	2,409,437
2024	2,467,843
2025	2,527,186
2026-2030	13,549,168
2031-2035	<u>974,267</u>
Total future minimum rental payments	<u>\$ 25,847,941</u>

8. 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, 2020, are as follows:

Year Ending June 30	Lease Payments
2021	\$ 25,124
2022	25,124
2023	25,124
2024	<u>25,123</u>
Total gross minimum lease payments	100,495
Less: amount representing interest	<u>(5,843)</u>
Present value of minimum lease payments	<u>\$ 94,652</u>

At June 30, 2020, assets purchased under the capital lease agreement were included in depreciable capital assets as follows:

Gross capital assets	\$ 119,533
Less: accumulated depreciation	<u>(40,751)</u>
Net book value	<u>\$ 78,782</u>

9. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2020, was as follows:

Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
<u>\$ 970,964</u>	<u>\$ 810,856</u>	<u>\$ 671,047</u>	\$ 1,110,773
	Due Within One Year		<u>(624,806)</u>
	Due in More Than One Year		<u>\$ 485,967</u>

10. 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, service credit 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, service credit 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. <ul style="list-style-type: none">The defined benefit is based on a member’s age, service credit 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: <ul style="list-style-type: none">State employees*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<p>Eligible Members</p> <ul style="list-style-type: none"> 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 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan.</p> <p>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.</p>
<p>Hybrid Opt-In Election VRS 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p>	<p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014</p>	

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p>	<p>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.</p>	
<p>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.</p>	<p>Retirement Contributions Same as Plan 1.</p>	<p>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.</p>
<p>Service Credit Service credit includes active service. Members earn creditable service for each month they are employed in a covered position.</p>	<p>Service Credit Same as Plan 1.</p>	<p>Service Credit <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, service credit includes active service.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Credit It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member’s total service credit 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.</p>		<p>Service Credit <u>Defined Benefit Component:</u> Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member’s total service credit 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.</p> <p><u>Defined Contribution Component:</u> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>
<p>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 service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan.</p> <p>Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p>	<p>Vesting Same as Plan 1.</p>	<p>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 service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Members are always 100% vested in the contributions that they make.</p>		<p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> • 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. <p>Distributions not required, except as governed by law.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1. <u>Defined Contribution Component:</u> 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 service credit earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier <u>Defined Benefit Component:</u> 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. <u>Defined Contribution Component:</u> 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 <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> 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 service credit or at age 50 with at least 30 years of service credit.	Earliest Unreduced Retirement Eligibility Normal Social Security retirement age with at least five years (60 months) of service credit or when their age and service equal 90.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age and service equal 90. <u>Defined Contribution Component:</u> 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 service credit 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 service credit.	Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> Age 60 with at least five years (60 months) of service credit. <u>Defined Contribution Component:</u> 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
<p>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%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>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.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none">• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.• The member retires on disability.	<p>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%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><u>Exceptions to COLA Effective Dates:</u></p> <ul style="list-style-type: none">• The member retires directly from short-term or long-term disability.• 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. <p>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.</p>		
<p>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.</p>	<p>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.</p>	<p>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.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>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.</p> <p>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.</p>
<p>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 service credit in their Plan. Prior service credit 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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <p><u>Defined Contribution Component:</u> Not applicable.</p>

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. The Partnership’s contractually required contribution rate for the year ended June 30, 2020 was 13.52% 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, 2017. 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 \$1,511,982 and \$1,272,040 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

At June 30, 2020, the Partnership reported a liability of \$13,665,158 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019 the Partnership’s proportion of the VRS State Employee Retirement Plan was 0.21623% as compared to 0.21507% at June 30, 2018.

