

Overview of the Commonwealth's Debt and Capacity



Presentation to Capital Outlay Subcommittee of the Senate Finance Committee

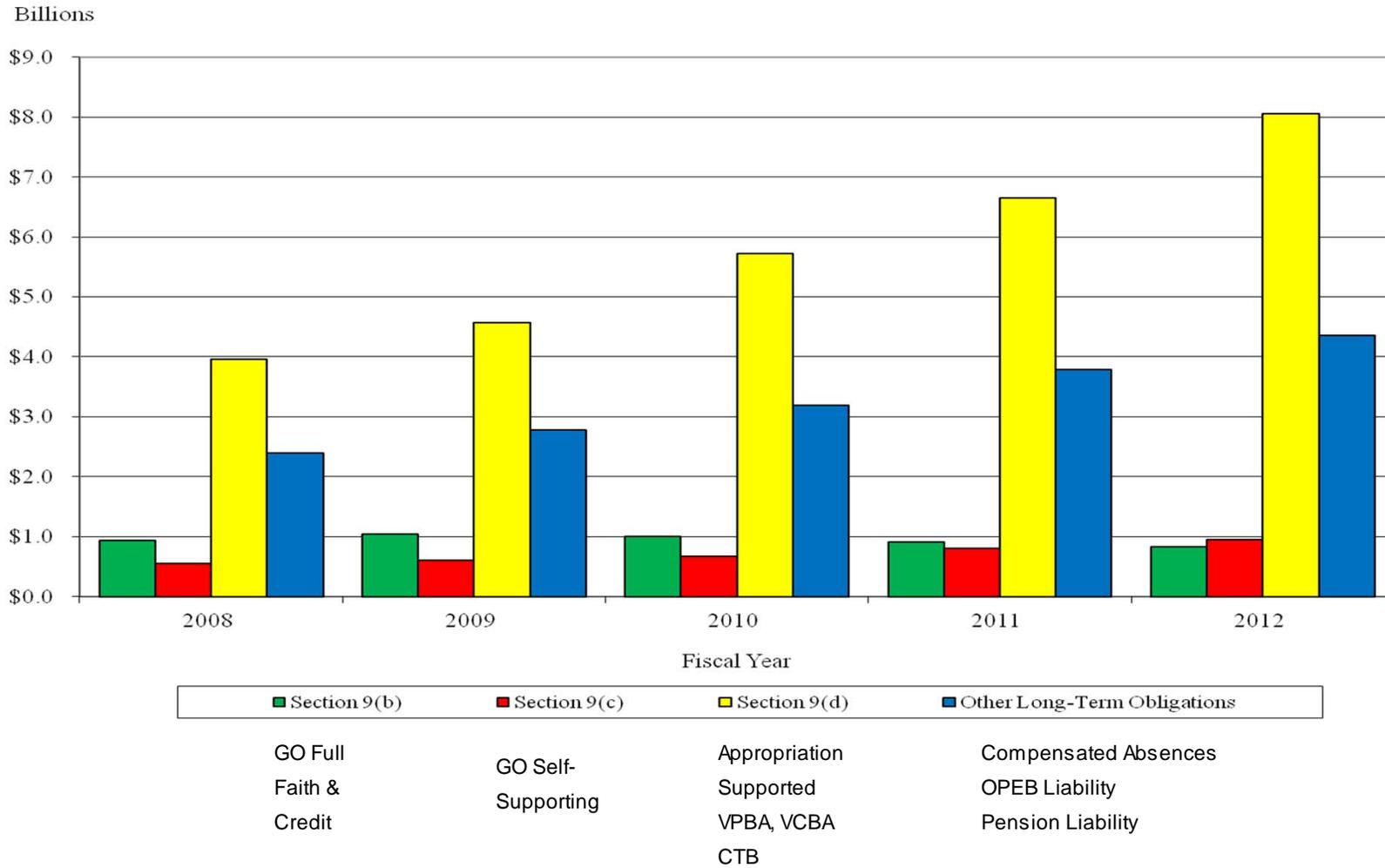
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Commonwealth of Virginia
January 10, 2013

Presentation Overview

- Outstanding Tax Supported Debt and Obligations**
- Debt Position Compared to Peer States**
- Bond Rating and Recent Developments**
- Debt Capacity**
- Proposed New Debt Authorization**

