

# **Overview of the Commonwealth's Debt Capacity**

**Presentation to Capital Outlay Subcommittee of  
the Senate Finance Committee**



**Manju S. Ganeriwala  
State Treasurer  
February 4, 2010**

# Debt Capacity Advisory Committee

---

- Debt Capacity Advisory Committee (DCAC) was established in 1991 by Executive Order and codified in 1994.
- DCAC membership:
  - Secretary of Finance (Chairman), State Treasurer, Director of the Department of Planning and Budget
  - Auditor of Public Accounts
  - Director of the Joint Legislative Audit and Review Commission
  - Two citizen members who have expertise in financial matters appointed by the Governor
- Committee's mandate is to annually review the size and condition of the Commonwealth's tax-supported debt, and to annually submit to the Governor and the General Assembly an estimate of the maximum amount of additional tax-supported debt that prudently may be authorized and issued during the next two years.
- The estimate is advisory and in no way binds the Governor or the General Assembly.

# Importance of Measuring Debt Affordability

---

- Debt affordability is one of four key factors assessed by rating agencies
- Attempts to correlate the borrowing for capital needs with the ability to repay
- Issuance above capacity can cause erosion in credit rating
- Capacity to issue debt is finite for a given credit quality

# Debt Affordability Measure

---

- **Debt service on tax-supported debt is  $\leq 5\%$  of blended revenues**
- Tax-supported debt includes:
  - Debt for which debt service payments are made or pledged to be made from funds derived from tax revenues
  - Bonded debt, capital leases, installment purchases, etc.
- Blended revenues include:
  - General Fund: Corporate/Individual/Sales, 2/3 Insurance Premium, Licenses & Permits, ABC/Beer Excise, Bank & Corporate Franchise, and Tobacco taxes
  - Transfers: ABC Profits
  - Transportation Trust Fund: Motor Fuels, Priority Transportation Fund, Vehicle Sales and Use, Aviation Fuels, Rental, Recordation (2 cents) and 1/3 Insurance Premium taxes
- Actual debt service on all outstanding tax-supported debt and long-term obligations
- Estimated debt service on authorized but unissued debt
  - Based on cash-flow estimates provided by agencies

# Factors Affecting Debt Capacity

---

- Changes to revenue forecast
  - Driven by economy
  - Policy changes
    - Lottery segregated as special fund effective July 2008 - \$450 million/year
    - Estate & Gift tax repealed effective July 2007 - \$160 million/year
- Authorization of additional tax-supported debt
  - \$3.3 billion authorized in 2007
  - \$2.7 billion authorized in 2008
  - \$ .7 billion authorized in 2009
- Issuance assumptions change
  - Spending needs – timing and sizing of new issues
  - Priorities
  - Interest rates, refinancing opportunities

# Debt Capacity Recommendations -- December 2009

## No additional debt capacity for 2010 and 2011 (Dollars in Millions)

Fiscal Year	Blended Revenues	[A] Actual Outstanding Debt Service as a % of Revenues	[B] Actual & Projected Debt Service as a % of Revenues	[C] Amount of Additional Debt that may Be Issued December 2009	[C] Amount of Additional Debt that may Be Issued December 2008
Actual 2007	\$17,282.60	2.79%	2.79%	N/A	N/A
Actual 2008	\$17,534.60	3.04%	3.04%	N/A	N/A
Actual 2009	\$15,671.80	3.75%	3.75%	N/A	\$0.00
2010	\$15,227.90	4.16%	4.50%	\$0.00	\$369.99
2011	\$15,789.70	4.28%	4.98%	\$0.00	\$369.99
2012	\$16,551.80	3.80%	<b>5.13%</b>	\$0.00	\$369.99
2013	\$17,383.20	3.42%	<b>5.03%</b>	\$0.00	\$96.24
2014	\$18,113.40	3.00%	4.77%	\$425.00	\$302.84
2015	\$18,928.70	2.82%	4.64%	\$425.00	\$493.73
2016	\$19,754.80	2.55%	4.40%	\$650.00	\$793.73
2017	\$20,630.59	2.27%	4.14%	\$730.00	\$781.77
2018	\$21,546.04	1.97%	3.80%	\$742.78	\$781.77
2019	\$22,502.96	1.66%	3.44%	\$742.78	-
				<b>10 year Average \$371.56</b>	<b>\$406.01</b>

[A] Equals actual outstanding debt service as a percentage of blended revenues.