For the year ended June 30, 2020, the Partnership recognized pension expense of \$1,828,775 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2018 and June 30, 2019, 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, 2020 the Partnership reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 284,741	\$ 367,610
Net difference between projected and actual earnings on pension plan investments	-	341,654
Change in assumptions	1,077,138	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	630,396	-
Employer contribution subsequent to the measurement date	<u>1,511,982</u>	<u>-</u>
Total	<u>\$ 3,504,257</u>	<u>\$ 709,264</u>

\$1,511,982 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 Fiscal Year ending June 30, 2021. 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

FY 2021	\$ 668,648
FY 2022	\$ 251,212
FY 2023	\$ 336,058
FY 2024	\$ 27,093
FY 2025	\$ -

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% – 5.35%
Investment rate of return	6.75%, net of pension 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% 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 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2019, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	State Employee <u>Retireme</u> <u>nt Plan</u>
Total Pension Liability	\$ 25,409,842
Plan Fiduciary Net Position	<u>19,090,110</u>
Employers’ Net Pension Liability (Asset)	<u><u>\$ 6,319,732</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.13%

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	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS – Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP – Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.63%

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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 which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, all agencies are assumed to continue 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Partnership’s proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 20,074,001	\$ 13,665,158	\$ 8,277,638

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 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at: <https://www.varetire.org/pdf/publications/2019-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

11. 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, SPORS, VaLORS and JRS who retire with at least 15 years of service credit.
Eligible employees are enrolled automatically upon employment. They include: <ul style="list-style-type: none">Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.
Benefit Amounts
The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees: <ul style="list-style-type: none">At Retirement – For state employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.Disability Retirement – For state employees, other than state police officers, 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. <p>For state police officer employees with a non-work-related disability 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.</p> <p>For state police officers with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.</p>
Health Insurance Credit Program Notes: <ul style="list-style-type: none">The monthly Health Insurance Credit benefit cannot exceed the individual’s 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, 2020 was 1.17% 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, 2017. 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 \$131,989 and \$110,961 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, the Partnership reported a liability of \$1,284,638 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, 2019 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 performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the Partnership’s proportion of the VRS State Employee Health Insurance Credit Program was 0.13917% as compared to 0.13799% at June 30, 2018.

For the year ended June 30, 2020, the Partnership recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$136,971. Since there was a change in proportionate share between measurement dates, 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, 2020, 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	\$ 701	\$ 15,608
Net difference between projected and actual earnings on State HIC OPEB program investments	-	505
Change in assumptions	26,437	8,797
Changes in proportion	107,193	-
Employer contribution subsequent to the measurement date	131,989	-
Total	\$ 266,320	\$ 24,910

\$131,989 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, 2021. 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 2021	\$ 24,721
FY 2022	\$ 24,720
FY 2023	\$ 25,497
FY 2024	\$ 26,473
FY 2025	\$ 7,507
Thereafter	\$ 503

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, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation -	
General state employees	3.50% – 5.35%
SPORS employees	3.50% – 4.75%
VaLORS employees	3.50% – 4.75%
JRS employees	4.50%
Investment rate of return	6.75%, 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 assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board actions 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	Decreased rate from 50% to 35%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2019, 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	\$1,032,094
Plan Fiduciary Net Position	<u>109,023</u>
State Employee net HIC OPEB Liability (Asset)	<u>\$ 923,071</u>
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability	10.56%

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	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS – Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP – Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.63%

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 6.75%. 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, which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Partnership’s proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 1,423,803	\$ 1,284,638	\$ 1,165,039

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 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at: <https://www.varetire.org/pdf/publications/2019-annual-report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

12. 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
<p>Eligible Employees</p> <p>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:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board <p>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.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <u>Natural Death Benefit</u> – The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> – The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>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.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>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 in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.</p>

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, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 \$58,710 and \$49,695 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, the Partnership reported a liability of \$793,292 for its proportionate share of the Net Group Life Insurance Program OPEB Liability. The Net Group Life Insurance Program OPEB Liability was measured as of June 30, 2019 and the total Group Life Insurance Program Liability used to calculate the Net Group Life Insurance OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. 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, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the Partnership’s proportion of the Group Life Insurance Program was 0.04875% as compared to 0.04940% at June 30, 2018.