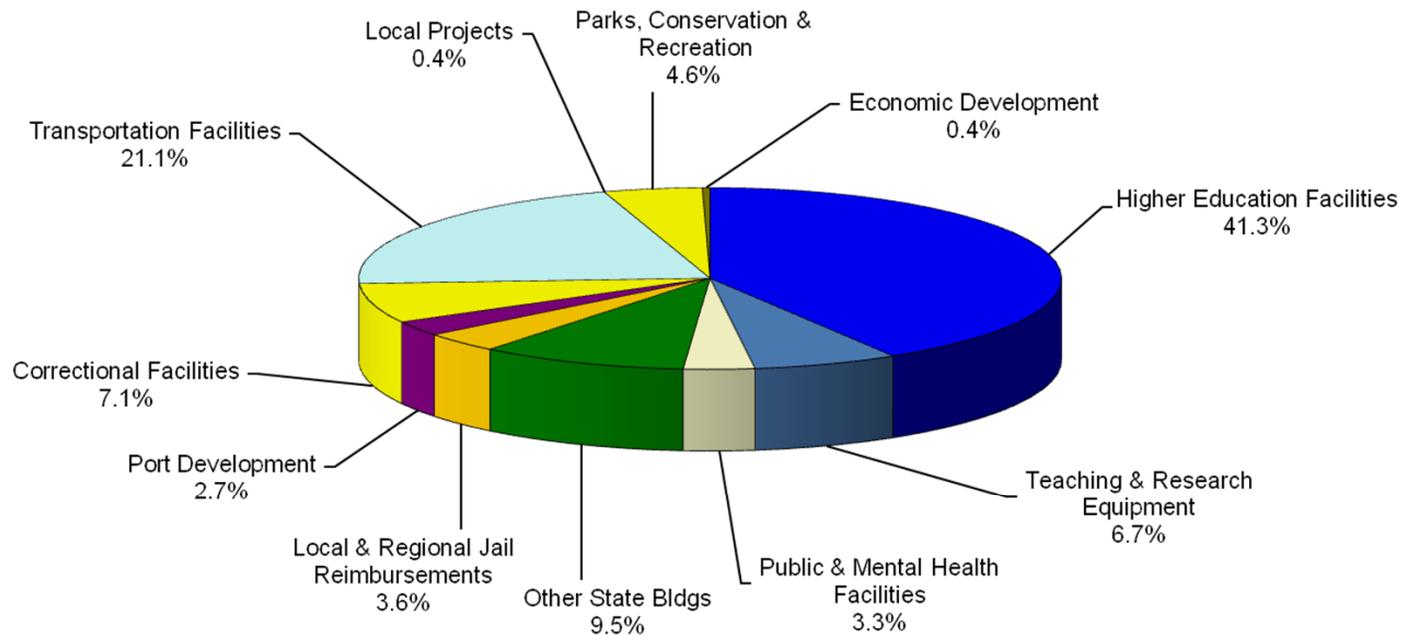


Outstanding Tax-Supported Obligations of the Commonwealth - Fiscal Years 2008-2012



Uses of Tax-Supported Debt Issued

Uses of Tax-Supported Debt Issued FY 2003 - FY 2012



Ten-year Total = \$9.2 Billion



Presentation Overview

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Virginia's Debt Position Compared To Peers

AAA/Aaa/AAA STATE DEBT BURDENS FROM 2003-2012 PROVIDED BY MOODY'S INVESTORS SERVICE

Net Tax-Supported Debt per Capita (1)(2)

	2012										
	Ranking	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Delaware	6	\$2,674	\$2,676	\$2,489	\$2,128	\$2,002	\$1,998	\$1,845	\$1,865	\$1,800	\$1,599
Maryland	14	1,742	1,681	1,608	1,507	1,297	1,171	1,169	1,064	1,077	977
Utah	19	1,393	1,222	957	447	542	621	707	792	846	682
Georgia	26	1,099	1,103	1,120	984	954	916	784	803	827	802
VIRGINIA	21	1,169	1,058	895	782	764	692	601	589	546	546
North Carolina *	32	815	782	765	832	898	728	804 *	682 *	556 *	429 *
Missouri	37	741	775	780	670	675	613	496	449	461	368
Iowa*	47	310	270	73 *	79 *	98 *	104 *	110 *	130 *	139 *	156 *
Median All States		1,066	1,066	936	865	889	787	754	703	701	606
AAA Median		1,134	1,081	926	807	831	710	746	737	692	614
AAA Average		1,243	1,196	1,086	929	904	855	815	797	782	695

* States were not triple triple A during entire 2003-2012 period.