[B] Equals outstanding debt service and debt service on currently authorized but unissued debt as a percentage of blended revenues

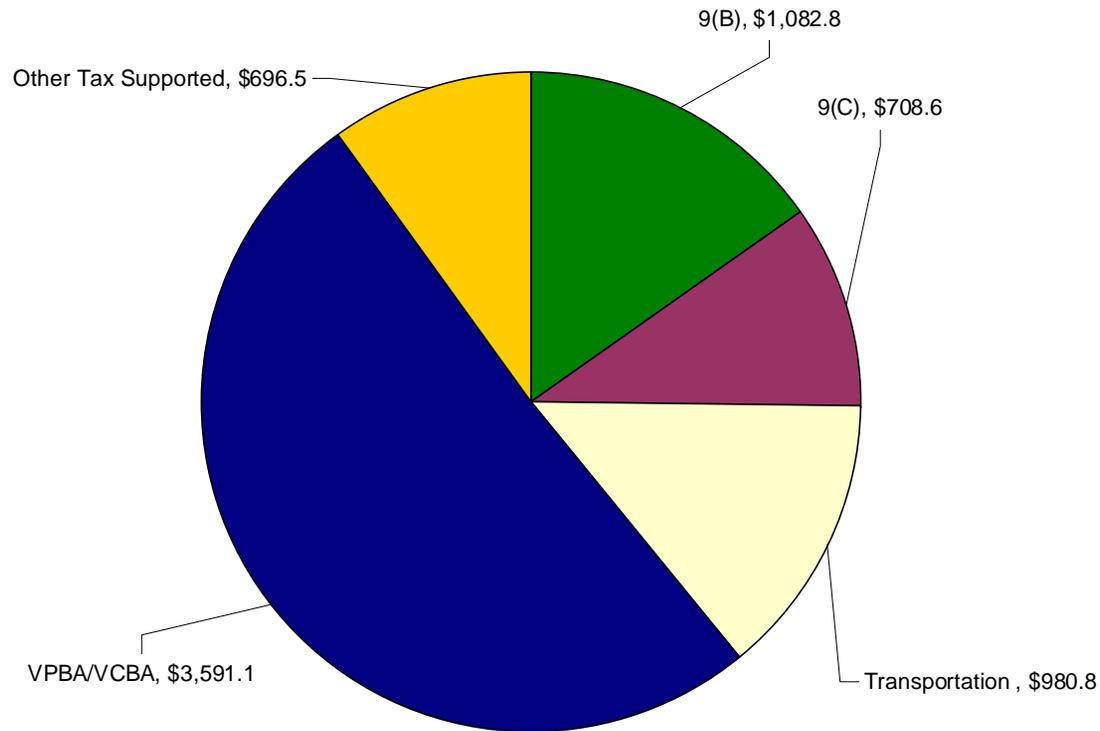
[C] Equal to annual amount of additional principal that may be issued without violating the parameters of the model.

# Outstanding Tax-Supported Debt As of December 2009

---

**\$7,059.8 Total**

(Dollars in Millions)



# Model assumes bonds will continue to be issued for currently authorized projects

## Authorized Tax-Supported Debt Issuance Assumptions <sup>(1)(2)</sup> (Dollars in Millions)

	<b>9(c) Higher Education</b>	<b>VPBA</b>	<b>VCBA 21st Century Equipment</b>	<b>VCBA 21st Century Projects</b>	<b>9(d) Transportation<sup>(3)</sup></b>	<b>VPA</b>	<b>Total</b>
Authorized & Unissued as of December 31, 2009	\$443.0	\$1,141.4	\$58.8	\$550.0	\$3,180.0	\$155.0	\$5,528.2
FY 2010	-	-	-	-	-	-	-
FY 2011	147.7	345.3	58.8	-	492.7	-	<b>1,044.5</b>
FY 2012	147.7	503.0	-	350.0	293.1	-	<b>1,293.8</b>
FY 2013	147.7	138.8	-	200.0	300.0	-	786.5
FY 2014-19		154.2	-	-	1,350.0	155.0	1,659.2
<b>Total</b>	<b>\$443.0</b>	<b>\$1,141.3</b>	<b>\$58.8</b>	<b>\$550.0</b>	<b>\$2,435.8</b>	<b>\$155.0</b>	<b>\$4,783.9</b>

<sup>(1)</sup> Does not include proposed debt included in SB 30.

