



# **Review of Debt Capacity Model and 2013 Recommendations**

A Briefing for the  
Senate Finance Capital Outlay Subcommittee

Manju S. Ganeriwala  
State Treasurer  
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# Review of Debt Capacity Model and 2013 Recommendations Overview

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- Debt Capacity Model
- Debt Capacity Advisory Committee (“DCAC”) Recommendation – December 2013
- Introduced Budget – Impact on DCAC Model
- Overview of 9(c) vs. 9(d) Debt
- Appendix

## Debt Capacity Model – Measure and Inputs

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- In order to preserve the Commonwealth's ability to provide core government services, debt service should be limited
- In 1991, DCAC adopted the measure that debt service on tax-supported debt should be less than 5% of blended revenues
  - Committee has reaffirmed this measure each year
  - Recommendation is expressed in terms of a ten-year average
- Blended Revenues include:
  - General Fund Revenues
  - General Fund Transfers – ABC, Sales Tax, Recurring Transfers
  - VA Health Care Fund
  - Transportation Trust Fund (“TTF”)

## Debt Capacity Model – Measure and Inputs (Continued)

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- Tax-supported debt includes:
  - Debt for which debt service payments are made or pledged to be made from funds derived from tax revenues
    - Certain bonded debt, capital leases, installment purchases, etc.
    - 9(b) General Obligation (“G.O.”)
    - 9(d) Virginia College Building Authority (“VCBA”) (21<sup>st</sup> Century and Equipment), Virginia Public Building Authority (“VPBA”), Virginia Port Authority (“VPA”) and Commonwealth Transportation Board (“CTB”) debt secured by the TTF
- Tax-supported debt does not include:
  - 9(c) G.O. since payments are to be paid by project revenues
  - Moral Obligation issued by Virginia Resources Authority (“VRA”)
  - Sum Sufficient Appropriation issued by Virginia Public School Authority (“VPSA”)
  - Grant Anticipation Revenue Vehicles (“GARVEES”)

## Debt Capacity Model – Measure and Inputs (Continued)

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- Scheduled debt service on all outstanding tax-supported debt is included in model
- Estimated debt service on authorized but unissued debt is included in model
  - Based on DPB draw schedules and information from agencies
  - Long-term model interest rates, currently 4.17%, derived from average of last 12 quarters of Bond Buyer 11 Bond Index
    - Contains 11 high quality credit General Obligation Bonds and is based on 20-year maturity
    - 25 basis points added to the average for appropriation-backed debt
  - Short-term model interest rates, currently 1.70%, derived from average of last 12 quarters of the 7-Year Treasury Constant Maturity Rate

## Debt Capacity Model – Measure and Inputs (Continued)

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- Factors for estimating authorized and unissued tax-supported debt
  - Level debt service payments, except 9(b) G.O. debt
  - 9(b) G.O. debt is amortized on a level principal basis
  - Amortized over 20-year term, except certain VCBA and CTB obligations
    - VCBA Equipment Notes amortized over a 7-year term with short-term interest rate
    - CTB Bonds amortized over 25-year term using long-term rate

# Debt Capacity Model – Schedule of Issuance Assumptions for Currently Authorized & Unissued Debt

As of December 17, 2013

(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, 2013	\$ -	\$ 613.8	\$ 126.4	\$ 1,832.7	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 4,149.9
Issued Jul 1 - Dec 31, 2013	\$ -	\$ -	\$ 53.9	\$ 277.8	\$ -	\$ -	\$ -	\$ 331.7
Assumed Issued:								
FY 2014	\$ -	\$ 149.2	\$ 64.2	\$ 288.6	\$ 400.0	\$ -	\$ -	\$ 902.0
FY 2015	\$ -	\$ 240.3	\$ -	\$ 607.6	\$ 200.0	\$ 24.7	\$ 65.0	\$ 1,137.6
FY 2016	\$ -	\$ 203.8	\$ -	\$ 521.0	\$ 284.1	\$ -	\$ -	\$ 1,008.9
FY 2017	\$ -	\$ 20.5	\$ -	\$ 137.7	\$ -	\$ -	\$ -	\$ 158.2
FY 2018	\$ -	\$ -	\$ -	\$ -	\$ 122.9	\$ -	\$ -	\$ 122.9
FY 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FY 2020	\$ -	\$ -	\$ -	\$ -	\$ 355.0	\$ -	\$ -	\$ 355.0
FY 2021	\$ -	\$ -	\$ -	\$ -	\$ 125.3	\$ -	\$ -	\$ 125.3
Total Planned	\$ -	\$ 613.8	\$ 64.2	\$ 1,554.9	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 3,809.9
Subtotal Issued & Planned	\$ -	\$ 613.8	\$ 118.1	\$ 1,832.7	\$ 1,487.3	\$ 24.7	\$ 65.0	\$ 4,141.6
Authorized Debt Assumed Unissued <sup>(1)</sup>	\$ -	\$ -	\$ 8.3	\$ -	\$ -	\$ -	\$ -	\$ 8.3