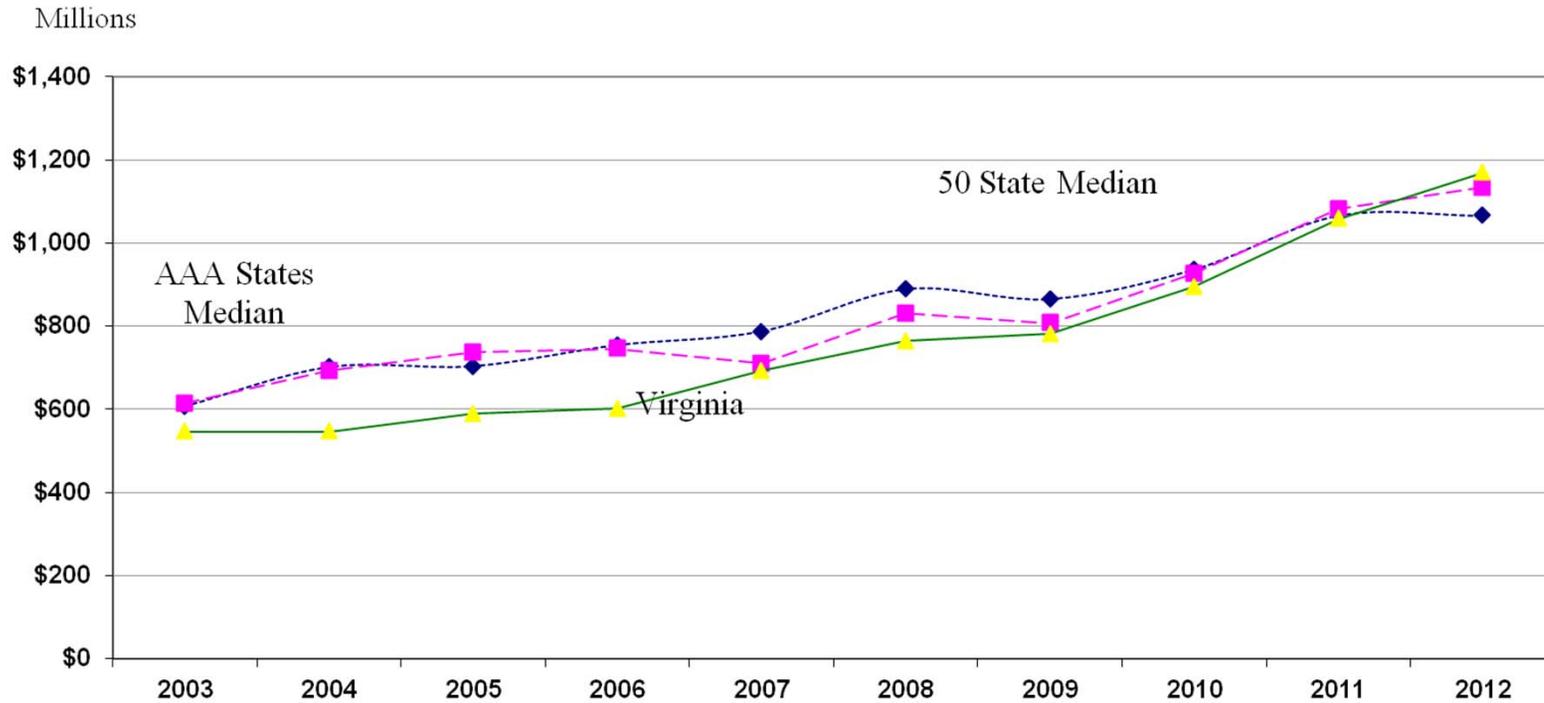
(1) Population is based on Census data from one year prior to each respective year's debt analyzed.

(2) Year refers to prior calendar year-end.



Virginia's Debt Position Compared To Peers (continued)

Net Tax-Supported Debt per Capita
Virginia vs Moody's U.S. 50-State Median and other AAA States
2003 – 2012



Source: Moody's Medians



Virginia's Debt Position Compared To Peers (continued)

AAA/Aaa/AAA STATE DEBT BURDENS FROM 2003-2012 PROVIDED BY MOODY'S INVESTORS SERVICE

Net Tax-Supported Debt as Percent of Personal Income (2) (3)