<sup>(2)</sup> Amounts issued are shown in the year of first debt service payment. Actual issuance occurs one-year prior (i.e. VPBA bonds shown in 2011, are issued in 2010).

<sup>(3)</sup> \$744.2 million of remaining CTB revenue bonds to be issued beyond the 10-year model period. Plans are uncertain regarding \$24.9 million of remaining NVTB bonds. May be issued beyond the 10-year model period.

# The dramatic and unprecedented decline in forecast revenues is the primary cause of diminished capacity

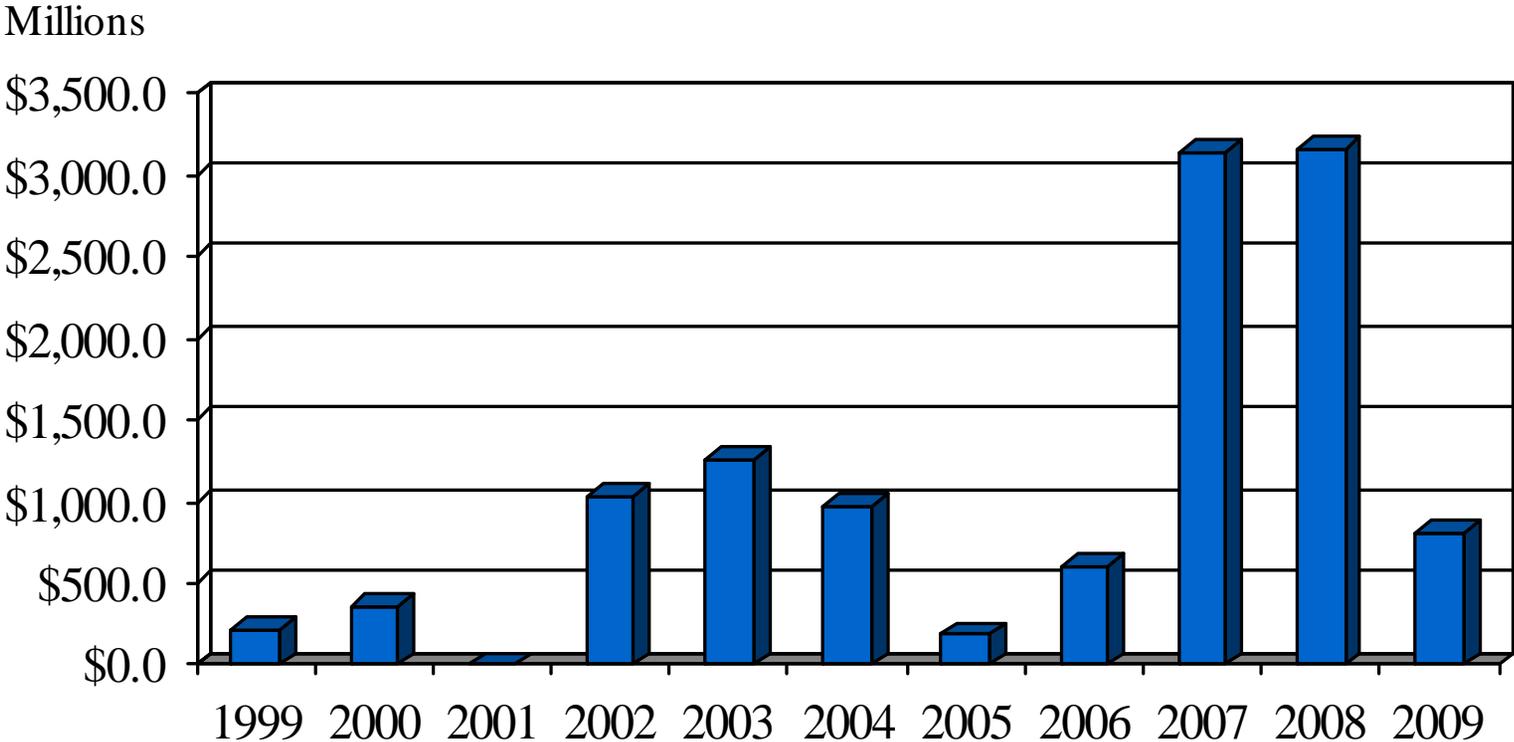
## Tax-Supported Debt Service as a Percent of Revenues Compared to Blended Growth Rate



