



Review of Debt Capacity Model and 2014 Recommendations

A Briefing for the
Senate Finance Capital Outlay Subcommittee

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Review of Debt Capacity Model and 2014 Recommendations Overview

- Debt Capacity Model
- Debt Capacity Advisory Committee (“DCAC”) Recommendation – December 2014
- Introduced Budget – Impact on DCAC Model
- Overview of 9(c) vs. 9(d) Debt
- Appendix

Debt Capacity Model – Measure and Inputs

- 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)

- 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”) (21st 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)

- 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 4.09%, 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)

- 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 18, 2014

(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>Route 58 Transportation</u>	<u>VPA</u>	<u>Total</u>
Authorized & Unissued as of June 30, 2014	\$ -	\$ 1,084.7	\$ 128.4	\$ 1,400.6	\$ 1,487.3	\$ 24.7	\$ 595.7	\$ 65.0	\$ 4,786.4
Issued Jul 1 - Dec 31, 2014	\$ -	\$ 162.6	\$ -	\$ -	\$ 275.0	\$ -	\$ -	\$ -	\$ 437.6
Assumed Issued:									
FY 2015	\$ -	\$ 299.3	\$ -	\$ 545.0	\$ -	\$ -	\$ -	\$ 65.0	\$ 909.3
FY 2016	\$ -	\$ 213.1	\$ 128.4	\$ 427.2	\$ 300.0	\$ 24.7	\$ -	\$ -	\$ 1,093.4
FY 2017	\$ -	\$ 81.8	\$ -	\$ 428.4	\$ 284.1	\$ -	\$ -	\$ -	\$ 794.3
FY 2018	\$ -	\$ 13.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13.4
FY 2019	\$ -	\$ -	\$ -	\$ -	\$ 122.9	\$ -	\$ -	\$ -	\$ 122.9
FY 2020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 400.0	\$ -	\$ 400.0
FY 2021	\$ -	\$ -	\$ -	\$ -	\$ 355.0	\$ -	\$ -	\$ -	\$ 355.0
FY 2022	\$ -	\$ -	\$ -	\$ -	\$ 125.3	\$ -	\$ -	\$ -	\$ 125.3
FY 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195.7	\$ -	\$ 195.7
FY 2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Planned	\$ -	\$ 607.6	\$ 128.4	\$ 1,400.6	\$ 1,187.3	\$ 24.7	\$ 595.7	\$ 65.0	\$ 4,009.3
Subtotal Issued & Planned	\$ -	\$ 770.2	\$ 128.4	\$ 1,400.6	\$ 1,462.3	\$ 24.7	\$ 595.7	\$ 65.0	\$ 4,446.9
Authorized Debt Assumed Unissued ⁽¹⁾	\$ -	\$ 314.5	\$ -	\$ -	\$ 25.0	\$ -	\$ -	\$ -	\$ 339.5

¹ Assumed funded from premium from bonds sold and VPBA also assumes the \$300 million for the G.A. building is not issued.



DCAC Recommendation – December 2014

- Up to an additional \$459 million could prudently be authorized and issued during each of fiscal years 2015 and 2016
- Rescind any bond authorizations for projects not likely to be issued
- Consider seeking voter approval of 9(b) General Obligation bonds
- Continue approving traditional financing methods such as those offered through appropriation-supported programs through VCBA or VPBA rather than bonded capital lease or other conduit borrowings

Introduced Budget – Impact on DCAC Model

- Nearly \$94 million of proposed new bond projects for 2015 Session
 - \$50.7 million (VCBA and VPBA) for Equipment for previously constructed projects
 - \$28.0 million (VPBA) for Standalone Equipment (Voting Machines)
 - \$10.0 million (VCBA) for Higher Education Equipment Trust Fund
 - \$5.0 million (VCBA and VPBA) for Maintenance Reserve
- If the additional debt service related to the proposed budget is included in the DCAC model, the debt capacity would decline by \$7 million annually to \$452 million
- While not factored into the DCAC Model, an additional \$67.5 million is proposed for self-supporting 9(c) G.O. Higher Education Bonds

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

- 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 21st 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

- 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
General Obligation Bonds							
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
Subject to Appropriation/Revenue Bonds							
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
Other 9(d) Debt							
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