	2012																			
	Ranking	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003									
Delaware	5	6.8 %	6.8 %	6.2 %	5.4 %	5.2 %	5.5 %	5.3 %	5.5 %	5.6 %	4.9 %									
Utah	15	4.4	3.9	3.2	1.5	1.9	2.3	2.7	3.2	3.5	2.8									
Maryland	18	3.6	3.5	3.4	3.3	3.0	2.8	3.0	2.9	3.0	2.7									
Georgia	21	3.1	3.3	3.3	3.0	3.0	3.0	2.7	2.8	2.9	2.8									
VIRGINIA	28	2.6	2.4	2.1	1.9	1.9	1.8	1.7	1.8	1.7	1.7									
North Carolina*	32	2.3	2.3	2.3	2.5	2.8	2.4	2.8	2.5 *	2.0 *	1.5 *									
Missouri	35	2	2.2	2.2	2.0	2.1	1.9	1.6	1.5	1.6	1.3									
Iowa*	47	0.8	0.7	0.2 *	0.2 *	0.3 *	0.3 *	0.4 *	0.5 *	0.5 *	0.6 *									
Median All States		2.8%	2.8%	2.5%	2.5%	2.6%	2.4%	2.5%	2.5%	2.5%	2.2%									
AAA Median		2.9%	2.9%	2.8%	2.3%	2.5%	2.4%	2.7%	2.7%	2.5%	2.2%									
AAA Average		3.2%	3.1%	2.9%	2.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.3%									

* States were not triple triple during entire 2003-2012 period.

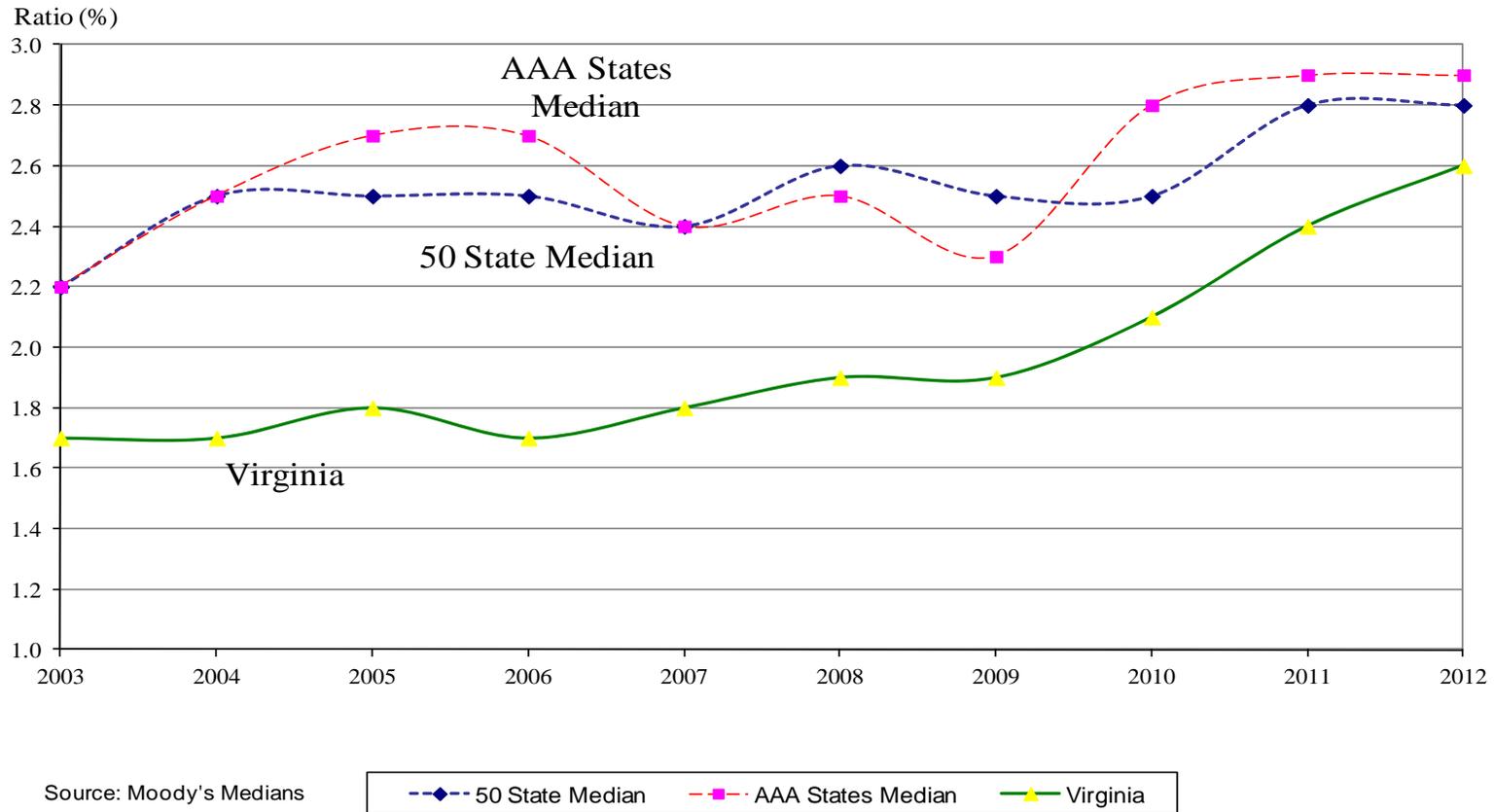
(2) Year refers to prior calendar year-end.