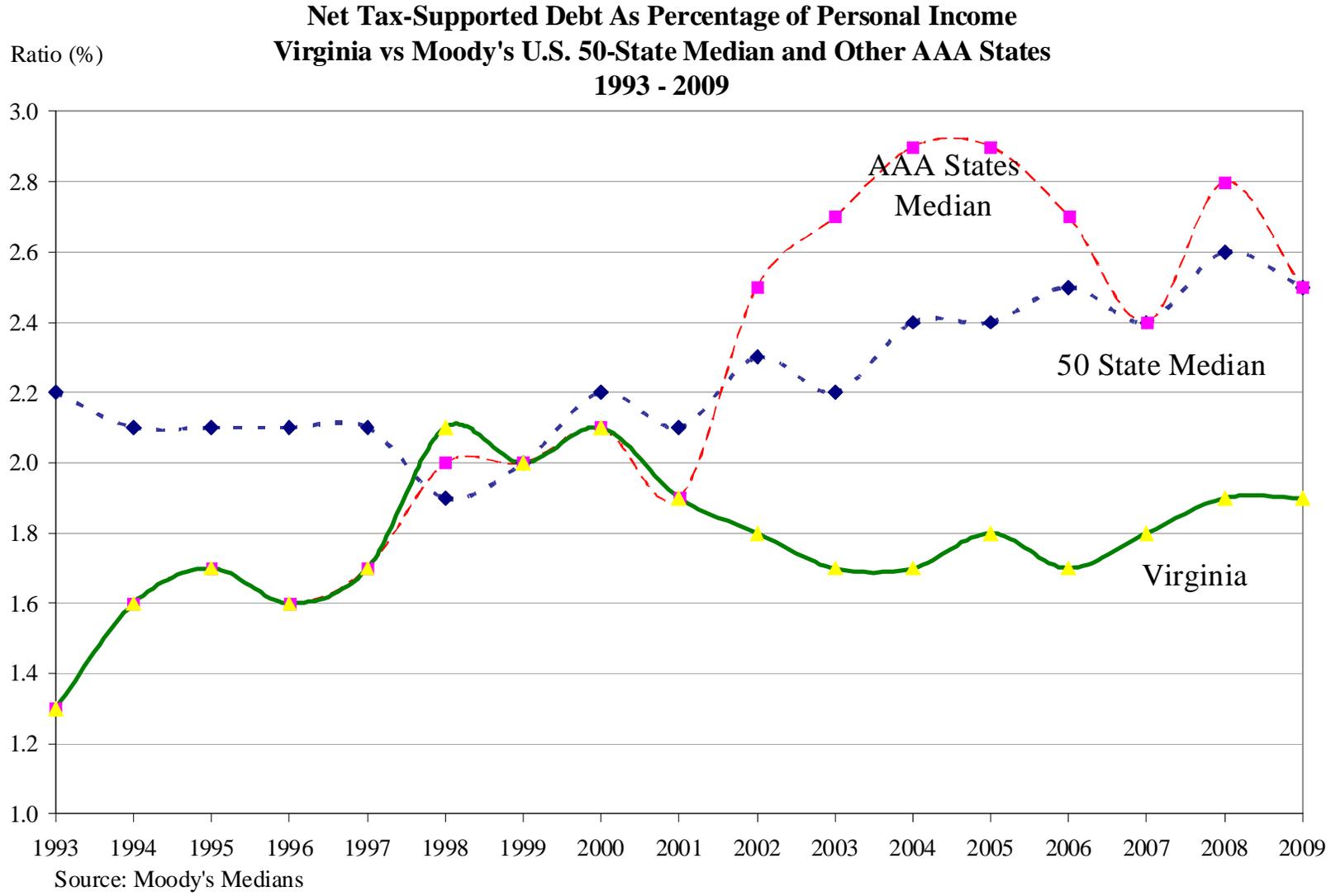
# Recent tax-supported debt authorization also contributes to the decline in capacity