For the year ended June 30, 2020, the Partnership recognized Group Life Insurance Program OPEB expense of \$33,771. 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, 2020, the Partnership reported deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 52,759	\$ 10,290
Net difference between projected and actual earnings on Group Life Insurance OPEB program investments	-	16,295
Change in assumptions	50,084	23,921
Changes in proportion	73,969	8,672
Employer contribution subsequent to the measurement date	<u>58,710</u>	<u>-</u>
Total	<u>\$ 235,522</u>	<u>\$ 59,178</u>

\$58,710 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 Program OPEB Liability in the Fiscal Year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB will be recognized in the Group Life Insurance Program OPEB expense in future reporting periods as follows:

Year Ended June 30

FY 2021	\$ 18,246
FY 2022	\$ 18,247
FY 2023	\$ 25,148
FY 2024	\$ 31,077
FY 2025	\$ 20,911
Thereafter	\$ 4,005

Actuarial Assumptions

The total Group Life Insurance Program OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation -	
General state employees	3.50% – 5.35%
Teachers	3.50% – 5.95%
SPORS employees	3.50% – 4.75%
VaLORS employees	3.50% – 4.75%
JRS employees	4.50%
Locality – General employees	3.50% – 5.35%
Locality – Hazardous Duty employees	3.50% – 4.75%

Investment rate of return	6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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 Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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	Decreased rate from 50% to 35%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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
Discount Rate	Decreased from 7.00% to 6.75%

Mortality rates – Largest 10 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Mortality rates – Non-Largest 10 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Mortality rates – Non-Largest 10 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality rates – Largest 10 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7.00% to 6.75%

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 the Measurement Date of June 30, 2019, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total Group Life Insurance Program OPEB Liability	\$ 3,390,238
Plan Fiduciary Net Position	<u>1,762,972</u>
Group Life Insurance Program Net OPEB Liability (Asset)	\$ 1,627,266
Plan Fiduciary Net Position as a Percentage of the Total Group Life Insurance Program OPEB Liability	52.00%

The total Group Life Insurance Program OPEB 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 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 the System’s 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 System’s 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	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS – Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP – Private Investment Partnership	3.00%	6.29%	0.19%
Total	<u>100.00%</u>		<u>5.13%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>7.63%</u>

* The above allocation provides a one-year return of 7.63%. 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 provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total Group Life Insurance Program OPEB was 6.75%. 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 which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to continue 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (<u>5.75%</u>)	Current Discount Rate (<u>6.75%</u>)	1.00% Increase (<u>7.75%</u>)
Partnership’s proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 1,042,166	\$ 793,292	\$ 591,462

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 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at: <https://www.varetire.org/pdf/publications/2019-annual-report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

13. 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 Disability Insurance 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: <ul style="list-style-type: none">• 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: <ul style="list-style-type: none">• <u>Leave</u> – Sick, family and personal leave. Eligible leave benefits are paid by the employer.• <u>Short-Term Disability</u> – 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.• <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, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program OPEB Plan.• <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 (VSDP) PLAN PROVISIONS
<p>Disability Insurance Program (VSDP) Plan Notes:</p> <ul style="list-style-type: none"> 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 may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.
<p>Cost-of-Living Adjustment (COLA)</p> <ul style="list-style-type: none"> 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. <ul style="list-style-type: none"> 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. <ul style="list-style-type: none"> 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. <ul style="list-style-type: none"> 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, 2020 was 0.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 \$67,798 and \$56,243 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, the Partnership reported an asset of \$439,713 for its proportionate share of the Net VSDP OPEB Asset. The Net VSDP OPEB Asset was measured as of June 30, 2019 and the total VSDP OPEB Liability used to calculate the Net VRS VSDP OPEB Asset was determined by an actuarial valuation as of June 30, 2018 and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the Partnership’s proportion was 0.22412% as compared to 0.22545% at June 30, 2018.