(3) Personal income is based on Census data from two years prior to each respective year's debt analyzed.



Virginia's Debt Position Compared To Peers (continued)

**Net Tax-Supported Debt as Percentage of Personal Income on Virginia
vs Moody's U.S. 50-State Median and other AAA States
2003 – 2012**



Presentation Overview

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Commonwealth's Bond Rating

- Commonwealth is one of only eight states with a triple-A general obligation bond rating from all three major rating agencies.
- Since August 2011, the US Sovereign rating has carried a “negative outlook” from Moody’s .
- Citing vulnerability to U.S. Government ratings, the ratings of three triple-A states, including Virginia, continue to carry a “negative outlook”.
- Moody’s assessment focused on five key issues:
 - Federal Employment
 - Federal Procurement Contracts
 - Healthcare Employment
 - Medicaid Expenditures
 - Variable Rate Debt Exposure



Commonwealth's Bond Rating (continued)

- In August 2011, Standard & Poor's (S&P) lowered the U.S. Sovereign rating from AAA/stable to AA+/negative.
- Recognizing that state and local governments have considerable autonomy and taxing powers, S&P and Fitch continue to rate Virginia's general obligation bonds AAA/stable.
- In their Fall 2012 ratings reports, each of the rating agencies affirmed the Commonwealth's triple-A general obligation bond ratings as follows:
 - Moody's: Aaa/ Negative Outlook
 - S&P: AAA/Stable Outlook
 - Fitch: AAA/Stable Outlook



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Importance of Measuring Debt Affordability

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



Debt Affordability Measure

Goal to maintain debt service on tax-supported debt under 5% of blended revenues over a 10-year horizon.

- 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, Other Recurring Transfers to the General Fund
 - Transportation Trust Fund: Motor Fuels, Priority Transportation Fund, Vehicle Sales and Use, Aviation Fuels, Rental, Recordation (2 cents) and 1/3 Insurance Premium taxes

- Debt Service Includes:
 - Actual debt service on all outstanding tax-supported debt and long-term obligations
 - Estimated debt service on authorized but unissued debt



Model Assumes Bonds Will Continue To Be Issued For Currently Authorized Projects

Authorized Tax-Supported Debt Issuance Assumptions (Dollars in Millions)

	<u>9(b)</u>	<u>VPBA</u>	<u>VCBA 21st Century Equipment</u>	<u>VCBA 21st Century Projects</u>	<u>CPR Transportation</u>	<u>NVTD Transportation</u>	<u>VPA</u>	<u>Total</u>
Authorized & Unissued as of June 30, 2012	\$ -	\$ 482.4	\$ 118.3	\$ 1,485.7	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 3,663.5
Issued Jul 1 - Dec 31, 2012		\$ -	\$ -	\$ 357.6				\$ 357.6
Assumed Issued:								
FY 2013	-	\$ 143.3	\$ -	\$ -	\$ 600.0	\$ -		\$ 743.3
FY 2014	-	\$ 183.4	\$ 118.3	\$ 300.0	\$ -	\$ -	\$ -	\$ 601.7
FY 2015	-	\$ 115.7	\$ -	\$ 300.0	\$ -	\$ 24.7	\$ 65.0	\$ 505.4
FY 2016	-	\$ 40.0	\$ -	\$ 357.7	\$ 150.0	\$ -	\$ -	\$ 547.7
FY 2017-23	-	\$ -	\$ -	\$ 170.4	\$ 737.3	\$ -	\$ -	\$ 907.7
Total Planned	-	\$ 482.4	\$ 118.3	\$ 1,128.1	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 3,305.8
Subtotal Issued & Planned		\$ 482.4	\$ 118.3	\$ 1,485.7	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 3,663.5
Authorized Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



Debt Capacity Recommendation December 2012

- December 2012 report of the Debt Capacity Advisory Committee
 - An additional \$537 million could prudently be authorized and issued during each of fiscal years 2013 and 2014.
- Solution based on average annual capacity over the ten-year model horizon, while maintaining debt service at less than 5% of Blended Revenues in the Base Solution.
- If all available capacity is utilized, the model showed that debt service will exceed 5% in some years.
- The highest level of debt service to revenues occurred in 2016 at 5.37%.