---

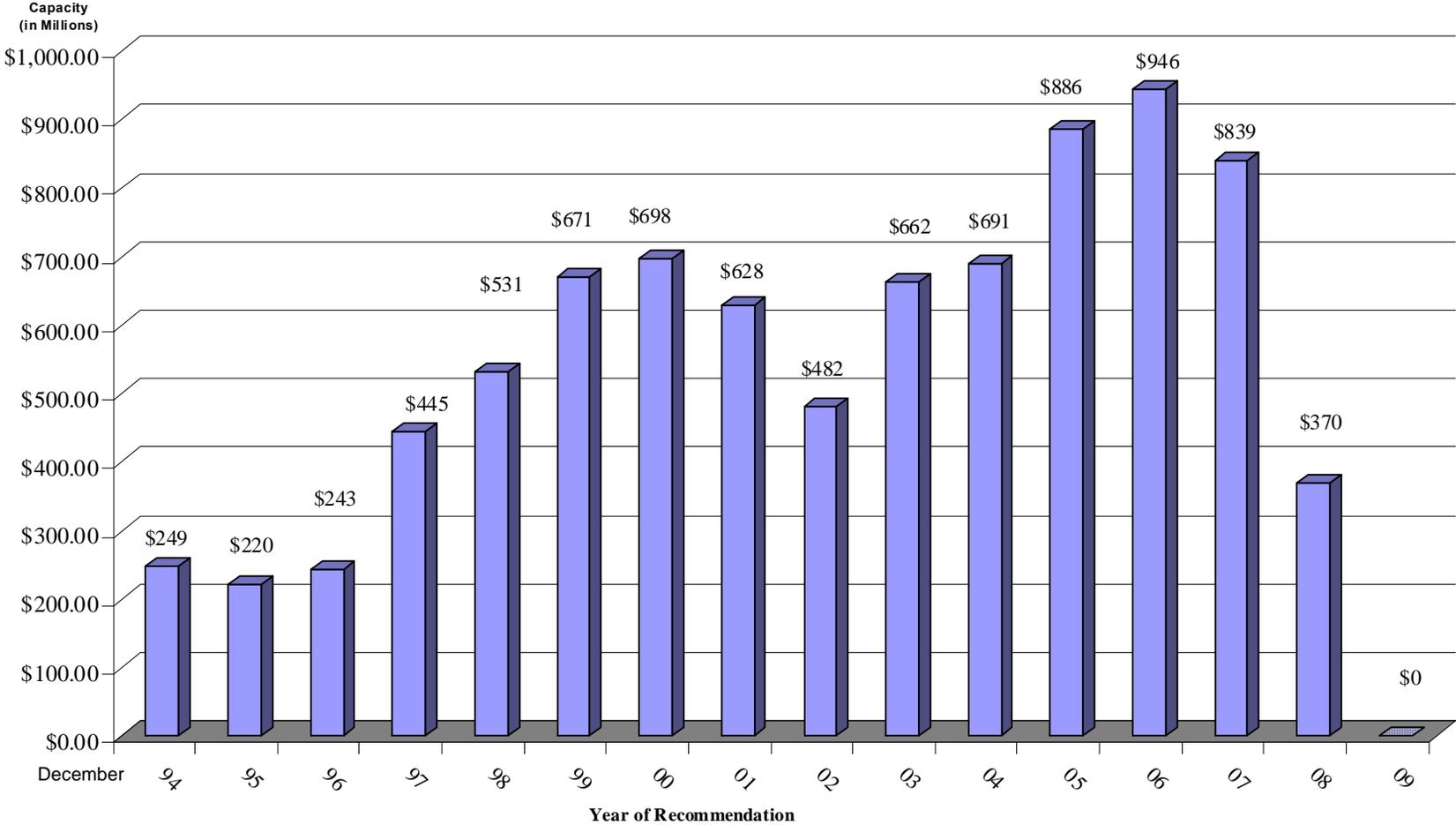
**Tax-Supported Debt Authorizations  
Fiscal Years 1999-2009**