<sup>1</sup> Assumed funded from premium from bonds sold.

## DCAC Recommendation – December 2013

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- Up to an additional \$560 million could prudently be authorized and issued during each of fiscal years 2014 and 2015
- Committee urges the Governor and the General Assembly to exercise restraint when authorizing new tax-supported debt during the 2014 session of the General Assembly due to the anticipated rise in interest rates

## Introduced Budget – Impact on DCAC Model

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- Nearly \$406 million of proposed new bond projects for 2014 Session
  - \$22.5 million (VPBA) for Fort Monroe
  - \$20.0 million (VPBA) for Stormwater
  - \$123.0 million (VCBA and VPBA) for Maintenance Reserve
  - \$111.9 million (VCBA and VPBA) for Various projects
  - \$128.4 million (VCBA) for Higher Education Equipment Trust Fund (“HEETF”)
- If the additional debt service related to the proposed budget is included in the DCAC model, the debt capacity would decline by \$35 million annually to \$525 million

## Overview of 9(c) vs. 9(d) Debt

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- 9(c) General Obligation Debt
  - Revenue producing projects (dorm and dining)
  - Paid by revenues from project, but backed by Commonwealth’s G.O. Pledge
  - “AAA” rating due to G.O. pledge provides lower interest rates
  - Tax-supported debt, but not included in DCAC model, doesn’t impact debt capacity
  - Provides investors with diverse Virginia debt
- 9(d) Appropriation-Backed Debt (eg. VCBA 21<sup>st</sup> Century Program)
  - Educational & General projects
  - Slightly higher interest rates due to appropriation-backed security
  - Tax-supported debt included in DCAC model, reduces debt capacity
- 9(d) Higher Education Debt
  - Eligible for all project types
  - May be issued by institution or through VCBA Pooled Bond Program
  - Not considered tax-supported debt

# Appendix

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- Description of debt options

# Appendix

Types of State Bonded Debt		Primary Security	Rating (Moody's, S&P, and Fitch)	Typical Purpose	Authorization Required	Debt Capacity	Typical term
<b>General Obligation Bonds</b>							
GO - 9(b)	Voter-approved GO's	GF	Aaa/AAA/AAA	Capital	GA + voters	Yes	20
GO - 9(c)	Project revenues + GO pledge	NGF/Auxiliary, Tolls + GO backstop	Aaa/AAA/AAA	Revenue-producing capital (dorm, dining, parking)	GA + Feasibility	No (1)	20-30
<b>Subject to Appropriation/Revenue Bonds</b>							
VCBA	21st Century Program	GF	Aa1/AA+/AA+	Capital - E&G, Maint Reserve	GA	Yes	20
VCBA	Equipment Trust Fund	GF	Aa1/AA+/AA+	Educational/Research Equipment	GA	Yes	7
VPBA		GF	Aa1/AA+/AA+	Capital - Maint Reserve, regional jails, water quality/ stormwater grants	GA	Yes	20
<b>Other 9(d) Debt</b>							
VCBA	Higher Ed Projects	NGF-General Revenue Pledge + State aid intercept	Aa1/AA/AA+	Capital - Rec/sports facilities, Athletic, Convocation, etc.	GA	No	20-30
College/ University	Higher Ed Projects	NGF-General or specific revenue pledge	Varies	Capital - Rec/sports facilities, dormitories, athletic, Convocation, etc.	GA (except Level 3's)	No	20-30
Capital leases, support agreements	Foundations, conduit issuers	NGF-General or specific revenue pledge	Varies	Capital - dormitory, multi-use facilities	GA (except Level 3's)	No	20-30

(1) So long as net revenues provide for debt service