Debt Capacity Recommendation December 2012 (continued)

Base Solution

December 2012

(Dollars in Millions)

	[A]	[B]	[C]	[D]	
Fiscal Year	Blended Revenues	Actual Outstanding Debt Service as a % of Revenues	Actual & Projected Debt Service as a % of Revenues	Amount of Additional Debt That May Be Issued	Total Debt Service as a % of Revenues
Actual 2009	15,680.70	3.75%	3.75%	N/A	3.75%
Actual 2010	15,871.20	3.99%	3.99%	N/A	3.99%
Actual 2011	16,751.10	4.14%	4.14%	N/A	4.14%
Actual 2012	17,787.10	4.20%	4.20%	N/A	4.20%
2013	18,278.40	4.49%	4.75%	0.00	4.75%
2014	18,950.00	4.27%	4.83%	90.83	4.87%
2015	19,809.20	4.04%	4.93%	90.83	4.99%
2016	20,502.60	3.76%	4.79%	382.40	4.99%
2017	21,270.60	3.38%	4.54%	756.18	4.99%
2018	22,004.00	3.10%	4.31%	722.55	4.99%
2019	22,771.16	2.78%	3.98%	832.05	4.91%
2020	23,558.94	2.47%	3.59%	832.05	4.74%
2021	24,605.75	2.29%	3.38%	832.05	4.73%
2022	25,700.03	2.09%	3.16%	832.05	4.69%
			10 Year Average	\$537.10	

[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.

[D] Equals outstanding debt service; debt service on currently authorized but unissued debt and debt service on additional debt that could be issued, as a percentage of blended revenues.



Debt Capacity Recommendation December 2012 (continued)

Average Solution Illustration

December 2012

(Dollars in Millions)

		[A]	[B]	[C]	[D]
	Blended	Actual	Actual &	Average	Total
Fiscal Year	Revenues	Outstanding	Projected	Additional	Debt Service
		Debt Service	Debt Service	Debt That May	as a % of
		as a % of	as a % of	Be Issued	Revenues
		Revenues	Revenues		
Actual 2009	15,680.70	3.75%	3.75%	N/A	3.75%
Actual 2010	15,871.20	3.99%	3.99%	N/A	3.99%
Actual 2011	16,751.10	4.14%	4.14%	N/A	4.14%
Actual 2012	17,787.10	4.20%	4.20%	N/A	4.20%
2013	18,278.40	4.49%	4.75%	0.00	4.75%
2014	18,950.00	4.27%	4.83%	537.10	5.04%
2015	19,809.20	4.04%	4.93%	537.10	5.33%
2016	20,502.60	3.76%	4.79%	537.10	5.37%
2017	21,270.60	3.38%	4.54%	537.10	5.28%
2018	22,004.00	3.10%	4.31%	537.10	5.21%
2019	22,771.16	2.78%	3.98%	537.10	5.02%
2020	23,558.94	2.47%	3.59%	537.10	4.76%
2021	24,605.75	2.29%	3.38%	537.10	4.66%
2022	25,700.03	2.09%	3.16%	537.10	4.54%
			Average	\$537.10	