# Virginia's debt position remains strong compared to peers



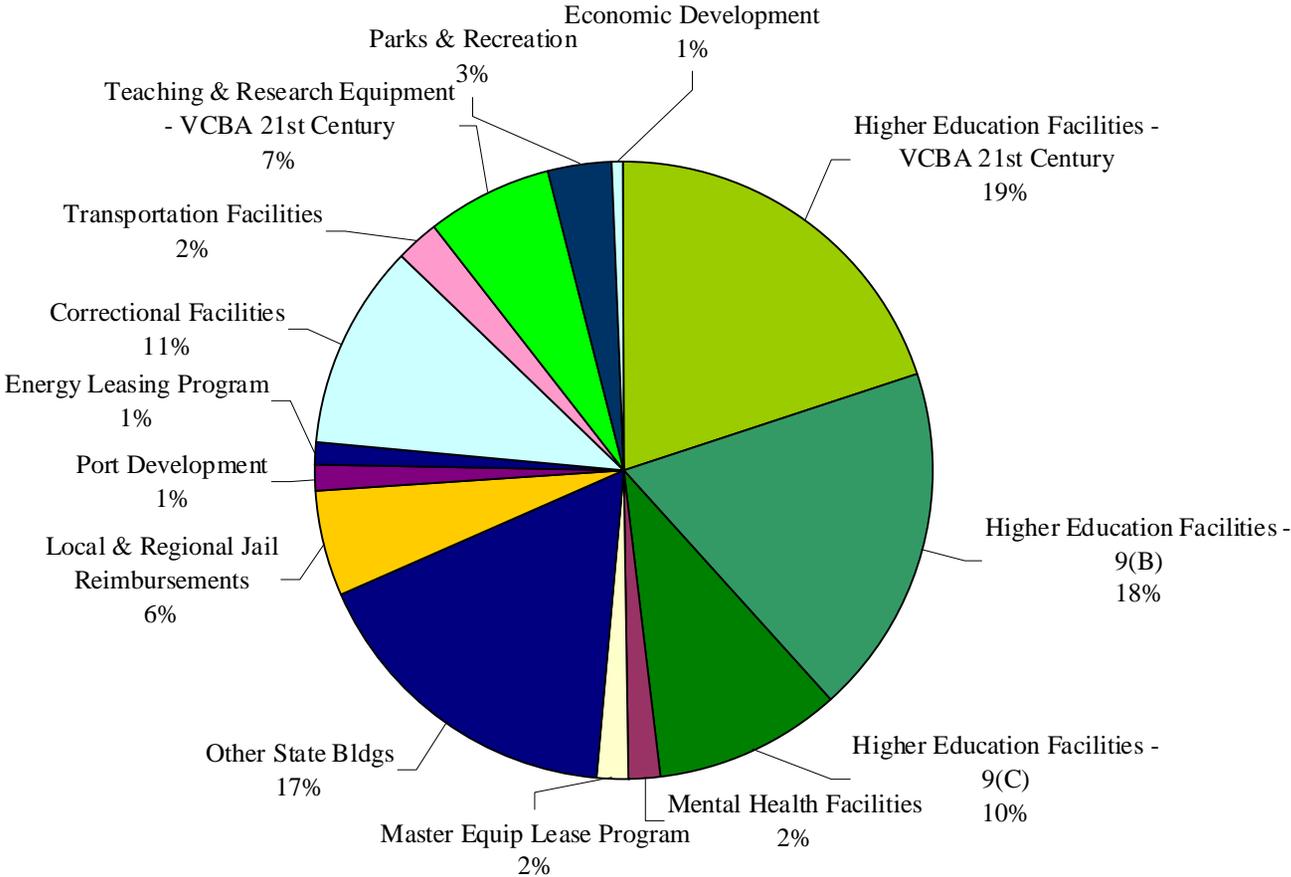
# Debt Capacity 1994-2009



# Uses of New Tax-Supported Debt Issued 2005 - 2009

## \$4.4 Billion Total

---



# Value of the AAA Bond Rating

---

- Commonwealth has held a AAA general obligation bond rating from Moody's since 1938
- Subject-to-appropriation bonds rated one notch below the state's GO rating at AA+ (Includes: VCBA 21<sup>st</sup> Century, VPBA, CTB)
- Low risk exposure means bond investors willing to accept lower rate of interest
- Demand for credit quality is high
  - 2008 financial melt-down and flight to quality
  - Exit of bond insurers make "natural" AAA's/AA's more valuable
  - Portfolio managers need highly-rated bonds to improve fund profile

## Financial benefit of “AAA” on \$100 million in bonds

---

- If AAA became AA, expect to pay 25-35 basis points more
  - \$200,000/year
  - \$2.2 million over 20 years
- If AA became A, expect to pay 55-63 basis points more
  - \$600,000/year
  - \$6.4 million over 20 years
- Two years ago, the spread between AAA and AA was 5-7 basis points