For the year ended June 30, 2020, the Partnership recognized VSDP OPEB expense of \$30,043. 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, 2020, 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	\$ 56,299	\$ 17,700
Net difference between projected and actual earnings on VSDP OPEB program investments	-	16,981
Change in assumptions	7,981	25,043
Changes in proportion	2,142	30,543
Employer contribution subsequent to the measurement date	67,798	-
Total	\$ 134,220	\$ 90,267

\$67,798 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, 2021. 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 2021	\$ (12,310)
FY 2022	\$ (12,307)
FY 2023	\$ (3,283)
FY 2024	\$ (2,606)
FY 2025	\$ (630)
Thereafter	\$ 7,291

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation -	
General state employees	3.50% – 5.35%
SPORS employees	3.50% – 4.75%
VaLORS employees	3.50% – 4.75%

Investment rate of return	6.75%, 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 6.75% . However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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	Decreased rate from 50% to 35%
Discount Rate	Decreased rate from 7.00% to 6.75%

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 the Measurement Date of June 30, 2019, NOA amounts for the VSDP are as follows (amounts expressed in thousands):

	Virginia Sickness and Disability Program
Total VSDP OPEB Liability	\$ 292,046
Plan Fiduciary Net Position	488,241
Employers’ Net OPEB Liability (Asset)	(\$196,195)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	167.18%

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 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	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS – Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP – Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
		* Expected arithmetic nominal return	7.63%

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and 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 which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Partnership’s proportionate share of the total VSDP Net OPEB Asset	\$ 399,256	\$ 439,713	\$ 475,558

VSDP OPEB Fiduciary Net Position

Detailed information about the VSDP Fiduciary Net Position is available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at: <https://www.varetire.org/pdf/publications/2019-annual-report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

14. 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 established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare.

Following are eligibility requirements for Virginia Retirement System (VRS) retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from VRS, and
- You start receiving (do not defer) your retirement benefit immediately upon retirement*, and
- Your last employer before retirement was the Commonwealth of Virginia, and

- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date

*For VRS retirees, this means that your employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to your retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.

Effective January 1, 2017**, following are eligibility requirements for Optional Retirement Plan retirees:

- You are a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- Your last employer before termination was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of your termination, and
- You meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had you not elected the ORP, and
- You enroll in the State Retiree Health Benefits Program no later than 31 days for the date you lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to your termination of employment.

**This change applies to ORP terminations effective January 1, 2017 or later. Eligibility for those who terminated employment prior to January 1 should be determined based on the policy in place at the time of their termination.

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 4,800 retirees and 89,000 active employees in the program in fiscal year 2019. 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, 2020, the Partnership reported a liability of \$832,916 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$678.9 million. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2019. 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, 2019, the Partnership’s proportion was

0.12269% as compared to 0.12969% at June 30, 2018. For the year ended June 30, 2020, the Partnership recognized a reduction in Pre-Medicare Retiree Healthcare OPEB expense of \$64,332.

At June 30, 2020, the Partnership reported deferred outflows of resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 422,633
Change in assumptions	-	577,058
Changes in proportion	181,129	94,730
Amounts associated with transactions subsequent to the measurement date	<u>35,461</u>	<u>-</u>
Total	<u>\$ 216,590</u>	<u>\$ 1,094,421</u>

\$35,461 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, 2021. 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 2021	\$ (203,803)
FY 2022	\$ (203,803)
FY 2023	\$ (203,803)
FY 2024	\$ (171,693)
FY 2025	\$ (106,094)
Thereafter	\$ (24,096)

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 3.51%, 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 (2.51%) or one percentage point higher (4.51%) than the current rate:

	<u>1.00% Decrease (2.51%)</u>	<u>Current Discount Rate (3.51%)</u>	<u>1.00% Increase (4.51%)</u>
Partnership’s proportionate share of the OPEB Liability	\$ 890,930	\$ 832,916	\$ 778,510

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 7.00% decreasing to 4.50%, 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 (6.00% decreasing to 3.50%) or one percentage point higher (8.00% decreasing to 5.50%) than the current rate:

	<u>1.00% Decrease (6.00% decreasing to 3.50%)</u>	<u>Trend Rate (7.00% decreasing to 4.50%)</u>	<u>1.00% Increase (8.00% decreasing to 5.50%)</u>
Partnership’s proportionate share of the OPEB Liability	\$ 743,829	\$ 832,916	\$ 938,351

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, 2019. 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 7.00 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 4.50 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, 2019 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.25 years
Discount Rate	3.51%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 7.00% to 4.50% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2029

Mortality rates vary by participant status:

- Pre-Retirement:
RP-2014 Employee Rates; males setback 1 year, 85% of rates, 85% of rates; females setback 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 setback 1 year
- Post-Disablement:
RP-2014 Disability 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, 2019.