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

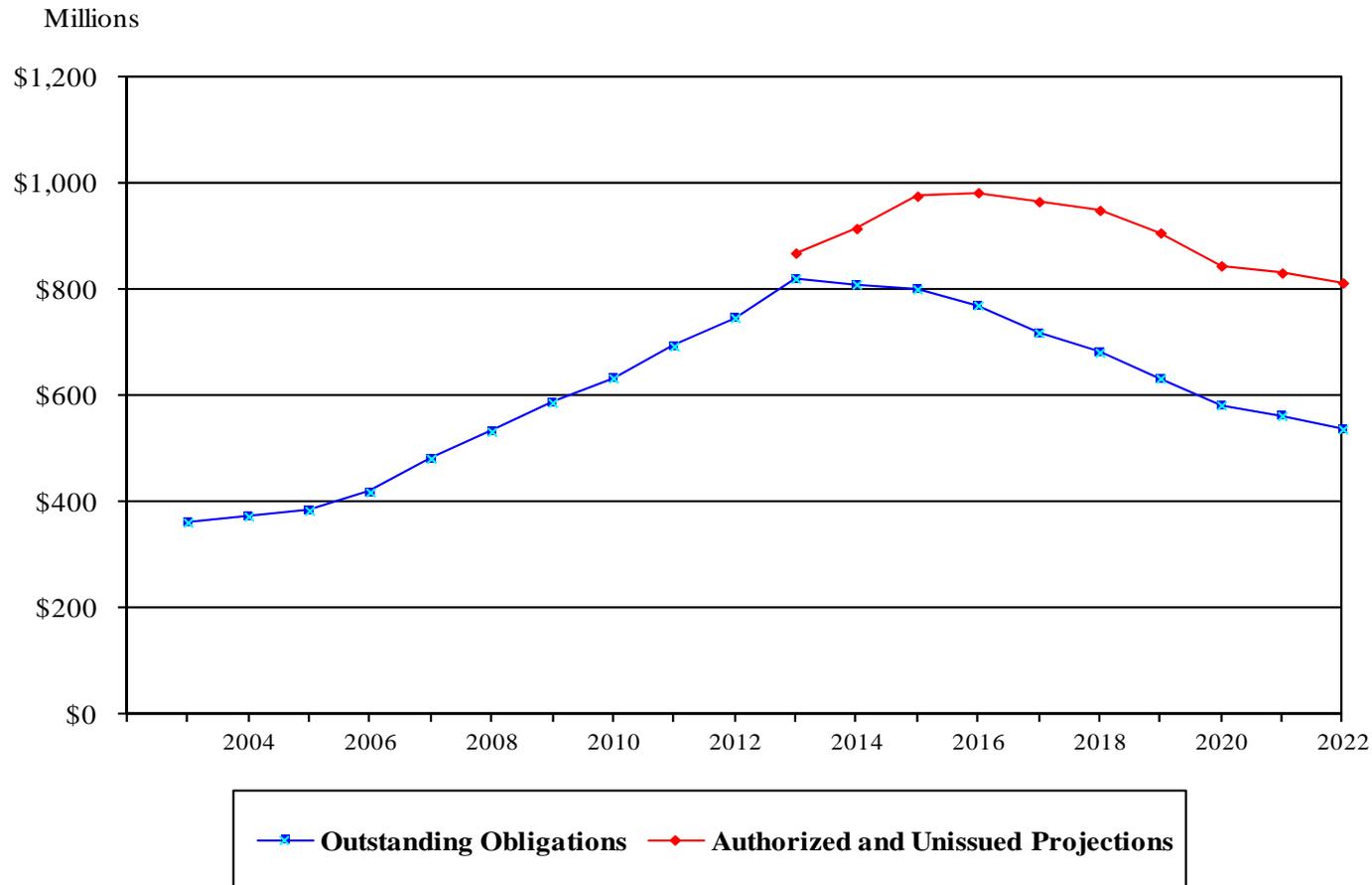
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Tax-Supported Debt Service: Actual and Projected Fiscal Years 2012-2022*