Changes of Assumptions

The following actuarial assumptions were updated since the June 30, 2018 valuation based on recent experience:

Spousal Coverage	Reduced the rate from 35% to 25%
Retiree Participation	Reduced the rate from 60% to 50%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect modified pre-retirement Mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of 6/30/2019. Additionally, the discount rate was decreased from 3.87% to 3.51% based on the Bond Buyers GO 20 Municipal Bond Index.

15. 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 \$29,950 for the fiscal year 2020.

16. 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 Measurement Dates of June 30, 2019, 2018, 2017, 2016, 2015 and 2014

	2019	2018	2017	2016	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.21623%	0.21507%	0.19536%	0.19429%	0.20111%	0.19015%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$13,665,158	\$11,643,000	\$11,385,000	\$12,805,000	\$12,313,000	\$10,646,000
Employer's Covered Payroll	\$9,408,574	\$9,212,635	\$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	145.24%	126.38 %	143.43%	166.83%	158.96%	144.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.13%	77.39%	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2019 is the sixth year for this presentation, there are only six years available. However, additional years will be included as they become available.

Required Supplementary Information

**Schedule of Employer Contributions
VRS State Employee Retirement Plan
For the Years Ended June 30, 2011 through 2020**

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer’s Covered Payroll	Contributions as a % of Covered Payroll
2020	\$1,511,982	\$1,511,982	\$ -	\$11,183,298	13.52%
2019	\$1,272,040	\$1,272,040	\$ -	\$9,408,574	13.52%
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%

VRS State Employee Retirement Plan

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Required Supplementary Information

**Schedule of Employer's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Measurement Dates of June 30, 2019, 2018 and 2017**

	2019	2018	2017
Employer’s Proportion of the Net HIC OPEB Liability (Asset)	0.13917%	0.13799%	0.12298%
Employer’s Proportionate Share of the Net HIC OPEB Liability (Asset)	\$1,284,638	\$1,259,000	\$1,120,000
Employer’s Covered Payroll	\$9,483,774	\$9,291,985	\$7,937,681
Employer’s Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	13.55%	13.55%	14.11%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	10.56%	9.51%	8.03%

Schedule is intended to show information for 10 years. Since 2019 is the third year for this presentation, only three years of data is available. However, additional years will be included as they become available.

**Schedule of Employer Contributions
Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2011 through 2020**

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer’s Covered Payroll	Contributions as a % of Covered Payroll
2020	\$131,989	\$131,989	\$ -	\$11,280,998	1.17%
2019	\$110,961	\$110,961	\$ -	\$9,483,774	1.17%
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%

Health Insurance Credit Program (HIC)

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Health Insurance Credit Program (HIC)

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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	Decreased rate from 50% to 35%
Discount Rate	Decreased rate from 7.00% to 6.75%

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
Discount Rate	Decreased rate from 7.00% to 6.75%

Required Supplementary Information

**Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Program
For the Measurement Dates of June 30, 2019, 2018 and 2017**

	2019	2018	2017
Employer’s Proportion of the Net Group Life Insurance Program OPEB Liability (Asset)	0.04875%	0.04940%	0.04314%
Employer’s Proportionate Share of the Net Group Life Insurance Program OPEB Liability (Asset)	\$793,292	\$750,000	\$649,000
Employer’s Covered Payroll	\$9,556,475	\$9,394,198	\$7,948,514
Employer’s Proportionate Share of the Net Group Life Insurance OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.30%	7.98%	8.17%
Plan Fiduciary Net Position as a Percentage of the Total Group Life Insurance OPEB Liability	52.00%	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2019 is the third year for this presentation, only three years of data is available. However, additional years will be included as they become available.

**Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2011 through 2020**

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer’s Covered Payroll	Contributions as a % of Covered Payroll
2020	\$58,710	\$58,710	\$ -	\$11,290,165	0.52%
2019	\$49,695	\$49,695	\$ -	\$9,556,475	0.52%
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%

Group Life Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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
Discount Rate	Decreased rate from 7.00% to 6.75%

Group Life Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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	Decreased rate from 50% to 35%
Discount Rate	Decreased rate from 7.00% to 6.75%

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
Discount Rate	Decreased rate from 7.00% to 6.75%

Group Life Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Group Life Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Required Supplementary Information

**Schedule of Employer's Share of Net OPEB Liability
Disability Insurance Program
For the Measurement Dates of June 30, 2019, 2018 and 2017**

	2019	2018	2017
Employer’s Proportion of the Net Disability Insurance Program OPEB Liability (Asset)	0.22412%	0.22545%	0.20066%
Employer’s Proportionate Share of the Net Disability Insurance Program OPEB Liability (Asset)	(\$439,713)	(\$508,000)	(\$412,000)
Employer’s Covered Payroll	\$9,071,488	\$8,891,622	\$7,561,543
Employer’s Proportionate Share of the Net Disability Insurance Program OPEB Liability (Asset) as a Percentage of its Covered Payroll	4.85%	5.71%	5.45%
Plan Fiduciary Net Position as a Percentage of the Total Disability Insurance Program OPEB Liability	167.18%	194.74%	186.63%

Schedule is intended to show information for 10 years. Since 2019 is the third year for this presentation, only three years of data is available. However, additional years will be included as they become available.

Required Supplementary Information

**Schedule of Employer Contributions
Disability Insurance Program
For the Years Ended June 30, 2011 through 2020**

Date	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer’s Covered Payroll	Contributions as a % of Covered Payroll
2020	\$67,798	\$67,798	\$ -	\$10,935,080	0.62%
2019	\$56,243	\$56,243	\$ -	\$9,071,488	0.62%
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%

Disability Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Disability Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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	Decreased rate from 50% to 35%
Discount Rate	Decreased rate from 7.00% to 6.75%

Required Supplementary Information

**Schedule of Employer's Share of Total OPEB Liability
Pre-Medicare Retiree Healthcare Program
For the Measurement Dates of June 30, 2019, 2018 and 2017**

	2019	2018	2017
Employer’s Proportion of the collective total OPEB liability	0.12269%	0.12969%	0.11875%
Employer’s Proportionate Share of the collective total OPEB liability	\$832,916	\$1,304,233	\$1,542,480
Employer’s Covered-Employee Payroll	\$10,095,487	\$9,358,038	\$7,945,015
Employer’s Proportionate Share of the collective total OPEB liability as a Percentage of its Covered-Employee Payroll	8.25%	13.94%	19.41%

Schedule is intended to show information for 10 years. Since 2019 is the third year for this presentation, only three years of data is available. However, additional years will be included as they become available.

Pre-Medicare Retiree Healthcare Program

Notes to Required Supplementary Information for the Year Ended June 30, 2020

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 actuarial assumptions were updated since the June 30, 2018 valuation based on recent experience:

Spousal Coverage	Reduced the rate from 35% to 25%
Retiree Participation	Reduced the rate from 60% to 50%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect modified pre-retirement Mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of 6/30/2019. Additionally, the discount rate was decreased from 3.87% to 3.51% based on the Bond Buyers GO 20 Municipal Bond Index.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 30, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
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 (Partnership), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the 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 presentation of the financial statements.

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

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, 2020, 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.

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 3 through 8; the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 72 through 74; 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, Group Life Insurance, and Disability Insurance programs on pages 75 through 88; 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 89 through 90. 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 October 30, 2020, on our consideration of the 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 effectiveness of 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 Partnership's internal control over financial reporting and compliance.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

MSM/vks



Pictured above (left to right from front cover): Microsoft Corporation, Fairfax County; Morgan Olson, Danville-Pittsylvania County; 1901 Group, Montgomery County; Mack Trucks, Roanoke County