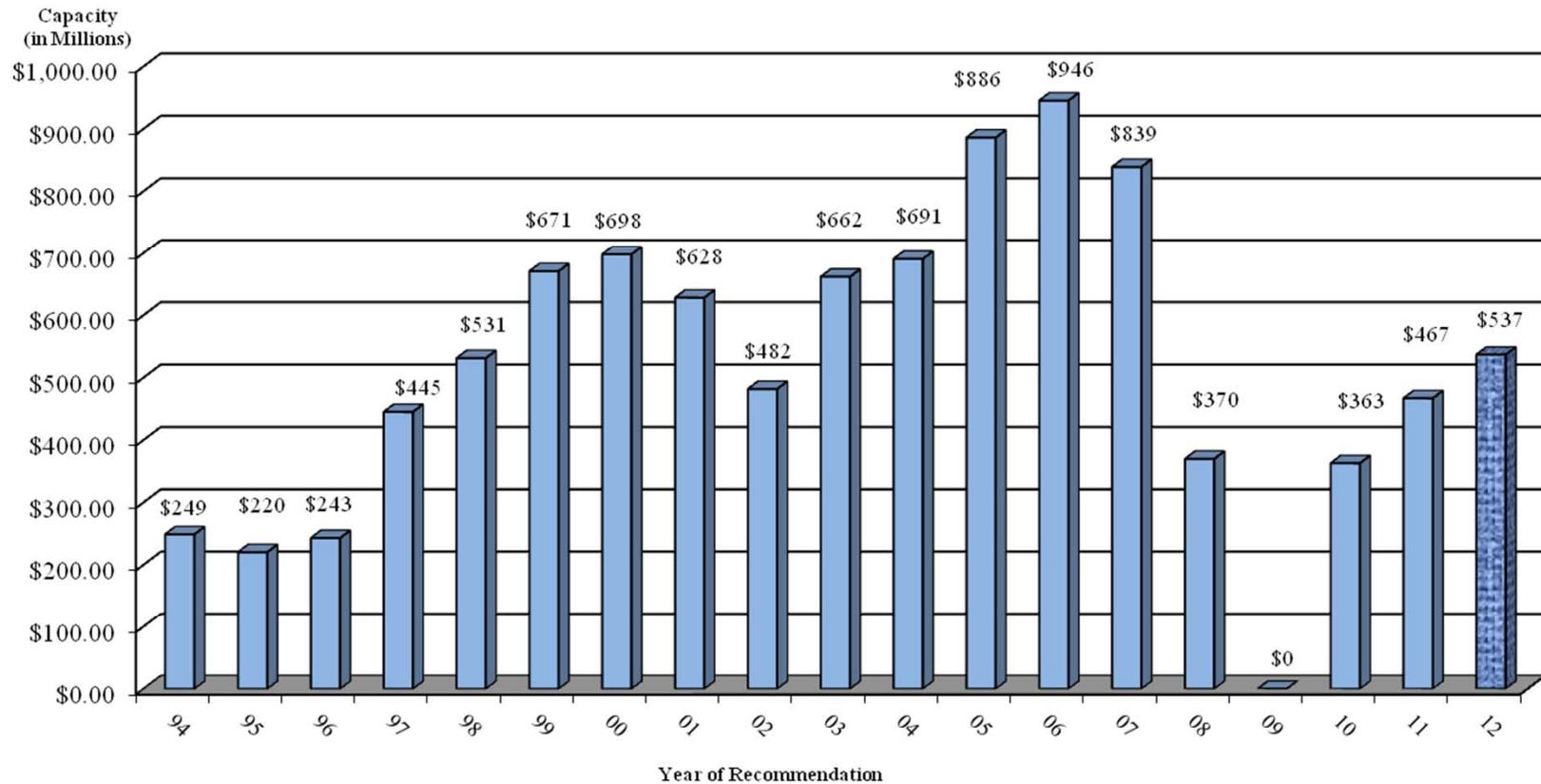


* Assumes debt is authorized and issued in future periods in accordance with the Model's current assumptions.



Debt Capacity 1994-2012

Historic Debt Capacity
December 18, 2012



Presentation Overview

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Proposed New Debt in Governor's Budget (HB 1500/SB 800)

• Tax-Supported	
– Maintenance Reserve	\$ 9,590,000
– VCBA/VPBA Central Capital Outlay Projects	\$ 263,829,000
– VPBA Water Quality Improvement Fund	\$ 165,000,000
– VPBA –DCR Storm water Projects	\$ 35,000,000
– Higher Education Equipment Trust Fund	\$ 2,000,000
Total Tax-Supported Debt Affecting Debt Capacity	<u>\$ 475,419,000</u>
– GO 9(c)- Higher Educational Bonds*	<u>\$ 9,650,000</u>
Total Tax-Supported	<u>\$ 485,069,000</u>
• Not Tax-Supported	
– VPBA – Repair & Replace High Hazard Dams (DGIF)	\$ 9,700,000
– 9(d) Higher Ed	<u>\$ 9,536,000</u>
Total Not Tax-Supported	<u>\$ 19,236,000</u>

* Self-Supporting General Obligation Bonds



Debt Capacity with Governor's Proposed \$475.4 million of Additional Debt

Base Solution (Including Proposed New \$475.4 million Authorization)

December 2012
(Dollars in Millions)

	[A]	[B]	[C]	[D]	
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2013	18,278.40	4.49%	4.75%	0.00	4.75%
2014	18,950.00	4.27%	4.83%	17.73	4.84%
2015	19,809.20	4.04%	4.98%	17.73	4.99%
2016	20,502.60	3.76%	4.92%	176.30	4.99%
2017	21,270.60	3.38%	4.70%	634.88	4.99%
2018	22,004.00	3.10%	4.47%	722.55	4.99%
2019	22,771.16	2.78%	4.14%	851.78	4.91%
2020	23,558.94	2.47%	3.73%	851.78	4.75%
2021	24,605.75	2.29%	3.52%	851.78	4.75%
2022	25,700.03	2.09%	3.30%	851.78	4.72%
			10 Year Average	\$497.63	

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Debt Capacity with Governor's Proposed \$475.4 million of Additional Debt (continued)

Average Illustration (Including Proposed New \$475.4 million Authorization)

December 2012
(Dollars in Millions)

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2021	24,605.75	2.29%	3.52%	497.63	4.71%
2022	25,700.03	2.09%	3.30%	497.63	4.57%
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